

14 August 2019

## Axis REIT

### Industrial Acquisition in Nusajaya

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AXREIT has proposed two industrial acquisitions in Nusajaya, Johor for RM55.8m, fully funded by borrowings and to be completed by end FY19. The assets are fully tenanted for the next 3-5 years and promise decent gross yields of 7.5-8.0% which are close to recent acquisitions' yields. However, we expect a minimal impact to FY20E CNP, by +0.8% as imputed. Maintain MP and TP of RM1.85.

**Asset acquisition in Nusajaya, Johor** AXREIT has proposed to acquire two industrial properties for a total cash consideration of RM55.8m from Nusajaya Tech Park Sdn. Bhd. (NTP) in Taman Teknologi Nusajaya, Iskandar Puteri, Johor. Property 1 is acquired for RM42.0m and will be leased at 100% occupancy for another 5 years with the option to renew for 6 more years, while Property 2 will be acquired for RM13.8m and leased for the next 3 years with the option to renew for an additional 5 years. The acquisitions will be funded by borrowings and completed by end FY19, accreting fully in FY20.

**Fully tenanted in Johor with decent gross yields** of 7.5% (Property 1) and 8.0% (Property 2). We were not surprised as we have been waiting for the completion of this asset pending the due diligence. We take comfort in its decent gross yields of 7.5% and 8.0%, respectively, which is close to its more recent acquisition yields of between c.7.5-9.0%. That said, we are fairly neutral as the acquisition has minimal impact to earnings of <1% given AXREIT's large portfolio with investment properties totalling RM2.8b.

**Outlook.** FY19-20 is expected to see minimal leases expiring at 22-18% of portfolio's NLA. Post this acquisition, AXREIT is eyeing industrial assets totalling RM166m by end FY19. We like industrial assets, which provide earnings and DPU stability, operating in a more resilient segment vs. retail, office or hospitality based MREITs. Details are scarce pending the finalised SPA, but based on our back of the envelope calculations, we estimate that all these assets could potentially increase FY20E DPU by 2% while its gearing would increase to 0.44x (from 0.41x post this acquisition). As such, we expect AXREIT to undertake a placement towards end FY19 or early FY20 post these acquisitions to pare down borrowings and reckon a 10% placement is more likely (to avoid over dilution), which would then lower FY20E gearing back to 0.38x.

**Maintain FY19E CNP but increase FY20E CNP by 0.8% to RM118m** post accounting for this acquisition which we expect to fully accrete in FY20. As a result, our FY19-FY20E GDPU is 9.3-9.6 sen (from 9.3-9.5 sen) which implies gross/net yields of 5.0-5.1%/4.5-4.6% while our FY19-20E gearing assumptions are increased slightly to 0.41-0.41x (from 0.40-0.40x).

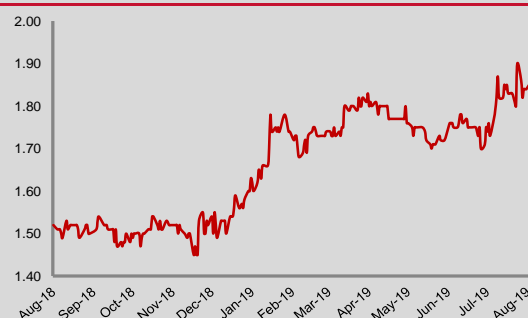
**Maintain MARKET PERFORM and Target Price of RM1.85.** Our TP is based on a marginally higher FY20E GDPU/NDPU of 9.6 sen/8.6 sen on an unchanged +1.5ppt spread to our 10-year MGS target of 3.70%. We like AXREIT as it is actively acquiring assets to grow earnings, providing stable DPU from long-term leases (WALE of 6.2 years vs. prime retail REITs' WALE of c.2-3 years), and is one of the few Shariah-compliant MREITs, making it a favourite among institutional investors. Hence, we believe our valuations are fair despite awarding it a premium via thin spreads. However, upsides are limited as gross yield of 5.2% is slightly below large cap comparable peers' average of 5.4%.

