# Axis REIT

(5106 | AXRB MK) Main | REIT

**Maintain BUY**

## Weaker Earnings in 1QFY23

**Unchanged Target Price: RM2.06**

## KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings within our expectation**
- **Weaker earnings in 1QFY23**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM2.06**

| RETURN STATISTICS | |
|---|---|
| Price @ 18th April 2023 (RM) | 1.91 |
| Expected share price return (%) | +7.8% |
| Expected dividend yield (%) | +4,2% |
| **Expected total return (%)** | **+12.0%** |

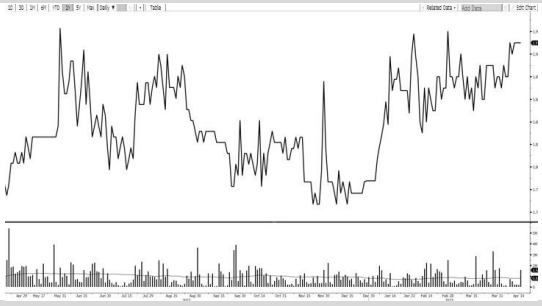
**1QFY23 earnings within our expectation.** Axis REIT 1QFY23 core net income of RM32.5m came in within our expectation but below consensus expectation, making up 21% and 19% of our and consensus full year estimates respectively. Meanwhile, first interim distribution per unit (DPU) of 2.05sen (ex-date: 5th May 2023) was announced for 1QFY23.

**Weaker earnings in 1QFY23.** Sequentially, 1QFY23 core net income eased to RM32.5m (-6.9%qoq), in line with lower topline (-0.8%qoq) due to expiry of tenancies for Axis Shah Alam Distribution Centre in December 2022. Besides, the earnings decline was also owing to higher property expenses as a result of higher maintenance cost. On yearly basis, 1QFY23 core net income was lower at RM32.5m (-16.8%yoy) despite higher topline (+5.2%yoy). The higher rental income was mainly due to contribution from assets that were acquired in FY22. Nevertheless, 1QFY23 core net earnings were lower due to higher property expenses and higher Islamic financing cost. Besides, the earnings decline was also due to provision for doubtful debts made for lessee of Axis Steel Centre @ SiLC in Johor. Meanwhile, core earnings per unit (EPU) recorded steeper decline due to dilutive impact from private placement. Recall that Axis REIT completed private placement exercise in January 2023 which led to larger share base. On another note, portfolio occupancy of Axis REIT declined slightly to 92.7% as of March 2023 from 95% as of December 2022.

**Earnings forecast maintained.** We maintain our earnings forecast for FY23F/24F/25F. We continue to see stable earnings outlook for Axis REIT as rental income from industrial assets is expected to remain steady going forward. Demand for industrial space remains solid and that supports positive rental reversion outlook for industrial assets under Axis REIT portfolio.

**Maintain BUY with unchanged TP of RM2.06.** We maintain our **TP** for Axis REIT at **RM2.06**, based on Dividend Discount Model (DDM). We continue to see stable outlook for Axis REIT as outlook for industrial assets remains positive. Besides, risk of hike in Islamic financing cost is lower as Axis REIT's exposure to fixed rate financing improved to 64% in 1QFY23 from 47%. Hence, we maintain our **BUY** call on Axis REIT. Meanwhile, distribution yield is estimated at 4.2%.

**SHARE PRICE CHART**



| Price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 1.6 | 0.0 |
| 3 months | 1.6 | 6.0 |
| 12 months | 1.8 | 12.0 |

**INVESTMENT STATISTICS**

| FYE Dec | 2023E | 2024F | 2025F |
|---|---|---|---|
| Revenue | 279 | 295 | 297 |
| Net Rental Income | 240 | 255 | 258 |
| Net Investment Income | 241 | 257 | 259 |
| Core Net Income | 158 | 163 | 167 |
| Core EPU (sen) | 9.09 | 9.34 | 9.61 |
| Net DPU (sen) | 7.98 | 8.20 | 8.44 |
| Dividend Yield | 4.18% | 4.29% | 4.42% |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,432.36 |
| Issue shares (m) | 1641.05 |
| Estimated free float (%) | 52.72 |
| Market Capitalisation (RM'm) | 3,325 |
| 52-wk price range | RM1.78 – RM2 |
| 3-mth average daily volume (m) | 0.80 |
| 3-mth average daily value (RM'm) | 1.51 |
| Top Shareholders (%) | |
| Employees Provident Fund Board | 16.23 |
| Kumpulan Wang Persaraan | 10.46 |
| Lembaga Tabung Haji | 5.03 |

