

24 May 2024

Axis REIT

Buying Auto Service Centres for RM125m

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AXREIT is acquiring two vehicles sales and service centres in the Klang Valley for RM125m. At an initial yield of 6.2%, the acquisition is earnings accretive. We raise our FY25F net profit forecast by c.1%, lift our TP by 1% to RM1.74 (from RM1.72) and maintain our MARKET PERFORM call.

AXREIT is acquiring two vehicles sales and service centres in Petaling Jaya (with a gross floor area of 156k sq ft) and Batu Caves (70k sq ft) respectively from Cycle & Carriage Bintang Berhad for RM125m. Both properties are currently occupied by the vendor who will continue to lease them back from AXREIT for a term of 10 years at a starting rental translating to a 6.2% yield based on the purchase price.

We estimate that the acquisition will boost its FY25F earnings by c.1% and raise its net debt from RM1.61b to RM1.74b and net gearing from 0.35x to 0.36x, which is still below the 0.5x gearing limit prescribed by the SC for listed REITs.

Forecasts. We lift our FY25F earnings forecast by c.1% accordingly.

Valuations. Correspondingly, we lift our TP by 1% to RM1.74 (from RM1.72) based on an 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).

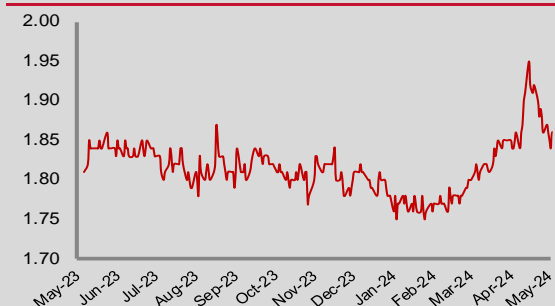
Investment case. We continue to like AXREIT as a proxy to industrial assets on the growing SME sector and the sustained inflow of foreign direct investment to Malaysia. Maintain **MARKET PERFORM**.

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 : **RM1.74** ↑

Share Price Performance



KLCI 1,629.18
YTD KLCI chg 12.0%
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)	1.96
52-week range (L)	1.74
3-mth avg. daily vol.	1,904,178
Free Float	51%
Beta	0.4

Major Shareholders

Employees Provident Fund	17.0%
Kumpulan Wang Persaraan	10.4%
Lembaga Tabung Haji	5.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	286.0	308.6	344.5
Operating Profit	282.1	267.0	296.2
Profit Before Tax	221.6	167.8	185.7
Net Profit (NP)	217.8	164.4	182.0
Core Net Profit	145.4	164.4	182.0
Consensus (NP)	-	164.6	185.4
Earnings Revision	-	-	+0.8
Core EPS (sen)	8.9	9.4	10.4
Core EPS Growth	-7.7%	10.1%	10.7%
GDPS (sen)	8.7	9.5	10.4
NDPS (sen)	6.9	8.7	9.6
BV/Share (RM)	1.58	1.62	1.62
Core PER (x)	19.9	19.8	17.9
Price/BV (x)	1.12	1.2	1.2
Gearing (x)	0.34	0.37	0.39
Net. Div Yield (%)	3.9	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	308.2
Depreciation	-0.6	-0.6	-0.5	-0.6	-0.6
Operating Profit	172.4	245.0	282.1	223.7	224.7
Net Interest Expense	-35.9	-52.2	-59.0	-53.1	-53.1
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	170.6
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	170.6
Realized Net income	136.4	157.6	145.4	169.6	170.6

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	20
Total Assets	3,839	4,256	4,523	4,616	4,654
Payables	53	55	63	69	74
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	224
Investing CF	-274	-537	-175	-80	1
Financing CF	231	163	-15	-129	-211
Net Change in Cash	138	-147	19	15	13
Free Cash Flow	-152	-344	-49	144	224

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	6.2	17.2	1.5	5.8	1.8
Operating Profit	4.9	42.2	15.1	-20.7	0.5
Profit Before Tax	5.7	40.8	15.4	-23.5	0.6
Net Income	5.7	39.6	14.4	-22.1	0.6
Core Net Income	5.7	15.5	-7.7	16.7	0.6
Profitability (%)					
Operating Margin	71.7	86.9	98.7	73.9	72.9
Pretax Margin	56.7	68.1	77.5	56.0	55.4
Net Margin	56.7	55.9	50.8	56.0	55.4
Effective Tax Rate	0.0%	-0.9%	-1.7%	0.0%	0.0%
ROE	5.9	6.2	5.4	6.0	6.1
ROA	3.8	3.9	3.3	3.7	3.7
DuPont Analysis					
Core Net margin (%)	56.7	55.9	50.8	56.0	55.4
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	6.1
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	1684
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	10.0
GDPS (sen)	9.49	9.75	8.65	9.71	9.90
NDPS (sen)	8.47	8.57	6.87	8.74	8.91
BV/share (RM)	1.5	1.6	1.6	1.6	1.6
Core PER (x)	21.2	19.6	21.3	18.1	17.7
G. Div. Yield (%)	5.3	5.4	4.3	5.5	5.6
N. Div. Yield (%)	4.8	4.8	3.9	4.9	5.0
PBV (x)	1.1	1.1	1.1	1.1	1.1
EV/EBITDA (x)	22.5	18.0	11.0	13.7	12.4

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.
REIT																	
Axis REIT	MP	1.86	1.74	-6.5%	3,250.3	Y	12/2024	9.4	10.4	10.1%	10.7%	19.8	18.0	1.2	5.8%	8.7	4.7%
Capitaland Malaysia Mall Trust	MP	0.675	0.580	-14.1%	1,913.1	N	12/2024	4.4	4.7	8.7%	5.5%	15.3	14.5	0.8	5.0%	4.3	6.4%
IGB REIT	MP	1.83	1.68	-8.2%	6,604.9	N	12/2024	10.5	10.7	-2.5%	2.3%	17.5	17.1	1.7	9.8%	9.7	5.3%
KLCCP Stapled Group	OP	7.54	8.00	6.1%	13,612.2	Y	12/2024	44.7	46.3	13.6%	3.7%	16.9	16.3	1.0	5.2%	42.5	5.6%
Pavilion REIT	OP	1.36	1.59	16.9%	4,973.3	N	12/2024	9.7	10.4	23.7%	7.4%	14.1	13.1	1.1	7.2%	9.0	6.6%
SUNWAY REIT	OP	1.56	1.65	5.8%	5,342.7	N	12/2024	10.5	11.2	2.7%	6.6%	14.9	14.0	1.0	6.5%	8.8	5.6%
SECTOR AGGREGATE					35,696.6					9.50%	5.20%	16.4	15.6	1.1	6.6%		5.7%

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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