**Risks to our call include:** (i) bond yield compression and expansion vs. our target 10-year MGS yield, and (ii) stronger-or-weaker-than-expected rental income.

## MARKET PERFORM ↔

Price : **RM1.86**  
Target Price : **RM1.85** ↔

### Share Price Performance



KLCI 1,592.88  
YTD KLCI chg -5.8%  
YTD stock price chg 19.2%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker AXRB MK EQUITY  
Market Cap (RM m) 2,301.4  
Shares Outstanding 1,237.3  
52-week range (H) 1.91  
52-week range (L) 1.42  
3-mth avg daily vol: 2,322,212  
Free Float 68%  
Beta 0.3

### Major Shareholders

Employees Provident Fund Board 16.3%  
Kumpulan Wang Persaraan Diperbadankan 10.3%  
Lembaga Tabung Haji 5.7%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	210.4	217.5	228.8
EBIT	179.7	161.4	169.5
PBT	159.2	114.9	118.0
<b>Net Profit (NP)</b>	<b>154.8</b>	<b>114.9</b>	<b>118.0</b>
<b>Core Net Profit*</b>	<b>113.4</b>	<b>114.9</b>	<b>118.0</b>
Consensus (NP)	N.A.	120.5	124.6
Earnings Revision	N.A.	0%	+0.8%
Core EPS (sen)	9.2	9.3	9.6
Core EPS growth (%)	25%	1%	3%
NDPS (sen)	7.8	8.4	8.6
BV/Share (RM)	1.34	1.34	1.34
Core PER (x)	20.2	20.0	19.4
Price/BV (x)	1.4	1.4	1.4
Gearing (x)	0.37	0.41	0.41
Net. Div Yield (%)	4.2%	4.5%	4.6%

\*Core Net Profit refers to RNI

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	171.3	173.2	210.5	217.5	228.8	<b>Growth (%)</b>					
EBITDA	124.9	124.6	158.6	161.9	170.0	Revenue	3.4	1.1	21.5	3.3	5.2
Depreciation	-0.4	-0.4	-0.5	-0.5	-0.5	EBITDA	3.0	-0.2	27.3	2.1	5.0
EBIT	124.4	124.2	158.2	161.4	169.5	EBIT	3.0	-0.2	27.4	2.1	5.0
Net Interest	-31.3	-32.5	-41.0	-46.4	-51.4	Pre-tax Income	26.5	-1.0	31.3	-27.7	2.7
Investing	0.0	0.0	0.0	0.0	0.0	Net Income	26.6	-1.0	27.6	-25.6	2.7
Associate/JCE	0.0	0.0	0.0	0.0	0.0	Core Net	-1.0	0.2	24.9	1.3	2.7
Exceptionals/FV	27.5	30.4	45.9	0.0	0.0	<b>Profitability (%)</b>					
PBT	122.3	121.1	159.0	114.9	118.0	EBITDA Margin	72.9	71.9	75.4	74.4	74.3
Taxation	0.0	0.0	-4.5	0.0	0.0	EBIT Margin	72.6	71.7	75.1	74.2	74.1
Minority Interest	0.0	0.0	0.0	0.0	0.0	PBT Margin	71.4	-26.0	75.5	52.8	51.6
Net Profit	122.3	121.1	154.5	114.9	118.0	Net Margin	52.9	52.4	53.9	52.8	51.6
Realized net Inc	90.6	90.8	113.4	114.9	118.0	Effective Tax	0.0	0.0	-2.8	0.0	0.0
						ROE	6.6	6.1	7.0	6.9	7.1
						ROA	5.4	4.8	4.2	3.9	3.9
						<b>DuPont</b>					
						Net margin (%)	52.9	52.4	53.9	52.8	51.6
						Assets Turnover	0.1	0.1	0.1	0.1	0.1
						Leverage Factor	1.6	1.6	1.7	1.8	1.8
						ROE (%)	6.6	6.1	7.0	6.9	7.1
						<b>Leverage</b>					
						Debt/Asset (x)	0.35	0.33	0.37	0.41	0.41
						Debt/Equity (x)	0.56	0.53	0.64	0.75	0.76
						N.Debt/(Cash)	747	808	1041	1218	1248
						N.Debt/Equity	0.54	0.51	0.63	0.73	0.75
						<b>Valuations</b>					
						Core EPS (sen)	7.3	7.3	9.2	9.3	9.6
						GDPS (sen)	7.3	7.4	8.7	9.32	9.6
						NDPS (sen)	6.6	6.6	7.8	8.4	8.6
						BV/share (RM)	1.1	1.3	1.3	1.3	1.3
						Core PER (x)	25.4	25.3	20.3	20.0	19.4
						G. Div. Yield	3.9	4.0	4.7	5.0	5.1
						N. Div. Yield (%)	3.6	3.6	4.2	4.5	4.6
						PBV (x)	1.7	1.4	1.4	1.4	1.4
						EV/EBITDA (x)	22.4	24.9	21.6	21.7	20.9

