

22 July 2021

# Axis REIT

## 1HFY21 Within Expectations

By Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my)

2QFY21 RNI of RM63.1m came in within our and market expectations at 45% each, while dividend of 4.63 sen is also within at 48%. Occupancy is healthy at 94%, with minimal lease expiries (18% p.a.) of which it has locked in 83% of the expiring leases. Valuation-wise, we applied the lowest spread under our coverage at +1.0ppt due to AXREIT's earnings stability, positive reversions and industrial space resiliency throughout the pandemic. Maintain **OUTPERFORM** and TP of RM2.15 on FY22E GDPU of 9.9 sen.

2QFY21 realised net income (RNI) of RM63.1m came in within our and market expectations, at 45% each. The Group also declared 2QFY21 dividend of 2.40 sen (of which 1.89 sen is taxable and 0.51 sen is non-taxable), bringing 1HFY21 dividend to 4.63 sen which also met our FY21 estimate of 9.7 sen at 48%, implying 5.0% gross yield.

**Results' highlights.** QoQ, top-line was up by 5.3% on full quarter contributions from four newly acquired properties in 1QFY21. However, RNI declined by 4.1%, mainly due to a RM3.5m provision for doubtful debts from a tenant (Yongnam Engineering Sdn Bhd), and higher financing cost (+8.4%) as a result of the recent acquisitions. Net gearing remained stable at 0.36x (vs. 0.36x in 1QFY21). YoY-Ytd, top-line was up by 5.6% on rentals from seven newly acquired properties over the year, while operating cost only increased marginally by 1.8%. However, higher expenditure (+24.6%) due to the provision of doubtful debt and higher financing cost (+11.0%) weighed on RNI which inched up 3.1%.

**Outlook.** FY21 is expected to see minimal leases expiring at 18% of portfolio NLA, of which the Group has already secured renewals for 83% of these leases (vs. 32% in 4QFY20) on positive reversions, while FY22 will see 21% of leases up for expiry. In the near term, the Group is actively eyeing industrial assets worth a total of RM135m, focusing on Grade A logistics located in Selangor, Penang and Johor and will continue to target acquisitions with net yield of >6%.

**Maintain FY21-22E RNI of RM140.5-142.8m** which will be driven by single-digit positive reversions, gradual improvement in occupancy to 94-95% in FY21-22 (from 91% in 1QFY21) and positive contributions from acquisitions completed in 1QFY21. Our FY21-22E GDPU of 9.7-9.9 sen imply gross yield of 5.0-5.1%.

**Maintain OUTPERFORM and Target Price of RM2.15** on FY22E GDPU/NDPU of 9.9/8.9 sen on an unchanged +1.0ppt spread, at historical average SD, to the 10-year MGS target of 3.60%. Our applied yield spread is at the lower-end among MREITs under our coverage (averaging +0.5SD) due to its portfolio resiliency. AXREIT is our preferred pick for its: (i) earnings stability during this pandemic given its exposure to the resilient industrial segment, (ii) minimal lease expiries (<18% of portfolio p.a.) which is mostly secured, (iii) long-term leases during these uncertain times (WALE of 5.7 years vs. prime retail REITs' WALE of c.2-3 years), and (iv) low gearing of 0.36x (vs. MREITs' gearing limit of 0.60x) well positioned to take advantage of acquisition opportunities which may emerge under the challenging market conditions.

**Risks to our call include:** (i) bond yield expansion vs. our target 10-year MGS yield, and (ii) weaker-than-expected rental income.

# OUTPERFORM ↔

**Price:** RM1.93  
**Target Price:** RM2.15 ↔

### Share Price Performance



KLCI	1,516.52
YTD KLCI chg	-6.8%
YTD stock price chg	-4.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXRB MK Equity
Market Cap (RM m)	2,791.7
Shares Outstanding	1,446.5
52-week range (H)	2.25
52-week range (L)	1.81
3-mth avg daily vol:	644,952
Free Float	41%
Beta	0.5

### Major Shareholders

Employees Provident Fund Board	15.1%
Yayasan Pelaburan Bumiputra	13.6%
Kumpulan Wang Persaraan	12.1%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	232.2	240.5	246.4
EBIT	198.5	176.5	180.6
PBT	142.4	140.5	142.8
<b>Net Profit (NP)</b>	<b>141.9</b>	<b>140.5</b>	<b>142.8</b>
<b>Core Net Profit*</b>	<b>125.6</b>	<b>140.5</b>	<b>142.8</b>
Consensus (NP)	n.a.	140.4	149.0
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.7	9.7	9.9
Core EPS growth (%)	9	12	2
NDPS (sen)	7.9	8.7	8.9
BV/Share (RM)	1.47	1.48	1.49
Core PER (x)	22.2	19.8	19.5
Price/BV (x)	1.3	1.3	1.3
Gearing (x)	0.33	0.36	0.38
Net. Div Yield (%)	4.1	4.5	4.6

