

HLIB Research
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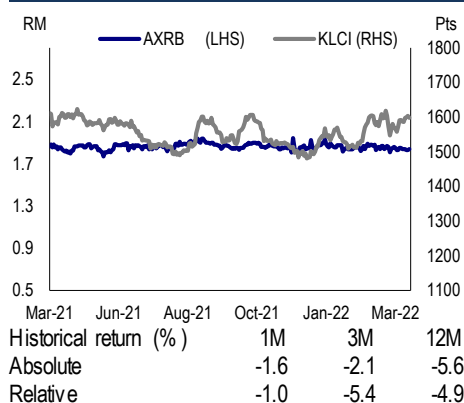
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BUY (Maintain)

Target Price: RM2.10
Previously: RM2.32
Current Price: RM1.84

Capital upside	14.1%
Dividend yield	5.0%
Expected total return	19.1%

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)	1,635
Market capitalisation (RM m)	3,005
3-mth average volume ('000)	1,033
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

EPF	16.8%
KWAP	10.9%
LTH	5.3%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PAT - core (RM m)	136.2	154.3	158.9
EPU - core (sen)	9.1	9.4	9.7
P/E (x)	20.2	19.5	18.9

Axis REIT

60 properties strong and more to come

Axis has been active in acquiring assets; 5 properties in 2021, and so far 2 in 2022. With an acquisition target of RM400m, Axis will stay focus in seeking for industrial type properties, while continuing to impute ESG elements into its operations. The 5 acquired properties in 2021 would see full year contribution and drive up FY22 revenue. Furthermore, prime industrial areas with healthy rental growth are expected to persist thanks to strong demand. We have updated our financial model with annual report figures and incorporated contribution from new asset acquisitions. In turn, FY22-23 profit is bumped up by 1%-2% but due to its placement exercise, FY22-23 EPU is cut by 7%. Post adjustments, our TP falls to RM2.10 (from RM2.32) based on targeted yield of 4.6% on FY23 DPU. **Maintain BUY.**

Newly completed asset. Axis started of 2022 with an acquisition in iPark Kulai Johor (completed in 8 Mar) marking its 9th property within the industrial park, further expanding its footprint within the area. Another asset situated in Pasir Gudang was acquired and completed on 7 Mar. Axis continues to show strong appetite for yield accretive acquisitions, having previously added five new properties in 2021.

Portfolio occupancy. Axis has shown a proven track record of improved occupancy despite Covid-19 (FY21: 96% vs FY20: 91%). This was thanks to new tenancies secured and property acquisitions concluded with majority of its properties being industrial title (92%) of which it is commonly 100% single-tenanted properties. Apart from that, Axis successfully managed an 89% tenant retention rate with a strong +5.6% positive rental reversion across its portfolio. Out of 60 properties in its portfolio, 50 properties have 100% occupancy.

Single-tenant. Proportion of single-tenanted properties in Axis's portfolio has inched to 76% (FY20: 74%), as it acquired more manufacturing facilities and logistics warehouses which are typically single tenant properties. Tenancies for single-tenanted properties usually feature longer-term leases and are typically occupied by multinational or large local companies, which presents a lower risk of default. Axis has a total of 154 tenants, which are stable, and well diversified. These tenants are predominantly involved in manufacturing and logistics, consumer products and the service industries.

ESG. Axis has been incorporating more ESG considerations into its operations and portfolio. These includes installation of rainwater harvesting, upgrading lighting to energy efficient LED lights, air conditioning systems, and water storage tanks ideally to mitigate the impact of water rationing, especially in Selangor. Additionally, Axis's expansion of digital marketing campaigns have aided in increasing virtual property viewings while minimising the need for face-to-face meetings. Moving to FY22 onwards, Axis would be looking into initiatives to recycle and reuse building materials for brownfield development projects. This would potentially reduce a considerable amount of construction waste produced during the construction phase, thereby further minimising Axis's waste footprint.

