

25 April 2024

Axis REIT

Selling Nusajaya Industrial Complex

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AXREIT is disposing off Axis Steel Centre@SiLC, a low-yielding industrial complex in Nusajaya, Johor, for RM162m. We believe it is getting a fair deal here. We trim our FY24-25F net profit forecasts by 2% and 1%, respectively, but maintain our TP of RM1.72 and MARKET PERFORM call.

AXREIT is disposing off Axis Steel Centre@SiLC, an industrial complex sitting on c.27 acres of land in Nusajaya, Johor for RM162m, to an unspecified buyer. AXREIT will register RM0.5m gain from the disposal.

The disposal appears to be fairly priced at RM133 psf, coming within the market range of RM80-RM160 psf for similar assets (industrial land with buildings), albeit in varying land sizes.

The proceeds will reduce its net debt and gearing as at end-Dec 2023 from RM1.50b and 0.33x to RM1.39b and 0.32x, respectively, which will beef up its war chest.

We believe the key rationale for the disposal is to optimise its asset portfolio of over 63 assets by parting with the low-yielding ones. We estimate that Axis Steel Centre@SiLC only generates a 4.1% asset yield based on its latest reported rental revenue.

Forecasts. We trim our FY24-25F net profit forecasts by 2% and 1% respectively, as the annual rental foregone estimated at RM6.6m will not be fully compensated with interest savings of c.RM3m.

Valuations. However, 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).

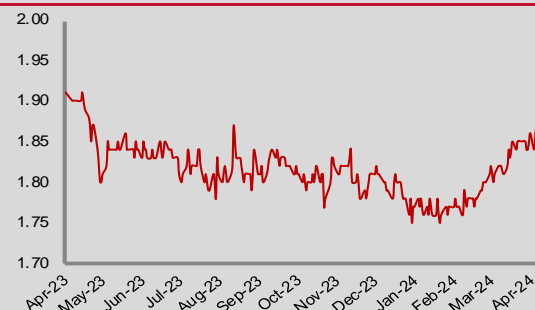
Investment case. We continue to like AXREIT as a proxy to industrial assets on the growing SME sector and the sustained inflows of foreign direct investment to Malaysia. Maintain **MARKET PERFORM**.

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 : RM1.87
Target Price : RM1.72 ↔

Share Price Performance



KLCI 1,571.48
YTD KLCI chg 8.0%
YTD stock price chg 4.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AXRB MK Equity
Market Cap (RM m) 3,267.8
Shares Outstanding 1,747.5
52-week range (H) 1.92
52-week range (L) 1.74
3-mth avg daily vol, 1,892,502
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 | 308.6 | 336.7 |
| Operating Profit | 245.4 | 267.0 | 289.6 |
| Profit Before Tax | 221.6 | 167.8 | 184.2 |
| Net Profit (NP) | 217.8 | 164.4 | 180.5 |
| Core Net Profit | 149.3 | 164.4 | 180.5 |
| Consensus (NP) | - | 166.0 | 185.7 |
| Earnings Revision | - | -1.9 | -0.8 |
| Core EPS (sen) | 8.5 | 9.4 | 10.3 |
| Core EPS Growth (%) | -7.2% | 10.1% | 9.8% |
| GDPS (sen) | 8.7 | 9.5 | 10.3 |
| NDPS (sen) | 8.0 | 8.7 | 9.5 |
| BV/Share (RM) | 1.62 | 1.62 | 1.62 |
| Core PER (x) | 21.9 | 19.9 | 18.1 |
| Price/BV (x) | 1.2 | 1.2 | 1.2 |
| Gearing (x) | 0.34 | 0.37 | 0.37 |
| Net. Div Yield (%) | 4.3 | 4.7 | 5.1 |

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Income Statement

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 246.2 | 284.5 | 288.4 | 308.6 | 336.7 |
| Operating Profit | 212.9 | 245.3 | 245.4 | 267.0 | 289.6 |
| Depreciation | -0.6 | -0.6 | -0.5 | -2.6 | -6.8 |
| Interest Inc/(Exp) | 268.1 | 224.0 | 295.4 | 169.8 | 186.9 |
| Associate Earnings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit Before Tax | 204.0 | 192.1 | 221.6 | 167.8 | 184.2 |
| Taxation | -3.7 | -1.7 | -3.8 | -3.4 | -3.7 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PATAMI | 200.4 | 190.4 | 217.8 | 164.4 | 180.5 |
| Core PATAMI | 140.8 | 160.9 | 149.3 | 164.4 | 180.5 |

Balance Sheet

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed Assets | 2.4 | 1.9 | 1.4 | 48.7 | 91.9 |
| Intangible Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Fixed Assets | 3,614.2 | 4,186.0 | 4,444.1 | 4,444.1 | 4,444.1 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Receivables | 26.2 | 24.3 | 25.7 | 26.7 | 30.9 |
| Other Current Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | 196.0 | 43.5 | 51.7 | 164.6 | 113.6 |
| Total Assets | 3,838.8 | 4,255.7 | 4,522.9 | 4,684.2 | 4,680.5 |
| Payables | 560.4 | 812.5 | 814.5 | 977.4 | 973.2 |
| ST Borrowings | 31.4 | 36.3 | 38.3 | 38.3 | 38.3 |
| Other ST Liability | 21.1 | 18.4 | 24.5 | 24.5 | 24.5 |
| LT Borrowings | 624.2 | 733.5 | 740.5 | 740.5 | 740.5 |
| Other LT Liability | 74.3 | 83.1 | 79.2 | 79.2 | 79.2 |
| Net Assets | 2,527.3 | 2,571.8 | 2,826.0 | 2,824.4 | 2,824.9 |
| Shareholders' Equity | 2,527.3 | 2,571.8 | 2,826.0 | 2,824.4 | 2,824.9 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Equity | 2,527.3 | 2,571.8 | 2,826.0 | 2,824.4 | 2,824.9 |

