

Company Focus

MRCB-Quill REIT

Bloomberg: MQREIT MK | Reuters: QCAP.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

23 Jul 2015

HOLD

Last Traded Price: RM1.17 (KLCI : 1,729.53)

Price Target : RM1.25 (7% upside)

Shariah Compliant : No

Reason for Report : 2Q15 results

Where we differ: Higher property and management cost assumptions

Analyst

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Result Summary

FY Dec (RM m)	2Q 2015	2Q 2014	1Q 2015	% chg yoy	% chg qoq
P&L Items					
Sales	32.2	17.3	18.6	85.5	72.9
Net Property Inc	24.3	13.4	13.7	81.5	77.7
Net Income Aft Tax	13.6	8.6	8.3	59.2	64.7
Net Inc avail. for Dist.	13.9	16.0	7.3	(13.3)	89.1
Other Data (%)					
Net Prop Inc Margin	75.6	77.2	73.5		
Dist. Payout Ratio	101.7	95.6	88.6		
DPU (sen)	2.2	4.1	1.9		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Gross Revenue	70	109	124	129
Net Property Inc	53	86	98	101
Total Return	40	50	57	58
Distribution Inc	33	50	57	58
EPU (sen)	10.3	8.4	8.6	8.8
EPU Gth (%)	10	(19)	2	3
DPU (sen)	8.4	8.4	8.6	8.8
DPU Gth (%)	0	0	2	3
NAV per shr (sen)	138.7	133.5	133.6	133.5
PE (X)	11.3	14.0	13.7	13.3
Distribution Yield (%)	7.2	7.2	7.3	7.5
P/NAV (x)	0.8	0.9	0.9	0.9
Agg. Leverage (%)	36.3	44.4	44.7	45.0
ROAE (%)	7.5	7.0	6.4	6.6

At A Glance

Issued Capital (m shrs)	661
Mkt. Cap (RMm/US\$m)	774 / 204
3m Avg. Daily Val (US\$m)	0.1

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trusts

Principal Business: MRCB-Quill REIT is a real estate investment trust that focuses on office properties. Its largest asset is Platinum Sentral with 445k sq ft NLA in the Kuala Lumpur Sentral development. Its other assets are primarily in Petaling Jaya and Cyberjaya, with a small presence in Penang.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Earnings swell as expected

- Earnings within expectations after swelling from Platinum Sentral injection
- DPU of 2.22 sen, ex-date 4 Aug
- Tough office space market to cap near-term growth
- Maintain HOLD, RM1.25 TP

Highlights

Meeting our expectations as new asset weighs in

- MQREIT's 2Q15 net income grew to RM13.6m (+59% y-o-y, +65% q-o-q), as its newly acquired Platinum Sentral (PS) began contribution for the full quarter. This brought 1H15 earnings to RM21.9m, which is 44%/39% of our/consensus forecasts. While we deem this in line (as 1Q earnings were sans-PS), it may be below consensus forecasts due to lower cost assumptions.
- On a q-o-q basis, NPI grew 78% to RM24.3m following the larger topline. NPI margins increased to 75.6% from 73.5%, which is no surprise as PS is expected to carry higher margins than the portfolio before.
- Interest costs grew c.131% q-o-q from the additional facilities for the acquisition of PS, though this was as expected. All borrowings are on fixed rates after an interest rate swap agreement in Apr.
- A distribution of 2.22 sen was declared, which brings 1H15 DPU to 4.1 sen, identical to 1H14. This represents a 97% payout.

No occupancy shocks

- Remaining lease expiries fell to 14% of total NLA from 19% in 1Q, though we note that c.1% was not renewed. Nevertheless, portfolio occupancy was maintained at 93%.
- The remaining 14% comes from a single tenant (DHL), which is due in 4Q. As highlighted in our previous report, management is reasonably confident of renewal. Expiries in FY16/17 are 7% and 10% respectively.

Outlook

Maintaining lukewarm outlook

- The office space market continues to be challenging due to supply overhang. We expect positive rental reversion to be difficult to negotiate, as tenants have more leverage due to ample supply; and any occupancy gaps may become difficult to refill without offering competitive rates.
- MQREIT has the rights of first refusal to Malaysian Resources Corp's (MRCB) investment properties, but its current gearing at c.44% implies that the trust would need

MRCB-Quill REIT

to issue new units for any sizeable acquisitions in the near term.

Valuation:

We have a HOLD recommendation on MQREIT with RM1.25 price target based on the DDM model, assuming 8% cost of equity and 1% terminal growth rate.

Key Risks:

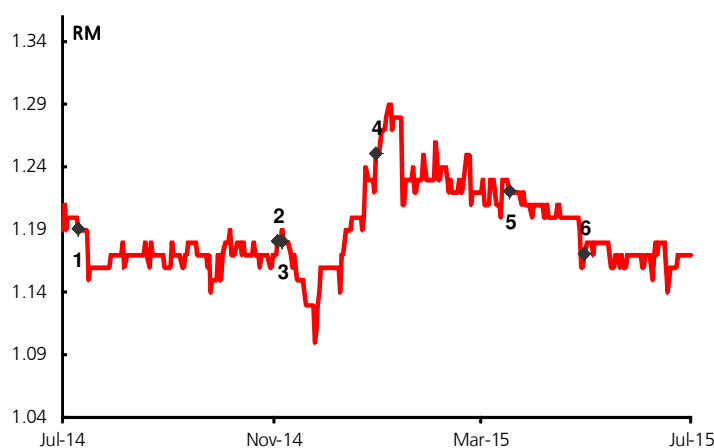
Soft office rental market

- The office sector remains tepid due to excess supply, especially in Kuala Lumpur and Cyberjaya, where the REIT has exposure. Rental reversion potential is relatively weak and occupancies could be a risk factor.

High gearing and financing costs

- After the Platinum Sentral injection, MQREIT's gearing is now at 44%, near the 50% regulatory cap. Financing costs are also slated to rise because of additional facilities, but it is reassuring that all its borrowings are now at fixed rates.

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	31 Jul 14	1.19	1.35	Buy
2:	24 Nov 14	1.18	1.25	Hold
3:	27 Nov 14	1.18	1.25	Hold
4:	20 Jan 15	1.25	1.25	Hold
5:	08 Apr 15	1.22	1.25	Hold
6:	21 May 15	1.17	1.25	Hold

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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