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## AXIS REIT: 1QFY23 Results Summary

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | |
|---|---|---|---|---|---|
| | 1QFY23 | *%YoY* | *%QoQ* | FY23 | *%YoY* |
| Gross Revenue | 70.2 | *5.2%* | *-0.8%* | 70.2 | *5.22%* |
| Net Investment Income | 56.4 | *-3.9%* | *-34.4%* | 56.4 | *-3.88%* |
| Net Income | 30.3 | *-23.9%* | *-49.2%* | 30.3 | *-23.93%* |
| Core Net Income (CNI) | 32.5 | *-16.8%* | *-6.9%* | 32.5 | *-16.76%* |
| Realised EPU (sen) | 1.7 | *-28.6%* | *-52.1%* | 1.7 | *-28.59%* |
| Core EPU (sen) | 1.9 | *-21.9%* | *-12.3%* | 1.9 | *-21.86%* |
| Gross DPU (sen) | 2.1 | *-15.3%* | *-12.0%* | 2.1 | *-15.29%* |

*Source: Company, MIDFR*

## FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Gross Revenue | 242 | 282 | 279 | 295 | 297 |
| Net Rental Income | 204 | 277 | 240 | 255 | 258 |
| Net Investment Income | 277 | 277 | 241 | 257 | 259 |
| Net Income | 205 | 190 | 156 | 160 | 165 |
| Core Net Income | 133 | 157 | 158 | 163 | 167 |
| Core EPU (sen) | 9.2 | 9.5 | 9.1 | 9.3 | 9.6 |
| Core PER (x) | 20.8 | 20.0 | 21.0 | 20.5 | 19.9 |
| NAV/unit (RM) | 1.75 | 1.57 | 1.52 | 1.52 | 1.53 |
| P/NAV (x) | 1.09 | 1.22 | 1.26 | 1.25 | 1.25 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Investment properties | 3280 | 3614 | 4186 | 4216 | 4256 |
| Total non-current assets | 3283 | 3617 | 4188 | 4221 | 4262 |
| Cash and cash equivalents | 40 | 196 | 22 | 25 | 22 |
| Other assets | 516 | 443 | 39 | 75 | 101 |
| **Total Assets** | **3839** | **4255** | **4250** | **4320** | **4384** |
| LT Borrowings | 501 | 624 | 733 | 682 | 703 |
| ST Borrowings | 612 | 560 | 813 | 796 | 836 |
| Other Liabilities | 199 | 499 | 60 | 191 | 188 |
| Total Liability | 1311 | 1684 | 1606 | 1670 | 1727 |
| Unitholders' capital | 1596 | 1934 | 1946 | 2034 | 2034 |
| Other Equity | 932 | 637 | 698 | 616 | 623 |
| Total Equity | 2527 | 2572 | 2644 | 2651 | 2657 |
| **Equity + Liability** | **3839** | **4255** | **4250** | **4320** | **4384** |

| Cash Flow (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Net income before taxation | 205 | 192 | 154 | 157 | 161 |
| Net cash from operating activities | 191 | 228 | 253 | 251 | 296 |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Acquisition of investment properties | -227 | -487 | -48 | -47 | -46 |
| Net cash used in investing activities | -274 | -537 | -76 | -84 | -72 |
| | | | | | |
| **Cash flows from financing activities** | | | | | |
| Net cash from/(used in) financing activities | 231 | 163 | -140 | -154 | -144 |
| | | | | | |
| Net increase/(decrease) in cash and cash equivalents | 147 | -147 | 37 | 12 | 80 |
| Cash and cash equivalent at 1 January | 23 | 171 | 24 | 61 | 73 |
| Cash and cash equivalent at 1 December | 171 | 24 | 61 | 73 | 153 |

| Profitability Margins | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Net Investment Income margin | 114.2% | 98.4% | 86.4% | 87.1% | 87.2% |
| Core net income margin | 54.7% | 55.6% | 56.7% | 55.2% | 56.3% |
| ROE | 5.7% | 6.1% | 6.1% | 6.1% | 6.3% |
| ROA | 3.7% | 3.9% | 3.7% | 3.8% | 3.8% |

*Source: Bloomberg, MIDFR*

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| **MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology