

## Axis REIT (AXRB MK)

# Higher acquisition targets

### Maintain as top BUY

4QFY21 core earnings and 4<sup>th</sup> interim gross DPU of 2.41sen (FY21: 9.49sen) were within expectations, with FY21 earnings coming in at 96%/100% of our/consensus estimates. We adjust higher our FY22/23E earnings by 1%/12%, which increases our rolled-forward DDM-TP to MYR2.30. Maintain BUY. Axis remains as our top pick in the REITs sector, supported by resilient rental income from industrial properties and active assets acquisitions.

### 4Q21 results

Axis' 4QFY21 core net profit grew by 9% YoY to MYR35.3m, bringing FY21 core net profit to MYR137.4m (+9% YoY). Earnings for 4Q21 was lifted by by: (i) increase in portfolio size by 5, to a total of 58 properties, (ii) positive rental reversions (FY21 average: +5.6%) from tenancy renewals and contracted step-ups, and; (iii) increase in portfolio occupancy to 96% (+5ppt YoY). These, however, was partially offset by higher financing costs (+20% YoY, +5% QoQ) from additional financing to fund new acquisitions.

### Proposed development of BRDC 2

On a separate note, AXIS has proposed to redevelop recently acquired Bukit Raja Distribution Centre 2, Shah Alam (BRDC 2), with estimated cost of MYR130m. The development is expected to commence in 1Q 2022 and to be completed for handover to Shopee Express Malaysia Sdn Bhd, with a 15-year lease agreement by Sept 2022. BRDC 2 currently has gross built-up area of 326k sf which is expected to expand to 620k sf upon completion.

### Earnings outlook

We adjust our FY22/23E earnings higher by 1%/12% post FY21 results and higher value of acquisition targets to MYR400m (3QFY21: MYR187m). We also introduce our FY24 forecasts which factor in a conservative MYR60m worth of new assets. We continue to like Axis for its prominent industrial portfolio (92% of FY21 NLA). We expect its industrial assets to provide resilient rental income due to single-tenanted and long-term leases. Axis' gearing stands at 0.31x (end-FY21), which support new assets acquisition.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	232	246	293	324	345
Net property income	199	213	253	282	302
Core net profit	126	137	170	182	190
Core EPU (sen)	8.7	8.9	10.4	11.2	11.6
Core EPU growth (%)	(6.3)	2.3	16.3	7.4	4.0
Net DPU (sen)	7.9	7.8	9.3	10.0	10.4
Net DPU growth (%)	(6.3)	(1.1)	19.0	7.4	4.0
P/NTA (x)	1.4	1.3	1.2	1.2	1.2
Net DPU yield (%)	3.9	4.0	5.0	5.4	5.6
ROAE (%)	6.8	8.6	6.7	7.2	7.5
ROAA (%)	3.9	3.8	4.3	4.2	4.2
Debt/Assets (x)	0.33	0.31	0.34	0.41	0.42
Consensus Net DPU	-	-	9.0	9.4	na
MKE vs. Consensus (%)	-	-	3.3	6.7	na

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# BUY

Share Price	MYR 1.84
12m Price Target	MYR 2.30 (+30%)
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.

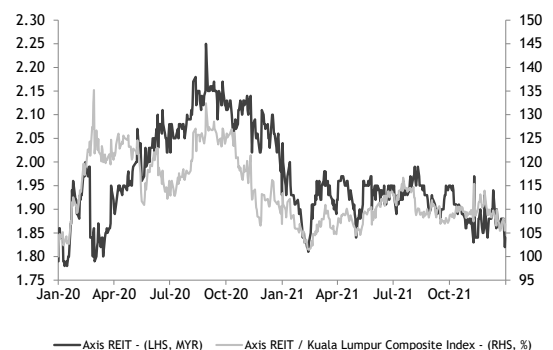
### Statistics

52w high/low (MYR)	2.04/1.81
3m avg turnover (USDm)	0.4
Free float (%)	71.4
Issued shares (m)	1,635
Market capitalisation	MYR3.0B USD718M

