Malaysia Results Review

Shariah Compliant

24 January 2024

Property | REITS

Axis REIT (AXRB MK)

Buy (Maintained)

Strong End To The Year; Maintain BUY

Target Price (Return):	MYR2.04 (15.4%)
Price (Market Cap):	MYR1.77 (USD654m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	3.03m/0.65m

- **Maintain BUY and DDM-derived MYR2.04 TP, 15% upside with c.6% FY24F yield.** FY23 results were in line with expectations, with 7% lower earnings due to the higher borrowing costs and non-property expenses. 4Q23 results showed a marked improvement from higher occupancy rates. We expect a strong recovery in FY24, premised on the commencement of new leases from Axis REIT's major developments: Bukit Raja Distribution Centre 2 (BRDC2) and Axis Mega Distribution Centre (AMDC) Phase 2.
- **Results in line.** 4Q23 core profit of MYR42.3m (+11.8% QoQ, +15% YoY) brought the FY23 earnings to MYR146.3m (-7.4% YoY). This was in line with expectations at 100% and 96% of our and Street's estimates. Axis REIT declared a DPU of 2.40 sen, bringing the full-year DPU to 8.65 sen (FY22: 9.75 sen).
- **Results review.** Axis REIT's revenue increased 5.2% sequentially (6.8% YoY), mainly due to the full quarter impact of the new tenancies that commenced in 3Q23 at BRDC2 and Shah Alam Distribution Centre 3. Property expenses were 2.9% lower QoQ from lower maintenance costs, resulting in marginally higher net property income or NPI margin of 87.6% (3Q23: 86.2%, 4Q22: 87.6%). Axis REIT also recorded a MYR2m reversal of provisions for doubtful debts during this quarter, which led to the improved bottomline. However, full-year earnings were lower due to 14% higher financing costs (interest rate hikes) and non-property expenses (provisions for defaulted tenant).
- **Better outlook ahead.** On top of the full-year contributions from BRDC2, FY24 should also see the completion of AMDC Phase 2, which will double the size of the existing facility (c.4% of total NLA). We also expect the REIT to be able to secure a new tenant to fill up Axis Steel Centre @ SiLC after seizing back the vacant building – its generic facilities should be immediately suitable for prospective tenants. In terms of inorganic growth, Axis REIT completed the acquisition of Axis Hypermarket @ Temerloh for MYR26m on 16 Jan. It is also still in the midst of acquiring a manufacturing facility in Sendayan, Negeri Sembilan, for MYR48m.
- **Earnings forecasts.** We make minor adjustments to our FY24F-25F earnings after updating the FY23 numbers. We also introduce our FY26F earnings of MYR192m. Our TP incorporates a 2% ESG premium, based on our in-house methodology and 3.0 country median.
- **Key risks** include the non-renewal of its expiring leases and increased competition.

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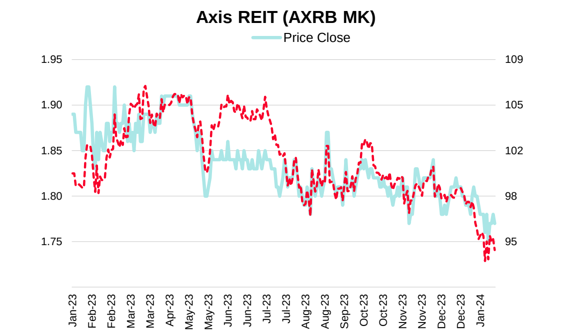
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.1)	(2.2)	(1.7)	(2.2)	(6.4)
Relative	(3.9)	(5.1)	(5.7)	(8.0)	(6.1)
52-wk Price low/high (MYR)					1.75 – 1.92



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	284	288	325	335	341
Net property income (MYRm)	245	245	281	291	296
Reported net profit (MYRm)	161	149	179	188	192
Total distributable income (MYRm)	161	149	179	188	192
DPS (MYR)	0.10	0.09	0.10	0.11	0.11
DPS growth (%)	2.7	(11.3)	16.8	4.2	1.7
P/B (x)	1.13	1.03	1.09	1.10	1.10
Dividend Yield (%)	5.5	4.9	5.7	5.9	6.0
Return on average equity (%)	6.3	5.5	6.3	6.6	6.7
Return on average assets (%)	4.0	3.4	4.0	4.1	4.2

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD
Axis REIT sources energy-saving products and renewable energy components for new developments and asset enhancement initiatives or AEIs. Electricity consumption and greenhouse gas (GHG) emissions reduced by 0.16% in FY21, while emphasis is being placed on the continuation of waste reduction and green initiatives.

S: GOOD
There have been 926 beneficiaries from community engagement initiatives in FY19. Key CSR programmes include the provision of space for blood donation drives, as well as donations to the Fire & Rescue Department and SMK (P) Pudu Building Fund – benefitting 619 students.

G: EXCELLENT
The board engaged a third party consultant to facilitate the independent assessment of the board. The board has also put in place an anti-corruption framework for the manager. Axis REIT has 30% women directors on the board.

