

# Axis REIT

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

## Maintain NEUTRAL

**Revised Target Price: RM1.73**  
(previously RM1.75)

### On acquisition trail


#### KEY INVESTMENT HIGHLIGHTS

- **Higher property expenses in FY19**
- **Healthy rental reversion**
- **On acquisition trail to expand portfolio**
- **Earnings forecast revised downwards**
- **Maintain Neutral with a lower TP of RM1.73**

**Higher property expenses in FY19.** We came away from Axis REIT's analyst briefing feeling 'neutral' on its earnings prospect. To recap, Axis REIT FY19 core net income missed expectations due to higher than expected property expenses. Note that Axis REIT completed a few AEI in FY19 namely building façade improvement works at Menara Axis and enhancement of sewer at Seberang Prai Logistic Warehouse 3. Higher property expenses were also due to expenses for three newly acquired assets in FY19.

**Healthy rental reversion.** Axis REIT recorded positive rental reversion of 2% in FY19. Meanwhile, Axis REIT registered take-up rate of 96% on spaces expiring in FY19 which we think was mainly underpinned by healthy demand for industrial assets. On the other hand, Axis REIT committed to build-to-suit development for FedEx with NLA of 44,000 sq ft in Batu Kawan, Penang. The development project has obtained its Certificate of Practical Completion on 30 December 2019 and is targeted to handover by February 2020.

**On acquisition trail.** Axis REIT remains on an acquisition trail to expand its portfolio. Acquisition targets includes Grade A logistics facilities and manufacturing facilities, retail warehousing in locations ideal for last-mile distribution, and industrial assets with potential for future enhancement. Total estimated value of acquisition targets is RM135m.

**Maintain Neutral with a lower TP of RM1.73.** We revise downwards our FY20/21F earnings forecast by 2.5% as we assume higher property expenses. Correspondingly, we revise downward our TP for Axis REIT to RM1.73 from RM1.75. Our TP is based on Dividend Discount Model (Required rate of return: 7.5%). We maintain our Neutral recommendation on Axis REIT due to limited upside for unit price. 

#### RETURN STATISTICS

Price @ 21 <sup>st</sup> January 2020 (RM)	1.79
Expected share price return (%)	-3.4
Expected dividend yield (%)	4.8
<b>Expected total return (%)</b>	<b>1.4</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.1	2.1
3 months	0.6	-2.5
12 months	7.2	13.8

#### KEY STATISTICS

FBM KLCI	1,587.33
Syariah compliant	Yes
Issue shares (m)	1,237.29
Estimated free float (%)	52.14
Market Capitalisation (RM'm)	2,569
52-wk price range	RM1.65-RM1.99
Beta vs FBM KLCI (x)	0.30
Monthly velocity (%)	11.02
Monthly volatility (%)	8.76
3-mth average daily volume (m)	1.62
3-mth average daily value (RM'm)	2.87
Top Shareholders (%)	
EPF	13.97
KWAP	11.73
Lembaga Tabung Haji	5.24

**Analyst(s)**  
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**INVESTMENT STATISTICS**

<b>FYE Dec (RM'm, unless otherwise stated)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Gross Revenue</b>	168	204	216	234	241
<b>Net Rental Income</b>	147	183	187	200	207
<b>Net Investment Income</b>	148	222	284	201	208
<b>Net Income</b>	123	155	208	146	150
<b>Core Net Income</b>	123	112	110	146	150
<b>Realised EPU (sen)</b>	11.1	12.5	16.8	9.8	10.1
<b>Core EPU (sen)</b>	11.1	9.1	8.9	9.8	10.1
<b>Gross DPU (sen)</b>	11.0	8.7	9.3	9.6	9.9
<b>Net DPU (sen)</b>	9.9	7.8	8.3	8.6	8.9
<b>Net Distribution Yield (%)</b>	5.5	4.4	4.7	4.8	5.0
<b>Core PER (x)</b>	16.1	19.7	20.1	18.3	17.7
<b>NAV per unit (RM)</b>	1.4	1.3	1.4	1.1	1.1
<b>P/NAV (x)</b>	1.2	1.3	1.3	1.6	1.6
<b>Core ROE</b>	8.2%	6.9%	6.6%	8.7%	9.0%
<b>Core ROA</b>	5.1%	4.2%	3.8%	4.8%	4.9%

Source: Company, MIDFR

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#### 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.