Cashflow Statement

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|----------------|--------|--------|--------|-------|--------|
| Operating CF | 191.1 | 228.2 | 198.7 | 198.0 | 242.8 |
| Investing CF | -274.4 | -537.4 | -175.3 | -50.0 | -50.0 |
| Financing CF | 230.7 | 162.6 | -15.2 | -35.1 | -243.9 |
| Change In Cash | 147.4 | -146.6 | 8.2 | 112.9 | -51.1 |
| Free CF | 151.6 | 170.8 | 25.9 | 148.0 | 192.8 |

Financial Data & Ratios

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|--------------------------|--------|---------|---------|---------|---------|
| Growth (%) | | | | | |
| Turnover | -51.7% | 15.5% | 1.4% | 7.0% | 9.1% |
| EBITDA | -8.7% | 15.2% | 0.0% | 9.6% | 9.9% |
| Operating Profit | -8.8% | 15.2% | 0.0% | 8.8% | 8.5% |
| PBT | 340.3% | -5.9% | 15.4% | -24.3% | 9.8% |
| Core Net Profit | 20.7% | 14.3% | -7.2% | 10.1% | 9.8% |
| Profitability (%) | | | | | |
| Operating Margin | 86.5% | 86.2% | 85.1% | 86.5% | 86.0% |
| PBT Margin | 82.9% | 67.5% | 76.8% | 54.4% | 54.7% |
| Core Net Margin | 57.2% | 56.6% | 51.8% | 53.3% | 53.6% |
| Effective Tax Rate | 1.8% | 0.9% | 1.7% | 2.0% | 2.0% |
| ROA | 4.0% | 4.7% | 5.0% | 3.6% | 3.9% |
| ROE | 6.3% | 7.5% | 8.1% | 5.8% | 6.4% |
| DuPont Analysis | | | | | |
| Net Margin (%) | 57.2% | 56.6% | 51.8% | 53.3% | 53.6% |
| Assets Turnover (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Leverage Factor (x) | 1.5 | 1.7 | 1.6 | 1.7 | 1.7 |
| ROE (%) | 6.3% | 7.5% | 8.1% | 5.8% | 6.4% |
| Leverage | | | | | |
| Debt/Asset (x) | 0.31 | 0.36 | 0.34 | 0.37 | 0.37 |
| Debt/Equity (x) | 0.47 | 0.60 | 0.55 | 0.61 | 0.61 |
| Net (Cash)/Debt | 988.6 | 1,502.5 | 1,503.3 | 1,553.3 | 1,600.1 |
| Net Debt/Equity (x) | 0.39 | 0.58 | 0.53 | 0.55 | 0.57 |
| Valuations | | | | | |
| Core EPS (sen) | 8.1 | 9.2 | 8.5 | 9.4 | 10.3 |
| GDPS (sen) | 9.5 | 9.8 | 8.7 | 9.5 | 10.3 |
| NDPS (sen) | 8.8 | 9.0 | 8.0 | 8.7 | 9.5 |
| BV/sh (RM) | 1.4 | 1.5 | 1.6 | 1.6 | 1.6 |
| PER (x) | 23.1 | 20.2 | 21.8 | 19.8 | 18.0 |
| Div. Yield (%) | 4.7 | 4.8 | 4.3 | 4.7 | 5.1 |
| PBV (x) | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 |
| EV/EBITDA (x) | 92.3 | 71.8 | 71.8 | 57.5 | 54.5 |

Source: 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 | 1.87 | 1.72 | -8.0% | 3,267.8 | Y | 12/2024 | 9.3 | 10.2 | 10.1% | 9.8% | 19.9 | 18.1 | 1.2 | 5.8% | 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 | 1.82 | 1.68 | -7.7% | 6,568.8 | N | 12/2024 | 10.1 | 10.4 | -2.5% | 2.3% | 17.4 | 17.0 | 1.7 | 9.8% | 9.7 | 5.3% |
| KLCCP Stapled Group | OP | 7.54 | 8.00 | 6.1% | 13,612.2 | Y | 12/2024 | 40.2 | 41.6 | 13.6% | 3.7% | 16.9 | 16.3 | 1.0 | 5.2% | 42.5 | 5.6% |
| 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 | 1.54 | 1.72 | 11.7% | 5,274.2 | N | 12/2024 | 10.2 | 10.9 | 13.9% | 6.3% | 14.6 | 13.7 | 1.0 | 6.9% | 10.6 | 6.9% |
| SECTOR AGGREGATE | | | | | 35,206.3 | | | | | -5.6% | 24.9% | 18.9 | 15.2 | 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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