### Balance Sheet

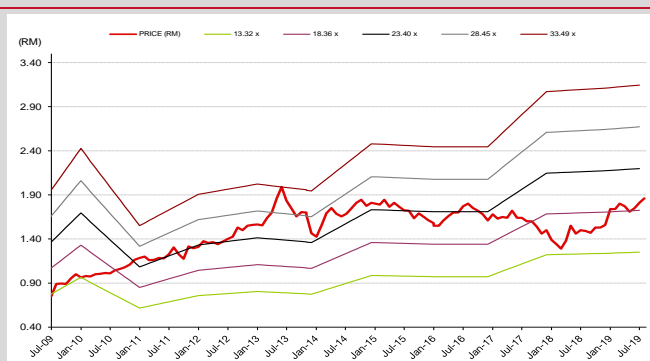
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	2201.0	2484.7	2801.5	2967.8	3002.8
Intangibles	0.0	0.0	0.0	0.0	0.0
Other FA	0.0	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0
Receivables	9.9	30.1	20.9	37.9	39.8
Other CA	0.0	0.0	0.0	0.0	0.0
Cash	33.3	34.9	18.0	24.7	14.6
Total Assets	2244.3	2549.6	2840.5	3030.4	3057.2
Payables	24.2	71.9	54.9	79.9	86.3
ST Borrowings	449.8	596.8	813.5	832.5	753.0
Other ST	0.0	0.0	0.0	0.0	0.0
LT Borrowings	330.9	245.8	245.9	409.8	509.8
Other LT Liability	46.4	44.0	62.1	44.0	44.0
Minority Int.	0.0	0.0	0.0	0.0	0.0
<b>Net Assets</b>	<b>1393.0</b>	<b>1591.1</b>	<b>1664.1</b>	<b>1664.1</b>	<b>1664.1</b>
Share Capital	1060.3	1240.3	1247.1	1247.1	1247.1
Reserves	332.7	350.9	417.0	417.0	417.0
<b>S. Equity</b>	<b>1393.0</b>	<b>1591.1</b>	<b>1664.1</b>	<b>1664.1</b>	<b>1664.1</b>

### Cashflow Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	200	150	164	165	174
Investing CF	-132	-252	-271	-91	-35
Financing CF	-33	105	-93	-120	-149
Net Change in	35	35	169	-46	-10
Free Cash Flow	350	434	557	256	209

