

Malaysia

October 30, 2023 - 10:19 AM

ADD (no change)

Consensus ratings*: Buy 6 Hold 3 Sell 2

Current price:	RM1.80
Target price:	RM2.01
Previous target:	RM2.01
Up/downside:	11.4%
CGS-CIMB / Consensus:	-1.1%
Reuters:	AXSR.KL
Bloomberg:	AXRB MK
Market cap:	US\$656.0m
Average daily turnover:	RM3,134m
Current shares o/s	US\$0.31m
Free float:	RM1.46m
*Source: Bloomberg	

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (RMm)	167.8	173.2	188.1
Core EPS (RM)	0.10	0.10	0.11
Core EPS Growth	3.89%	0.10%	8.56%
FD Core P/E (x)	18.11	18.09	16.66
NorEPSAdCo			
EPSgrNorm			
Recurring ROE	6.39%	6.38%	6.93%
P/BV (x)	1.15	1.15	1.16
DPS (RM)	0.10	0.10	0.11
Dividend Yield	5.35%	5.47%	5.94%



	1M	3M	12M
Absolute (%)	-1.6	-0.6	-3.8
Relative (%)	-1.7	0.1	-3
Major shareholders	% held		
Employees Provident Fund (EPF)	14.0		
Kumpulan Wang Persaraan (KWAP)	11.7		
Amanah Raya Trustees	5.7		

Analyst(s)

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Axis REIT

Earnings growth driven by acquisitions

- Reiterate Add rating, with an unchanged DDM-based TP of RM2.01, given its diversified property portfolio and exposure to industrial assets.
- 9MFY23 core net profit came in at 65% of forecast with 92% occupancy rate (vs. 95% in 9MFY22). Expect better earnings in 4QF driven by acquisitions.
- 3Q23 DPU of 2.15 sen takes 9MFY23 DPU to 6.25 sen. The stock offers FY23-25F yields of 5.4-5.9%.

3QFY23 core net profit impacted by lower occupancy rate

- For 3QFY23, Axis REIT reported a core net profit of RM37.3m (-4.6% yoy; +10.5% qoq), taking 9MFY23 core net profit to RM103.6m (-14.9% yoy). Occupancy rate stood at 92% as at Sep 23 (vs. 95% in Sep 22). Our core net profit excludes fair value changes on derivatives. 9MFY23 core net profit came in at 65% of our FY23F forecast. However, we expect earnings to come in stronger qoq in 4Q23F, following the completion of Bukit Raja Distribution Center 2, in Aug 23.
- One of its properties, Axis Steel Centre @SiLC Johor has been vacant since June 23 due to rental default. However, as at end-Sep 23, 51 out of 62 properties under management were at 100% occupancy rates. Axis REIT declared a DPU of 2.15 sen for 3QFY23, taking 9MFY23 DPU to RM6.25 sen.

Positive on acquisitions

- Several highlights during the 3QFY23 include: i) signed a sales and purchase agreement to acquire an industrial manufacturing facility in Sendayan, Negri Sembilan for RM48m (100% occupancy rate); ii) handed over the Bukit Raja Distribution Center 2 development to Shopee Express Malaysia (not listed) in Aug 23; and iii) accepted a letter of offer to acquire a hypermarket for RM25.74m in Temerloh.
- We are positive on group's acquisitions, especially in the increasing in-demand industrial property segment. As at 30 Sep 23, 13% of its portfolio was office/industrial (vs. 14% as at Sep 22). Logistics warehouse remained the largest at 55% of its total portfolio. We believe the upcoming pipeline of properties will help to offset the loss of income contribution from Axis Steel Center @ SiLC.

Add rating and TP intact

- No changes to our forecasts and Add call on Axis REIT, as we continue to like its diversified portfolio consisting of logistics warehouse, industrial, manufacturing facilities and hypermarkets, as well as its early foray into the industrial property segment, which would allow the group to specialise in this increasingly important property segment, in our view. Our DDM-based TP of RM2.01 (CoE 7.3%) also remains intact.
- Re-rating catalysts include continuous asset acquisitions which we believe will positively contribute to earnings and securing a tenant for Axis Steel Center which will lift its portfolio's overall occupancy rate. Downside risks include inability to secure a tenant for the vacant property and non-renewal of expiring leases. The stock is also supported by FY23-25F dividend yields of 5.4-5.9%.

