

25 January 2018 | Briefing Note

Axis REIT

Focusing on its industrial forte


INVESTMENT HIGHLIGHTS

- **Efforts to improve occupancy rates bearing fruits**
- **Continuously looking out for yield accretive industrial assets**
- **E-commerce boom to support the outlook for industrial assets**
- **Maintain BUY with an unchanged TP of RM1.66**

Efforts to improve occupancy rates bearing fruits. We came back from Axis REIT's analyst briefing yesterday feeling reassured of its near and long-term growth prospects. It will achieve full occupancy for its D21 Logistics Warehouse (previously BMW Centre PTP), which was vacant since 3Q17, starting February. On top of that, Crystal Plaza and Quattro West are also expected to see higher occupancy rate going forward. Management is embarking on enhancing some of its assets to retain existing tenants and to attract new tenants. For FY17, occupancy rate stood at 91.7% and we expect for it to improve to 94% to 95% in FY18 with these new tenancy agreements.

Continuously looking out for yield-accretive industrial assets. Besides the on-going acquisitions of the Shah Alam, Senawang and Indahpura assets, collectively worth RM150.7m, Axis is also exploring the acquisition of several other industrial assets amounting to about RM150m. We believe that the additional assets will be funded via debt as the private placement to raise RM178.8m had been completed quite recently. We estimate that its gearing will increase to about 38% if the additional acquisition targets were to be funded fully via loans.

E-commerce boom to support the outlook for industrial assets. Axis will continue to focus on its key strength in this segment riding on the strong demand for warehousing and logistics. Logistics make up 34% of its total NLA, followed by engineering/ building materials at 22%. Meanwhile, warehouse logistic makes up 41% of its NLA, followed by manufacturing facilities at 29%. That said, Axis may add more logistic/ warehouse related NLA to its portfolio through acquisitions and the expansion of phase 2 of the Axis Mega Distribution Centre.

Maintain BUY with unchanged TP of RM1.66 as we make no changes to our estimates. Our valuation method is unchanged based on the Dividend Discount Model (Required rate of return: 7.3%, perpetual growth rate: 1.2%). We like Axis for its niche position in the resilient industrial segment and proactive expansion plans. 

Maintain BUY

Unchanged Target Price (TP): RM1.66

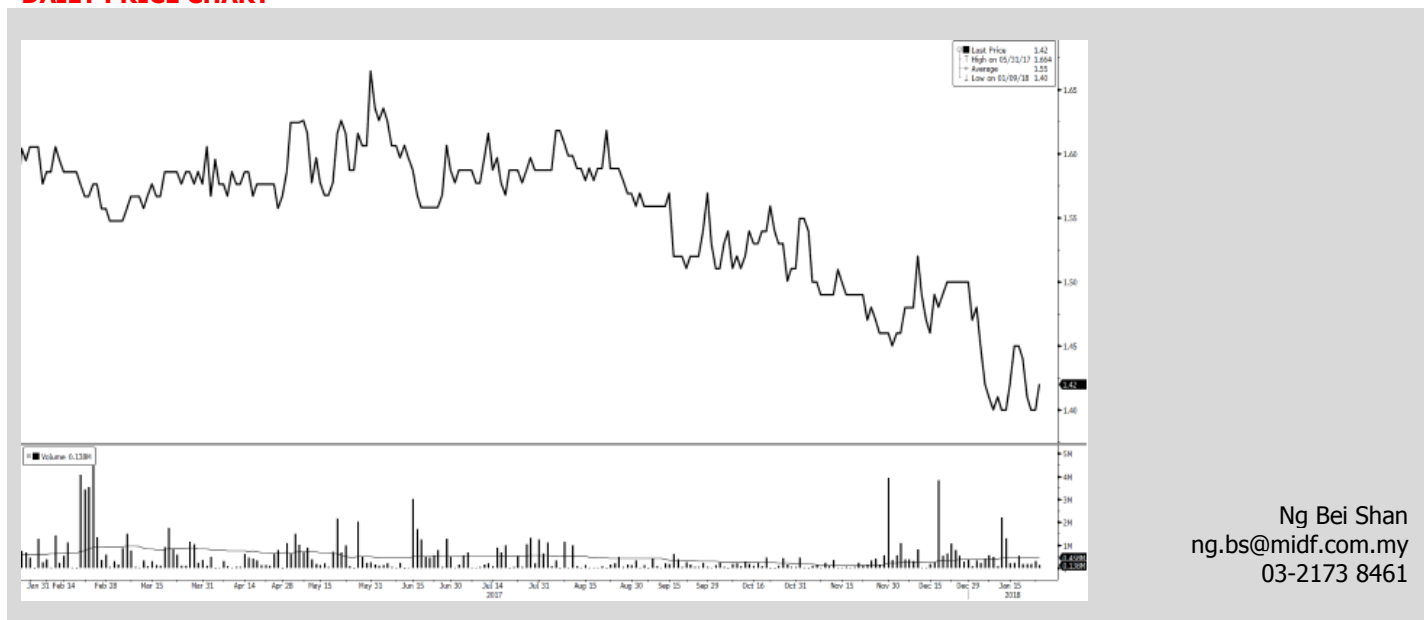
RETURN STATS	
Price (24 January 2018)	RM1.40
Target Price	RM1.66
Expected Share Price Return	18.4%
Expected Dividend Yield	5.3%
Expected Total Return	23.7%
STOCK INFO	
KLCI	1,837.04
Bursa / Bloomberg	5106/ AXRB MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1,232.33
Market cap. (RM'm)	1,749.90
Price over NA	1.10
52-wk price Range	RM1.39 – RM1.72
Beta (against KLCI)	0.34
3-mth Avg Daily Vol	0.43m
3-mth Avg Daily Value	RM0.64m
Major Shareholders	
EPF	14.23%
KWAP	6.37%
SKIM ASB	8.11%
Lembaga Tabung Haji	5.44%

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY14A	FY15A	FY16A	FY17A	FY18F
Gross Revenue	138	163	167	169	196
Net Rental Income	118	142	144	146	171
Net Investment Income	148	145	172	174	172
Net Income	110	97	122	123	115
Core Net Income	86	93.45	92.40	92.60	115
Realised EPU (sen)	10.08	8.78	11.07	8.29	9.33
Core EPU (sen)	7.89	8.50	8.36	8.38	9.33
Gross DPU (sen)	9.87	8.40	8.25	8.33	9.13
Net DPU (sen)	8.88	7.56	7.43	7.49	8.22
Net Distribution Yield (%)	6.3%	5.4%	5.3%	5.4%	5.9%
Core PER (x)	17.74	16.48	16.75	16.71	15.01
NAV per unit (RM)	1.21	1.23	1.26	1.45	1.13
P/NAV (x)	1.16	1.14	1.11	0.96	1.24
Core ROE	7.3%	7.0%	6.7%	6.2%	7.7%
Core ROA	4.7%	4.4%	4.2%	3.9%	4.4%

Source: Company, 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.