

08 August 2018 | Briefing Note

Axis REIT

FY18 Prospects Intact

INVESTMENT HIGHLIGHTS


- **Stable rental reversion and improving occupancy rates for 2HFY18**
- **Steady earnings stream underpinned by newly-acquired assets**
- **Finance cost expected to increase to fund purchases**
- **Maintain NEUTRAL with an unchanged TP of RM1.55**

Stable rental reversion and improving occupancy rates for 2HFY18. To-date, Axis recorded a positive rental reversion of 5% while occupancy rate improved to 94% from 91% in end-2017. Among others, occupancy rate is expected to improve for Axis Business Campus from 29% to 62% in the next quarter from new tenants secured. Meanwhile, the positive rental reversion is supported by periodical step up in rents.

Steady earnings stream underpinned by newly-acquired assets.

Looking into 2HFY18, we expect full contribution from Phase 1 of Axis Mega Distribution Centre and the Section 28, Shah Alam factory (Axis Shah Alam DC 4). Both properties had started contribution in June. In 3QFY18, we expect the completion of the acquisition of the manufacturing facilities in Indahpura, Johor worth RM38.7m. The purchase of Senawang factory in Negeri Sembilan for RM18.5m is also slated for completion in 2HFY18. Axis is also evaluating potential acquisition targets worth a combined value of RM190m. The targeted handover of Axis Aerotech Centre at Subang to Upeca by December 15, 2018 is on track.

Finance cost expected to increase to fund purchases. The increase in Axis' income is expected to be offset by higher financing costs to fund the acquisition of the new assets as well as the development of Axis Aerotech Centre. Management guided that it has sufficient funds to finance the acquisition in the pipeline for FY18 and any potential cash calls to fund future property purchase may only happen in FY19. Including purchase of the Indahpura and Senawang factory and the development of Axis Aerotech Centre, Axis' gearing is expected to climb to ~39% from 36.5% as of end-June.

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

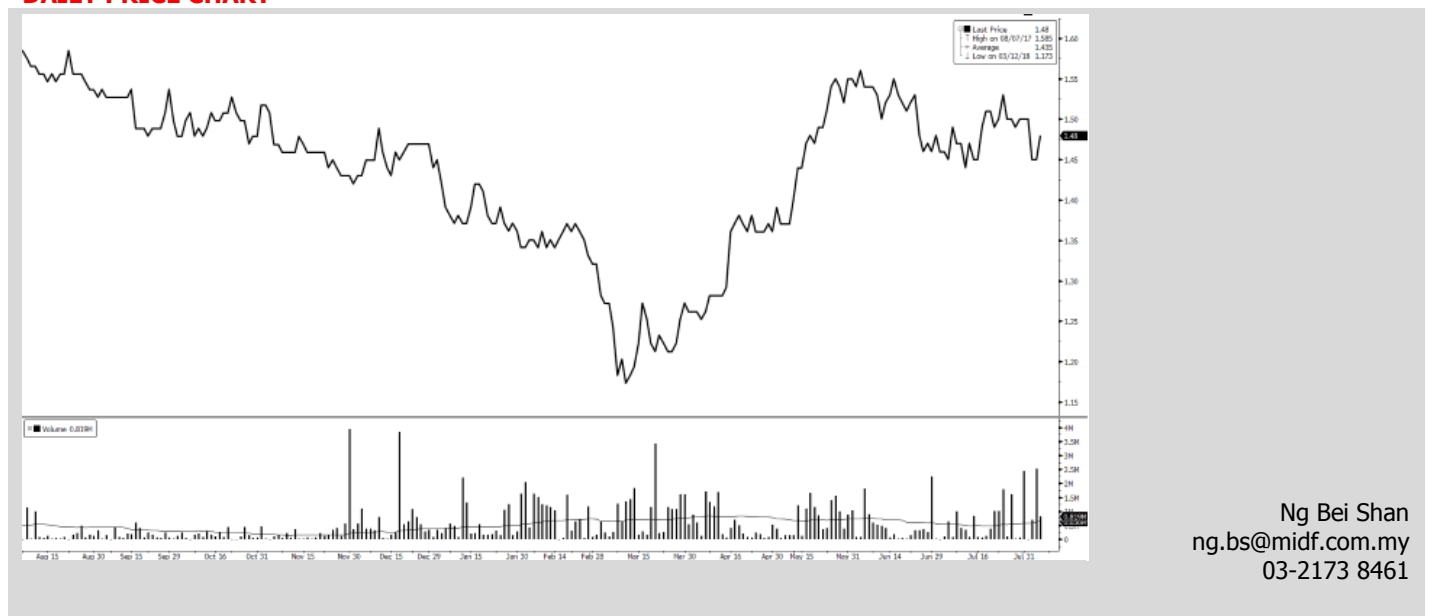
RETURN STATS	
Price (7 th August 2018)	RM1.50
Target Price	RM1.55
Expected Share Price Return	+3.7%
Expected Dividend Yield	+5.4%
Expected Total Return	+9.1%
STOCK INFO	
KLCI	1,791.09
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,848.49
Price over NA	1.15
52-wk price Range	RM1.19 – RM1.65
Beta (against KLCI)	0.26
3-mth Avg Daily Vol	0.63m
3-mth Avg Daily Value	RM0.95m
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

DAILY PRICE CHART



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

Source: Bloomberg

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.