Maybank IB Research

May 21, 2015

MRCB-Quill REIT (QUIL MK)

Share Price: MYR1.16	MCap (USD): 214M	Malaysia	HOLD (Unchanged)
Target Price: MYR1.17 (+1%)	ADTV (USD): 0.1M	REITs	

Earnings on track

- 1Q15 core net profit of MYR8.3m (+1.4% YoY) was in line.
- Full earnings contribution from Platinum Sentral from 2Q15 onwards; high gearing of 44% could entail fundraising.
- Maintain HOLD, earnings and MYR1.17 TP.

What's New

MRCB-Quill REIT's (MQReit; formerly known as Quill Capita Trust) 1Q15 core net profit was MYR8.3m (+1.4 YoY, -2.7% QoQ), meeting 14%/16% of our/consensus full-year estimates. This is within our expectation as we anticipate full earnings contribution from Platinum Sentral (PS) from 2Q15 onwards. In contrast, 1Q15 only had two days of earnings contribution from PS. MQReit's 1Q15 YoY earnings growth was mainly due to higher rental rates but was also largely offset by higher repair and maintenance costs.

On 15 Apr 2015, MQReit paid an interim distribution of MYR7.3m (1.1sen/share of enlarged unit base) for the period of 1 Jan 2015 to 23 Mar 2015, prior to its new unit issuance and private placement exercises. Going forward, we expect the trust to continue its bi-annual distribution policy. We are, however, taking a more conservative view and tone down our FY15-17 net profit payout forecasts to 95% p.a. (from 100%) for now.

What's Our View

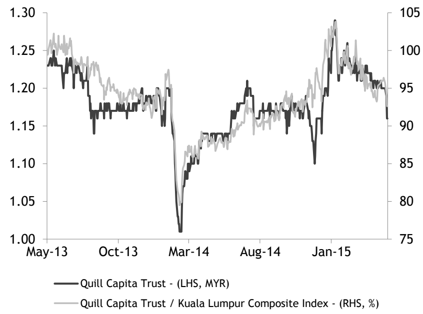
With the entry of a new substantial shareholder (31%), MQReit could benefit by having a larger asset injection pipeline. The acquisition of PS, however, could entail further fundraising as MQReit's net gearing is at a new high of 44% (end-Mar 2015). Meanwhile, we remain cautious on MQReit's near-term earnings outlook as demand for office space has remained soft. HOLD for favourable FY15/16 net yields of 6.5%/6.7%. Our DCF-based TP of MYR1.17 is unchanged.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	68.9	70.2	113.9	124.4	126.5
Net property income	53.2	53.3	91.9	103.0	104.7
Distributable income	34.5	34.2	57.9	59.9	61.7
DPU (sen)	7.5	7.5	7.5	7.7	8.0
DPU growth (%)	0.0	0.0	(0.8)	3.5	2.9
Price/DPU(x)	15.4	15.4	15.5	15.0	14.5
P/BV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	6.5	6.5	6.5	6.7	6.9
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Debt/Assets (x)	0.4	0.4	0.4	0.4	0.4

Key Data

52w high/low (MYR)	1.29/1.10
3m avg turnover (USDm)	0.1
Free float (%)	57.8
Issued shares (m)	661
Market capitalization	MYR767.2M
Major shareholders:	
-CapitaLand Commercial Trust	17.7%
-Quill Land Sdn. Bhd.	7.4%
-Quill Properties Sdn. Bhd.	7.0%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(3.3)	(5.7)	1.8
Relative to index (%)	(1.3)	(5.8)	5.8

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	1	0
	Maybank	**Consensus**	**% +/-**
Target Price (MYR)	1.17	1.35	(13.2)
2015 DPU (sen)	8.3	8.8	(5.2)
2016 DPU (sen)	8.6	9.2	(6.9)

Source: FactSet; Maybank

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MRCB-Quill REIT: Results summary table

