

4 May 2017

Buy

Price

RM1.32

Target price

RM1.45

Bloomberg ticker

MQREIT MK

Equity | Malaysia | Real Estate Investment Trust

Flashnote

Analyst

Izzul Hakim

+60 3 2171 0502

izzul@kaf.com.my

MRCB-Quill REIT

1Q17: In-line with expectations

Financial Highlights

| Year to Dec (RMm) | 2014 | 2015 | 2016 | 2017F | 2018F |
|-----------------------|------|-------|-------|-------|-------|
| Revenue | 70.2 | 115.2 | 127.6 | 181.0 | 186.3 |
| Reported net profit | 40.3 | 60.7 | 60.1 | 87.4 | 91.3 |
| Normalised net profit | 34.2 | 53.4 | 60.1 | 87.4 | 91.3 |
| EPS (sen) | 10.3 | 9.2 | 9.1 | 8.2 | 8.5 |
| DPU (sen) | 8.4 | 8.5 | 8.7 | 7.8 | 8.1 |
| P/E (x) | 12.6 | 14.2 | 14.1 | 15.6 | 15.0 |
| ROE (%) | 7.5 | 8.4 | 6.6 | 7.8 | 6.8 |
| Dividend yield (%) | 6.4 | 6.5 | 6.8 | 6.1 | 6.4 |
| Net gearing (%) | 35.1 | 42.4 | 42.3 | 40.0 | 39.9 |
| PBV (x) | 0.9 | 1.0 | 0.9 | 1.0 | 1.0 |

Source: Company, KAF

- We maintain our Buy recommendation on MRCB-Quill REIT (MQREIT) with an unchanged target price of RM1.45 based on our DDM valuation.
- MQREIT recorded a net property income (NPI) of RM36m in 1Q17, which is growth of 42% yoy. This is in-line with our FY17 estimates, making up 25% of our NPI forecast. The improvement in NPI was mainly due to the acquisition of Menara Shell in 4Q16.
- We estimate the revenue contribution from Menara Shell in FY17F to be c.27% of MQREIT's total revenue. We maintain our forecasts for FY17F and FYF18F NPI of RM142m and RM146m, respectively.
- MQREIT recorded a normalised net profit of RM23m in 1Q17, +52% yoy. This is due to the same reason as the improvement in NPI i.e. due to the acquisition of Menara Shell. We maintain our forecasts for FY17F and FYF18F normalised net profit of RM87m and RM91m, respectively.
- Overall, the results were in-line our FY17 estimates, making up 26% of our normalised net profit forecast.
- No dividend was declared in 1Q17. However, the management intends to distribute at least 90% of its distributable income on a semi-annual basis. We estimate dividend payout to be 95% for FY17F, translating into DPU of 7.8 sen.
- There is no near-term acquisition for MQREIT in FY17F. The potential injection of Menara Celcom in PJ Sentral and Ascott Sentral into the REIT is still at the initial stage. The management expects the information of the potential acquisition will only be available for evaluation in 4Q17. Hence, we maintain our forecast for FY17F revenue of RM181m.
- MQREIT reported a gearing of 37% in 1Q17 which is an improvement from 43% in 1Q16. This is due to the acquisition of Menara Shell in 4Q16 that increased its total assets by RM640m. The acquisition was funded by share placement (c.75%) and borrowings (c.25%). Hence, led to an improvement of MQREIT's overall gearing level.
- At the current price, MRCB-Quill REIT trades at 1.0x FY17F PB and offers a yield of 6.1%, which translates to a yield spread of 215bps over the 10-yr MGS of 3.95%.

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Table 1 : Quarterly trends

| (RM m) | Quarterly | | | | | | Change | | Cumulative | | | KAF | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|-----------|-------------|-------------|-----------|--------------|-----------|
| FYE 31 Dec | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | % qoq | % yoy | 3M16 | 3M17 | % chg | 2017F | 3M/F |
| Revenue | 32.6 | 32.7 | 32.6 | 32.5 | 34.1 | 45.6 | 34 | 40 | 32.7 | 45.6 | 40 | 181.0 | 25 |
| Property operating expenses | (5.8) | (7.2) | (6.9) | (7.0) | (8.5) | (9.4) | 12 | 31 | (7.2) | (9.4) | 31 | (39.1) | 24 |
| Net property income | 26.8 | 25.4 | 25.7 | 25.5 | 25.6 | 36.1 | 41 | 42 | 25.4 | 36.1 | 42 | 141.8 | 25 |
| Interest income | 0.3 | 0.4 | 0.4 | 0.5 | 1.1 | 0.5 | (60) | 16 | 0.4 | 0.5 | 16 | 1.4 | 32 |
| Trust expenses | (2.8) | (2.7) | (2.7) | (2.7) | (4.3) | (3.7) | (14) | 34 | (2.7) | (3.7) | 34 | (15.4) | 24 |
| Borrowing costs | (7.9) | (7.9) | (8.0) | (8.1) | (9.1) | (9.7) | 7 | 24 | (7.9) | (9.7) | 24 | (40.4) | 24 |
| Exceptional items | 6.7 | - | - | - | 3.5 | - | nm | nm | - | - | nm | - | nm |
| Profit before tax | 23.1 | 15.2 | 15.4 | 15.2 | 16.9 | 23.2 | 37 | 52 | 15.2 | 23.2 | 52 | 87.4 | 26 |
| Tax | - | - | - | - | - | - | nm | nm | - | - | nm | - | nm |
| Net profit | 23.1 | 15.2 | 15.4 | 15.2 | 16.9 | 23.2 | 37 | 52 | 15.2 | 23.2 | 52 | 87.4 | 26 |
| Normalised net profit | 16.4 | 15.2 | 15.4 | 15.2 | 13.4 | 23.2 | 73 | 52 | 15.2 | 23.2 | 52 | 87.4 | 26 |

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)