### Major shareholders:

Employees Provident Fund	17.1%
Kumpulan Wang Persaraan	10.9%
Public Mutual Bhd.	5.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(6)	(5)
Relative to index (%)	(3)	(1)	(0)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	12MFY21	12MFY22	% YoY
Gross revenue	63.8	59.8	6.7	62.5	1.9	246.2	232.2	6.0
<b>Net property income</b>	<b>55.0</b>	<b>51.1</b>	<b>7.6</b>	<b>54.6</b>	<b>0.6</b>	212.9	198.5	<b>7.2</b>
Interest income	0.4	0.1	>100	0.2	>100	0.8	0.9	(8.5)
Revaluation gain/(loss)	67.8	19.0	>100	NM	NM	67.8	19.0	>100
Other exceptional items	(1.7)	(3.7)	(52.9)	(1.1)	62.2	(4.5)	(9.5)	(52.2)
Non-property expenses	(5.4)	(6.5)	(16.7)	(5.0)	8.7	(27.2)	(26.8)	1.5
Finance costs	(12.4)	(10.3)	20.5	(11.8)	5.2	(45.7)	(39.5)	15.7
<b>Pretax profit</b>	<b>103.7</b>	<b>49.8</b>	<b>&gt;100</b>	<b>37.1</b>	<b>&gt;100</b>	204.0	142.6	<b>43.1</b>
Tax	(3.7)	(0.5)	>100	NM	NM	(3.7)	(0.5)	>100
<b>Net profit</b>	<b>100.0</b>	<b>49.3</b>	<b>&gt;100</b>	<b>37.1</b>	<b>&gt;100</b>	200.4	142.1	<b>41.0</b>
<b>Net profit ex-EI</b>	<b>35.3</b>	<b>32.3</b>	<b>9.0</b>	<b>35.5</b>	<b>(0.5)</b>	137.4	125.7	<b>9.3</b>
EPU ex-EI (sen)	2.2	2.2	(3.8)	2.5	(12.0)	9.2	8.7	5.8
<b>Gross DPU (sen)</b>	<b>2.4</b>	<b>2.3</b>	<b>7.1</b>	<b>2.5</b>	<b>(1.6)</b>	<b>9.5</b>	<b>8.8</b>	<b>8.5</b>
	<b>4QFY21</b>	<b>4QFY20</b>	<b>+/- ppt</b>	<b>3QFY21</b>	<b>+/- ppt</b>	<b>12MFY21</b>	<b>12MFY22</b>	<b>+/- ppt</b>
<i>Net property margin (%)</i>	86.2	85.5	0.7	87.4	(1.1)	86.5	85.5	1.0
<i>Net income ex-EI margin (%)</i>	55.3	54.1	1.2	56.7	(1.4)	55.8	54.1	1.7

Source: Company, Maybank IBG Research

## 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 36% of Axis' borrowings are based on floating rates and about 25% of Axis' NLA is due for lease renewal in FY22. Another earnings risk would be if the economic impact from Covid-19 becomes prolonged.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Price/DPU(x)	25.7	24.8	19.8	18.4	17.7
P/BV (x)	1.4	1.2	1.2	1.2	1.2
P/NTA (x)	1.4	1.3	1.2	1.2	1.2
DPU yield (%)	4.3	4.5	5.6	6.0	6.3
FCF yield (%)	5.8	6.4	6.9	8.4	9.0

**INCOME STATEMENT (MYR m)**

Revenue	232.2	246.2	292.6	324.0	345.3
<b>Net property income</b>	<b>198.5</b>	<b>212.9</b>	<b>252.6</b>	<b>282.0</b>	<b>302.0</b>
Management and trustee fees	(26.8)	(27.2)	(28.7)	(28.9)	(29.0)
Net financing costs	(38.6)	(44.9)	(54.3)	(70.8)	(83.4)
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
<b>Pretax profit</b>	<b>142.6</b>	<b>204.0</b>	<b>169.7</b>	<b>182.3</b>	<b>189.6</b>
Income tax	(0.5)	(3.7)	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
<b>Net profit</b>	<b>142.1</b>	<b>200.4</b>	<b>169.7</b>	<b>182.3</b>	<b>189.6</b>
Core net profit	125.6	137.4	169.7	182.3	189.6
Distributable inc to unitholders	126.3	138.0	170.4	183.1	190.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	39.8	196.0	180.6	180.0	168.1
Accounts receivable	41.2	26.2	51.3	56.8	60.6
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	3,280.2	3,614.2	3,820.5	4,293.6	4,368.4
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	2.9	2.4	2.4	2.4	2.4
<b>Total assets</b>	<b>3,364.1</b>	<b>3,838.8</b>	<b>4,054.8</b>	<b>4,532.8</b>	<b>4,599.4</b>
ST interest bearing debt	611.5	560.4	560.4	560.4	560.4
Accounts payable	62.0	52.5	60.6	63.8	65.7
LT interest bearing debt	500.6	624.2	831.2	1,305.0	1,368.6
Other liabilities	66.9	74.3	74.3	74.3	74.3
<b>Total Liabilities</b>	<b>1,241.1</b>	<b>1,311.4</b>	<b>1,526.5</b>	<b>2,003.5</b>	<b>2,069.1</b>
Shareholders Equity	2,123.0	2,527.3	2,528.3	2,529.3	2,530.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>2,123.0</b>	<b>2,527.3</b>	<b>2,528.3</b>	<b>2,529.3</b>	<b>2,530.3</b>
<b>Total liabilities and equity</b>	<b>3,364.1</b>	<b>3,838.8</b>	<b>4,054.8</b>	<b>4,532.8</b>	<b>4,599.4</b>