Outlook. Axis's FY22 acquisition target is RM400m with prime focus on Grade A logistics and manufacturing facilities with long leases from tenants with strong covenants as well as well-located retail warehousing in locations ideal for last-mile distribution. Axis's acquisitive strategy in recent years have focused on industrial type properties, in fact, acquisitions concluded in FY21 all involved office/industrial, manufacturing facility and logistics warehouse properties. Meanwhile geographical focus of Axis' portfolio remains on the prime industrial areas in Peninsula Malaysia (as at FY21: Johor: 29%, Shah Alam: 22% and Petaling Jaya: 17%). These areas enjoy healthy rental growth in past quarters and are expected to continue its momentum

thanks to the strong demand. Pipeline of ongoing acquisitions continues to focus on these key industrial hubs.

Forecast. We have updated our financial model with annual report figures and incorporated contribution from new asset acquisitions. In turn, FY22-23 profit is bumped up by 1%-2% but due to its placement exercise, FY22-23 EPU is cut by 7%. We introduce FY24 figures.

Maintain BUY, TP: RM2.10. Post adjustments, our TP is reduced to RM2.10 (from RM2.32), based on FY23 DPU on targeted yield 4.6% which is derived from 1SD below 2-year historical average yield spread between Axis REIT and 10-year MGS yield in view of increased popularity in industrial properties, 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	FY20	FY21	FY22f	FY23f	FY24f
Cash	39.8	196.0	214.8	230.9	247.5
Receivables	41.2	26.2	28.0	28.5	29.0
Investment properties	3,280.2	3,614.2	3,624.2	3,634.2	3,643.2
PPE	2.9	2.4	2.0	1.6	1.4
Others	-	-	-	-	-
Total Assets	3,364.1	3,838.8	3,868.9	3,895.2	3,921.1
Payables	62.0	52.5	58.2	58.3	58.4
Debt	1,112.2	1,184.6	1,194.6	1,204.6	1,213.6
Others	66.9	74.3	74.3	74.3	74.3
Liabilities	1,241.1	1,311.4	1,327.2	1,337.3	1,346.3
Unitholders' capital	1,595.5	1,934.3	1,946.3	1,959.9	1,973.8
Reserve	527.5	593.0	595.5	598.1	601.0
Equity	2,123.0	2,527.3	2,541.8	2,558.0	2,574.8
Total Liab & Equity	3,364.1	3,838.8	3,868.9	3,895.2	3,921.1

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	142.6	204.0	154.3	158.9	163.1
Islamic financing cost	39.5	45.7	-	-	-
Profit income	-0.9	-0.8	0.0	0.0	0.0
Changes in fair value	-19.0	-67.8	0.0	0.0	0.0
Depreciation	0.6	0.6	0.6	0.6	0.5
Changes in working capital	4.1	9.3	3.9	-0.5	-0.4
Others	5.5	9.3	0.0	0.0	0.0
CFO	172.4	200.3	158.8	159.1	163.2
Investment prop	-263.3	-227.0	0.0	0.0	0.0
Equipment	-0.3	-0.2	-0.2	-0.2	-0.2
Enhancement of prop	-7.4	-39.3	-10.0	-10.0	-9.0
Disposal	0.0	0.0	0.0	0.0	0.0
CFI	-270.9	-266.4	-10.2	-10.2	-9.2
Proceeds / (repayment)	225.9	71.4	10.0	10.0	9.0
Hire purchase	0.0	0.0	0.0	0.0	0.0
Income distribution paid	-109.5	-134.9	-151.8	-156.3	-160.2
Proceeds issue of units	11.8	342.5	12.0	13.6	14.0
Issuing expenses	-0.1	-3.7	0.0	0.0	0.0
CFF	128.1	275.3	-129.8	-132.7	-137.3
Net cash flow	29.5	209.2	18.8	16.2	16.7

