

09 October 2019

Axis REIT

Acquisition in Nilai

By Marie Vaz | msvaz@kenanga.com.my

AXREIT is acquiring an industrial cum office facility in Nilai for RM50.0m. We were not surprised with this acquisition and have been anticipating it by end FY19. We like that the asset is fully tenanted for the next 10 years on decent gross yield of 7.5%. However, we expect minimal impact to FY20E CNP, by +0.5%, as imputed. Maintain OP and TP of RM2.00.

Asset acquisition in Nilai. AXREIT has proposed to acquire a warehouse cum office asset in Kawasan Perindustrian Nilai II, Nilai, Negeri Sembilan from K-Plastics Industries Sdn. Bhd for a lump sum consideration of RM50.0m. The asset is currently 100% occupied with a 10-year fixed lease term with the option to renew for another 5 years. The acquisition will be funded by borrowings and is expected to be completed by end FY19, accreting fully in FY20.

Neutral on the acquisition. The asset has a 10% step-up rate every 3 years, which amounts to an average gross yield of 7.5% over the 10-year period which is on the lower-end of more recent acquisition yields of between 7.5% and 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. We like the fact that AXREIT is continuously acquiring new industrial assets which provide long-term earnings and DPU stability due to the nature of the long-term leases for industrial assets and operating in the most resilient segment vs. other MREITs under our coverage (i.e. retail, office or hospitality). Additionally, the Group is eyeing industrial assets totalling RM166m in FY19, but details are scarce pending finalised SPA. However, 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 0.5% to RM119m post accounting for this acquisition which we expect to fully accrete in FY20. As a result, our FY19-FY20E GDPU is revised to 9.32-9.62 sen (from 9.32-9.57 sen) which implies gross/net yield of 5.1-5.3%/4.6-4.7% while our FY19-20E gearing remains at 0.41-0.41x.

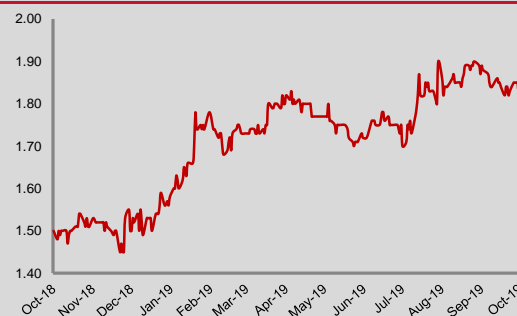
Maintain OUTPERFORM and Target Price of RM2.00. Our TP is unchanged due to marginal increase in FY20E GDPU/NDPU of 9.62 sen/8.66 sen (from 9.57 sen/ 8.61 sen) on an unchanged +1.4ppt spread to our 10-year MGS target of 3.40%. Our applied spread is on the lower-end among MREITs under our coverage (+1.3ppt to +3.2ppt) and believe our OP call is justified as we like AXREIT for its strong active acquisition momentum 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 it is one of the few Shariah-compliant MREITs, making it a favourite among institutional investors. At current level, gross yield of 5.3% is close to MREITs' average of 5.5%.

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

OUTPERFORM ↔

Price : RM1.83
Target Price : RM2.00 ↔

Share Price Performance



KLCI	1,558.79
YTD KLCI chg	-7.8%
YTD stock price chg	17.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXRB MK EQUITY
Market Cap (RM m)	2,264.2
Shares Outstanding	1,237.3
52-week range (H)	1.99
52-week range (L)	1.42
3-mth avg daily vol:	2,865,431
Free Float	48%
Beta	0.3

Major Shareholders

Employees Provident Fund Board	15.6%
Kumpulan Wang Persaraan Diperbadankan	11.6%
Skim Amanah Saham Bumiputera	5.7%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	210.4	217.5	232.1
EBIT	179.7	161.4	172.4
PBT	159.2	114.9	118.7
Net Profit (NP)	154.8	114.9	118.7
Core Net Profit*	113.4	114.9	118.7
Consensus (NP)	N.A.	121.4	126.1
Earnings Revision	N.A.	0%	+0.5%
Core EPS (sen)	9.2	9.3	9.6
Core EPS growth (%)	25	1	4
NDPS (sen)	7.8	8.4	8.7
BV/Share (RM)	1.34	1.34	1.34
Core PER (x)	19.9	19.7	19.0
Price/BV (x)	1.4	1.4	1.4
Gearing (x)	0.37	0.41	0.41
Net. Div Yield (%)	4.3	4.6	4.7

