

22 October 2021

Axis REIT

9MFY21 Within Expectations

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3QFY21 RNI of RM63.1m came in within our and market expectations at 72% each, while dividend of 7.08 sen is also within at 73%. One of the few REITs boasting positive rental reversions while occupancy remains healthy at 94%. Limited risk on low lease expiries (18% p.a.) of which it has secured 87% of the expiring leases. We have applied the lowest spread under our coverage at +1.0ppt due to AXREIT's earnings resiliency throughout the pandemic. Maintain **OUTPERFORM** and TP of RM2.15 on FY22E GDPU of 9.9 sen.

9MFY21 realised net income (RNI) of RM100.4m came in within our and market expectations, at 72% each. The Group also declared 3QFY21 dividend of 2.45 sen (of which 1.94 sen is taxable and 0.51 sen is non-taxable), bringing 9MFY21 dividend to 7.08 sen which also met our FY21 estimate of 9.7 sen at 73%, implying 5.0% gross yield.

Results' highlights. YoY-Ytd, topline was up by 5.8% on rentals from four newly acquired properties YTD, while operating cost decreased slightly (-2.1%). All in, CNP was up by 7.7% despite higher financing cost (+14%) and expenditure (+7.3%). Net gearing moved up to 0.36x (vs. 0.32x in 2QFY21). QoQ, top-line was up slightly by 1.7% on stable portfolio occupancy of 94% and low single digit reversions. However, RNI was up by 21% on a reversal on a provision for doubtful debts from a tenant.

Outlook. FY21 is expected to see minimal leases expiring at 18% of portfolio NLA, of which the Group has already secured renewals for 87% of these leases on positive reversions, while FY22 will see 21% of leases up for expiry. Going forward, Group is eyeing RM187m worth of industrial assets acquisitions, focusing on Grade A logistics located in Selangor, Penang and Johor and will continue to target acquisitions with net yield of >6%.

Additionally, the Group announced a **proposed private placement of up to 13%** of units issued, which could potentially lower gearing to 0.27x (from 0.36x currently) to make headroom for future acquisitions. Assuming the private placement is fully taken up at an indicative price of RM1.88 (3% discount to 5-day VWAMP), this placement could potentially raise RM349m which would be first used to pare down borrowings to 0.27x (from 0.36x) before heading out on an acquisition spree. For now, we make no changes from the placement pending finalised details of the issue price and total take up rate which is expected to be completed by 2Q22.

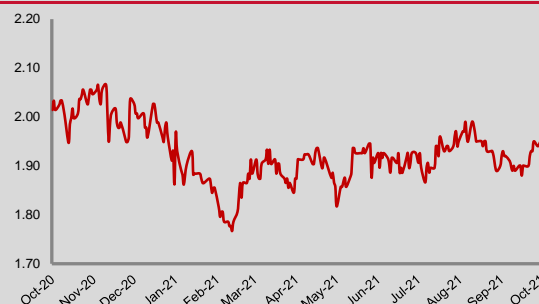
Maintain FY21-22E RNI of RM140.5-142.8m for now which will be driven by single-digit positive reversions, gradual improvement in occupancy to 94-95% in FY21-22 and positive contributions from acquisitions completed in FY21. Our FY21-22E GDPU of 9.7-9.9 sen imply gross yield of 5.0-5.1%.

Maintain OUTPERFORM and Target Price of RM2.15 on FY22E GDPU/NDPU of 9.9/8.9 sen on an unchanged +1.0ppt spread, at historical average SD, to the 10-year MGS target of 3.60%. Our applied yield spread is at the lower-end among MREITs under our coverage (+1.1 to +4.5ppt) due to its portfolio resiliency. AXREIT is our preferred pick for its: (i) earnings stability during this pandemic given its exposure to the resilient industrial segment, (ii) minimal lease expiries (<18% of portfolio p.a.) which is mostly secured, (iii) long-term leases during these uncertain times (WALE of 5.7 years vs. prime retail REITs' WALE of c.2-3 years), and (iv) low gearing of 0.36x (vs. MREITs' gearing limit of 0.60x) well positioned to take advantage of acquisition opportunities which may emerge under the challenging market conditions.

