

26 April 2017 | 1QFY17 Results Review

## Axis REIT

*Flat earnings growth*


### INVESTMENT HIGHLIGHTS

- 1QFY17 earnings in line
- Flat earnings growth
- Earnings forecast maintained
- **Maintain NEUTRAL with an unchanged TP of RM1.68**

**1QFY17 earnings in line.** Axis REIT 1QFY17 core net income of RM23.1m was within expectations, at 25% and 24% of our and consensus full year estimates respectively. First interim distribution per unit (DPU) of 2.15sen was declared.

**Flat earnings growth.** Axis REIT 1QFY17 core net income inched up marginally by 2%yoy, mainly due to rental contribution from Scomi Facility at Rawang and positive rental reversion of 5.8% which offset the loss of income from Delfi warehouse (untenanted) in Pasir Gudang Johor. Meanwhile, portfolio occupancy rate remains healthy at 91.86% as at 1QFY17, relatively unchanged from portfolio occupancy rate of 92.03% in the previous quarter. On asset acquisition plan, Axis REIT is expanding its exposure in industrial assets with three on-going asset acquisitions namely (i) Kerry Warehouse in Pasir Gudang, Johor, (ii) an industrial facility in Kuantan, Pahang, and (iii) an industrial facility in Iskandar Puteri, Johor. The on-going asset acquisitions are expected to be completed in 2Q/3Q of FY17.

**Earnings forecast maintained.** We maintain our earnings forecast for FY17-18. We estimate core net income for FY17 to be flattish mainly due to loss of income from Axis Eureka post disposal of Axis Eureka in March 2017. Meanwhile, we forecast FY18 earnings to grow by 8.6%yoy as we expect earnings contribution from Axis PDI site following the completion of Nestle Distribution Centre on Axis PDI site.

**Maintain NEUTRAL with unchanged TP of RM1.68.** Our TP is based on Dividend Discount Model (Required rate of return: 7.3%, Perpetual growth rate: 1.2%). We maintain our Neutral recommendation on Axis REIT due to its flattish earnings outlook. Meanwhile, dividend yield of Axis REIT is estimated at 4.6%. 

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM1.68**

RETURN STATS	
Price (25 April 2017)	RM1.65
Target Price	RM1.68
Expected Share Price Return	1.8%
Expected Dividend Yield	4.6%
<b>Expected Total Return</b>	<b>6.4%</b>
STOCK INFO	
KLCI	1,765.80
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,105.17
Par Value (RM)	1.00
Market cap. (RM'm)	1,823.54
Price over NA	1.31
52-wk price Range	RM1.57 – RM1.85
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	0.67m
3-mth Avg Daily Value	RM1.10m
Major Shareholders	
EPF	11.91%
SKIM ASB	9.05%
Lembaga Tabung Haji	6.02%
Peng Hwee Tew	5.04%

## INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY14A	FY15A	FY16A	FY17F	FY18F
Gross Revenue	163	167	168	183	138
Net Rental Income	142	144	143	158	118
Net Investment Income	145	172	144	159	148
Net Income	97	122	93	102	110
Core Net Income	94	92	93	102	86
Realised EPU (sen)	8.78	11.07	8.41	9.21	10.08
Core EPU (sen)	8.50	8.36	8.41	9.21	7.89
Gross DPU (sen)	8.40	8.25	8.36	9.04	9.87
Net DPU (sen)	7.56	7.43	7.52	8.14	8.88
Net Distribution Yield (%)	4.6%	4.5%	4.6%	4.9%	5.4%
Core PER (x)	19.42	19.74	19.62	17.92	20.91
NAV per unit (RM)	1.23	1.26	1.24	1.23	1.21
P/NAV (x)	1.34	1.31	1.33	1.35	1.36
Core ROE	7.0%	6.7%	6.7%	7.5%	7.3%
Core ROA	4.4%	4.2%	4.1%	4.5%	4.7%

Source: MIDF Research

## AXIS REIT: 1QFY17 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY17	%YoY	%QoQ	FY17	%YoY	
Gross Revenue	42.7	4%	1%	42.7	4%	Marginally higher revenue was mainly driven by contribution of newly acquired Scomi Facility in Rawang and positive rental reversion.
Net Investment Income	35.6	-5%	-4%	35.6	-5%	
Net Income	22.6	-10%	-7%	22.6	-10%	
Core Net Income (CNI)	23.1	2%	-4%	23.1	2%	In line with revenue increase.
Realised EPU (sen)	2.0	-10%	-7%	2.0	-10%	
Core EPU (sen)	2.1	1%	-4%	2.1	1%	
Gross DPU (sen)	2.2	5%	2%	2.2	5%	

Source: MIDF Research

## DAILY PRICE CHART



Jessica Low Jze Tieng  
Jessica.low@midf.com.my  
03-2173 8391

Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.