*Core Net Profit refers to RNI

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	232.1	Growth (%)					
EBITDA	124.9	124.6	158.6	161.9	172.9	Revenue	3.4	1.1	21.5	3.3	6.7
Depreciation	-0.4	-0.4	-0.5	-0.5	-0.5	EBITDA	3.0	-0.2	27.3	2.1	6.8
EBIT	124.4	124.2	158.2	161.4	172.4	EBIT	3.0	-0.2	27.4	2.1	6.8
Net Interest	-31.3	-32.5	-41.0	-46.4	-53.6	Pre-tax Income	26.5	-1.0	31.3	-27.7	3.2
Investing	0.0	0.0	0.0	0.0	0.0	Net Income	26.6	-1.0	27.6	-25.6	3.2
Associate/JCE	0.0	0.0	0.0	0.0	0.0	Core Net Income	-1.0	0.2	24.9	1.3	3.2
Exceptionals/FV	27.5	30.4	45.9	0.0	0.0						
PBT	122.3	121.1	159.0	114.9	118.7	Profitability (%)					
Taxation	0.0	0.0	-4.5	0.0	0.0	EBITDA Margin	72.9	71.9	75.4	74.4	74.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	EBIT Margin	72.6	71.7	75.1	74.2	74.3
Net Profit	122.3	121.1	154.5	114.9	118.7	PBT Margin	71.4	-26.0	75.5	52.8	51.1
Realized net Inc	90.6	90.8	113.4	114.9	118.7	Net Margin	52.9	52.4	53.9	52.8	51.1
						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
						DuPont Analysis					
						Net margin (%)	52.9	52.4	53.9	52.8	51.1
						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
						Leverage					
						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 (x)	0.54	0.51	0.63	0.73	0.75
						Valuations					
						Core EPS (sen)	7.3	7.3	9.2	9.3	9.6
						GDPS (sen)	7.3	7.4	8.7	9.32	9.62
						NDPS (sen)	6.6	6.6	7.8	8.4	8.7
						BV/share (RM)	1.1	1.3	1.3	1.3	1.3
						Core PER (x)	25.0	24.9	20.0	19.7	19.0
						G. Div. Yield (%)	4.0	4.0	4.8	5.1	5.3
						N. Div. Yield (%)	3.6	3.6	4.3	4.6	4.7
						PBV (x)	1.6	1.4	1.4	1.4	1.4
						EV/EBITDA (x)	22.2	24.6	21.4	21.5	20.3

Balance Sheet

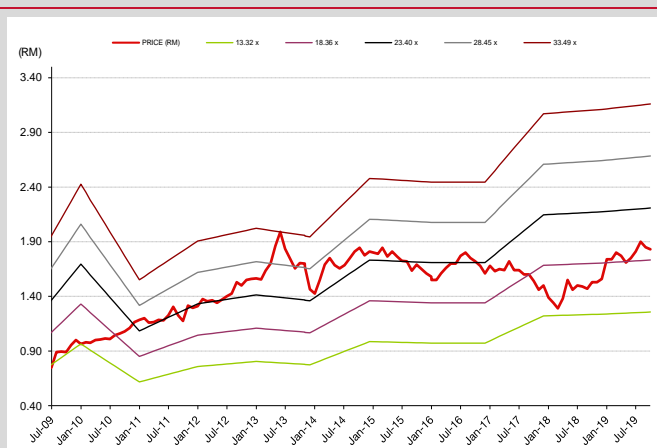
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	2201.0	2484.7	2801.5	2967.8	3002.8
Intangibles	0.0	0.0	0.0	0.0	0.0
Other FA	0.0	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0
Receivables	9.9	30.1	20.9	37.9	40.4
Other CA	0.0	0.0	0.0	0.0	0.0
Cash	33.3	34.9	18.0	24.7	15.0
Total Assets	2244.3	2549.6	2840.5	3030.4	3058.2
Payables	24.2	71.9	54.9	79.9	87.3
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	46.4	44.0	62.1	44.0	44.0
Minority Int.	0.0	0.0	0.0	0.0	0.0
Net Assets	1393.0	1591.1	1664.1	1664.1	1664.1
Share Capital	1060.3	1240.3	1247.1	1247.1	1247.1
Reserves	332.7	350.9	417.0	417.0	417.0
S. Equity	1393.0	1591.1	1664.1	1664.1	1664.1

Cashflow Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	200	150	164	165	177
Investing CF	-132	-252	-271	-91	-35
Financing CF	-33	105	-93	-120	-152
Net Change in	35	35	169	-46	-10
Free Cash Flow	350	434	557	256	213