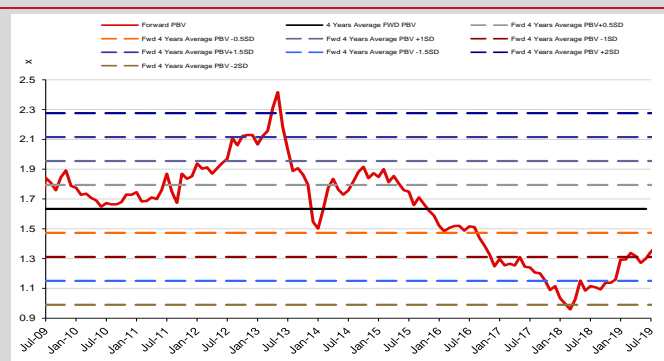
Source: Kenanga Research

### Fwd PER Band



Source: Bloomberg, Kenanga Research

### Fwd PBV Band



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### Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																		
AXIS REIT	1.86	2,301.4	Y	12/2019	3.3%	5.2%	1.3%	2.7%	20.3	20.0	19.4	1.4	1.4	6.9%	4.5%	1.85	MP	
CAPITALAND MALAYSIA MALL TRUST	1.03	2,105.5	N	12/2019	-2.3%	4.3%	-16.0%	3.8%	13.0	15.6	15.0	0.8	0.8	5.0%	5.7%	1.10	MP	
IGB REIT	2.05	7,269.0	N	12/2019	3.9%	1.7%	2.8%	1.6%	23.8	23.3	23.0	1.9	1.9	8.3%	4.2%	1.80	MP	
KLCCP STAPLED GROUP	7.90	14,262.1	Y	12/2019	5.5%	0.7%	4.9%	1.2%	19.7	19.5	19.3	1.1	1.1	6.0%	4.6%	7.65	MP	
MRCB-QUILL REIT	1.08	1,157.5	N	12/2019	-2.2%	0.7%	-8.4%	1.2%	14.0	15.4	15.3	0.8	0.8	5.4%	5.8%	1.05	MP	
PAVILION REIT	1.89	5,743.7	N	12/2019	10.8%	2.0%	4.5%	2.6%	22.5	21.5	21.0	1.5	1.5	6.8%	4.2%	1.80	MP	
SUNWAY REIT	1.92	5,654.5	N	06/2020	8.1%	2.6%	2.5%	2.4%	20.0	19.6	19.0	1.3	1.3	6.6%	4.6%	1.80	MP	
<b>Simple Average</b>					<b>3.9%</b>	<b>2.4%</b>	<b>-1.2%</b>	<b>2.2%</b>	<b>19.0</b>	<b>19.3</b>	<b>18.9</b>	<b>1.2</b>	<b>1.3</b>	<b>6.4%</b>	<b>4.8%</b>			
<i>* Core NP and Core PER</i>																		
<b>CONSENSUS NUMBERS</b>																		
YTL HOSPITALITY REIT	1.37	2,335.0	N	06/2020	5.6%	3.3%	44.3%	4.6%	22.3	15.5	14.8	0.9	0.9	0.0	6.1%	1.41	BUY	
AL-'AQAR HEALTHCARE REIT	1.52	1,118.7	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	12.2	18.2	17.7	1.2	N.A.	0.1	5.2%	1.50	N.A.	
AMANAHRAYA REIT	0.825	472.9	N	12/2019	27.4%	-0.8%	-52.4%	4.1%	5.8	12.2	11.7	0.6	N.A.	0.1	7.4%	0.910	BUY	
AMFIRST REIT	0.505	346.6	N	03/2020	N.A.	N.A.	N.A.	N.A.	15.5	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.	
HEKTAR REIT	1.02	471.2	N	12/2019	N.A.	N.A.	N.A.	N.A.	14.2	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.	
TOWER REIT	0.885	248.2	N	06/2019	N.A.	N.A.	N.A.	N.A.	47.2	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.	
UOA REIT	1.31	554.0	N	12/2019	N.A.	N.A.	N.A.	N.A.	9.6	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.	
ATRIUM REIT	1.20	175.4	N	12/2019	N.A.	N.A.	N.A.	N.A.	15.1	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.	
AL-SALAM REIT	0.890	516.2	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	12.8	17.5	16.8	0.8	0.8	0.0	5.3%	0.830	N.A.	
KIP REIT	0.825	416.9	N	06/2020	N.A.	N.A.	N.A.	N.A.	12.2	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.	

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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