

24 April 2024

Axis REIT

Stable Earnings Outlook

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AXREIT's 1QFY24 results and distribution were within expectations. Its 1QFY24 core net profit rose 23% YoY due to maiden contribution from Bukit Raja Distribution Centre 2, positive rental revision, and the absence of lumpy expenses. We fine-tune our FY24-25F earnings forecasts by -1.2% and +0.2% but keep our TP of RM1.72 and MARKET PERFORM call.

Within expectations. AXREIT's 1QFY24 core net profit came within expectations at RM40.0m, achieving 24% of both our full-year forecasts and full-year consensus estimate. The group declared a distribution of 2.3 sen per unit, on track to meet our full-year forecast of 9.5 sen.

YoY, its revenue jumped 8% mainly attributed to the new rental stream from Bukit Raja Distribution Centre 2 which started in Aug 2023, further boosted by positive rental reversion. Its core net profit rose by a sharper 23% from a low base a year ago due to lumpy building expenses.

QoQ, its 1QFY24 core net profit rose 5% despite a flattish top line as some reversal of doubtful debts and the absence of tax (it typically only pays tax in 4Q) more than offset higher maintenance cost.

Outlook. AXREIT is on the outlook for high-yielding industrial assets. It recently bagged Amsteel Mills industrial complex in Bukit Raja, Klang for RM313m, which will add RM23m rental income from FY25. Additional rental incomes will also come from Bukit Raja Distribution Centre of which tenancy lease has commenced while Axis Mega Distribution Centre (Phase 2) was completed in Mar 2024.

We hold the view that the prospects for industrial assets are stable given the sustained inflow of foreign direct investment, a robust export sector (partly benefitting from the weak ringgit), and a growing consumer market, particularly the e-commerce segment, creating demand for large-scale distribution hubs. However, these are partially offset by the influx of new supply.

Under these circumstances, we expect AXREIT's occupancy rate to rise (from the current 89%) and to be about to eventually fill 14 out of its total 63 properties that are taken up as present.

Forecasts. We fine tune our FY24F and FY25F earnings forecasts by -1.2% and +0.2%, respectively.

Valuations. We maintain our TP of RM1.72 based on FY25F net distribution of 9.5 sen against a 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).

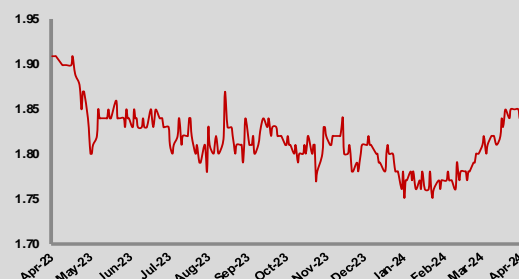
Investment case. We continue to like AXREIT as a proxy to industrial assets on the growing SME sector and the sustained inflows of foreign direct investment to Malaysia. Maintain **MARKET PERFORM**.

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: RM1.86
Target Price: RM1.72 ↔

Share Price Performance



KLCI 1,561.72
YTD KLCI chg 7.4%
YTD stock price chg 3.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AXRB MK Equity
Market Cap (RM m) 3,250.3
Shares Outstanding 1,747.5
52-week range (H) 1.91
52-week range (L) 1.75
3-mth avg. daily vol. 1,912,083
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	288.4	315.2	343.4
Operating Profit	245.4	272.7	295.4
Profit Before Tax	221.6	171.0	185.7
Net Profit (NP)	217.8	167.5	182.0
Core Net Profit	149.3	167.5	182.0
Consensus (NP)	-	166.7	186.3
Earnings Revision	-	-1.2	+0.2
Core EPS (sen)	8.5	9.6	10.4
Core EPS Growth (%)	-7.2%	12.2%	8.6%
GDPS (sen)	8.7	9.5	10.3
NDPS (sen)	8.0	8.7	9.5
BVPS (RM)	1.62	1.62	1.62
PER (x)	21.8	19.4	17.9
PBV (x)	1.2	1.1	1.1
Asset Gearing (x)	0.34	0.39	0.39
Net Div. Yield (%)	4.7	5.1	5.5

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Property Income	75.2	75.7	-0.8%	69.7	7.9%	75.2	69.7	7.9%
Non-Property Income	0.9	0.8	4.9%	0.8	8.0%	0.9	0.8	8.0%
Gross Revenue	76.1	76.6	-0.7%	70.5	7.9%	76.1	70.5	7.9%
Property Operating Expenses	-11.1	-10.4	6.4%	-11.5	-3.9%	-11.1	-11.5	-3.9%
Net Property Income	65.0	66.2	-1.8%	58.9	10.2%	65.0	58.9	10.2%
Interest & Investment Income	1.8	71.3	-97.5%	-2.5	-169.3%	1.8	-2.5	-169.3%
Net Investment Income	66.7	137.4	-51.4%	56.4	18.3%	66.7	56.4	18.3%
Non-operating expenses	-24.5	-23.3	4.8%	-26.1	-6.3%	-24.5	-26.1	-6.3%
Profit before tax	42.3	114.1	-62.9%	30.3	39.5%	42.3	30.3	39.5%
Taxation	0.0	-3.8	-100.0%	0.0	N.M.	0.0	0.0	N.M.
Minority interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Net Profit	42.3	110.2	-61.7%	30.3	39.5%	42.3	30.3	39.5%
Distributable Income	40.4	41.3	-2.1%	36.3	11.5%	40.4	36.3	11.5%
Core Net Profit	40.0	38.0	5.3%	32.5	22.9%	40.0	32.5	22.9%
Core Earnings Per Unit (sen)	2.29	2.17	5.3%	1.87	22.4%	2.29	1.87	22.4%
Distribution Per Unit (sen)	2.30	2.40	-4.2%	2.05	12.2%	2.30	2.05	12.2%
Net Asset Value Per Unit (RM)	1.62	1.62	0.0%	1.62	-0.4%	1.62	1.62	-0.4%
Key Operating Metrics:								
Net property income margin	85.4%	86.4%		83.6%		85.4%	83.6%	
Pretax margin	55.6%	148.9%		43.0%		55.6%	43.0%	
Net Gearing	34.2%	33.2%		33.2%		34.2%	33.2%	

Source: Company, Kenanga Research

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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	1.86	1.72	-7.5%	3,250.3	Y	12/2024	9.3	10.2	12.2%	8.7%	19.4	17.9	1.1	5.9%	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	1.81	1.68	-7.2%	6,525.8	N	12/2024	10.1	10.4	-2.5%	2.3%	17.3	16.9	1.7	9.8%	9.7	5.4%
KLCCP STAPLED GROUP	OP	7.50	8.00	6.7%	13,540.0	Y	12/2024	40.2	41.6	13.6%	3.7%	16.8	16.2	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	1.53	1.72	12.4%	5,240.0	N	12/2024	10.2	10.9	13.9%	6.3%	14.5	13.6	1.0	6.9%	10.6	6.9%
SECTOR AGGREGATE					35,039.4					-5.4%	24.8%	18.8	15.1	1.1	6.7%		6.0%

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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Published and printed by:

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