**CASH FLOW (MYR m)**

<b>Cash flow from operations</b>	<b>168.3</b>	<b>191.1</b>	<b>207.6</b>	<b>251.5</b>	<b>272.1</b>
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(270.7)	(266.2)	(207.0)	(473.8)	(75.7)
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	3.6	(8.2)	6.3	5.8	5.8
<b>CF from investing activities</b>	<b>(267.1)</b>	<b>(274.4)</b>	<b>(200.7)</b>	<b>(468.0)</b>	<b>(69.9)</b>
Dividends paid	(109.5)	(134.9)	(168.7)	(181.3)	(188.6)
Interest expense	(39.1)	(44.6)	(60.5)	(76.5)	(89.2)
Change in debt	225.9	71.4	207.0	473.8	63.7
Equity raised / (purchased)	11.8	342.5	0.0	0.0	0.0
Other financial activities	(0.1)	(3.7)	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>89.0</b>	<b>230.7</b>	<b>(22.3)</b>	<b>216.0</b>	<b>(214.1)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>(9.7)</b>	<b>147.4</b>	<b>(15.4)</b>	<b>(0.6)</b>	<b>(11.9)</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.4	6.0	18.8	10.7	6.6
Net property income growth	3.6	7.2	18.7	11.6	7.1
Core net profit growth	8.1	9.4	23.5	7.4	4.0
Distributable income growth	8.2	9.3	23.5	7.4	4.0
<b>Profitability ratios (%)</b>					
Net property income margin	85.5	86.5	86.4	87.0	87.5
Core net profit margin	54.1	55.8	58.0	56.3	54.9
Payout ratio	80.0	60.0	89.5	89.5	89.5
<b>DuPont analysis</b>					
Total return margin (%)	61.2	81.4	58.0	56.3	54.9
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.5	1.6	1.8	1.8
ROAE (%)	6.8	8.6	6.7	7.2	7.5
ROAA (%)	3.9	3.8	4.3	4.2	4.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.7	2.9	2.7	2.3	2.2
Net gearing (%) (excl. perps)	50.5	39.1	47.9	66.6	69.6
Net interest cover (x)	4.7	5.5	4.1	3.6	3.3
Debt/EBITDA (x)	6.1	4.7	6.2	7.3	7.0
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,072.4	988.6	1,211.0	1,685.4	1,761.0
Debt/Assets (x)	0.33	0.31	0.34	0.41	0.42

Source: Company; Maybank

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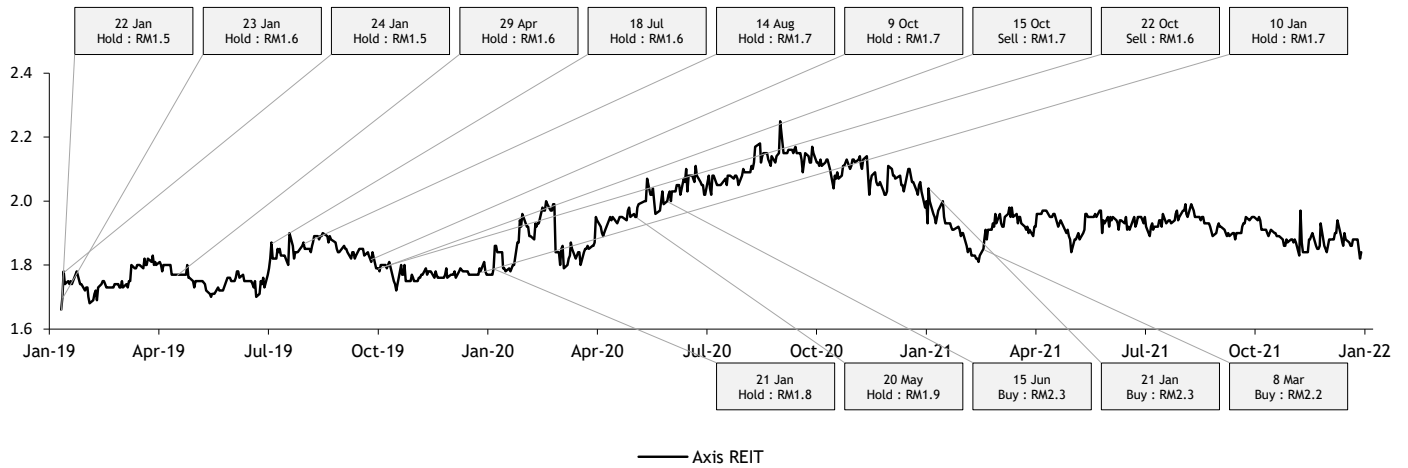
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Historical recommendations and target price: Axis REIT (AXRB MK)



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