

Axis REIT (AXRB MK)

1H21 met expectations

Maintain BUY

2Q21 results and 2nd gross DPU of 2.40sen (1H21: 4.63sen) were in-line, with 1H21 core earnings at 47%/48% of our/street's FY21 estimates. Our earnings forecasts, DDM-TP of MYR2.20 (Ke: 6.5%) and BUY rating (sector's top pick) are intact. We continue to favour Axis' active acquisition strategy, namely on industrial properties. Current FY21-23E net DPU yields are 4.6%-5.2%.

New assets lifted earnings

2Q21 core net profit grew 11% YoY and 7% QoQ to MYR34.5m, bringing 1H21 core earnings to MYR66.7m (+9% YoY). 2Q21 bottomline growth (YoY) continued to be supported by: (i) new assets, having acquired/developed 6 properties since end-2Q20, (ii) positive rental reversions at selected properties, and (iii) favourable portfolio occupancy rate of 94% (2Q20: 92.3%). Notable occupancy increases in 2Q21 include Axis Industrial Facility @ Rawang at 48% (expected at 100% by 4Q21) and D8 Logistics Warehouse at 100%, where both properties were vacant in 1Q21. Meanwhile, we note that Malaysia's Movement Control Order (MCO) has limited/negligible impact to Axis in 1H21, namely on car park income.

Estimates unchanged

We maintain our FY21-23E earnings and assumptions, where near-term EPU and DPU growths are mainly driven by new assets, stable portfolio occupancy and some positive rental reversions. We have assumed 5 new assets in FY21E (completed 4 acquisitions in YTD21) - contributing about 6% to Axis' revenue.

An industrial and defensive play

Within the sector, Axis remains as a prominent industrial-focused M-REIT, as industrial assets contributed 92% to their portfolio's 1H21 NLA. We favour industrial properties which entail resilient rental income due to single-tenanted and long-term leases. Axis' gross gearing was at a decent 0.36x (end-2Q21), which supports more asset purchases. Furthermore, Axis is currently eyeing 2 warehouses (c.MYR107m in total) and another c.MYR135m worth of assets for acquisitions.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	222	232	262	294	304
Net property income	192	199	225	254	263
Core net profit	116	126	143	159	163
Core EPU (sen)	9.3	8.7	9.9	11.0	11.3
Core EPU growth (%)	7.3	(6.3)	13.8	11.2	2.0
Net DPU (sen)	8.4	7.9	8.9	9.9	10.1
Net DPU growth (%)	7.0	(6.3)	12.7	11.2	2.0
P/NTA (x)	1.2	1.4	1.3	1.3	1.3
Net DPU yield (%)	4.8	3.9	4.6	5.1	5.2
ROAE (%)	11.2	6.8	6.7	7.5	7.7
ROAA (%)	3.9	3.9	4.1	4.3	4.2
Debt/Assets (x)	0.29	0.33	0.38	0.41	0.42
Consensus Net DPU	-	-	8.3	9.0	9.3
MKE vs. Consensus (%)	-	-	6.8	9.9	8.5

BUY

Share Price	MYR 1.93
12m Price Target	MYR 2.20 (+19%)
Previous Price Target	MYR 2.20

Company Description

Axis REIT operates as a real estate investment trust that owns and invests in commercial, office, and industrial real estate.

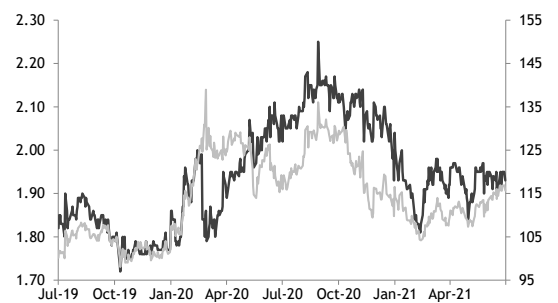
Statistics

52w high/low (MYR)	2.25/1.81
3m avg turnover (USDm)	0.3
Free float (%)	72.4
Issued shares (m)	1,442
Market capitalisation	MYR2.8B USD659M

Major shareholders:

Employees Provident Fund	14.6%
Kumpulan Wang Persaraan	12.3%
Public Mutual Bhd.	6.7%

Price Performance



— Axis REIT - (LHS, MYR) — Axis REIT / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	1	(5)
Relative to index (%)	2	6	(1)

