

24 July 2024

Axis REIT

Brighter Industrial Rental Outlook in Johor

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AXREIT's 1HFY24 results and distribution were within expectations. Its 1HFY24 core net profit rose 20% YoY due to maiden contribution from Bukit Raja Distribution Centre 2 and positive rental reversion. On an improved industrial rental outlook in Johor, we raise our FY25F earnings forecast by 4%, lift our TP by 6% to RM1.82 (from RM1.72) but maintain our MARKET PERFORM call.

AXREIT's 1HFY24 core net profit of RM79.6m met expectations, coming in at 48% of both our full-year forecast and the full-year consensus estimate. It declared an estimated net distribution of 2.03 sen per unit (YTD: 4.13 sen), on track to meet our full-year net dividend forecast of 8.7 sen.

YoY, its revenue rose 10% mainly attributed to new rental stream from Bukit Raja Distribution Centre 2 from Aug 2023, further boosted by positive rental reversion. Its core net profit rose by a sharper 20% as it managed to contain its expenses.

QoQ, its 1QFY24 topline inched up 2%, mainly contributed by the acquisition of Axis Facility 1 at Bukit Raja in May 2024. However, its core net profit eased 1% on lower non-operating income.

Outlook. We now project positive rental reversion at 15% (vs. 5% we assumed previously) for its industrial assets in Johor, in-line with the recent rise in industrial property prices in Johor, driven by investments especially in the data centre space. About 35% of AXREIT's assets are located in Johor. Meanwhile, AXREIT continues to be actively scouting 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.

Forecasts. We raise our FY25F earnings forecast by 4% to reflect a more robust outlook for industrial properties in Johor as mentioned.

Valuations. Correspondingly, we lift our TP by 6% to RM1.82 (previously RM1.72) based on a FY25F net distribution of 10 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).

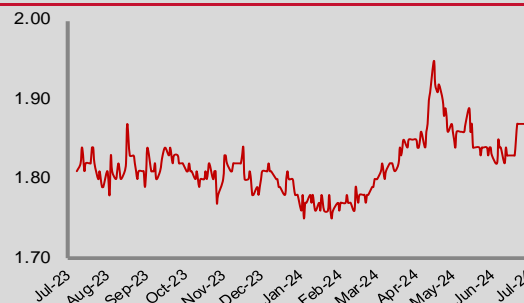
Investment case. We continue to like AXREIT as a proxy to industrial assets on the growing SME sector and the sustained inflows of foreign direct investment to Malaysia. Maintain **MARKET PERFORM**.

Risks to our call include: (i) a sustained elevated 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: RM1.82 ↑

Share Price Performance



KLCI 1,629.68
YTD KLCI chg 12.0%
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) 1.96
52-week range (L) 1.74
3-mth avg. daily vol. 1,992,440
Free Float 50%
Beta 0.4

Major Shareholders

Employees Provident Fund 17.9%
Kumpulan Wang Persaraan 10.4%
Lembaga Tabung Haji 5.9%

Summary Earnings Table

| FY Dec (RM m) | 2023A | 2024F | 2025F |
|------------------------|--------------|--------------|--------------|
| Turnover | 288.4 | 308.6 | 355.3 |
| Operating Profit | 245.4 | 267.0 | 305.5 |
| Profit Before Tax | 221.6 | 167.8 | 192.8 |
| Net Profit (NP) | 217.8 | 164.4 | 188.9 |
| Core Net Profit | 149.3 | 164.4 | 188.9 |
| Consensus (NP) | - | 164.9 | 184.0 |
| Earnings Revision | - | - | +3.8 |
| Core EPS (sen) | 8.5 | 9.4 | 10.8 |
| Core EPS Growth (%) | -7.2 | 10.1 | 14.9 |
| GDPS (sen) | 8.7 | 9.5 | 10.9 |
| NDPS (sen) | 8.0 | 8.7 | 10.0 |
| BVPS (RM) | 1.62 | 1.62 | 1.62 |
| PER (x) | 21.9 | 19.9 | 17.3 |
| PBV (x) | 1.2 | 1.2 | 1.2 |
| Asset Gearing (x) | 0.34 | 0.37 | 0.39 |
| Net Div. Yield (%) | 4.3 | 4.7 | 5.4 |