Figure 1: Space under management (sq ft)

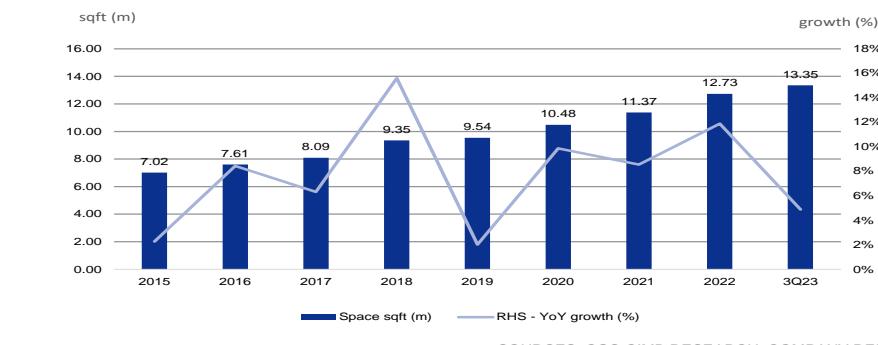


Figure 2: Results Comparison

FYE Dec (RM m)	3QFY23	3QFY22	yoY % chg	2QFY23	qoq % chg	9MFY23	9MFY22	yoY % chg
Revenue	71.8	71.7	0.1	68.5	4.9	210.4	210.9	-0.2
Operating costs	(19.1)	(18.2)	4.8	(20.4)	-6.2	(63.0)	(51.8)	21.6
EBITDA	52.7	53.5	-1.4	48.1	9.6	147.5	159.1	-7.3
EBITDA margin (%)	73.4	74.6	-1.6	70.3	4.5	70.1	75.4	-7.1
Depn & amort.	(0.1)	(0.1)	-20.3	(0.1)	-11.3	(0.4)	(0.4)	-10.6
EBIT	52.6	53.3	-1.4	48.0	9.7	147.1	158.7	-7.3
Interest expense	(15.6)	(14.4)	8.4	(14.6)	6.9	(44.6)	(37.6)	18.7
Interest & invt inc	0.3	0.2	69.3	0.4	-16.5	1.1	0.6	83.8
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Exceptionals & revaln	5.2	4.7	10.6	1.0	429	3.9	8.7	-54.8
Pretax profit	42.5	43.8	-3.0	34.7	22.4	107.5	130.4	-17.6
Tax	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Tax rate (%)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Net profit	42.5	43.8	-3.0	34.7	22.4	107.5	130.4	-17.6
Distr profit	38.4	40.3	-4.7	36.0	6.8	104.7	123.0	-14.9
Core net profit	37.3	39.1	-4.6	33.7	10.5	103.6	121.7	-14.9
DPU (sen)	2.2	2.5	-12.2	2.1	4.9	6.25	7.4	-15.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	281.6	293.1	310.5	324.8
Other Revenues				
Gross Property Revenue	281.6	293.1	310.5	324.8
Total Property Expenses	(36.5)	(33.3)	(40.3)	(40.6)
Net Property Income	245.1	259.8	270.2	284.2
General And Admin. Expenses	(3.6)	(3.8)	(4.0)	(4.2)
Management Fees	(26.1)	(23.7)	(28.8)	(29.0)
Trustee's Fees	(0.8)	(0.8)	(0.8)	(0.8)
Other Operating Expenses	(1.2)	0.0	0.0	0.0
EBITDA	213.4	231.5	236.6	250.2
Depreciation And Amortisation	(0.6)	(0.6)	(0.6)	(0.6)
EBIT	212.8	230.9	236.0	249.6
Net Interest Income	(52.2)	(63.1)	(62.8)	(61.5)
Associates' Profit				
Other Income/(Expenses)				
Exceptional Items	29.4	0.0	0.0	0.0
Pre-tax Profit	190.1	167.8	173.2	188.1
Taxation				
Minority Interests				
Preferred Dividends				
Net Profit	190.1	167.8	173.2	188.1
Distributable Profit	158.9	167.6	171.5	186.2

Balance Sheet

(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Investments	4,186	4,275	4,322	4,352
Intangible Assets	0	0	0	0
Other Long-term Assets	2	2	2	2
Total Non-current Assets	4,188	4,277	4,324	4,354
Total Cash And Equivalents	44	39	55	122
Inventories				
Trade Debtors	24	25	26	28
Other Current Assets	0	0	0	0
Total Current Assets	68	64	81	150
Trade Creditors	55	50	60	61
Short-term Debt	813	711	711	711
Other Current Liabilities	-0	0	0	-0
Total Current Liabilities	867	760	771	771
Long-term Borrowings	733	733	753	773
Other Long-term Liabilities	83	100	134	213
Total Non-current Liabilities	817	834	887	986
Shareholders' Equity	2,539	2,714	2,714	2,714
Minority Interests				
Preferred Shareholders Funds	33	33	33	33
Total Equity	2,572	2,747	2,747	2,747