OUTPERFORM ↔

Price: RM1.95
Target Price: RM2.15 ↔

Share Price Performance



KLCI	1,591.62
YTD KLCI chg	-2.2%
YTD stock price chg	-3.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXRB MK Equity
Market Cap (RM m)	2,820.6
Shares Outstanding	1,446.5
52-week range (H)	2.17
52-week range (L)	1.81
3-mth avg daily vol:	796,739
Free Float	41%
Beta	0.5

Major Shareholders

Employees Provident Fund Board	15.8%
Yayasan Pelaburan Bumiputra	13.6%
Kumpulan Wang Persaraan	12.2%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	232.2	240.5	246.4
EBIT	163.2	176.5	180.6
PBT	142.4	140.5	142.8
Net Profit (NP)	141.9	140.5	142.8
Core Net Profit*	125.6	140.5	142.8
Consensus (NP)	n.a.	138.6	147.9
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.7	9.7	9.9
Core EPS growth (%)	9%	12%	2%
NDPS (sen)	7.9	8.7	8.9
BV/Share (RM)	1.47	1.48	1.49
Core PER (x)	22.4	20.0	19.7
Price/BV (x)	1.3	1.3	1.3
Gearing (x)	0.33	0.36	0.37
Net. Div Yield (%)	4.0%	4.5%	4.6%

*Core Net Profit refers to RNI

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OTHER POINTS

Risks to our call include: (i) bond yield expansion vs. our target 10-year MGS yield, and (ii) weaker-than-expected rental income.

Results Highlights

FYE 31 Dec (RM'm)	3Q21	2Q21	QoQ	3Q20	YoY	9MFY20	9MFY21	YoY Ytd
Gross Rental Income	62.5	61.5	1.7%	59.0	6.0%	172.5	182.4	5.8%
Operating Costs	(7.9)	(8.0)	-1.8%	(8.7)	-9.6%	(25.1)	(24.5)	-2.1%
Net Rental Income	54.643	53.4	2.3%	50.3	8.7%	147.4	157.9	7.1%
Profit income/Net gain on financial liabilities	(0.9)	(0.7)	36.3%	(1.3)	-30.2%	(5.0)	(2.4)	-52.6%
Total Trust Income	53.8	52.8	1.8%	49.0	9.7%	142.4	155.5	9.2%
Expenditure	(5.0)	(10.2)	-51.4%	(6.8)	-27.0%	(20.3)	(21.8)	7.3%
Financing Costs	(11.8)	(11.2)	4.6%	(9.8)	19.9%	(29.3)	(33.3)	14.0%
Fair Value Adjustments	0.0	0.0	n.a.	(0.1)	-100.0%	(0.2)	0.0	-100.0%
Pretax Income	37.1	31.4	18.1%	32.3	14.9%	92.7	100.4	8.3%
Taxation	0.0	0.0	n.a.	0.0		0.0	0.0	n.a.
Income after Tax	37.1	31.4	18.1%	32.3	14.9%	92.7	100.4	8.3%
Realized Net Income (RNI)	37.4	30.9	21.1%	32.1	16.6%	93.2	100.4	7.7%
EPU (sen)	2.58	2.13	21.1%	2.23	15.7%	6.50	6.94	6.9%
GDPU (sen)	2.45	2.40	2.1%	2.25	8.9%	6.50	7.08	8.9%
NAV/unit (RM)	1.47	1.47		1.48		1.48	1.47	
Gearing (x)	0.36	0.36		0.32		0.32	0.36	
NPI Margins	87.4%	86.9%		85.2%		85.5%	86.6%	
RNI Margins	59.8%	50.2%		54.4%		54.1%	55.1%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																		
AXIS REIT	1.95	2,820.6	Y	12/2021	3.6%	2.5%	11.9%	1.6%	21.7	19.5	19.5	1.5	1.5	6.2%	4.5%	2.15	OP	
CAPITALAND MALAYSIA TRUST	0.635	1,351.4	N	12/2021	-12.0%	42.3%	-33.9%	141.6%	21.2	32.5	13.5	0.5	0.5	2.6%	2.7%	0.580	MP	
IGB REIT	1.68	5,996.5	N	12/2021	12.6%	1.8%	21.7%	1.7%	24.0	21.0	21.0	1.6	1.6	6.2%	4.4%	1.70	MP	
KLCCP STAPLED GROUP	6.77	12,222.1	Y	12/2021	-4.4%	17.4%	-1.0%	20.6%	22.6	22.6	18.8	0.9	0.9	5.4%	4.0%	7.35	OP	
SENTRAL REIT	0.900	964.6	N	12/2021	3.0%	2.6%	1.0%	0.7%	11.3	11.3	11.3	0.7	0.7	5.3%	7.2%	0.935	OP	
PAVILION REIT	1.42	4,331.1	N	12/2021	-21.5%	50.0%	-20.7%	116.8%	35.5	46.9	21.6	1.1	1.1	2.5%	2.1%	1.30	MP	
SUNWAY REIT	1.46	5,000.2	N	12/2021	7.6%	5.0%	-21.3%	21.7%	18.3	29.2	18.3	1.0	1.0	5.4%	3.0%	1.35	MP	
Simple Average					-1.6%	17.4%	-6.0%	43.5%	22.1	26.1	17.7	1.0	1.0	4.8%	4.0%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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