

## Axis REIT

(5106 | AXRB MK) Main | REIT

### Stable Earnings in 1HFY24

#### KEY INVESTMENT HIGHLIGHTS

- **1HFY24 earnings within expectations**
- **Stable earnings in 1HFY24**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM2.12**

**1HFY24 earnings within expectations.** Axis REIT 1HFY24 core net income of RM79.9m came in within expectations, making up 52% and 48% of our and consensus full year estimates respectively. Axis REIT announced second distribution per unit (DPU) of 2.25sen (ex-date: 5<sup>th</sup> August 2024) for 2QFY24, bringing total DPU to 4.55sen in 1HFY24.

**Stable earnings in 1HFY24.** Sequentially, 2QFY24 core net income was marginally lower at RM39m (-4.8%qoq) despite higher topline (+1.3%qoq). The decrease in earnings were partly due to higher Islamic financing cost (+9.3%qoq). On yearly basis, 2QFY24 core net income was higher (+10%yoy), bringing 1HFY24 cumulative core net income higher at RM79.8m (+17.6%yoy). The earnings growth was in line with higher topline (+9.7%yoy) which were driven by rental contribution from Bukit Raja Distribution Centre 2, positive rental reversion and contribution from newly acquired assets namely Axis Hypermarket @ Temerloh and Axis Facility 1 @ Bukit Raja which was completed in 1HFY24. Meanwhile, Axis REIT completed three assets acquisition in July 2024 which should support earnings growth in 2HFY24. On the other hand, Islamic financing cost was higher in 1HFY24 (+15.2%yoy) mainly due to increase in OPR by 25bps in May 2023.

**Earnings forecast maintained.** We make no changes to our earnings forecast for FY24F/25F/26F. We see stable earnings prospect for Axis REIT in the medium to long term as performance of industrial assets in Malaysia is expected to remain resilient on the back of stable demand for industrial space in Malaysia. Besides, Axis REIT is expanding its assets under management via acquisitions which should continue to underpin earnings and DPU growth. Note that Axis REIT has total estimated value of target acquisitions of RM220m.

**Maintain BUY with an unchanged TP of RM2.12.** Our TP for Axis REIT is maintained at RM2.12, based on Dividend Discount Model (DDM). We continue to favour Axis REIT which is an industrial asset focused REIT which healthy demand for industrial assets should continue to drive earnings growth of Axis REIT. Besides, the rental contribution from newly acquired assets should support earnings growth in 2HFY24. Hence, we maintain our **BUY** call on Axis REIT. Meanwhile, distribution yield is estimated at 4.2%.

**Maintain BUY**
**Unchanged Target Price: RM2.12**

#### RETURN STATISTICS

Price @ 23 <sup>rd</sup> July 2024 (RM)	1.87
Expected share price return (%)	+13.4%
Expected dividend yield (%)	+4.2%
<b>Expected total return (%)</b>	<b>+17.6%</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.7	0.2
3 month	2.2	-3.6
12 months	2.7	-10.2

#### INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	298	326	331
Net Rental Income	256	285	289
Net Investment Income	258	286	290
Core Net Income	155	170	177
Core EPU (sen)	8.91	9.75	10.16
Net DPU (sen)	7.83	8.56	8.91
Dividend Yield	4.2%	4.6%	4.8%

#### KEY STATISTICS

FBM KLCI	1,629.68
Issue shares (m)	1,747.49
Estimated free float (%)	50.36
Market Capitalisation (RM'm)	3,267
52-wk price range	RM1.7–RM1.96
3-mth average daily volume (m)	2.00
3-mth average daily value (RM'm)	3.72
Top Shareholders (%)	
Employees Provident Fund Board	17.87
Kumpulan Wang Persaraan	10.35
Lembaga Tabung Haji	5.92

**Analyst**

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

**AXIS REIT: 2QFY24 Results Summary**

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY24	%YoY	%QoQ	FY24	%YoY
Gross Revenue	76.5	11.8%	1.3%	152.1	9.70%
Net Investment Income	64.6	9.3%	-3.1%	131.4	13.69%
Net Income	39.0	12.2%	-7.8%	81.2	24.91%
Core Net Income (CNI)	39.0	10.0%	-4.8%	79.9	17.58%
Realised EPU (sen)	2.2	11.8%	-7.8%	4.6	24.45%
Core EPU (sen)	2.2	9.6%	-4.8%	4.6	17.14%
Gross DPU (sen)	2.3	9.8%	-2.2%	4.6	10.98%

Source: Company, MIDFR

**FINANCIAL SUMMARY**

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Gross Revenue	282	286	298	326	331
Net Rental Income	277	319	256	285	289
Net Investment Income	277	319	258	286	290
Net Income	190	227	153	168	175
Core Net Income	156	144	155	170	177
Core EPU (sen)	9.5	8.2	8.9	9.8	10.2
Core PER (x)	19.6	22.7	21.0	18.9	18.2
NAV/unit (RM)	1.57	1.62	1.57	1.57	1.58
P/NAV (x)	1.19	1.16	1.19	1.19	1.19

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Investment properties	3614	4186	4444	4484	4514
Total non-current assets	3617	4188	4446	4490	4521
Cash and cash equivalents	196	22	8	7	23
Other assets	443	313	78	103	127
<b>Total Assets</b>	<b>4255</b>	<b>4523</b>	<b>4531</b>	<b>4599</b>	<b>4670</b>
LT Borrowings	624	733	740	780	811
ST Borrowings	560	813	815	886	913
Other Liabilities	499	151	242	193	199
Total Liability	1684	1697	1797	1859	1923
Unitholders' capital	1934	1946	2129	2129	2129
Other Equity	637	880	605	611	618
Total Equity	2572	2826	2734	2740	2747
<b>Equity + Liability</b>	<b>4255</b>	<b>4523</b>	<b>4531</b>	<b>4599</b>	<b>4670</b>

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
<b>Cash flows from operating activities</b>					
Net income before taxation	192	222	150	155	161
Net cash from operating activities	228	199	244	290	237
<b>Cash flows from investing activities</b>					
Acquisition of investment properties	-487	-4	-47	-46	-45
Net cash used in investing activities	-537	-175	-84	-72	-70
<b>Cash flows from financing activities</b>					
Net cash from/(used in) financing activities	163	-15	-148	-139	-143

Net increase/(decrease) in cash and cash equivalents	-147	8	11	79	24
Cash and cash equivalent at 1 January	171	24	32	43	122
Cash and cash equivalent at 1 December	24	32	43	122	145
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Net Investment Income margin	98.4%	111.6%	86.6%	87.7%	87.8%
Core net income margin	55.4%	50.2%	52.1%	52.0%	53.5%
ROE	6.1%	5.3%	5.6%	6.2%	6.4%
ROA	3.7%	3.9%	3.3%	3.4%	3.7%

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