

Axis REIT's annualised numbers below expectation

Axis Real Estate Investment Trust (July 20, RM2.10)

Maintain neutral at RM2.07 with target price of RM1.93: After stripping out the exceptional gains, which were mainly due to a property revaluation surplus, the annualised 1H2010 core earnings were 9% below our full-year projection. This was mainly due to: (i) loss of income from Nestle House (now called Quattro West) in 1H2010 and Shah Alam Distribution Centre 1 (SADC1) in 1Q2010 due to fit-out work to accommodate new long leases for those properties; and (ii) the recently proposed acquisitions of two properties — the Axis PDI Centre and Axis Technology Centre — will not contribute to earnings until, perhaps, sometime from 4Q2010.

Although the annualised earnings were a shade below our estimates, we are unperturbed because: (i) rental income from SADC1 recommenced from April 1, 2010 at an 8% increase;

and (ii) rental income from Quattro West should have recommenced from early July 2010. To date, 100% of the Quattro West has been leased out to at least three tenants at significantly higher rental rates.

As we believe Axis REIT's full-year realised earnings will eventually meet our expectation, we are leaving our forecasts on realised earnings unchanged for now. However, to reflect the gains from the property revaluation surplus in 1H2010, we are revising our reported earnings forecast upwards by 18%.

In line with our unchanged forecasts, we maintain our target price of RM1.93 by pegging Axis REIT's unchanged dividend per unit against the average dividend yield of 8.4% of its peers. However, given the still limited upside from the current price level, we are maintaining our neutral call. — *OSK Investment Research Sdn Bhd, July 20*

Axis REIT

FYE Dec (RM m)	FY08	FY09	FY10F	FY11F
Revenue	63.3	71.9	88.0	104.8
Reported net profit	63.4	62.0	64.7	64.3
Realised net profit	39.0	42.9	52.4	64.3
% chg y-o-y	38.8	10.0	22.2	22.8
Consensus	-	-	50.2	55.0
EPS (sen)	24.8	20.2	17.2	17.1
DPS (sen)	15.3	15.8	16.4	17.0
Dividend yield (%)	7.4	7.6	7.9	8.2
PER (x)	8.3	10.3	12.0	12.1
BV/share (RM)	1.75	1.82	1.84	1.84
P/BV (x)	1.2	1.1	1.1	1.1
ROE (%)	16.2	12.3	10.3	9.3
ROA (%)	9.7	7.5	6.2	5.5

Notes: The difference between reported and realised net profit is mainly due from the exceptional gains from property revaluation surpluses.

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Source: OSK Research