			Quarterly		
FY Dec (MYR m)	**1QFY15**	**1QFY14**	***%YoY***	**4QFY14**	***%QoQ***
Gross rental income	18.6	17.2	*8.3*	18.2	*2.3*
Net property income	13.7	13.0	*5.1*	13.4	*2.0*
Pretax profit	**8.3**	**8.2**	***1.4***	**14.6**	***(43.4)***
Tax	0.0	0.0	*NA*	0.0	*NA*
Net profit ^	**8.3**	**8.2**	***1.4***	**14.6**	***(43.4)***
Net profit ex-EI / realised	**8.3**	**8.2**	***1.4***	**8.5**	***(2.7)***
Realised EPU (sen)	2.1	2.1	*0.0*	2.2	*(4.1)*
Gross DPU (sen) #	1.1	0.0	***NA***	4.3	***(74.4)***
	1QFY15	**1QFY14**	***+/- ppt***	**4QFY14**	***+/- ppt***
Net property margin (%)	*73.5*	*75.7*	*(2.2)*	*73.8*	*(0.3)*
Net income ex-EI margin (%)	*44.5*	*47.5*	*(3.0)*	*46.8*	*(2.3)*

^ 4QFY14 net profit includes MYR6.1m of revaluation gain

 # 1.1sen DPU in 1QFY15 (based on enlarged unit base) was prior to new unit issuance and private placement exercises, and entrance of MRCB; MQReit has a bi-annual distribution policy

Source: Trust, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	15.4	15.4	15.5	15.0	14.5
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.2	7.2	7.2	7.4	7.6
FCF yield (%)	10.3	8.9	9.7	9.3	0.0
INCOME STATEMENT (MYR m)					
Gross revenue	68.9	70.2	113.9	124.4	126.5
Net property income	**53.2**	**53.3**	**91.9**	**103.0**	**104.7**
Net financing costs	(12.9)	(13.3)	(21.7)	(30.1)	(29.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.1	6.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Total return before tax	**36.6**	**40.3**	**57.9**	**59.9**	**61.7**
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	36.6	40.3	57.9	59.9	61.7
Distributable inc to unitholders	**34.5**	**34.2**	**57.9**	**59.9**	**61.7**
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	30.9	23.3	20.5	29.7	28.7
Accounts receivable	2.6	6.1	6.1	6.1	6.1
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	825.6	837.7	1,582.7	1,587.7	1,592.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0
Total assets	**859.1**	**867.1**	**1,609.4**	**1,623.5**	**1,627.6**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	11.7	12.2	12.2	12.2	12.2
LT interest bearing debt	304.9	305.1	665.1	665.1	665.1
Other liabilities	10.1	9.8	26.1	37.3	38.2
Total Liabilities	**326.7**	**327.1**	**703.5**	**714.6**	**715.6**
Shareholders Equity	533.5	541.3	905.9	908.9	912.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**533.5**	**541.3**	**905.9**	**908.9**	**912.0**

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	(0.8)	1.9	62.1	9.3	1.6
Total return before tax growth	(8.7)	9.9	43.7	3.5	2.9
Total return growth	(8.7)	9.9	43.7	3.5	2.9
Distributable income growth	(8.7)	9.9	43.7	3.5	2.9
Profitability ratios (%)					
Total return before tax margin	53.2	57.3	50.8	48.2	48.8
Payout ratio	80.3	73.0	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	53.2	57.3	50.8	48.2	48.8
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.8	1.8	1.8
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Liquidity & Efficiency					
Days receivable outstanding	31.0	22.4	19.4	17.8	17.5
Days payables outstanding	262.9	254.1	200.9	205.8	202.3
Dividend cover (x)	1.2	1.4	1.2	1.2	1.2
Current ratio (x)	2.0	2.0	0.9	0.9	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.3	2.3	2.3
Net debt/equity (%)	51.4	52.1	71.2	69.9	69.8
Net interest cover (x)	3.7	3.6	3.7	3.0	3.1
Debt/EBITDA (x)	6.4	6.4	8.4	7.4	7.4
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	274.0	281.8	644.6	635.4	636.4

Source: Company; Maybank

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