

HLIB Research
 PP 9484/12/2012 (031413)

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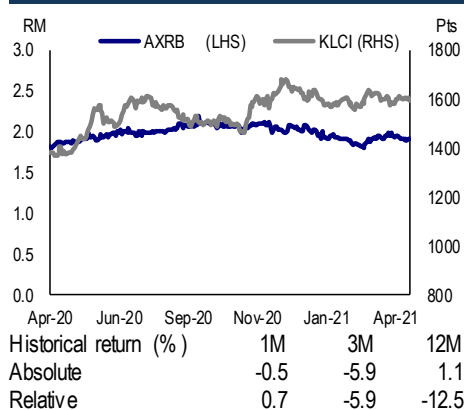
BUY (Maintain)

Target Price: RM2.54
Previously: RM2.48
Current Price: RM1.92

Capital upside	32.3%
Dividend yield	5.3%
Expected total return	37.6%

Sector coverage: REIT

Company description: Axis REIT owns and invests in a portfolio of commercial, office, office/retail and industrial real estate located in Malaysia.

Share price

Stock information

Bloomberg ticker	AXRB MK
Bursa code	5106
Issued shares (m)	1,446
Market capitalisation (RM m)	2,777
3-mth average volume ('000)	1,727
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

Major shareholders

EPF	14.8%
PNB	13.6%
KWAP	12.1%

Earnings summary

	FY20	FY21f	FY22f
FYE (Dec)	FY20	FY21f	FY22f
PAT - core (RM m)	124.9	146.5	156.0
EPU - core (sen)	8.7	10.2	10.8
P/E (x)	22.2	18.9	17.8

Axis REIT

Starting off in line

Axis REIT's 1QFY21 core net profit of RM31.9m (-0.8% QoQ, +6.7% YoY) were within both ours and consensus expectations. Dividend of 2.23 sen per unit was declared. YoY improvement was mainly backed by new revenue contribution from newly acquired assets. Occupancy and gearing stood at 91% and 36% respectively. We expect better FY21 driven by full year contribution from 5 acquired properties in FY20 as well as new acquired properties in the year. We increase our FY21-22 forecasts by 11-10% to reflect in newly acquired assets as well as introduce FY23 estimates. Post earnings adjustments our TP increase to RM2.54 (from RM2.48). Our TP is based on targeted yield 4.2% on FY22 DPU.

Within expectations. 1QFY21 core net profit of RM31.9m (-0.8% QoQ, +6.7% YoY) were within both ours and consensus expectations, accounting for 24% and 23% respectively of full-year forecasts.

Dividend. Declared DPU of 2.23 sen, going ex on 5th May 2021 (1QFY20: 2.10 sen).

QoQ. Gross rental income saw only a marginal decline (-2.3%) due to the contributions from the newly acquired properties; (i) Indahpura Facility 2 & 3 (12 Jan, 26 Feb) and (ii) Beyonics I-Park Campus – Block F (3 Mar) partly cushioned the rental loss from the expiry of tenancy of D8 Logistics Warehouse since end Oct 2020. Flattish property expenses (-0.7%) led to net property income (NPI) of RM49.8m (-2.5%). Despite higher administrative expenses (+18.4%) and Islamic finance costs (+1%), core net profit remained flat at RM31.9m (-0.8%).

YoY. Top line improved 3.5% mainly driven by rental from newly acquired properties in FY20. This mitigated the rental loss from the expiry of tenancy of D8 Logistics Warehouse since end Oct 2020. Property expenses rose by 5.1% due to the increase in building maintenance expenses and cost incurred from the new properties. Net property income (NPI) followed the increment (+3.3%). While Islamic finance costs increased (+6.3%) due to additional financing facilities to fund new acquisitions, it was mitigated by lower administrative expenses (-31%), hence core net profit increased to RM31.9m (+6.7%).

Occupancy and gearing. With 57 properties and 152 tenants, portfolio occupancy remained unchanged at 91% while gearing increased to 36% (FY20: 33.1%).

Outlook. We expect a better FY21 due to full year contribution from 5 acquisitions in FY20 as well as new contribution from newly acquired properties in FY21.