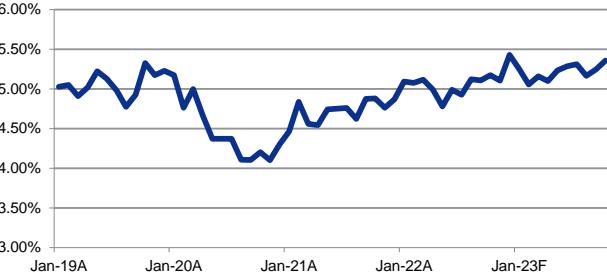
Cash Flow

(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-tax Profit	190.1	167.8	173.2	188.1
Depreciation And Non-cash Adj.	52.8	63.7	63.4	62.1
Change In Working Capital	11.4	(5.8)	8.9	(0.8)
Tax Paid				
Others	(34.7)	0.6	0.6	0.6
Cashflow From Operations	219.6	226.3	246.2	250.0
Capex	(57.3)	(90.0)	(47.0)	(30.0)
Net Investments And Sale Of FA	(486.7)	1.0	0.0	0.0
Other Investing Cashflow	6.7	0.0	0.0	0.0
Cash Flow From Investing	(537.3)	(89.0)	(47.0)	(30.0)
Debt Raised/(repaid)	359.9	(102.0)	20.0	20.0
Equity Raised/(Repaid)	11.5	175.0	0.0	0.0
Dividends Paid	(157.2)	(167.6)	(171.5)	(186.2)
Cash Interest And Others	(51.6)	(63.1)	(26.8)	(0.0)
Cash Flow From Financing	162.6	(157.7)	(178.3)	(166.2)
Total Cash Generated	(155.1)	(20.4)	20.9	53.8
Free Cashflow To Firm	(316.9)	138.0	200.2	222.3
Free Cashflow To Equity	(8.5)	(27.1)	193.4	242.3

Key Ratios

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	17.6%	4.1%	5.9%	4.6%
NPI Growth	16.8%	6.0%	4.0%	5.2%
Net Property Income Margin	87.0%	88.6%	87.0%	87.5%
DPS Growth	2.88%	(0.97%)	2.33%	8.53%
Gross Interest Cover	4.02	3.62	3.70	3.91
Effective Tax Rate	0.00%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	83.6%	99.9%	99.0%	99.0%
Current Ratio	0.08	0.08	0.11	0.19
Quick Ratio	0.08	0.08	0.11	0.19
Cash Ratio	0.05	0.05	0.07	0.16
Return On Average Assets	4.70%	3.90%	3.96%	4.22%

Rolling Dividend Yield - Axis REIT



Key Drivers

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Occupancy rate (%)	91.7%	94.3%	91.7%	91.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023

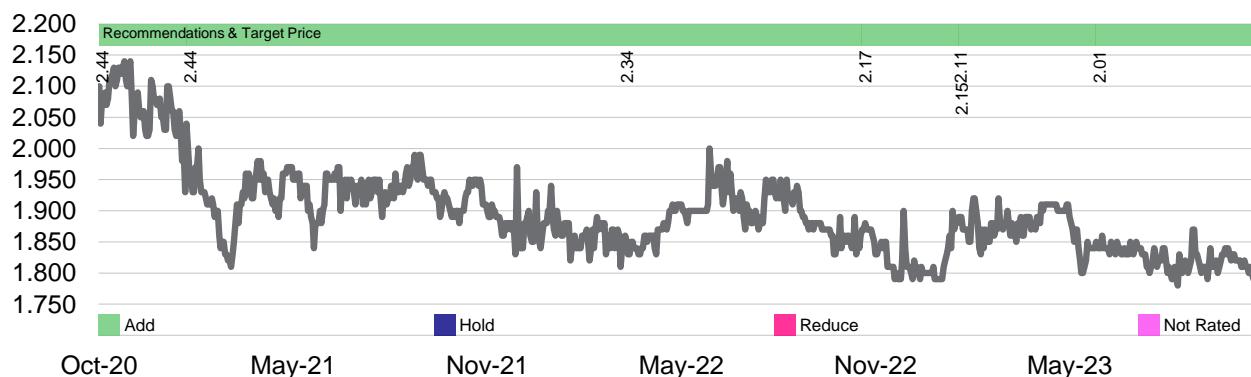
634 companies under coverage for quarter ended on 30 September 2023

	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Axis REIT (AXRB MK)

— Price Close



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.