

23 April 2024

Axis REIT

Acquiring Amsteel Mills Plant for RM352m

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AXREIT is acquiring Amsteel Mills plant in Klang, Selangor, for RM351.8m. At an asset yield of 7%, the acquisition will be earnings accretive to the tune of 6.5%. We raise our FY25F net profit forecast accordingly, lift our FY25F distribution by 6.7% and TP by 6% to RM1.72 (from RM1.62) but maintain our MARKET PERFORM call.

AXREIT is acquiring Amsteel Mills plant in Kawasan Perusahaan Bukit Raja comprising an industrial complex on a 60-acre leasehold land and 7.1-acre storage yard for RM351.8m cash.

Industrial complex. Valued at RM313m, the industrial complex is currently fully occupied by Amsteel Mills, who will lease it back from AXREIT for six years at RM21.9m/year with an upwards adjustment from the fourth year. AXREIT will receive a yield of 7%, which is consistent with its current overall investment asset yield of c.7%. The acquisition is expected to be completed at end-4QCY24.

Storage yard. Valued at RM38.8m, the storage yard is currently vacant. AXREIT hopes to lease out the land by end-CY25.

We are positive on the deal. The debt-funded acquisition will be earnings accretive to the tune of 6.5%. The acquisition will increase AXREIT's net debt and gearing from RM1.55b and 0.34x to RM1.90b and 0.42x, respectively, which is still below the 0.5x gearing limit prescribed by the SC for listed REITs.

Forecasts. We raise our FY25F earnings forecast by 6.5%.

Valuations. Correspondingly, we lift our FY25F distribution to 9.5 sen (from 8.9 sen), resulting in a 6% higher TP of RM1.72 (from RM1.62) based on unchanged target yield of 5.5% (derived from a 1.5% yield spread above our 10-year MGS assumption of 4.0%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

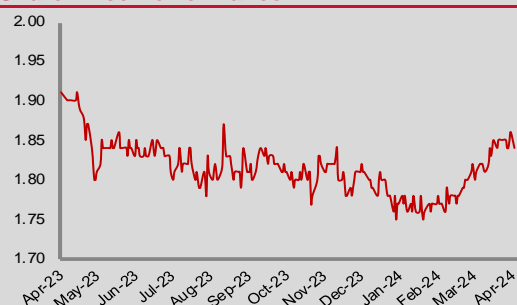
Investment case. We continue to like AXREIT as a proxy to industrial assets on the growing SME sector and the sustained inflows of foreign direct investment to Malaysia. Maintain **MARKET PERFORM**.

Risks to our call include: (i) rising risk-free rate, (ii) over-supply of industrial assets resulting in depressed rental and occupancy rates, and (iii) default on rental payments by tenants.

MARKET PERFORM ↔

Price : **RM1.84**
Target Price : **RM1.72** ↑

Share Price Performance



KLCI 1,559.59
YTD KLCI chg 7.2%
YTD stock price chg 2.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AXRB MK Equity
Market Cap (RM m) 3,215.4
Shares Outstanding 1,747.5
52-week range (H) 1.92
52-week range (L) 1.74
3-mth avg daily vol, 1,925,850
Free Float 52%
Beta 0.4

Major Shareholders

Employees Provident Fund 16.4%
Kumpulan Wang Persaraan 10.4%
Lembaga Tabung Haji 5.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	286.0	302.7	330.1
Operating Profit	282.1	223.7	247.6
Profit Before Tax	221.6	169.6	181.7
Net Profit (NP)	217.8	169.6	181.7
Core Net Profit	145.4	169.6	181.7
Consensus (NP)	-	170.0	185.2
Earnings Revision	-	-	+6.5%
Core EPS (sen)	8.9	10.4	11.1
Core EPS Growth (%)	-7.7	16.7	7.1
DPS (sen)	6.9	8.7	9.5
BV/Share (RM)	1.58	1.59	1.61
Core PER (x)	20.7	17.7	16.6
Price/BV (x)	1.17	1.15	1.14
Gearing (x)	0.34	0.36	0.37
Net. Div Yield (%)	3.7	4.7	5.1

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	240.5	281.9	286.0	302.7	330.1
Depreciation	-0.6	-0.6	-0.5	-0.6	-0.6
Operating Profit	172.4	245.0	282.1	223.7	247.6
Net Interest Expense	-35.9	-52.2	-59.0	-53.1	-64.9
Investing	0.0	0.0	0.0	0.0	0.0
Associate/JCE	0.0	0.0	0.0	0.0	0.0
Exceptionals/FV	0.0	34.5	76.2	0.0	0.0
Profit Before Tax	136.4	192.1	221.6	169.6	181.7
Taxation	0.0	-1.7	-3.8	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	136.4	190.4	217.8	169.6	181.7
RNI	136.4	157.6	145.4	169.6	181.7

