

# Axis REIT

(5106 | AXRB MK) Real Estate | Real Estate Investment Trust

**Maintain NEUTRAL**

## EPU did not catch up with earnings growth

**Adjusted Target Price: RM1.83**  
(previously RM1.73)

### KEY INVESTMENT HIGHLIGHTS

- **1QFY20 was slightly below expectations**
- **CNI for the quarter climbed 10%yoy to RM29.3m**
- **MCO may disrupt processes of new acquisitions**
- **Maintain Neutral with an adjusted TP of RM1.83**

**1QFY20 was slightly below expectations.** Axis REIT's 1QFY20 core net income (CNI) of RM29.3m missed our estimates by a tad at 20% of our full year estimates. This was attributed to higher than expected property expenses. Nonetheless, it was within consensus' estimates at 22%. An interim dividend of 2.10sen was announced, which is also slightly lower than expected.

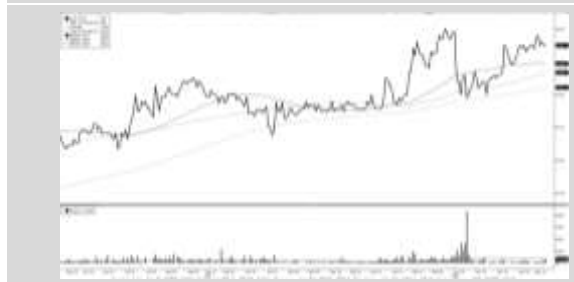
**CNI for the quarter climbed 10%yoy to RM29.3m** as revenue inched up 2%yoy to RM54.8m. The higher income can be attributed to two new properties that are added to Axis REIT's portfolio on top of positive rental reversion. However, EPU did not catch up with the growth in earnings mainly due to the placement exercise that was completed last year. As a result of dilution, EPU slid by 5%yoy. During the quarter, the Axis Facility @ Batu Kawan development project has been handed over to Fedex with rental commencing on March 1.

**MCO may disrupt processes of new acquisitions.** In the first quarter, Axis REIT has completed two acquisitions, which were Axis Facility 2@ Nilai for RM50m in February and Axis Facility 2@ Bukit Raja for RM37.0m in March. During the period, it had also accepted the letter of offer to acquire a manufacturing facility for RM25.5m in Johor Bahru. There are five other ongoing acquisitions, including the D37c Warehouse in PTP Johor with a price tag of RM65m that is expected to be completed by 1HFY20. Acquisitions that are expected to be completed in the second half of the year are: 1. the Bayan Lepas Industrial Facility (RM20.5m), 2. Manufacturing facility at Shah Alam (RM11.8m), 3. Manufacturing facility at Tebrau, Johor (RM25.5m) and 4. Manufacturing facility in Kota Kinabalu, Sabah (RM60.0m). We do not rule of the possibility that some of these deals may be brought forward to next year due to the movement control order (MCO) which may lengthen the due diligence processes. In the pipeline, the value of acquisition targets are worth RM135m.

### RETURN STATISTICS

Price @ 20 <sup>th</sup> May 2020 (RM)	1.95
Expected share price return (%)	-6.4
Expected dividend yield (%)	4.0
<b>Expected total return (%)</b>	<b>-2.4</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	2.6	-1.2
3 months	6.6	10.1
12 months	11.4	24.5

### KEY STATISTICS

FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	1435.25
Estimated free float (%)	57.13
Market Capitalisation (RM'm)	2812.55
52-wk price range	RM1.66 - RM2.06
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	0.00
Monthly volatility (%)	8.76
3-mth average daily volume (m)	3.88
3-mth average daily value (RM'm)	7.25
Top Shareholders (%)	
EPF	11.34
KWAP	11.33
Lembaga Tabung Haji	5.18

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**Earnings estimates for FY20E/FY21F revised by -10%/ -10% respectively.** Although Axis REIT's portfolio is relatively shielded from the immediate direct impact of the Covid-19 pandemic, the REIT manager does not rule out providing support to its tenants when necessary especially in the event if the pandemic prolongs. While we opine that any form of support given should have minimal impact to Axis REIT's CNI at this juncture considering most businesses have been operating and Axis REIT's major tenants are MNCs. That said, we trim our FY20E/FY21F earnings estimates downwards by -11%/ -10% respectively as earnings missed our forecast due to higher property expenses.

**Maintain Neutral with an adjust TP of RM1.83 (previously RM1.73).** This is following the revision in our earnings estimates. Besides lowering our full year earnings estimates, we have also revised lower our required rate of return in our DDM-derived model to 7.0% from 7.5% as we factor in lower interest. We maintain our Neutral recommendation on Axis REIT due to limited unit price upside. Meanwhile, net dividend yield of Axis REIT is estimated at 4.0%. 

## INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY18A	FY19A	FY20F	FY21F	FY22F
Gross Revenue	204	216	231	237	244
Net Rental Income	183	187	196	202	209
Net Investment Income	222	284	197	203	210
Net Income	155	208	132	138	144
Core Net Income	112	110	132	138	144
Realised EPU (sen)	12.5	16.8	8.9	9.3	9.7
Core EPU (sen)	9.1	8.9	8.9	9.3	9.7
Gross DPU (sen)	8.7	9.3	8.7	9.1	9.5
Net DPU (sen)	7.8	8.3	7.8	8.2	8.5
Net Distribution Yield (%)	4.0	4.3	4.0	4.2	4.4
Core PER (x)	21.4	21.8	21.9	21.0	20.1
NAV per unit (RM)	1.3	1.4	1.1	1.1	1.1
P/NAV (x)	1.4	1.4	1.7	1.7	1.7
Core ROE	6.9%	6.6%	7.9%	8.3%	8.6%
Core ROA	4.2%	3.8%	4.4%	4.5%	4.5%

Source: Company, MIDFR

## AXIS REIT: 1QFY20 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY20	%YoY	%QoQ	3MFY20	%YoY
Gross Revenue	54.8	2%	0%	54.8	2%
Net Investment Income	46.0	4%	-69%	46.0	4%
Net Income	29.3	10%	-77%	29.3	10%
Core Net Income (CNI)	29.3	10%	3%	29.3	10%
Realised EPU (sen)	2.0	-5%	-80%	2.0	-5%
Core EPU (sen)	2.0	-5%	-11%	2.0	-5%
Gross DPU (sen)	2.1	-11%	-5%	2.1	-11%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.