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Results Highlights

| | 2Q | 1Q | QoQ | 2Q | YoY | 1H | 1H | YoY |
|-----------------------------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|
| FYE Dec (RM m) | FY24 | FY24 | Chg | FY23 | Chg | FY24 | FY23 | Chg |
| Property Income | 76.1 | 75.2 | 1.2% | 67.9 | 12.0% | 151.2 | 137.6 | 9.9% |
| Non-Property Income | 1.2 | 0.9 | 33.9% | 0.8 | 51.4% | 2.1 | 1.6 | 29.2% |
| Gross Revenue | 77.2 | 76.1 | 1.6% | 68.7 | 12.4% | 153.3 | 139.2 | 10.1% |
| Property Operating Expenses | -11.3 | -11.1 | 1.8% | -10.3 | 9.8% | -22.4 | -21.8 | 2.6% |
| Net Property Income | 66.0 | 65.0 | 1.5% | 58.4 | 12.9% | 130.9 | 117.4 | 11.5% |
| Interest & Investment Income | -1.3 | 1.8 | -174.6% | 0.7 | -282.8% | 0.4 | -1.8 | -124.5% |
| Net Investment Income | 64.6 | 66.7 | -3.1% | 59.2 | 9.3% | 131.4 | 115.5 | 13.7% |
| Non-operating expenses | -25.7 | -24.5 | 5.0% | -24.4 | 5.1% | -50.1 | -50.5 | -0.8% |
| Profit before tax | 39.0 | 42.3 | -7.8% | 34.7 | 12.2% | 81.2 | 65.0 | 24.9% |
| Taxation | 0.0 | 0.0 | N.M | 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 | 39.0 | 42.3 | -7.8% | 34.7 | 12.2% | 81.2 | 65.0 | 24.9% |
| Distributable Income | 39.6 | 40.4 | -2.0% | 36.0 | 10.1% | 80.1 | 72.3 | 10.8% |
| Core Net Profit | 39.6 | 40.0 | -1.1% | 33.7 | 17.2% | 79.6 | 66.3 | 20.0% |
| Core Earnings Per Unit (sen) | 2.26 | 2.29 | -1.1% | 1.94 | 16.8% | 4.55 | 3.81 | 19.6% |
| Gross Distribution Per Unit (sen) | 2.25 | 2.30 | -2.2% | 2.05 | 9.8% | 4.55 | 4.10 | 11.0% |
| Net Asset Value Per Unit (RM) | 1.62 | 1.62 | 0.0% | 1.57 | 2.9% | 3.23 | 3.14 | 2.9% |
| Key Operating Metrics: | | | | | | | | |
| Net property income margin | 85.4% | 85.4% | | 85.0% | | 85.4% | 84.3% | |
| Pretax margin | 50.4% | 55.6% | | 50.5% | | 53.0% | 46.7% | |
| Net Gearing | 35.1% | 34.2% | | 32.8% | | 35.1% | 32.8% | |

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 | 1.87 | 1.82 | -2.7% | 3,267.8 | Y | 12/2024 | 9.4 | 10.8 | 10.1% | 14.9% | 19.9 | 18.0 | 1.2 | 5.8% | 8.7 | 4.7% |
| CAPITALAND MALAYSIA TRUST | UP | 0.655 | 0.580 | -11.5% | 1,856.4 | N | 12/2024 | 4.4 | 4.7 | 8.7% | 5.5% | 14.8 | 14.0 | 0.7 | 5.0% | 4.3 | 6.6% |
| IGB REIT | MP | 1.94 | 1.68 | -13.4% | 7,001.9 | N | 12/2024 | 10.5 | 10.7 | -2.5% | 2.3% | 18.5 | 18.1 | 1.8 | 9.8% | 9.7 | 5.0% |
| KLCCP STAPLED GROUP | OP | 7.56 | 8.00 | 5.8% | 13,648.3 | 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 | 1.40 | 1.59 | 13.6% | 5,119.6 | N | 12/2024 | 9.7 | 10.4 | 23.7% | 7.4% | 14.5 | 13.5 | 1.1 | 7.2% | 9.0 | 6.4% |
| SUNWAY REIT | MP | 1.60 | 1.65 | 3.1% | 5,479.7 | N | 12/2024 | 10.5 | 11.2 | 2.7% | 6.6% | 15.3 | 14.3 | 1.1 | 6.5% | 8.8 | 5.5% |
| SECTOR AGGREGATE | | | | | 36,373.8 | | | | | 9.5% | 5.5% | 16.7 | 15.9 | 1.2 | 6.6% | | 5.6% |

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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