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	3,617	4,188	4,446	4,526	4,606
Intangibles	0	0	0	0	0
Other FA	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables	26	24	26	29	29
Other CA	0	0	0	0	0
Cash	196	44	52	61	18
Total Assets	3,839	4,256	4,523	4,616	4,653
Payables	53	55	63	69	73
ST Borrowings	560	813	815	815	815
Other ST Liability	0	0	0	0	0
LT Borrowings	624	733	740	859	889
Other LT Liability	74	83	79	79	80
Minority Int.	0	0	0	0	0
Net Assets	2,527	2,572	2,826	2,795	2,796
Share Capital	1,934	1,946	2,129	2,130	2,131
Reserves	593	626	697	665	665
Shareholders Equity	2,527	2,572	2,826	2,795	2,796

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	182	228	209	224	247
Investing CF	-274	-537	-175	-80	1
Financing CF	231	163	-15	-129	-213
Net Change in Cash	138	-147	19	15	35
Free Cash Flow	-152	-344	-49	144	247

Source: Kenanga Research

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	6.2	17.2	1.5	5.8	9.1
Operating Profit	4.9	42.2	15.1	-20.7	10.7
Profit Before Tax	5.7	40.8	15.4	-23.5	7.1
Net Income	5.7	39.6	14.4	-22.1	7.1
Core Net Income	5.7	15.5	-7.7	16.7	7.1
Profitability (%)					
Operating Margin	71.7	86.9	98.7	73.9	75.0
Pretax Margin	56.7	68.1	77.5	56.0	55.0
Net Margin	56.7	55.9	50.8	56.0	55.0
Effective Tax Rate	0.0%	-0.9%	-1.7%	0.0%	0.0%
ROE	5.9	6.2	5.4	6.0	6.5
ROA	3.8	3.9	3.3	3.7	3.9
DuPont Analysis					
Core Net margin (%)	56.7	55.9	50.8	56.0	55.0
Assets Turnover (x)	0.1	0.1	0.1	0.1	0.1
Leverage Factor (x)	1.5	1.6	1.6	1.6	1.5
ROE (%)	5.9	6.2	5.4	6.0	6.5
Leverage					
Debt/Asset (x)	0.31	0.36	0.34	0.36	0.37
Debt/Equity (x)	0.47	0.60	0.55	0.60	0.61
Net Debt/(Cash)	989	1503	1503	1612	1686
Net Debt/Equity (x)	0.39	0.58	0.53	0.58	0.60
Valuations					
Core EPS (sen)	8.3	9.0	8.3	9.8	10.6
NDPS (sen)	8.47	8.57	6.87	8.74	9.47
BV/share (RM)	1.5	1.6	1.6	1.6	1.6
Core PER (x)	22.1	20.4	22.1	18.8	17.3
N. Div. Yield (%)	4.6	4.7	3.7	4.7	5.1
PBV (x)	1.2	1.2	1.1	1.1	1.1
EV/EBITDA (x)	23.1	18.5	11.4	14.3	11.7

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.84	1.72	-6.5%	3,215.4	Y	12/2024	9.3	10.2	16.6%	7.1%	19.0	17.7	1.2	6.0%	8.7	4.7%
CAPITALAND MALAYSIA MALL TRUST	MP	0.625	0.580	-7.2%	1,766.0	N	12/2024	3.9	4.0	-284.4%	-19.5%	N.A.	10.3	0.7	5.0%	4.3	6.9%
IGB REIT	MP	1.80	1.68	-6.7%	6,489.7	N	12/2024	10.1	10.4	-2.5%	2.3%	17.2	16.8	1.7	9.8%	9.7	5.4%
KLCCP STAPLED GROUP	OP	7.43	8.00	7.7%	13,413.6	Y	12/2024	40.2	41.6	13.6%	3.7%	16.6	16.0	1.0	5.2%	42.5	5.7%
PAVILION REIT	OP	1.29	1.51	17.1%	4,717.3	N	12/2024	8.0	8.5	20.6%	4.3%	13.3	12.8	1.0	7.2%	8.7	6.7%
SUNWAY REIT	OP	1.52	1.72	13.2%	5,205.7	N	12/2024	10.2	10.9	13.9%	6.3%	14.4	13.5	1.0	6.9%	10.6	7.0%
SECTOR AGGREGATE					34,807.7					-5.1%	24.6%	18.7	15.0	1.1	6.7%		6.1%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Community Investment	★	★	☆	
	Workers Safety & Wellbeing	★	★	★	
	Corporate Governance	★	★	★	★
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	☆	
SPECIFIC	Effluent/Waste Management	★	★	☆	
	Water Management	★	★	★	
	Energy Efficiency	★	★	★	
	Green Buildings	★	★	★	
	Tenant Management	★	★	★	
	Supply Chain Management	★	★	☆	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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