



STOCKS
DOWN UNDER

23 NOV 2022

ASX Property Stocks Down Under

🏠 *Luck is the residue of design.* 🏠

- Branch Rickey (1881-1965), MLB player and executive

AXIOM

Slow and steady wins the race

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Stocks Down Under rating: ★★★★★

ASX: AXI

Market cap: A\$36.9M

52-week range: A\$0.044 / A\$0.10

Share price: A\$0.08

This week, we turn to another property developer in Axiom Properties (ASX:AXI). It has not been the busiest developer, only focusing on a handful of projects in the last year. But it has been relatively unaffected by issues plaguing the sector and its share price has fluctuated little in the past 12 months. But will being boring rather than busy pay off for shareholders?

Share price chart



Source: Tradingview

Quality, not quantity

Axiom is a profitable company, although its bottom line fluctuates from year to year. It made \$12.2m in FY21 and \$5.5m in FY22. FY21 was up over 3,000% from the paltry \$367k in FY20 although FY22 was over 50% down from FY21. It made \$59.8m in revenue in FY21 (well ahead of the \$559,000 made in FY20) and \$65.6m in FY22 (up 10%).

As we mentioned, the company tends to only focus on a small number of high-profile developments. Some of its past works include a \$200m redevelopment of a car park on Cross Street, Double Bay in Sydney, the Churchill Centre in Adelaide that has South Australia's first and currently only Costco store, and 100 St Georges Terrace, a 24-storey skyscraper in Perth's CBD. Axiom works on these developments for a few years and sells the project when complete. At the moment, it has four projects in the pipeline.

Axiom's current quartet of projects

Three of Axiom's current projects are in South Australia. The sole exemption is at Butler in Perth's northern suburbs where Axiom has developed a new, large format retail development. This center – which hosts tenants such as Adairs, the Good Guys, Beacon Lighting and Goodlife Gym - was practically completed earlier this year, but it is considered under development until 70% of the tenants have commenced trading, something expected to occur before the end of this year. Axiom will sell the center to Lester, which has

paid \$8.5m and is expected to pay the final development fee once the 70% milestone is reached. The total purchase price is expected to be ~\$48m.

The second of Axiom's projects is at Glenlea in Mt Banker, South Australia, where it is developing a 50-hectare land parcel into ~600 residential lots. A 10-hectare portion of land was sold for \$5.5m back in September with the proceeds used to retire outstanding project debt and minimise the impact of supply chain delays. Construction and settlement of the project remains ongoing, but it is expected to start contributing to the company's earnings from the next financial year.

The third Axiom project is SIXTY2CURRIE in South Australia, which will be a 25-storey hotel and office tower on Currie Street in Adelaide. The fourth is WorldPark01. Axiom has already sold part of this site to Charter Hall Social Infrastructure REIT for \$80m and it will host the South Australian Emergency Services Headquarters. The balance of the site will host a precinct to accommodate over 300 fire and emergency workers.

What's next?

In its recent annual report Axiom told shareholders it was undertaking due diligence on several new opportunities. It told shareholders it was in a strong position to do so with its recent project delivery and the world coming out of the pandemic. Last month, it invested in AI-powered property data and analytics business PointData, chipping in \$2m upfront and another \$2m payable in CY23 subject to performance hurdles being achieved. If these were achieved, it would give Axiom a stake of roughly a third in the company.

The company expressed confidence that it could find opportunities in spite of the uncertain outlook, given rising interest rates and inflation. The challenge for Axiom before putting shovels into the ground will be preparing accurate feasibility studies – these are more difficult to predict at the moment – and finding reputable builders who will be able to deliver regardless of how the market is going.

Is it the right time?

At yesterday's closing share price of 8c, Axiom is trading at a trailing P/E of just 6.4x. There are no forward-looking consensus estimates, nor has the company provided guidance. But we think it would be safe to assume earnings will be higher with proceeds from Butler and Glenlea due in FY23. And this does not take into account the capital returns the company has made in recent years. It has returned \$33.5m between FY20 and FY22, representing 7.5c per share.

The challenges in the construction industry are well known, but there is a minimal impact on the company's current developments – just a modest impact on its future plans. It may well be some months before Axiom decides on what is next and some investors may not like the uncertainty in that regard. But we think it is highly likely that revenues and profits will be higher in FY23 because of the settlements due in this year. And we know that when Axiom decides on its future direction, it will be worth the wait because it will only pick an opportunity where the value is compelling. Four stars from us.

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