

24 April 2018 | Corporate Update

Axis REIT

Buying RM87m industrial asset in Shah Alam


INVESTMENT HIGHLIGHTS

- **Proposed to buy Shah Alam industrial asset for RM87m**
- **Potential earnings impact of +10% in FY18F**
- **Positive on the acquisition**
- **Maintain BUY with an unchanged TP of RM1.57**

Proposed to buy Shah Alam industrial asset for RM87m. 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 freehold asset is purchased from Teraju Sinar Sdn Bhd and will be leased back to the vendor for 6 years upon completion of the acquisition, which is expected in 2HFY18.

Potential earnings impact of +2% in FY18F as Axis' core net income is expected to increase to RM117m from RM115m assuming that the new property contribute four months of rental income. In an arrangement to ensure rental income visibility, the rental from year 1 to year 3 will be paid in advance upon commencement of the lease, which will be kept in the stakeholder's account. At the end of year one, the lessee is expected to pay the advance rental payment for year 4, and until the end of year 3, the advance rental of year 6 shall be paid. On the other hand, Axis' gearing level is expected to increase to 35.26% as the acquisition is expected to be fully-funded through debt.

Positive on the acquisition as we believe that the new asset is yield accretive to the REIT with a net yield of 7% vs financing cost of about 4.5%. Moreover, we like the arrangement of the three-year advance payment of rental, which provides income certainty for Axis. The acquisition price of RM87m is also below the net book value of RM92m.

Maintain BUY with an unchanged TP of RM1.57 as we make no changes to our earnings assumption pending completion of the deal. We also maintain our assumptions and valuation method, which is based on the Dividend Discount Model (Required rate of return: 7.5%, Perpetual growth rate: 1.0%). Dividend yield is estimated at 5.9%. We like Axis for its niche position in the resilient industrial segment and proactive expansion plans. 

Maintain BUY

Unchanged Target Price (TP): RM1.57

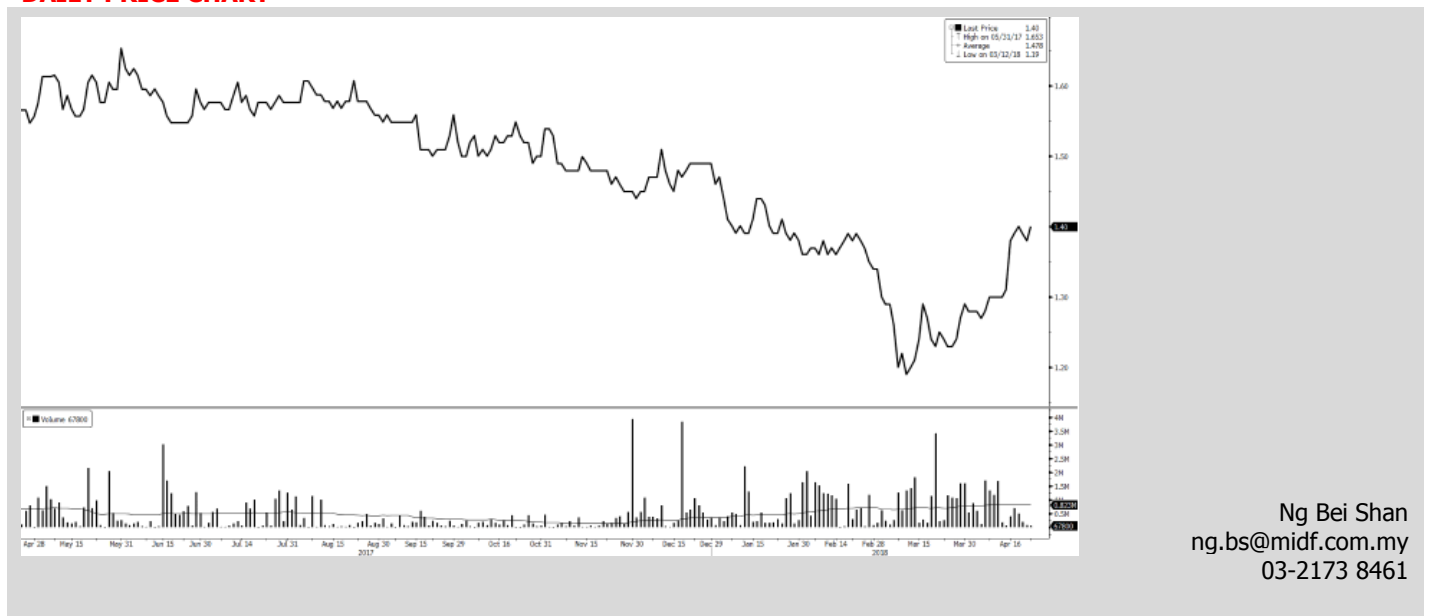
RETURN STATS	
Price (23 April 2018)	RM1.40
Target Price	RM1.57
Expected Share Price Return	+12.1%
Expected Dividend Yield	+5.9%
Expected Total Return	+18.0%
STOCK INFO	
KLCI	1,880.36
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,725.26
Price over NA	1.08
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	15.25%
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	169	196	216
Net Rental Income	142	144	146	171	190
Net Investment Income	145	172	174	172	191
Net Income	97	122	123	115	130
Core Net Income	93	92.4	92.6	115	130
Realised EPU (sen)	8.8	11.07	8.29	9.33	10.5
Core EPU (sen)	8.5	8.36	8.38	9.33	10.5
Gross DPU (sen)	8.4	8.25	8.33	9.13	10.3
Net DPU (sen)	7.6	7.43	7.49	8.22	9.3
Net Distribution Yield	5.4%	5.3%	5.4%	5.9%	6.6%
Core PER (x)	16.5	16.8	16.7	15.0	13.3

Source: MIDF Research

DAILY PRICE CHART



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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.