

## Axis REIT (AXRB MK)

# Acquiring logistics warehouse in PTP

### Maintain BUY

We are mildly positive on Axis' proposed acquisition of a MYR390m logistics warehouse in Pelabuhan Tanjung Pelepas, Johor. We maintain our earnings forecasts, DDM-TP of MYR2.30 (Ke: 6.5%) and BUY rating. We are also keeping Axis as our sector's top pick, on account of its resilient rental income from industrial assets and active acquisition strategy.

### Acquiring MYR390m logistics warehouse in PTP, Johor

Axis has proposed to acquire a double-storey ramp-up warehouse cum 3-storey office (NLA: 1.15m sq.ft.) in Pelabuhan Tanjung Pelepas, Gelang Patah, Johor for MYR390m, from Equalbase PTP Sdn. Bhd. The property is currently built on a portion of leasehold land with an unexpired 33 years sub-leased term. The deal also entails a 10 years leaseback agreement with fixed rental rates ranging from MYR26m-27.9m p.a. The lessee is primarily in the business of the building and construction of warehouses. Axis expects the deal to be completed in mid-2022.

### Yield accretive purchase

Assuming a 95% net property margin, we have derived net property yields of 6.3%-6.8% (based on lease term of 10 years). These are higher than our estimated WACC of 5.3% (debt:equity 40:60). No changes to our forecast, as this deal forms part of our new acquisition assumptions. We estimate Axis' gross gearing will increase to 0.4x from 0.31x at end-FY21, which is including the proposed development of the Bukit Raja Distribution Centre 2, Shah Alam (BRDC 2).

### Forecast intact

We maintain our FY22-24E net profit as we have included a MYR400m acquisition assumption for FY22E. We remain upbeat on Axis' active acquisition strategy on industrial assets which generally entail resilient rental income and lower occupancy risks. To recap, YTD-FY22, Axis has completed 2 industrial properties purchases in Johor, in March.

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	5.1	5.5	5.7
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	-	-	8.4	9.0	9.2
MKE vs. Consensus (%)	-	-	11.0	10.9	13.1

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# BUY

Share Price	MYR 1.83
12m Price Target	MYR 2.30 (+30%)
Previous Price Target	MYR 2.30

### Company Description

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

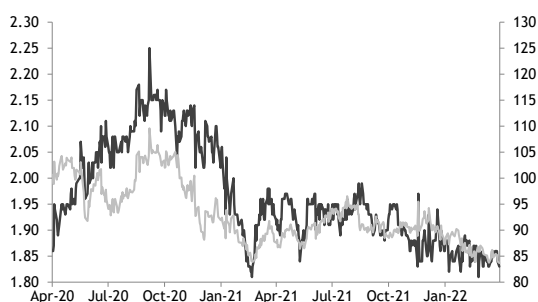
### Statistics

52w high/low (MYR)	1.99/1.81
3m avg turnover (USDm)	0.4
Free float (%)	71.4
Issued shares (m)	1,635
Market capitalisation	MYR3.0B USD707M

### Major shareholders:

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

### Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(2)	(2)	(5)
Relative to index (%)	(4)	(4)	(5)

Source: FactSet

## 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	19.7	18.3	17.6
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	6.1	6.3
FCF yield (%)	5.8	6.4	6.9	8.4	9.1

**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 IBG Research

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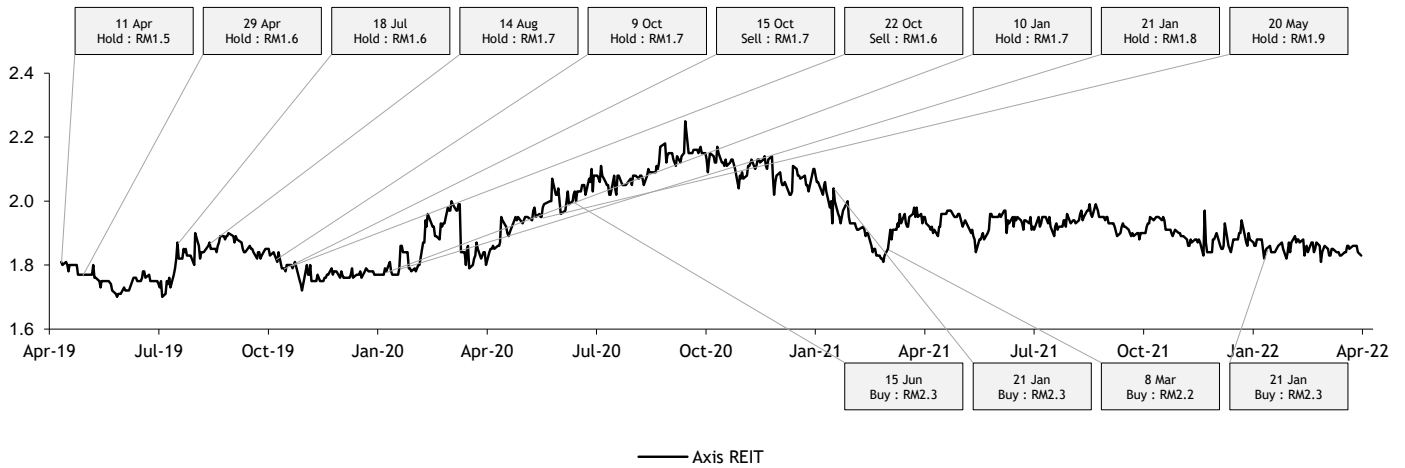
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