



Axis REIT

(5106 | AXRB MK) Main | REIT

Earnings Dragged by Higher Expenses

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings slightly below expectations**
- **Earnings dragged by higher expenses**
- **Earnings forecast revised downwards**
- **Maintain BUY with a revised TP of RM1.97**

9MFY23 earnings slightly below expectations. Axis REIT 9MFY23 core net income of RM108.3m came in slightly below expectations, making up 68% and 69% of our and consensus full year estimates. The slight earnings deviation could be attributed to the higher expenses. Note that we have excluded fair value gain and provision for doubtful debt in our core net income calculations. Axis REIT announced distribution per unit (DPU) of 2.15sen for 3QFY23, bringing cumulative DPU in 9MFY23 to 6.25sen.

Earnings dragged by higher expenses. Sequentially, 3QFY23 core net income was higher at RM37.7m (+6.6%qoq), in tandem with higher topline (+4.9%qoq). The higher earnings were mainly due to commencement of lease of Bukit Raja Distribution Centre 2 on 1st August 2023. Nevertheless, earnings growth was offset marginally by higher property expenses and Islamic financing cost. On yearly basis, 3QFY23 core net income was lower (-4.7%yoy) while topline was little-changed. That brought 9MFY23 cumulative earnings to RM108.3m (-10.9%yoy). The weaker earnings were mainly due to higher Islamic financing cost as a result of increase in financing rate. Meanwhile, portfolio occupancy rate remains healthy at 92%.

Earnings forecast revised downwards. We revise our FY23F/24F/25F earnings forecast by -5.4%/-4.9%/-4.7% to factor in the higher expenses. While earnings of Axis REIT were weaker in 9MFY23, we see that earnings outlook to improve beyond FY24 as financing rate is expected to stabilise. Besides, the active asset acquisition should underpin earnings growth going forward. Axis REIT announced asset acquisition in Seremban recently and has acquisition targets with total estimated value of RM170m.

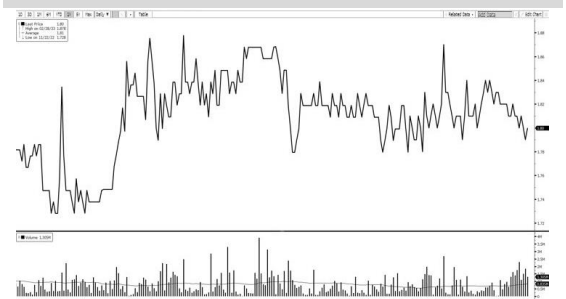
Maintain BUY with a revised TP of RM1.97. Post revision in earnings and DPU forecast, our **TP** is revised lower to **RM1.97** from RM2.07. Our **TP** is based on Dividend Discount Model (DDM). We see positive prospect for Axis REIT industrial asset portfolio which underpinned by healthy demand for industrial asset. Earnings prospect is also stable as lease for single tenanted buildings are mostly on pre-agreed step up rate. Hence, we maintain our **BUY** call on Axis REIT. Meanwhile, distribution yield is estimated at 4.2%.

**Maintain BUY****Revised Target Price: RM1.97**
(Previously RM2.07)

RETURN STATISTICS

Price @ 27 th Oct 2023 (RM)	1.80
Expected share price return (%)	+9.4%
Expected dividend yield (%)	+4.2%
Expected total return (%)	+13.6%

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	-1.8
-0.5	-2.2	0.1
12 months	-3.7	-2.9

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	279	298	300
Net Rental Income	238	256	259
Net Investment Income	239	258	260
Core Net Income	150	155	160
Core EPU (sen)	8.60	8.91	9.19
Net DPU (sen)	7.56	7.83	8.07
Dividend Yield	4.20%	4.35%	4.48%

KEY STATISTICS

FBM KLCI	1,441.90
Issue shares (m)	1641.05
Estimated free float (%)	52.66
Market Capitalisation (RM'm)	3,133
52-wk price range	RM1.78–RM1.9
3-mth average daily volume (m)	0.82
3-mth average daily value (RM'm)	1.49
Top Shareholders (%)	
Employees Provident Fund Board	16.15
Kumpulan Wang Persaraan	10.46
Lembaga Tabung Haji	5.15

AnalystJessica Low Jze Tieng
jessica.low@midf.com.my

AXIS REIT: 3QFY23 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	71.8	0.1%	4.9%	210.4	-0.23%
Net Investment Income	66.3	0.6%	12.0%	181.8	-4.84%
Net Income	42.5	-3.0%	22.4%	107.5	-17.57%
Core Net Income (CNI)	37.7	-4.7%	6.6%	108.3	-10.91%
Realised EPU (sen)	2.4	-8.6%	22.4%	6.2	-22.51%
Core EPU (sen)	2.2	-10.2%	6.6%	6.1	-18.26%
Gross DPU (sen)	2.2	-12.2%	4.9%	6.3	-15.77%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Gross Revenue	242	282	279	298	300
Net Rental Income	204	277	238	256	259
Net Investment Income	277	277	239	258	260
Net Income	205	190	148	153	158
Core Net Income	133	157	150	155	160
Core EPU (sen)	9.2	9.5	8.6	8.9	9.2
Core PER (x)	19.6	18.9	20.9	20.2	19.6
NAV/unit (RM)	1.75	1.57	1.52	1.52	1.53
P/NAV (x)	1.03	1.15	1.19	1.18	1.18

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	100
Total Assets	3839	4255	4249	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	622
Total Equity	2527	2572	2644	2650	2656
Equity + Liability	3839	4255	4249	4320	4384

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	205	192	146	150	154
Net cash from operating activities	191	228	245	244	289
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	-134	-148	-138

Net increase/(decrease) in cash and cash equivalents	147	-147	35	11	78
Cash and cash equivalent at 1 January	23	171	24	59	70
Cash and cash equivalent at 1 December	171	24	59	70	148

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Net Investment Income margin	114.2%	98.4%	85.7%	86.6%	86.6%
Core net income margin	54.7%	55.6%	53.6%	52.1%	53.3%
ROE	5.7%	6.1%	5.7%	5.9%	6.0%
ROA	3.7%	3.9%	3.5%	3.6%	3.7%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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