\*Core Net Profit refers to RNI

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## Results Highlights

FYE 31 Dec (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	6MFY20	6MFY21	YoY-Ytd
Gross Rental Income	61.5	58.4	5.3%	57.1	7.7%	113.5	119.9	5.6%
Operating Costs	(8.0)	(8.6)	-6.3%	(8.2)	-1.5%	(16.3)	(16.6)	1.8%
<b>Net Rental Income</b>	<b>53.4</b>	<b>49.8</b>	<b>7.3%</b>	<b>48.9</b>	<b>9.3%</b>	<b>97.2</b>	<b>103.3</b>	<b>6.3%</b>
Profit income/Net gain on financial liabilities	(0.7)	(0.8)	-22.4%	(1.5)	-56.9%	(3.8)	(1.5)	-60.2%
<b>Total Trust Income</b>	<b>52.8</b>	<b>49.0</b>	<b>7.8%</b>	<b>47.4</b>	<b>11.4%</b>	<b>93.4</b>	<b>101.8</b>	<b>9.0%</b>
Expenditure	(10.2)	(6.7)	52.9%	(6.5)	55.9%	(13.5)	(16.8)	24.6%
Financing Costs	(11.2)	(10.4)	8.4%	(9.7)	15.7%	(19.5)	(21.6)	11.0%
Fair Value Adjustments	0.0	0.0	n.m.	(0.0)	n.m.	(0.0)	0.0	n.m.
<b>Pretax Income</b>	<b>31.4</b>	<b>32.0</b>	<b>-1.9%</b>	<b>31.1</b>	<b>0.8%</b>	<b>60.4</b>	<b>63.3</b>	<b>4.9%</b>
Taxation	0.0	0.0	n.m.	0.0		0.0	0.0	n.m.
<b>Income after Tax</b>	<b>31.4</b>	<b>32.0</b>	<b>-1.9%</b>	<b>31.1</b>	<b>0.8%</b>	<b>60.4</b>	<b>63.3</b>	<b>4.9%</b>
<b>Realized Net Income (RNI)</b>	<b>30.9</b>	<b>32.2</b>	<b>-4.1%</b>	<b>31.0</b>	<b>-0.3%</b>	<b>61.2</b>	<b>63.1</b>	<b>3.1%</b>
<b>EPU (sen)</b>	<b>2.13</b>	<b>2.23</b>	<b>-4.1%</b>	<b>2.16</b>	<b>-1.1%</b>	<b>4.26</b>	<b>4.36</b>	<b>2.3%</b>
GDPU (sen)	2.40	2.23	7.6%	2.15	11.6%	4.25	4.63	8.9%
NAV/unit (RM)	1.47	1.47		1.48		1.48	1.47	
Gearing (x)	0.36	0.36		0.31		0.31	0.36	
NPI Margins	86.9%	85.3%		85.7%		85.6%	86.1%	
RNI Margins	50.2%	55.1%		54.3%		53.9%	52.6%	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<b>STOCKS UNDER COVERAGE</b>																		
AXIS REIT	1.93	2,791.7	Y	12/2021	3.6%	2.5%	11.9%	1.6%	22.2	19.8	19.5	1.5	1.5	6.2%	4.5%	2.15	OP	
CAPITALAND MALAYSIA MALL TRUST	0.620	1,308.5	N	12/2021	-10.8%	40.6%	-29.1%	125.7%	20.7	29.6	13.2	0.5	0.5	2.6%	6.1%	0.580	MP	
IGB REIT	1.68	5,991.9	N	12/2021	12.6%	1.8%	21.7%	1.7%	24.0	21.0	21.0	1.6	1.6	6.2%	4.4%	1.70	MP	
KLCCP STAPLED GROUP	6.78	12,240.2	Y	12/2021	4.9%	6.9%	8.2%	10.3%	22.6	20.5	18.8	0.9	0.9	5.4%	4.3%	7.35	OP	
SENTRAL REIT	0.890	953.9	N	12/2021	3.0%	2.6%	1.0%	0.7%	11.1	12.7	11.1	0.7	0.7	5.3%	7.0%	0.940	OP	
PAVILION REIT	1.37	4,175.4	N	12/2021	9.1%	7.9%	51.7%	13.1%	34.3	22.8	19.6	1.1	1.1	2.5%	4.0%	1.30	MP	
SUNWAY REIT	1.40	4,794.7	N	12/2021	7.6%	5.0%	-21.3%	21.7%	17.5	23.3	17.5	0.9	0.9	5.4%	4.0%	1.45	MP	
<b>Simple Average</b>					<b>4.3%</b>	<b>9.6%</b>	<b>6.3%</b>	<b>25.0%</b>	<b>21.8</b>	<b>21.4</b>	<b>17.2</b>	<b>1.0</b>	<b>1.0</b>	<b>4.8%</b>	<b>4.9%</b>			
* Core NP and Core PER																		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