Forecast. We updated our model for FY20 audited accounts, introduce in FY23 forecasts, as well as increase FY21-22 earnings by 11%-10% to reflect in contribution from newly acquired properties.

Maintain BUY, TP: RM2.54. Post earnings adjustments, our TP increases to RM2.54 (from RM2.49). Our TP is based on FY22 DPU on targeted yield of 4.2% derived from 1SD below 2-year historical average yield spread between Axis REIT and MAG10YR in view of increased popularity in industrial properties (92% of properties on industrial titles), high occupant tenancy in its diversified portfolio and also one of the few Shariah compliant REITs. Maintain BUY.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	52.5	39.8	55.5	68.0	82.3
Receivables	39.3	41.2	45.5	47.3	48.1
Investment properties	2,990.6	3,280.2	3,290.2	3,300.2	3,310.2
PPE	3.2	2.9	2.5	2.3	2.1
Others	-	-	-	-	-
Total Assets	3,085.7	3,364.1	3,393.8	3,417.8	3,442.7
Payables	67.6	62.0	70.0	70.0	70.1
Debt	885.9	1,112.2	1,122.2	1,132.2	1,142.2
Others	53.5	66.9	66.9	66.9	66.9
Liabilities	1,006.9	1,241.1	1,259.0	1,269.1	1,279.1
Unitholders' capital	1,583.8	1,595.5	1,606.5	1,619.4	1,633.1
Reserve	495.0	527.5	528.4	529.4	530.5
Equity	2,078.8	2,123.0	2,134.9	2,148.7	2,163.6
Total Liab & Equity	3,085.7	3,364.1	3,393.8	3,417.8	3,442.7

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	213.5	134.4	146.5	156.0	160.2
Islamic financing cost	48.4	39.5	-	-	-
Profit income	-1.4	-0.9	0.0	0.0	0.0
Changes in fair value	-101.6	-19.0	0.0	0.0	0.0
Depreciation	0.5	0.6	0.6	0.6	0.5
Changes in working capit	-21.8	-22.1	3.6	-1.7	-0.7
Others	-18.6	13.7	0.0	0.0	0.0
CFO	118.9	146.2	150.7	154.9	160.0
Investment prop	-61.1	-263.3	0.0	0.0	0.0
Equipment	-0.8	-0.3	-0.3	-0.3	-0.3
Enhancement of prop	-29.4	-7.4	-10.0	-10.0	-10.0
Disposal	0.0	0.0	0.0	0.0	0.0
CFI	-91.2	-270.9	-10.3	-10.3	-10.3
Proceeds / (repayment)	-173.9	225.9	10.0	10.0	10.0
Hire purchase	0.0	0.0	0.0	0.0	0.0
Income distribution paid	-131.3	-109.5	-145.6	-154.9	-159.0
Proceeds issue of units	340.5	11.8	11.0	12.9	13.7
Issuing expenses	-3.8	-0.1	0.0	0.0	0.0
CFF	31.6	128.1	-124.6	-132.1	-135.3
Net cash flow	59.2	3.3	15.7	12.6	14.3

Assumptions

FYE Dec	FY21f	FY22f	FY23f
Rental income	240.4	250.1	254.6
Commercial Offices revenue	19.8	21.4	22.5
Office / Industrial Building revenue	93.7	99.9	102.2
Warehouse / Logistic Centre revenue	115.7	117.6	118.7
Warehouse Retail Facilities revenue	11.2	11.2	11.2

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	222.5	232.2	256.8	266.6	271.2
Operating exp	-30.8	-33.7	-38.0	-38.1	-38.1
Net prop income	191.7	198.5	218.8	228.6	233.1
Other income	1.4	0.9	0.7	0.9	1.1
Net investmt income	193.1	199.4	219.5	229.5	234.2
Financing cost	-48.4	-39.5	-45.8	-46.2	-46.6
Other exp	-22.1	-26.8	-27.2	-27.3	-27.4
Profit before tax	122.7	133.1	146.5	156.0	160.2
Tax	-4.2	-0.5	0.0	0.0	0.0
Profit after tax	118.5	132.6	146.5	156.0	160.2
Net profit	115.2	124.9	146.5	156.0	160.2
Distributable income	115.7	125.6	147.1	156.5	160.6
Consensus core PAT			139.4	147.4	152.8
HLIB/ Consensus			105%	106%	105%