Source: FactSet

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2QFY21	2QFY20	%YoY	1QFY21	%QoQ	1HFY21	1HFY20	%YoY
Gross revenue	61.5	57.1	7.7	58.4	5.3	119.9	113.5	5.6
Net property income	53.4	48.9	9.3	49.8	7.3	103.3	97.2	6.3
Interest income	0.1	0.3	(64.3)	0.1	19.2	0.2	0.6	(60.6)
Revaluation gain/loss	-	-	NM	-	NM	-	-	NM
Other exceptional items	(0.8)	(1.9)	(59.0)	(0.9)	(17.8)	(1.7)	(4.4)	(60.6)
Non-property expenses	(10.2)	(6.5)	55.9	(6.7)	52.9	(16.8)	(13.5)	24.6
Finance costs	(11.2)	(9.7)	15.7	(10.4)	8.4	(21.6)	(19.5)	11.0
Pretax profit	31.4	31.1	0.8	32.0	(1.9)	63.3	60.4	4.9
Tax	-	-	NM	-	NM	-	-	NM
Net profit	31.4	31.1	0.8	32.0	(1.9)	63.3	60.4	4.9
Net profit ex-EI	34.5	31.0	11.4	32.2	7.2	66.7	61.2	8.9
EPU ex-EI (sen)	2.4	2.1	11.1	2.2	7.2	4.6	4.2	8.6
Gross DPU (sen)	2.4	2.2	11.6	2.2	7.6	4.6	4.3	8.9
	2QFY21	2QFY20	+/- ppt	1QFY21	+/- ppt	1HFY21	1HFY20	+/- ppt
Net property margin (%)	86.9	85.7	1.2	85.3	1.6	86.1	85.6	0.5
Net income ex-EI margin (%)	56.1	54.2	1.9	55.1	1.0	55.6	54.0	1.7

Note: 2QFY21 core net profit excludes provision of doubtful debt (MYR3.6m), unrealised net loss on financial liabilities measured at amortised cost (MYR0.2m), unrealised fair value gain on derivatives (MYR0.6m) and lease incentive adjustment (MYR0.1m).

Source: Trust, Maybank Kim Eng

Risk statement

There are several risk factors that could impact our earnings estimates, target price and rating for Axis. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for Axis. About 47% of Axis' borrowings are based on floating rates and about 19% of Axis' NLA is due for lease renewal in FY21. Another earnings risk would be if the economic impact from Covid-19 becomes prolonged.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Price/DPU(x)	21.0	25.7	21.7	19.5	19.1
P/BV (x)	1.1	1.4	1.3	1.3	1.3
P/NTA (x)	1.2	1.4	1.3	1.3	1.3
DPU yield (%)	5.3	4.3	5.1	5.7	5.8
FCF yield (%)	6.4	5.8	6.9	8.2	8.6

INCOME STATEMENT (MYR m)

Revenue	222.5	232.2	262.4	293.7	304.4
Net property income	191.7	198.5	225.0	253.8	263.4
Management and trustee fees	(22.1)	(26.8)	(23.9)	(25.1)	(25.3)
Net financing costs	(46.9)	(38.6)	(57.8)	(69.3)	(75.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	213.5	142.6	143.3	159.4	162.6
Income tax	(4.2)	(0.5)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	209.2	142.1	143.3	159.4	162.6
Core net profit	116.2	125.6	143.3	159.4	162.6
Distributable inc to unitholders	116.8	126.3	144.0	160.2	163.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	52.5	39.8	31.1	31.0	32.3
Accounts receivable	39.3	41.2	46.0	51.5	53.4
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	2,990.6	3,280.2	3,569.6	3,755.8	3,828.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3.2	2.9	2.9	2.9	2.9
Total assets	3,085.7	3,364.1	3,649.6	3,841.2	3,917.4
ST interest bearing debt	385.6	611.5	611.5	611.5	611.5
Accounts payable	67.6	62.0	56.8	60.7	62.3
LT interest bearing debt	500.3	500.6	790.6	977.6	1,051.4
Other liabilities	53.5	66.9	66.9	66.9	66.9
Total Liabilities	1,006.9	1,241.1	1,525.9	1,716.7	1,792.1
Shareholders Equity	2,078.8	2,123.0	2,123.7	2,124.5	2,125.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,078.8	2,123.0	2,123.7	2,124.5	2,125.3
Total liabilities and equity	3,085.7	3,364.1	3,649.6	3,841.2	3,917.4

