

05 June 2018 | Corporate Update

Axis REIT

Adding Shah Alam Section 28 Asset to Portfolio


INVESTMENT HIGHLIGHTS

- The Shah Alam Section 28 factory purchase is completed
- Expect earnings impact of +2.8%/+1.7% in FY18F/FY19F
- Full year gearing estimated at 38%
- Downgrade to NEUTRAL from BUY with an adjusted TP of RM1.55 (from RM1.54)

The Shah Alam Section 28 factory purchase is completed. The announcement of the RM87m acquisition was made in April and has been completed yesterday. Recall that Axis REIT has proposed to acquire a warehouse and manufacturing facility alongside 10.1 acres of land in Shah Alam Section 28. The net lettable area of the building on the land totals 254,233 sq ft. The building is currently used for warehousing and assembly of electrical goods while 22,449 sq ft of the land area is currently used as a car park. The property will then be leased back to Teraju Sinar Sdn Bhd for six years with an arrangement of an advance payment to be held through the stakeholder's account. Rental will increase by 10% from year four.

Expect earnings impact of +2.8%/+1.7% in FY18F/FY19F. We expect for the asset to contribute about RM3.2m to FY18F revenue and RM6.3m to FY19F revenue from the leaseback. Core earnings are estimated to increase to RM112m/RM123m for FY18F/FY19F respectively.

Full year gearing estimated at 38%. The RM87m acquisition is funded fully through debt and we expect that its full year gearing may come to 38%, which is still below the 50% requirement. Other potential acquisition in the pipeline include: the Senawang factory in Negeri Sembilan that comes with a price tag of RM18.5m and manufacturing facilities in Indahpura, Johor worth RM38.7m.

Downgrade to NEUTRAL from BUY with an adjusted TP of RM1.55 (from RM1.54). While we like the resilience of industrial properties, we believe that Axis' near-term prospects have been priced in following the ~20% increase in unit price since April. The new TP of RM1.55 is adjusted 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 5.2%. 

Downgrade to NEUTRAL

Adjusted Target Price (TP): RM1.55
(Previously RM1.54)

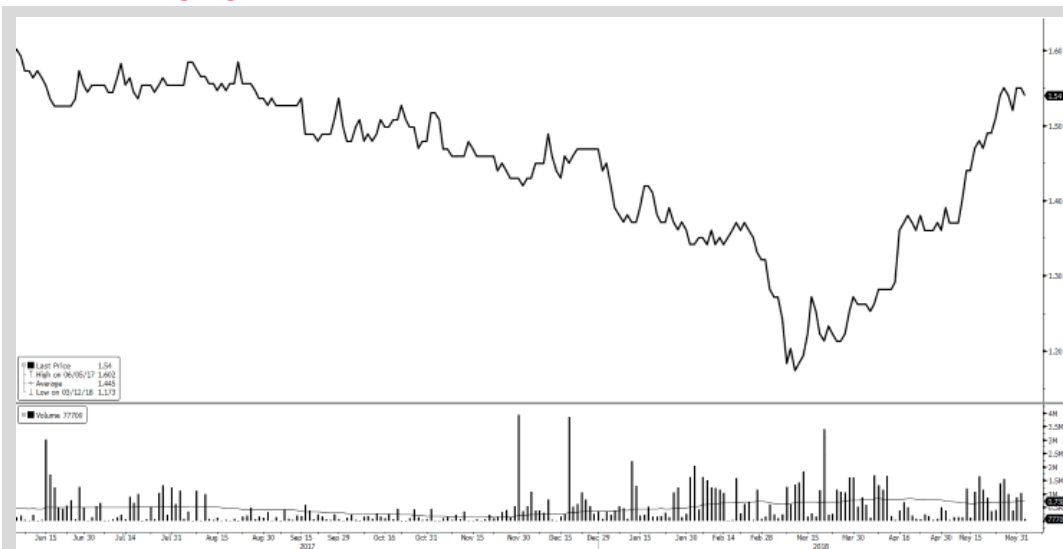
RETURN STATS	
Price (4 th June 2018)	RM1.54
Target Price	RM1.55
Expected Share Price Return	+0.6%
Expected Dividend Yield	+5.2%
Expected Total Return	+5.8%
STOCK INFO	
KLCI	1,755.17
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,897.78
Price over NA	1.18
52-wk price Range	RM1.19 – RM1.70
Beta (against KLCI)	0.30
3-mth Avg Daily Vol	0.72m
3-mth Avg Daily Value	RM0.97m
Major Shareholders	
EPF	15.55%
KWAP	10.16%
SKIM ASB	8.11%
Lembaga Tabung Haji	5.54%
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 (%)	4.9	4.8	6.4	5.2	5.7
Core PER (x)	18.1	18.4	13.9	16.9	15.4
NAV per unit (RM)	1.2	1.3	1.4	1.3	1.3
P/NAV (x)	1.3	1.2	1.1	1.2	1.2
Core ROE	7.0%	6.7%	8.2%	7.0%	7.7%
Core ROA	4.4%	4.2%	5.1%	4.4%	4.7%

Source: MIDF Research

DAILY PRICE CHART



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.