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPU (sen)	8.0	8.7	10.2	10.8	11.1
P/E (x)	23.9	22.2	18.9	17.8	17.3
EBITDA	160.8	163.7	192.9	202.7	207.3
EBIT	160.3	163.1	192.3	202.2	206.8
EV	3,589.0	3,841.7	3,835.9	3,833.4	3,829.1
EV/EBITDA (x)	22.3	23.5	19.9	18.9	18.5
DPU (sen)	9.3	8.8	10.1	10.7	11.0
Dividend yield	4.8	4.6	5.3	5.6	5.7
NTA/ share (sen)	144.8	147.2	148.0	149.0	150.0
P/NTA	1.3	1.3	1.3	1.3	1.3
FCF/ share (sen)	17.2	24.2	19.8	20.6	21.2
FCF yield (%)	9.0	12.6	10.3	10.7	11.0
BVPS (RM)	1.45	1.47	1.48	1.49	1.50
P/B (x)	1.3	1.3	1.3	1.3	1.3
EBITDA margin	72.3%	70.5%	75.1%	76.0%	76.4%
EBIT margin	72.0%	70.2%	74.9%	75.8%	76.3%
PBT margin	55.1%	57.3%	57.0%	58.5%	59.1%
Net margin	51.8%	53.8%	57.0%	58.5%	59.1%
ROE	9.3%	6.3%	6.9%	7.3%	7.4%
ROA	3.7%	3.7%	4.3%	4.6%	4.7%
Net gearing	37.30%	33.06%	33.07%	33.13%	33.18%

Quarterly Financial Summary

FYE Dec	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)
Gross rental income	56.4	59.8	58.4	-2.3%	3.5%
Assessment	-1.2	-1.2	-1.3	4.7%	10.6%
Quit rent	-0.3	-0.4	-0.4	0.8%	20.5%
Other expenditure	-6.7	-7.1	-6.9	-1.7%	3.5%
Total expenditure	-8.2	-8.6	-8.6	-0.7%	5.1%
Net rental income	48.3	51.1	49.8	-2.5%	3.3%
Profit income	0.2	0.1	0.1	-26.2%	-55.0%
Depreciation	-0.2	-0.2	-0.2	1.9%	4.6%
Administrative expenses	-1.2	-0.7	-0.8	18.4%	-31.0%
Total trust expenses	-16.7	-16.7	-17.0	1.8%	1.7%
Normalised PAT	29.9	32.1	31.9	-0.8%	6.7%
EPU (sen)	2.0	3.4	2.2	-35.4%	8.3%
DPU (sen)	2.1	2.3	2.2	-0.9%	6.2%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)
Gross rental income	56.4	59.8	58.4	-2.3%	+3.5%
Assessment	-1.2	-1.2	-1.3	+4.7%	+10.6%
Quit rent	-0.3	-0.4	-0.4	+0.8%	+20.5%
Other expenditure	-6.7	-7.1	-6.9	-1.7%	+3.5%
Total property expenditure	-8.2	-8.6	-8.6	-0.7%	+5.1%
Net property income	48.3	51.1	49.8	-2.5%	+3.3%
Profit income	0.2	0.1	0.1	-26.2%	-55.0%
Manager's fee	-5.2	-5.3	-5.4	+1.2%	+2.2%
Trustee's fee	-0.3	-0.3	-0.3	+0.4%	+1.8%
Depreciation	-0.2	-0.2	-0.2	+0.7%	+13.5%
Auditor's fee	0.0	0.0	0.0	0.0%	+10.0%
Administrative expenses	-1.2	-0.7	-0.8	+18.4%	-31.0%
Islamic financing cost	-9.7	-10.3	-10.4	+1.0%	+6.3%
Total trust expenses	-16.7	-16.7	-17.0	+1.8%	+1.7%
Core PBT	29.9	32.1	31.9	-0.8%	+6.7%
Core PAT	29.9	32.1	31.9	-0.8%	+6.7%
Core EPU (sen)	2.07	2.23	2.20	-1.1%	+6.4%
DPU (sen)	2.10	2.25	2.23	-0.9%	+6.2%

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Published & printed by:

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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