CASH FLOW (MYR m)

Cash flow from operations	140.8	168.3	191.7	227.8	238.5
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(91.3)	(270.7)	(290.0)	(187.0)	(73.8)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(9.7)	3.6	1.3	1.0	1.0
CF from investing activities	(101.0)	(267.1)	(288.7)	(186.0)	(72.8)
Dividends paid	(131.3)	(109.5)	(142.6)	(158.6)	(161.8)
Interest expense	(3.8)	(39.1)	(59.1)	(70.3)	(76.4)
Change in debt	(221.9)	225.9	290.0	187.0	73.8
Equity raised / (purchased)	340.5	11.8	0.0	0.0	0.0
Other financial activities	0.0	(0.1)	0.0	0.0	0.0
CF from financing activities	(16.4)	89.0	88.3	(41.9)	(164.4)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	23.4	(9.7)	(8.7)	(0.1)	1.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.6	4.4	13.0	11.9	3.6
Net property income growth	4.9	3.6	13.3	12.8	3.8
Core net profit growth	8.6	8.1	14.1	11.2	2.0
Distributable income growth	8.4	8.2	14.1	11.2	2.0
Profitability ratios (%)					
Net property income margin	86.2	85.5	85.7	86.4	86.5
Core net profit margin	52.2	54.1	54.6	54.3	53.4
Payout ratio	50.2	80.0	89.6	89.5	89.6
DuPont analysis					
Total return margin (%)	94.1	61.2	54.6	54.3	53.4
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.6	1.7	1.8	1.8
ROAE (%)	11.2	6.8	6.7	7.5	7.7
ROAA (%)	3.9	3.9	4.1	4.3	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	2.7	2.4	2.2	2.2
Net gearing (%) (excl. perps)	40.1	50.5	64.6	73.3	76.7
Net interest cover (x)	5.5	4.7	3.5	3.3	3.2
Debt/EBITDA (x)	3.4	6.1	6.9	6.9	7.0
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	833.3	1,072.4	1,371.1	1,558.2	1,630.7
Debt/Assets (x)	0.29	0.33	0.38	0.41	0.42

Source: Company; Maybank

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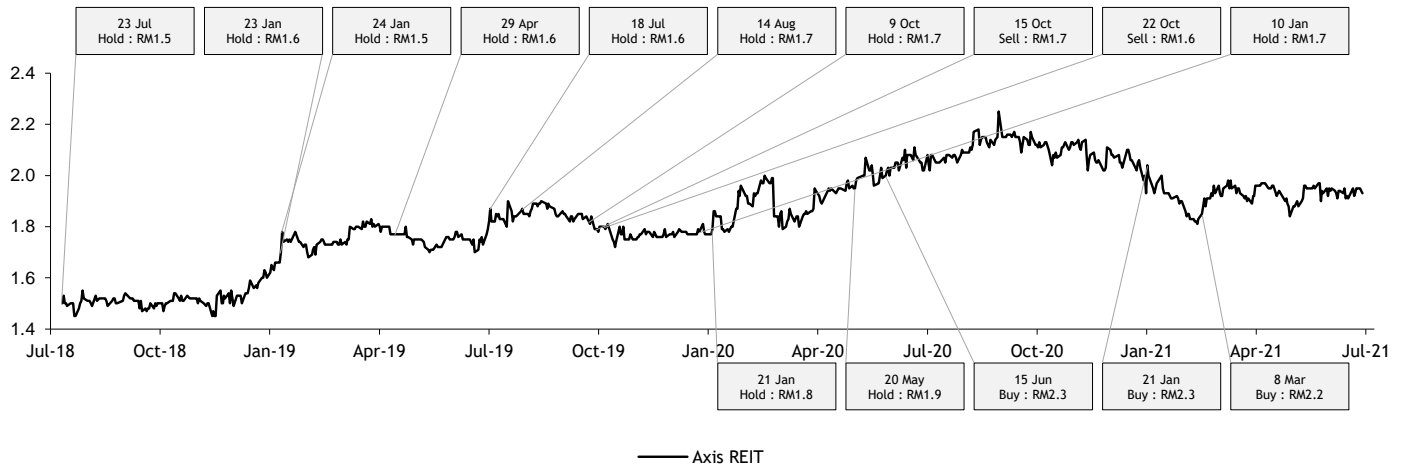
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