

19 January 2017 | 4QFY16 Results Review

Axis REIT

Flat earnings growth


INVESTMENT HIGHLIGHTS

- **FY16 earnings within expectations**
- **Marginal earnings growth in FY16**
- **Earnings forecast fine-tuned**
- **Maintain NEUTRAL with an unchanged TP of RM1.68**

FY16 earnings within expectations. Axis REIT FY16 core net income of RM92.4m was within expectations, meeting 100% and 95% of our and consensus full year estimates respectively. Forth-interim distribution per unit (DPU) of 2.10 sen was declared, bringing total DPU to 8.25sen in FY16.

Marginal earnings growth in FY16. Axis REIT recorded higher 4QFY16 core net income of RM24.1m (+24%yoy) mainly buoyed by earnings contributions from newly acquired assets (Axis Shah Alam DC2 and Beyonics iPark Campus). On a cumulative basis, core net income of RM92.4m recorded marginal earnings growth of 2%yoy, in line with higher topline (+2%yoy). Earnings growth of Axis REIT was marginal in FY16 as higher rental income was offset by higher operating expenditure (+16%yoy) and higher Islamic financing cost (+6.9%yoy). The marginal earnings growth was also due to the contributions from newly acquired assets which were offset by loss of income from Axis PDI Centre (vacant since 4QFY15 for redevelopment). Recall that Axis REIT plans to construct a warehouse on Axis PDI site after securing long-term tenancy agreement with Nestlé Products Sdn Bhd while earnings contribution from the asset expected to kick in from FY18 onwards.

Earnings forecast fine-tuned. We have lowered our earnings forecast for FY17 marginally to reflect the loss of earnings from Axis Eureka. Recall that Axis REIT proposed to dispose the asset in October 2016. FY17 core net income expected to be flattish due to loss of earnings from Axis Eureka. Meanwhile, we also introduce our FY18 earnings forecast which implies earnings growth of 8.6%yoy mainly due to earnings contribution from Axis PDI Centre.

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 Neutral on Axis REIT as near-term earnings outlook expected to be flattish. Meanwhile, dividend yield of Axis REIT estimated at 4.6%. 

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.68

RETURN STATS	
Price (18 Jan 2017)	RM1.65
Target Price	RM1.68
Expected Share Price Return	1.8%
Expected Dividend Yield	4.6%
Expected Total Return	6.4%
STOCK INFO	
KLCI	1,665.02
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	RM1.49 – RM1.85
Beta (against KLCI)	0.58
3-mth Avg Daily Vol	0.56m
3-mth Avg Daily Value	RM0.93m
Major Shareholders	
EPF	12.38%
SKIM ASB	9.05%
Lembaga Tabung Haji	5.97%
Peng Hwee Tew	5.04%

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INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F
Gross Revenue	141	138	163	167	168	183
Net Rental Income	123	118	142	144	143	158
Net Investment Income	148	148	145	172	144	159
Net Income	111	110	97	122	93	102
Core Net Income	87	86	92	92	93	102
Realised EPU (sen)	10.16	10.08	8.78	11.07	8.41	9.21
Core EPU (sen)	7.92	7.89	8.50	8.36	8.41	9.21
Gross DPU (sen)	7.79	9.87	8.40	8.25	8.36	9.04
Net DPU (sen)	7.01	8.88	7.56	7.43	7.52	8.14
Net Distribution Yield (%)	4.2%	5.4%	4.6%	4.5%	4.6%	4.9%
Core PER (x)	20.85	20.91	19.42	19.74	19.62	17.92
NAV per unit (RM)	0.94	1.21	1.23	1.26	1.24	1.23
P/NAV (x)	1.76	1.36	1.34	1.31	1.33	1.35
Core ROE	8.6%	7.3%	7.0%	6.7%	6.7%	7.5%
Core ROA	5.4%	4.7%	4.4%	4.2%	4.1%	4.5%

Source: MIDF Research

AXIS REIT: 4QFY16 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY16	%YoY	%QoQ	FY16	%YoY	
Gross Revenue	42.4	6%	1%	167.4	2%	<i>Flattish topline as earnings contribution from newly acquired assets were offset by loss of income from Axis PDI Centre.</i>
Net Investment Income	36.9	26%	-25%	172.4	19%	
Net Income	24.3	43%	-33%	122.3	27%	
Core Net Income (CNI)	24.1	21%	5%	92.4	2%	<i>In line with topline growth.</i>
Realised EPU (sen)	2.2	42%	-33%	11.1	26%	
Core EPU (sen)	2.2	21%	5%	8.4	1%	
Gross DPU (sen)	2.1	5%	2%	8.3	-2%	

Source: MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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

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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.