

26 April 2018 | 1QFY18 Results Review

## Axis REIT

### Anticipating a stronger 2HFY18

#### INVESTMENT HIGHLIGHTS


- **1QFY18 earnings missed expectations**
- **Earnings up by +4% yoy as revenue increase by +6%**
- **Potential new assets that could boost mid-term growth**
- **Maintain BUY with an adjusted TP of RM1.54 (from RM1.57)**

**1QFY18 earnings missed expectations** as its core net income (CNI) of RM24.1m makes up 21% of our full year estimates but broadly within consensus' at 23%. A gross DPU of 1.94sen was announced for the quarter, which is also slightly below our expectation.

**Earnings up by +4% yoy as revenue increase by +6%.** This is attributed to rental proceeds from the newly purchased assets, namely: Kerry Warehouse and the Wasco facility at Kuantan; as well as positive rental reversions of its portfolio. However, CNI did not increase as much due to higher property expenses (+3.9% yoy), non-property expenses (+19.3%) and higher borrowing costs (+9.2%).

**Fine tune our assumptions and revise earnings forecast.** Following the lower than expected results, we fine tune our occupancy rate and rental reversion for some of the properties under Axis REIT's 41-asset portfolio. Subsequently, we reduce our FY18F/FY19F revenue by -2%/-4.2% to RM192m/RM207m. As a result, our FY18F/FY19F earnings are also lowered by -5.2%/-6.9% to RM109m/RM121m respectively. That said, we expect 2HFY18 to be stronger because of the contribution from the Axis Mega Distribution Centre.

**Potential new assets that could boost mid-term growth.** Besides the new RM87m property in Seksyen 28, Shah Alam that was announced on Monday, Axis REIT may see the addition of new assets including the Senawang factory in Negeri Sembilan that comes with a price tag of RM18.5m and manufacturing facilities in Indahpura, Johor worth RM38.7m in 2HFY18. We have not factored in contributions from these acquisitions. Besides that, it is evaluating potential acquisition targets worth a combined value of RM180m. It also targets to hand over the Axis Aerotech Centre at Subang, which is currently under development, to Upeca on 15 Dec, 18.

**Maintain BUY with an adjusted TP of RM1.54 (from RM1.57)** following the revision of our earnings estimates. However, we have kept our valuation method, which is based on the Dividend Discount Model (Required rate of return: 7.5%, Perpetual growth rate: 1.0%), unchanged. Dividend yield for Axis is estimated at 5.6%. We like Axis for its niche position in the resilient industrial segment and proactive expansion plans. 

## Maintain BUY

**Adjusted Target Price (TP): RM1.54**  
(Previously RM1.57)

RETURN STATS	
Price (25 April 2018)	RM1.38
Target Price	RM1.54
Expected Share Price Return	+12.1%
Expected Dividend Yield	+5.9%
<b>Expected Total Return</b>	<b>+18.0%</b>
STOCK INFO	
KLCI	1,851.93
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,700.61
Price over NA	1.07
52-wk price Range	RM1.19 – RM1.72
Beta (against KLCI)	0.47
3-mth Avg Daily Vol	0.80m
3-mth Avg Daily Value	RM1.04m
Major Shareholders	
EPF	15.26%
KWAP	10.17%
SKIM ASB	8.11%
Lembaga Tabung Haji	5.52%
Peng Hwee Tew	5.04%

## INVESTMENT STATISTICS

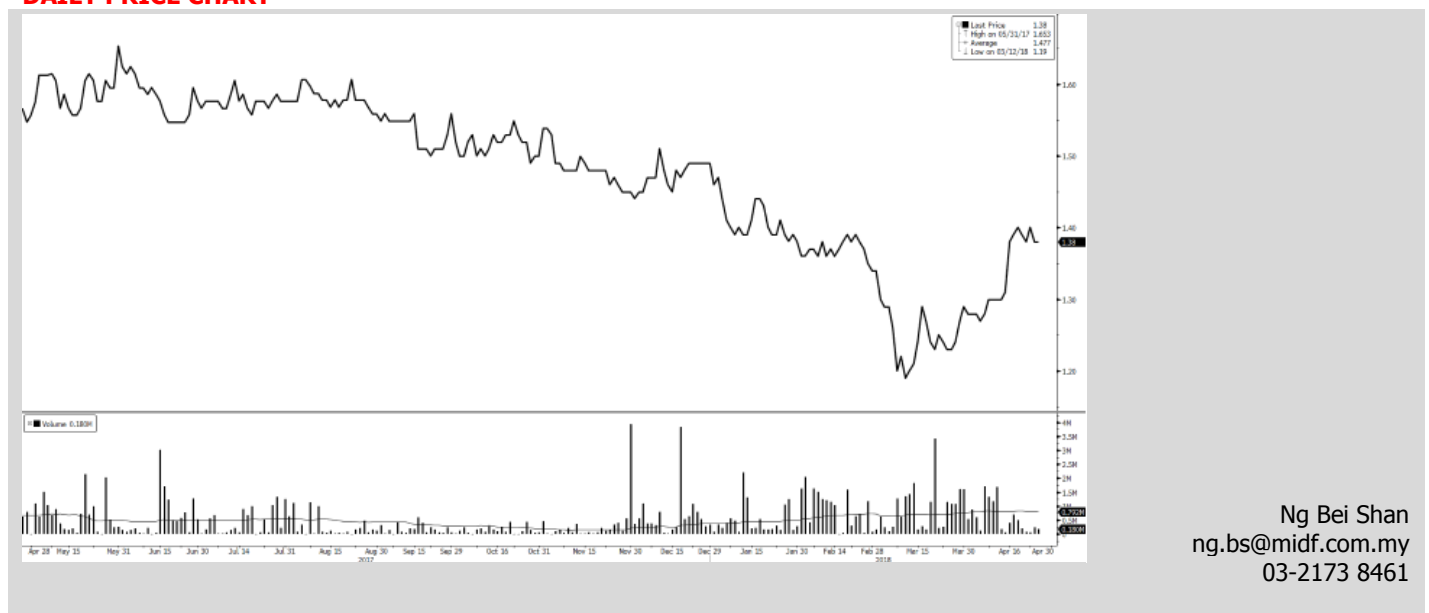
FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	163	167	167	192	207
Net Rental Income	142	144	143	167	181
Net Investment Income	145	172	143	168	182
Net Income	97	122	123	109	121
Core Net Income	93	92	123	109	121
Realised EPU (sen)	8.8	11.1	11.1	8.9	9.9
Core EPU (sen)	8.5	8.4	11.1	8.9	9.9
Gross DPU (sen)	8.4	8.3	11.0	8.7	9.7
Net DPU (sen)	7.6	7.4	9.9	7.8	8.7
Net Distribution Yield	5.5	5.4	7.1	5.7	6.3
Core PER (x)	16.2	16.5	12.4	15.6	14.0

Source: MIDF Research

## AXIS REIT: 1QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	45.1	6%	6%	45.1	6%
Net Investment Income	46.0	29%	-20%	46.0	29%
Net Income	31.4	39%	-29%	31.4	39%
Core Net Income (CNI)	24.1	4%	2%	24.1	4%
Realised EPU (sen)	2.6	24%	-29%	2.6	24%
Core EPU (sen)	2.0	-6%	2%	2.0	-6%
Gross DPU (sen)	1.9	-10%	0%	1.9	-10%

## DAILY PRICE CHART



Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.