



Axis REIT

(5106 | AXRB MK) Main | REIT

Expect Stronger Earnings in 2HFY23

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings deemed within our expectation**
- **Earnings dragged by higher expenses**
- **Expect stronger earnings in 2HFY23**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM2.06**

1HFY23 earnings deemed within our expectation. Axis REIT 1HFY23 core net income of RM66.3m came in below consensus expectation but deemed within ours despite only making up 42% of our full year forecast as we expect stronger earnings in 2HFY23. Meanwhile, second interim distribution per unit (DPU) of 2.05sen was announced for 2QFY23, bringing total DPU to 4.1sen in 1HFY23.

Earnings dragged by higher expenses. Sequentially, 2QFY23 core net income grew marginally to RM33.7m (+3.7%qoq), partly due to lower property operating expenses. Meanwhile, rental income was lower (-2.4%qoq) due to termination of lease agreement with Yongnam Engineering Sdn Bhd, the lessee of Axis Steel Centre @ SiLC in Johor. On yearly basis, 2QFY23 core net earnings were lower (-21%yoy), bringing 1HFY23 cumulative earnings to RM66.3m (-19%yoy). The lower earnings in 1HFY23 were mainly due to higher property expenses and higher Islamic financing cost. Meanwhile, core earnings per unit (EPU) recorded steeper decline due to dilutive impact from private placement that was completed in January 2023. On another note, portfolio occupancy of Axis REIT declined to 89% in 2QFY23 from 92.7% in 1QFY23 mainly due to termination of lease agreement for Axis Steel Centre @ SiLC.

Expect stronger earnings in 2HFY23. We expect earnings of Axis REIT to be stronger in 2HFY23 mainly due to contribution from Bukit Raja Distribution Centre 2. The Certificate of Practical Completion (CPC) for the asset was obtained recently and Axis REIT anticipates to obtain the Certificate of Compliance and Completion (CCC) in August 2023 to be handed over to lessee, SPX Xpress (Malaysia) Sdn Bhd. Lease for the asset should commence by August 2023 and contribute to rental income in 2HFY23.

Maintain BUY with unchanged TP of RM2.06. We make no changes to our earnings forecast. We also maintain our **TP** for Axis REIT at **RM2.06**, based on Dividend Discount Model (DDM). We maintain our **BUY** call for Axis REIT as we remain positive on Axis REIT due to stable prospect for industrial space which is expected to growth steadily. Besides, we see stronger earnings in 2HFY23 due to commencement of lease from Bukit Raja Distribution Centre 2.



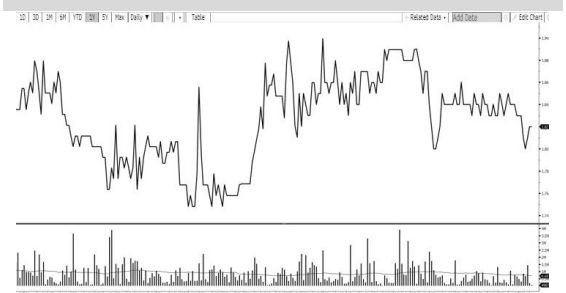
Maintain BUY

Unchanged Target Price: RM2.06

RETURN STATISTICS

Price @ 26 th July 2023 (RM)	1.83
Expected share price return (%)	+12.6%
Expected dividend yield (%)	+4.4%
Expected total return (%)	+17.0%

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	-3.6
-0.5	-0.5	-4.8
12 months	-5.7	-3.4

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	279	295	297
Net Rental Income	240	255	258
Net Investment Income	241	257	259
Core Net Income	158	163	167
Core EPU (sen)	9.09	9.34	9.61
Net DPU (sen)	7.98	8.20	8.44
Dividend Yield	4.36%	4.48%	4.61%

KEY STATISTICS

FBM KLCI	1,449.29
Issue shares (m)	1641.05
Estimated free float (%)	52.55
Market Capitalisation (RM'm)	3,186
52-wk price range	RM1.78 – RM2
3-mth average daily volume (m)	0.70
3-mth average daily value (RM'm)	1.30
Top Shareholders (%)	
Employees Provident Fund Board	16.37
Kumpulan Wang Persaraan	10.48
Lembaga Tabung Haji	5.05

Analyst

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AXIS REIT: 2QFY23 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	68.5	-5.6%	-2.4%	138.6	-0.42%
Net Investment Income	59.2	-11.1%	4.9%	115.5	-7.69%
Net Income	34.7	-25.8%	14.6%	65.0	-24.93%
Core Net Income (CNI)	33.7	-21.2%	3.7%	66.3	-19.10%
Realised EPU (sen)	2.0	-30.3%	14.6%	3.7	-29.53%
Core EPU (sen)	1.9	-26.1%	3.7%	3.8	-24.05%
Gross DPU (sen)	2.1	-19.6%	0.0%	4.1	-17.51%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Gross Revenue	242	282	279	295	297
Net Rental Income	204	277	240	255	258
Net Investment Income	277	277	241	257	259
Net Income	205	190	156	160	165
Core Net Income	133	157	158	163	167
Core EPU (sen)	9.2	9.5	9.1	9.3	9.6
Core PER (x)	20.0	19.3	20.2	19.7	19.1
NAV/unit (RM)	1.75	1.57	1.52	1.52	1.53
P/NAV (x)	1.05	1.17	1.21	1.21	1.21
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment properties	3280	3614	4186	4216	4256
Total non-current assets	3283	3617	4188	4221	4262
Cash and cash equivalents	40	196	22	25	22
Other assets	516	443	39	75	101
Total Assets	3839	4255	4250	4320	4384
LT Borrowings	501	624	733	682	703
ST Borrowings	612	560	813	796	836
Other Liabilities	199	499	60	191	188
Total Liability	1311	1684	1606	1670	1727
Unitholders' capital	1596	1934	1946	2034	2034
Other Equity	932	637	698	616	623
Total Equity	2527	2572	2644	2651	2657
Equity + Liability	3839	4255	4250	4320	4384
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	205	192	154	157	161
Net cash from operating activities	191	228	253	251	296
Cash flows from investing activities					
Acquisition of investment properties	-227	-487	-48	-47	-46
Net cash used in investing activities	-274	-537	-76	-84	-72
Cash flows from financing activities					
Net cash from/(used in) financing activities	231	163	-140	-154	-144
Net increase/(decrease) in cash and cash equivalents	147	-147	37	12	80
Cash and cash equivalent at 1 January	23	171	24	61	73
Cash and cash equivalent at 1 December	171	24	61	73	153
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Net Investment Income margin	114.2%	98.4%	86.4%	87.1%	87.2%
Core net income margin	54.7%	55.6%	56.7%	55.2%	56.3%
ROE	5.7%	6.1%	6.1%	6.1%	6.3%
ROA	3.7%	3.9%	3.7%	3.8%	3.8%

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology