Brokers Digest: Local Equities - Axis REIT, IGB REIT, Astro Malaysia Holdings Bhd, Deleum Bhd | The Edge Markets

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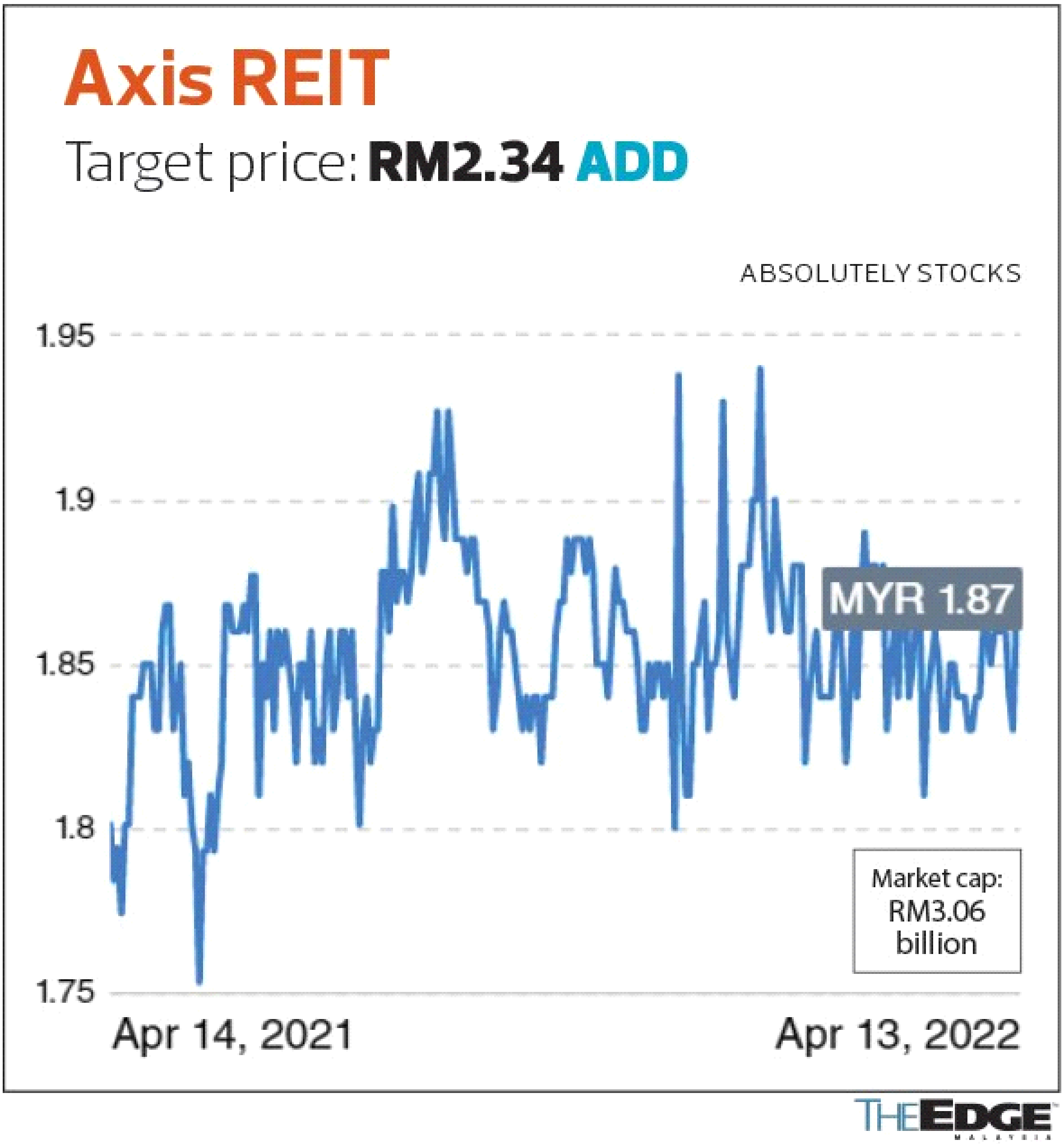
Axis REIT

Target price: RM2.34 ADD



CGS CIMB SECURITIES RESEARCH (APRIL 12): Axis REIT has secured its largest asset acquisition deal, a logistics warehouse facility worth RM390 million. The asset will be leased back to the seller, Equalbase PTP Sdn Bhd (EPSB), based on a 10-year tenancy term with a rental step-up of 1% per annum from the fourth year. The double-storey logistics warehouse with a 3-storey office is located on an 18.4-acre parcel in the Port of Tanjung Pelepas Free Trade Zone and has been certified by the Green Building Index as a green building.

The acquisition will be funded by bank borrowings, which will raise the group's end-December 2021 gearing ratio from 0.31 times to 0.37 times, well below the base REIT guideline of 50% (or 0.5 times).

The deal is targeted to be completed by mid-2022. On a net lettable area (NLA) of 1.2 million sq ft, RM26 million gross rental per annum for the first three years and FY2021's 88% portfolio net property income (NPI) margin, we arrive at an estimated NPI of RM22.9 million per annum, which works out to 7.1% of FY2022F EPS (half year's contribution) and 13.1% of FY2023-FY2024F EPS (full-year basis). We keep our FY2022-

FY2024F EPS unchanged pending the completion of the deal.

We are positive on this acquisition as the group continues to deliver on its asset portfolio growth strategy, focusing on the niche logistics warehouse space while enhancing its ESG visibility with green building assets.

Axis REIT is among our two preferred REIT sector picks, supported by growth via a ramp-up in asset acquisitions in FY2022F and a dividend angle (FY2022-FY2024F dividend yield of 5.2% to 5.9%).

REIT Sector/Peer Comparison

CGS-CIMB RESEARCH, COMPANY REPORTS

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Axis REIT	AXRB MK	Add	1.83	2.34	707	19.2	17.1	5.1%	1.20	1.20	6.3%	7.0%	5.2%	5.8%
CapitaLand Malaysia Trust	CMMT MK	Hold	0.58	0.59	292	17.7	16.2	18.2%	0.50	0.50	2.9%	3.2%	5.1%	5.6%
IGB REIT	IGBREIT MK	Add	1.53	1.88	1,293	21.4	18.4	14.3%	1.44	1.45	6.7%	7.8%	4.8%	5.6%
KLCCP Stapled Group	KLCCSS MK	Hold	6.65	6.67	2,838	18.9	16.8	3.6%	0.92	0.92	4.9%	5.5%	4.9%	5.4%
Sentral REIT	SENTRAL MK	Add	0.95	1.00	241	12.8	12.7	-0.3%	0.77	0.76	6.1%	6.1%	7.2%	7.3%
Pavilion REIT	PREIT MK	Hold	1.29	1.30	931	21.2	20.6	14.9%	1.01	1.02	4.8%	5.0%	5.0%	5.1%
Sunway REIT	SREIT MK	Hold	1.40	1.43	1,133	21.1	18.0	11.0%	0.98	0.97	4.7%	5.4%	4.3%	5.0%
Average						**17.1**	**15.0**	**6.7%**	**0.91**	**0.91**	**4.6%**	**5.3%**	**4.3%**	**4.8%**

THE EDGE

We retain our “add” rating and dividend discount model-based target price of RM2.34. With more aggressive asset acquisition plans for when the pandemic is contained, Axis REIT is firmly on a recovery path in FY2022F, anchored by overall improving operating conditions.

At end-FY2021, the total number of assets in its portfolio stood at 58 with an average occupancy rate of 96%. Potential rerating catalysts include new asset acquisitions. Key downgrade risks include renewal of expiring leases in FY2022F with negative rental reversions.

IGB REIT

Target price: **RM1.90 BUY**

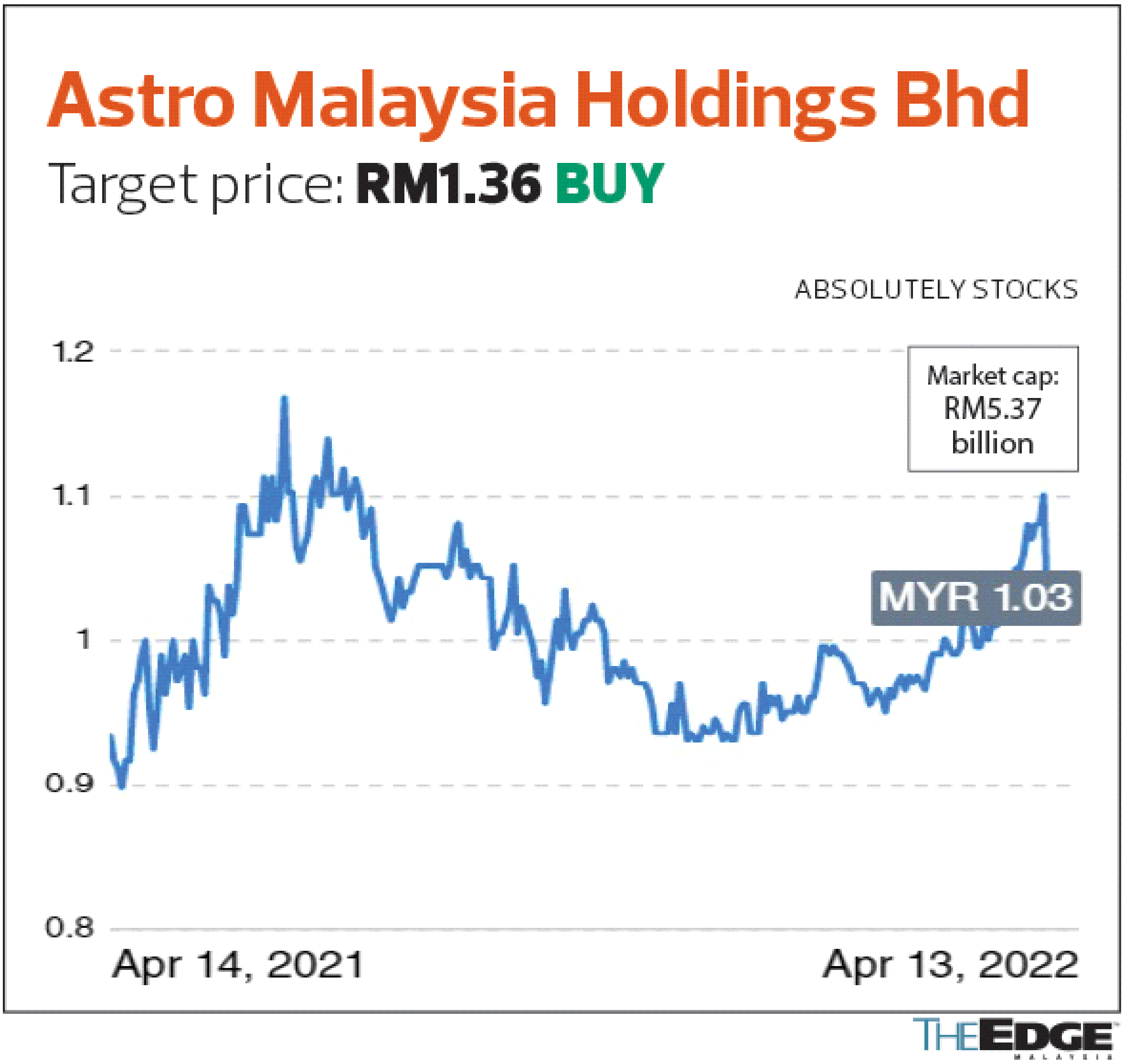
UOB KAY HIAN RESEARCH (APRIL 12): With earnings to recover by 54% for 2022 (-2.4% versus 2019), coupled with attractive yields of 5.6% to 6% for 2022/23, IGB REIT should rerate as its share price is still hovering at the pandemic trough. The earnings growth is mainly on the back of reduced rental assistance, further boosted by the reopening of the economy and borders. Our projected 54% year-on-year earnings growth is based on flat rental reversion and minimal rental assistance. Revenue portion from tenant sales is about 10% to 15%. Occupancy remained resilient, with Mid Valley Megamall and The Gardens both at 99%.

We think most of the negative impact from the interest rate hike and lingering Covid-19 after-effects has been priced in as IGB REIT's yield spread to 10-year Malaysia Government Securities (MGS) widened to 2.8ppt, above the 2.2ppt spread during the last overnight policy hike in 2018, before narrowing to 2ppt currently.

We believe IGB REIT's quality assets will allow it to experience faster earnings recovery compared with other retail REITs. Its gearing of 0.23 times is the lowest among the stocks under our coverage.

Astro Malaysia Holdings Bhd

Target price: **RM1.36 BUY**



MAYBANK INVESTMENT BANK RESEARCH (APRIL 12): The Copyright (Amendment) Act 2022 — which now explicitly recognises streaming technology as an avenue to infringe copyright — implies to us that it is potentially very potent in combating content piracy, which has plagued Astro over the last six years. A reading of Section 43AA implies that e-commerce and social media platforms that openly sell illegal streaming devices, colloquially known as TV boxes, are likely guilty of infringing copyright. A February 2019 YouGov poll found that 87% of Malaysian TV box owners purchased them from e-commerce and social media platforms.

Given that the Act is new and yet to be tested in court, we maintain our earnings estimates and RM1.36 DCF-based target price, which are premised on Astro's TV subscription revenue inching up 1% to 2% per annum after falling 30% over the last six years. We also note that churn may remain high, not only due to content piracy but the current fragile consumer sentiment due to purchasing power being eroded by rising inflation. Yet, this act could be a very positive inflection point for Astro.

Deleum Bhd

Target price: **90 sen BUY**

AMINVESTMENT BANK RESEARCH (APRIL 14): We initiate coverage on Deleum with a 90 sen fair value, pegged to 12 times FY2022F PER with a 3% discount to our two-star ESG rating, given that one of its core operations is still blacklisted from Petronas tenders (under appeal).

Operations are in three main segments: power and machinery (70% of FY2021 revenue), oilfield services (19%), and integrated corrosion solutions (11%). Deleum plans to ramp up its niche chemicals solutions business, supported by a new CEO with long working experience with Halliburton.

From a dampened FY2021 earnings base, we project a robust FY2021-FY2024 compound average EPS growth of 12.5%, versus 10.2% for Dialog Group, which has a much larger service revenue base positioned in a more integrated value chain.

Deleum's RM162 million end-FY2021 net cash balance accounts for 66% of its current market cap. Deleum is trading at an unjustified FY2022 PER of 8.2 times, 35% below the sector's average 12.6 times. Stripping out net cash from market cap, it trades at only three times FY2022 PER while offering a compelling dividend yield of 3.6%.