

23 October 2018 | 3QFY18 Results Review

Axis REIT

Higher CNI from new leases

INVESTMENT HIGHLIGHTS

- **9MFY18 CNI within expectations, announced income distribution reinvestment plan**
- **CNI for the first nine months jumped 17%yoy as revenue climbed 15%yoy**
- **3QFY18 CNI increased by 31%yoy and 11%qoq to RM29.7m**
- **Maintain NEUTRAL with an unchanged TP of RM1.55**

9MFY18 CNI within expectations, announced income distribution reinvestment plan. Axis REIT's cumulative CNI of RM80.7m came in within ours and streets' expectations, making up 72% and 77% of the full year estimates respectively. An interim DPU of 2.35 sen was announced, bringing year-to-date gross DPU to 6.3 sen, which is also within estimates. The REIT manager has also announced an income distribution reinvestment plan (IDRP) that is applicable for the latest dividend announcement. Of the 2.35 sen per unit announced, the gross electable 1.10 sen can be opted for reinvestment in new units while the remaining 1.25 sen will be paid in cash. The new units are fixed at RM1.39 each, which is about 7.1% discount to the 5-day VWAMP of RM1.4969.

CNI for the first nine months jumped 17%yoy as revenue climbed 15%yoy to RM144.9m mainly due to the addition of five new properties that boosted rental income. On top of that, rental reversion was 6% while occupancy rate recorded 94.8% compared to 94% as at end-June. Among the new contributors compared to last year include Nestle@Axis Mega Distribution Centre and Wasco Facility@Kuantan.

3QFY18 CNI increased by 31%yoy and 11%qoq to RM29.7m mainly due to the gross revenue that jumped by 25%yoy to RM52.4m. CNI for the quarter climbed more than the revenue mainly due to lower expenses and higher realised property income, which can be attributed to the lease of Nestle@Axis Mega Distribution, the Beyonic i-Park factories at Indahpura, Johhor and Axis Shah Alam DC4.


Portfolio expansion to drive growth further. The purchase of Senawang factory in Negeri Sembilan for RM18.5m is slated for completion by year end. Axis is also evaluating potential acquisition targets worth a combined value of RM160m. Furthermore, the REIT manager continues to improve occupancy rate. Among others, occupancy rate for Axis Business Campus is expected to improve to 69% in the next quarter from 63% as of end-September.

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.55

RETURN STATS	
Price (22 nd October 2018)	RM1.51
Target Price	RM1.55
Expected Share Price Return	+3.0%
Expected Dividend Yield	+5.3%
Expected Total Return	+8.3%
STOCK INFO	
KLCI	1,722.47
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,860.81
Price over NA	1.15
52-wk price Range	RM1.19 – RM1.59
Beta (against KLCI)	0.27
3-mth Avg Daily Vol	0.38m
3-mth Avg Daily Value	RM0.56m
Major Shareholders	
EPF	15.53%
KWAP	10.60%
SKIM ASB	8.11%
Lembaga Tabung Haji	5.82%
Peng Hwee Tew	5.04%

Rental from Axis Aerotech Centre to commence in December. The Axis Aerotech Centre project at Subang which was signed with Upeca Aerotech is on-going. The development of the single-storey manufacturing plant cum office building with a gross built-up area of about 178,978.60 sq ft has commenced construction work in April this year and has incurred costs of RM20.4m as of end-September. During the construction period, Upeca has requested for changes in the technical specifications of the project which lead to the deferment of handover date to March 31, 2019 instead of December 15 this year. That said, rental of the property shall start from December 16. Contribution of this project to FY18 NPI is negligible as it only accounts for half a month.

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 5.3%. 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. 

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	5.0	4.9	6.5	5.3	5.8
Core PER (x)	17.8	18.1	13.6	16.6	15.1

Source: MIDF Research, Company

AXIS REIT: 3QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	9MFY18	%YoY
Gross Revenue	52.4	25%	10%	144.9	15%
Net Investment Income	46.0	1%	8%	134.6	16%
Net Income	29.7	-9%	11%	88.1	12%
Core Net Income (CNI)	29.7	31%	11%	80.7	17%
Realised EPU (sen)	2.4	-18%	11%	7.1	1%
Core EPU (sen)	2.4	18%	11%	6.5	5%
Gross DPU (sen)	2.4	18%	18%	6.3	0%

Source: MIDF Research, Company

DAILY PRICE CHART



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

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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.