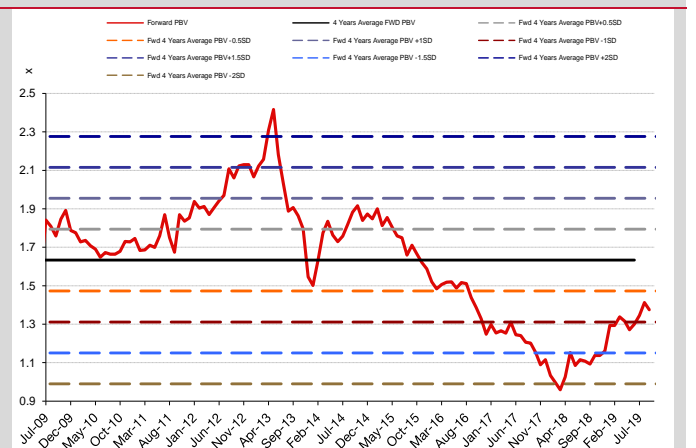
Source: Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



09 October 2019

Peer Comparison

Name	Last Price	Market	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				Cap (RM'm)	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.	Price (RM)	
STOCKS UNDER COVERAGE																		
AXIS REIT	1.83	2,264.2	Y	12/2019	3.3%	6.7%	1.3%	3.3%	20.0	19.7	19.0	1.4	1.4	6.9%	4.6%	2.00	OP	
CAPITALAND MALAYSIA MALL TRUST	1.06	2,174.9	N	12/2019	-2.3%	4.3%	-16.0%	3.8%	13.4	16.0	15.5	0.8	0.8	5.0%	5.6%	1.15	OP	
IGB REIT	2.02	7,162.6	N	12/2019	3.9%	1.7%	2.8%	1.6%	23.5	23.0	22.7	1.9	1.9	8.3%	4.3%	2.05	MP	
KLCCP STAPLED GROUP	8.08	14,587.1	Y	12/2019	5.5%	0.7%	4.9%	1.2%	20.1	20.0	19.7	1.1	1.1	6.0%	4.5%	8.25	MP	
MRCB-QUILL REIT	1.01	1,082.5	N	12/2019	-2.2%	0.7%	-8.4%	1.2%	13.1	14.4	14.3	0.8	0.8	5.4%	6.2%	1.05	MP	
PAVILION REIT	1.80	5,470.2	N	12/2019	10.8%	2.0%	4.5%	2.6%	21.4	20.5	20.0	1.4	1.4	6.8%	4.4%	1.90	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%	1.90	MP	
Simple Average					3.9%	2.7%	-1.2%	2.3%	18.8	19.0	18.6	1.2	1.2	6.4%	4.9%			
<i>* Core NP and Core PER</i>																		
CONSENSUS NUMBERS																		
YTL HOSPITALITY REIT	1.33	2,266.8	N	06/2020	8.5%	3.3%	44.3%	4.6%	21.7	15.0	14.3	0.8	0.8	0.0	6.2%	1.50	BUY	
AL-'AQAR HEALTHCARE REIT	1.48	1,089.3	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	11.9	17.8	17.3	1.1	N.A.	0.1	5.3%	1.50	N.A.	
AMANAHRAYA REIT	0.770	441.4	N	12/2019	25.3%	0.8%	-52.2%	2.1%	5.4	11.4	11.1	0.6	N.A.	0.1	7.7%	0.910	BUY	
AMFIRST REIT	0.485	332.9	N	03/2020	N.A.	N.A.	N.A.	N.A.	14.9	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.	
HEKTAR REIT	0.985	455.0	N	12/2019	N.A.	N.A.	N.A.	N.A.	13.7	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.	
TOWER REIT	0.850	238.4	N	06/2020	N.A.	N.A.	N.A.	N.A.	33.3	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.	
UOA REIT	1.23	520.1	N	12/2019	N.A.	N.A.	N.A.	N.A.	9.0	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.	
ATRIUM REIT	1.03	211.6	N	12/2019	N.A.	N.A.	N.A.	N.A.	18.2	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.	
AL-SALAM REIT	0.875	507.5	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	12.6	17.2	16.5	0.8	0.8	0.0	5.4%	0.865	N.A.	
KIP REIT	0.830	419.4	N	06/2020	N.A.	N.A.	N.A.	N.A.	12.3	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.	

Source: Bloomberg, Kenanga Research

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