Assumptions

FYE Dec	FY22f	FY23f	FY24f
Rental income	258.4	263.4	267.7
Commercial Offices revenue	19.0	19.8	20.6
Office / Industrial Building revenue	94.7	97.6	100.0
Warehouse / Logistic Centre revenue	133.5	134.8	135.9
Warehouse Retail Facilities revenue	11.2	11.2	11.2

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	232.2	246.2	263.4	268.4	272.7
Operating exp	-33.7	-33.3	-37.0	-37.0	-37.0
Net prop income	198.5	212.9	226.5	231.4	235.7
Other income	0.9	0.8	4.0	4.3	4.7
Net investmt income	199.4	213.7	230.4	235.7	240.4
Financing cost	-39.5	-45.7	-48.8	-49.2	-49.6
Other exp	-26.8	-27.2	-27.4	-27.6	-27.7
Profit before tax	133.1	140.8	154.3	158.9	163.1
Tax	-0.5	-3.7	0.0	0.0	0.0
Profit after tax	132.6	137.1	154.3	158.9	163.1
Net profit	124.9	136.2	154.3	158.9	163.1
Distributable income	125.6	136.9	154.9	159.4	163.5
Consensus core PAT			151.7	157.8	163.4
HLIB/ Consensus			102%	101%	100%

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPU (sen)	8.7	9.1	9.4	9.7	10.0
P/E (x)	21.2	20.2	19.5	18.9	18.4
EBITDA	171.9	187.2	203.7	208.6	213.1
EBIT	171.3	186.5	203.0	208.1	212.6
EV	3,726.3	3,996.2	3,987.4	3,981.3	3,973.6
EV/EBITDA (x)	21.7	21.3	19.6	19.1	18.6
DPU (sen)	8.8	9.5	9.3	9.6	9.8
Dividend yield	4.8	5.2	5.0	5.2	5.3
NTA/ share (sen)	147.2	154.6	155.5	156.5	157.5
P/ NTA	1.3	1.2	1.2	1.2	1.2
FCF/ share (sen)	24.2	13.8	18.3	18.5	18.9
FCF yield (%)	13.2	7.5	9.9	10.0	10.3
BVPS (RM)	1.47	1.55	1.56	1.56	1.58
P/B (x)	1.3	1.2	1.2	1.2	1.2
EBITDA margin	74.0%	76.0%	77.3%	77.7%	78.1%
EBIT margin	73.8%	75.8%	77.1%	77.5%	78.0%
PBT margin	57.3%	57.2%	58.6%	59.2%	59.8%
Netmargin	53.8%	55.3%	58.6%	59.2%	59.8%
ROE	6.7%	7.9%	6.1%	6.2%	6.3%
ROA	3.7%	3.5%	4.0%	4.1%	4.2%
Netgearing	33.1%	30.9%	30.9%	30.9%	31.0%

Quarterly Financial Summary

FYE Dec	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)
Gross rental income	57.6	61.4	63.1	2.7%	9.5%
Assessment	-1.2	-1.3	-1.7	25.5%	35.9%
Quit rent	-0.4	-0.4	-0.4	12.4%	11.4%
Other expenditure	-7.1	-6.2	-6.7	7.9%	-4.9%
Total expenditure	-8.6	-7.9	-8.8	11.1%	1.6%
Net rental income	48.9	53.5	54.3	1.4%	11.0%
Profit income	0.1	0.2	0.4	103.2%	172.3%
Depreciation	-0.2	-0.2	-0.2	-0.6%	3.9%
Administrative expenses	-0.7	-1.1	-0.9	-17.0%	26.5%
Total trust expenses	-16.7	-18.6	-19.4	4.1%	16.0%
Normalised PAT	32.5	35.1	35.3	0.5%	8.4%
EPU (sen)	3.4	2.6	6.9	168.0%	100.6%
DPU (sen)	2.3	2.5	2.4	-1.6%	7.1%

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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.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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