

07 August 2018 | 2QFY18 Results Review

Axis REIT

Steady earnings for 1HFY18

INVESTMENT HIGHLIGHTS


- **CNI for 1HFY18 within expectations**
- **1HFY18 earnings up by +10% yoy as revenue increase by +10%**
- **Pipeline of potential new assets to sustain mid-term growth**
- **Maintain NEUTRAL with an unchanged TP of RM1.55**

CNI for 1HFY18 within expectations as its core net income (CNI) of RM50.9m makes up 45.5% of ours and 48.4% of consensus' full year estimates. A gross DPU of 2.00 sen was announced for the quarter, which is broadly within expectation.

1HFY18 earnings up by +10% yoy as revenue increase by +10% to RM50.9m and RM92.5m respectively. 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. Meanwhile, Axis' property expenses (+10.3%), non-property expenses (+37.5%) and borrowing costs (+19.7%) are higher yoy.

2QFY18 CNI rose +12%qoq to RM26.9m on the back of revenue that increased by 5% to RM47.5m. This is mainly due to higher non property expenses in the previous corresponding quarter.

Pipeline of potential new assets to sustain mid-term growth. During 1HFY18, Axis has also completed the acquisition of the Section 28, Shah Alam factory worth RM87m. Earlier in the year, it has also handed over the Phase 1 of Axis Mega Distribution Centre to Nestle Products Sdn Bhd earlier. Going forward, 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 in December this year .

Maintain NEUTRAL with an unchanged TP of RM1.55 as we make no changes to our full year estimates while we keep our valuation method, which is based on the Dividend Discount Model (Required rate of return: 7.5%, Perpetual growth rate: 1.0%). Dividend yield for Axis is estimated at 5.4%. We are neutral on the Axis at this point as we expect higher borrowing cost and expenses to offset the higher income from new assets. 

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.55

RETURN STATS	
Price (6 th August 2018)	RM1.48
Target Price	RM1.55
Expected Share Price Return	+5.1%
Expected Dividend Yield	+5.4%
Expected Total Return	+10.5%
STOCK INFO	
KLCI	1,779.75
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,823.84
Price over NA	1.13
52-wk price Range	RM1.19 – RM1.65
Beta (against KLCI)	0.26
3-mth Avg Daily Vol	0.62m
3-mth Avg Daily Value	RM0.93m
Major Shareholders	
EPF	15.86%
KWAP	10.44%
SKIM ASB	8.11%
Lembaga Tabung Haji	5.76%
Peng Hwee Tew	5.04%

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	163	167	167	195	214
Net Rental Income	142	144	143	170	188
Net Investment Income	145	172	143	171	189
Net Income	97	122	123	112	123
Core Net Income	93	92	123	112	123
Realised EPU (sen)	8.8	11.1	11.1	9.1	10.0
Core EPU (sen)	8.5	8.4	11.1	9.1	10.0
Gross DPU (sen)	8.4	8.3	11.0	8.9	9.8
Net DPU (sen)	7.6	7.4	9.9	8.0	8.8
Net Distribution Yield	5.1	5.0	6.7	5.4	6.0
Core PER (x)	17.4	17.7	13.3	16.2	14.8

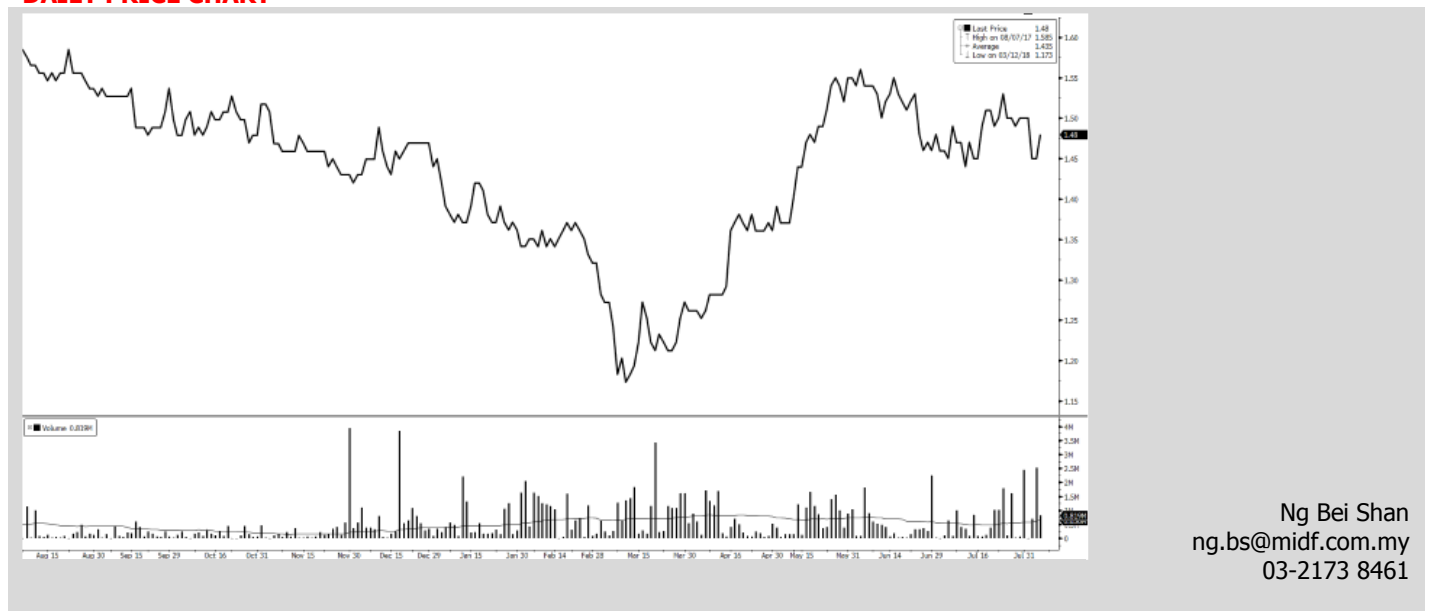
Source: MIDF Research, Company

AXIS REIT: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	47.5	14%	5%	92.5	10%
Net Investment Income	42.6	21%	-8%	88.6	25%
Net Income	26.9	16%	-14%	58.3	27%
Core Net Income (CNI)	26.9	16%	12%	50.9	10%
Realised EPU (sen)	2.2	4%	-14%	4.7	14%
Core EPU (sen)	2.2	4%	12%	4.1	-1%
Gross DPU (sen)	2.0	-8%	3%	3.9	-9%

Source: MIDF Research, Company

DAILY PRICE CHART



Source: Bloomberg

Ng Bei Shan
ng.bs@midf.com.my
03-2173 8461

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.