Financial Exhibits

Asia
Malaysia
Property
Axis REIT
AXRB MK
Buy

Valuation basis

DDM

Key drivers

Growing demand of industrial properties due to e-commerce growth.

Key risks

Non-renewal of expiring leases and negative rental reversions.

Company Profile

Axis REIT is a diversified REIT, specialising in commercial and industrial properties.

Financial summary	**Dec-22**	**Dec-23**	**Dec-24F**	**Dec-25F**	**Dec-26F**
Recurring EPS (MYR)	0.10	0.09	0.11	0.11	0.11
EPS (MYR)	0.10	0.09	0.11	0.11	0.11
DPS (MYR)	0.10	0.09	0.10	0.11	0.11
BVPS (MYR)	1.57	1.72	1.62	1.61	1.60
Return on average equity (%)	6.3	5.5	6.3	6.6	6.7
Weighted avg adjusted shares (m)	1,637.79	1,641.05	1,698.64	1,760.62	1,769.42

Valuation metrics	**Dec-22**	**Dec-23**	**Dec-24F**	**Dec-25F**	**Dec-26F**
Recurring P/E (x)	18.40	19.86	16.78	16.61	16.33
P/E (x)	18.01	19.46	16.78	16.61	16.33
P/B (x)	1.1	1.0	1.1	1.1	1.1
FCF Yield (%)	5.9	0.9	2.1	6.2	6.3
Dividend Yield (%)	5.5	4.9	5.7	5.9	6.0
EV/EBITDA (x)	1.04	- 0.17	0.64	0.70	0.74
EV/EBIT (x)	1.04	- 0.17	0.64	0.70	0.74

Income statement (MYRm)	**Dec-22**	**Dec-23**	**Dec-24F**	**Dec-25F**	**Dec-26F**
Total turnover	284	288	325	335	341
EBITDA	213	208	238	247	251
Operating profit	213	208	238	247	251
Net interest	(52)	(59)	(59)	(59)	(59)
Pre-tax profit	161	149	179	188	192
Recurring net profit	158	146	179	188	192

Cash flow (MYRm)	**Dec-22**	**Dec-23**	**Dec-24F**	**Dec-25F**	**Dec-26F**
Change in working capital	17	(10)	(12)	(14)	(17)
Cash flow from operations	228	199	236	243	246
Capex	(57)	(173)	(173)	(50)	(50)
Cash flow from investing activities	(537)	(175)	(171)	(49)	(49)
Dividends paid	(157)	(147)	(177)	(186)	(190)
Cash flow from financing activities	163	(15)	(54)	(63)	(66)
Cash at beginning of period	196	44	52	61	63
Net change in cash	(147)	8	11	132	132
Ending balance cash	49	52	62	193	194

Balance sheet (MYRm)	**Dec-22**	**Dec-23**	**Dec-24F**	**Dec-25F**	**Dec-26F**
Total cash and equivalents	44	52	61	63	63
Tangible fixed assets	2	1	1	1	0
Total investments	4,186	4,444	4,444	4,444	4,444
Total other assets	0	0	0	0	0
Total assets	4,256	4,523	4,536	4,538	4,539
Short-term debt	813	815	815	815	815
Total long-term debt	733	740	740	740	740
Total liabilities	1,684	1,697	1,697	1,697	1,697
Shareholders' equity	2,572	2,826	2,839	2,841	2,842
Total equity	2,572	2,826	2,839	2,841	2,842
Net debt	1,503	1,503	1,493	1,492	1,492
Total liabilities & equity	4,256	4,523	4,536	4,538	4,539

Key metrics	**Dec-22**	**Dec-23**	**Dec-24F**	**Dec-25F**	**Dec-26F**
Revenue growth (%)	15.5	1.4	12.8	2.9	1.7
Recurrent EPS growth (%)	8.6	(7.3)	18.3	1.0	1.7
Operating EBITDA margin (%)	74.9	72.2	73.2	73.6	73.6
Net profit margin (%)	56.6	51.8	55.1	56.0	56.3
Dividend payout ratio (%)	99.4	95.1	99.0	99.0	99.0
Capex/sales (%)	20.1	59.9	53.1	14.9	14.7
Interest cover (x)	4.02	3.44	3.93	4.07	4.14

Source: Company data, RHB

Results At a Glance

Figure 1: Axis REIT's results summary

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	**70.7**	**71.8**	**75.6**	**5.2**	**6.8**	**281.6**	**286.0**	**1.5**	High occupancy rate QoQ and the commencement of lease for BRDC2.
Net property income (NPI)	**62.0**	**61.9**	**66.2**	**6.9**	**6.8**	**245.1**	**245.4**	**0.1**	Lower maintenance cost recorded QoQ.
Net financing expense	(15.4)	(15.6)	(15.9)	1.9	3.4	(53.0)	(60.5)	14.3	
EI	27.8	0.0	81.3	nm	192.3	27.8	81.3	192.3	
Others	(9.0)	(8.2)	(7.4)	(9.0)	(17.9)	(31.6)	(37.1)	17.2	Reversal of provisions for doubtful debts made in 4Q23.
Pretax profit	**61.5**	**42.5**	**114.1**	**168.4**	**85.5**	**192.2**	**221.6**	**15.3**	
Tax	(1.7)	0.0	(3.8)	nm	127.2	(1.7)	(3.8)	127.2	
Minority interest	(1.7)	0.0	(3.8)	nm	127.2	(1.7)	(3.8)	127.2	
Net profit	**59.8**	**42.5**	**110.2**	**159.4**	**84.3**	**190.6**	**217.8**	**14.3**	
Core net profit	**36.8**	**37.9**	**42.3**	**11.8**	**15.0**	**157.9**	**146.3**	**(7.4)**	In line with expectations.
Earnings per unit (sen)	**2.20**	**2.14**	**2.40**	**12.1**	**9.1**	**9.59**	**8.35**	**(12.9)**	
Dividend per unit (sen)	**2.33**	**2.15**	**2.40**	**11.6**	**3.0**	**9.75**	**8.65**	**(11.3)**	
NPI margin (%)	87.6	86.2	87.6			87.0	85.8		
Pre-tax margin (%)	87.0	59.2	151.0			68.3	77.5		
Net margin (%)	52.1	52.7	56.0			56.1	51.1		

Source: Company data

Emissions And ESG

Trend analysis

There was a 10% reduction in total GHG emissions against the 2019 baseline year, but YoY emissions increased by 3% due to increased footfall as tenants resumed operations following the upliftment of movement control order. This also led to higher emissions intensity.

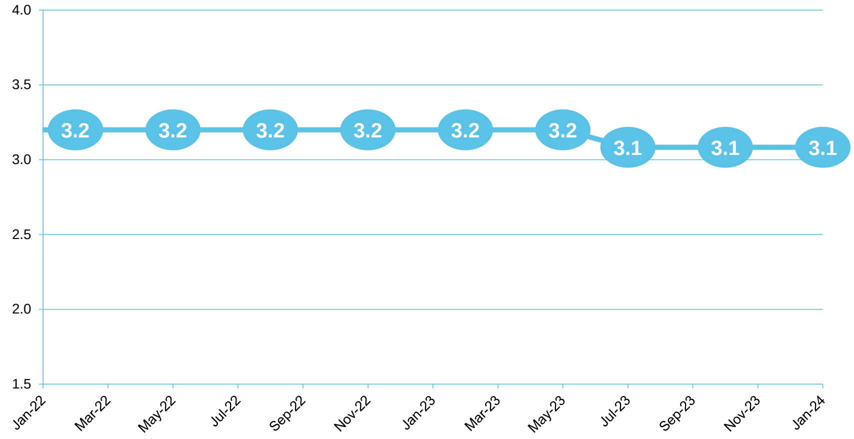
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4	3	-
Scope 2	2,561	2,634	-
Scope 3	-	-	-
Total emissions	2,565	2,637	na

Source: Company data, RHB

Latest ESG-Related Developments

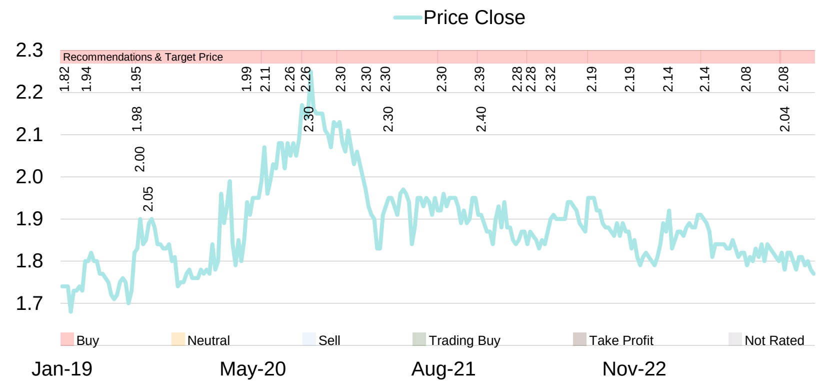
- Obtained green building certifications for its redeveloped buildings

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-29	Buy	2.04	1.80
2023-10-26	Buy	2.08	1.79
2023-07-27	Buy	2.08	1.81
2023-04-19	Buy	2.14	1.91
2023-01-20	Buy	2.14	1.89
2022-10-20	Buy	2.19	1.86
2022-07-21	Buy	2.19	1.92
2022-04-21	Buy	2.32	1.88
2022-04-12	Buy	2.32	1.87
2022-02-23	Buy	2.28	1.85
2022-01-21	Buy	2.28	1.85
2021-10-26	Buy	2.40	1.95
2021-10-22	Buy	2.39	1.95
2021-07-22	Buy	2.30	1.95
2021-03-16	Buy	2.30	1.93

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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