MRCB-Quill REIT (MQREIT MK)

1Q17: New asset on board

REITs

Malaysia

BUY

Share Price	MYR 1.32
12m Price Target	MYR 1.35 (+2%)
Previous Price Target	*MYR 1.35*

Maintain BUY

1Q17 results were in-line. The strong YoY earnings growth in 1Q17 was mainly lifted by Menara Shell's contributions and sustained occupancy rate of its portfolio. Our earnings forecasts and DDM-TP of MYR1.35 (cost of equity: 7.5%) are intact. MQREIT currently offers the highest CY17 net DPU of 5.7% in the M-REIT sector within our coverage (sector: 5.0%).

Added contributions from Menara Shell

1Q17 core net profit of MYR23.2m (+52% YoY, +74% QoQ) constitutes 25%/26% of our/consensus' full-year estimates. 1Q17's strong YoY earnings growth was largely driven by the addition of Menara Shell's contribution (acquired in Dec 2016), on top of step-up rent adjustments (at QB2, QB3 and Wisma Technip), and sustained occupancy and rental rates across its portfolio. This, however, was partly offset by higher finance costs of MYR9.7m (+24% YoY, +7% QoQ) due to higher borrowings to fund its acquisition of Menara Shell. Similarly, QoQ earnings growth was largely attributed to Menara Shell. 1Q17 portfolio occupancy has remained stabled at 97% (unchanged YoY).

Forecasts unchanged

We maintain our FY17-19 net profit forecasts and assumptions. Our near-term earnings growth forecast is premised on sustained occupancy rates and positive rental reversions.

Positive on its long-term growth prospect

Despite a soft office rental market in the Klang Valley due to an oversupply situation, we continue to like MQREIT's office assets such as the Platinum Sentral and Menara Shell which are mainly backed by long-term tenants. This, in turn, could support MQREIT's high occupancy rate and provide resilient earnings in the long-run. We also believe there are stronger earnings growth upside from Menara Shell via higher rental reversions above our conservative initial assumptions.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	115	132	185	187	192
Net property income	90	102	139	141	145
Core net profit	54	59	93	94	97
Core EPU (sen)	8.2	9.0	8.6	8.8	9.0
Core EPU growth (%)	(6.7)	9.6	(3.7)	1.4	2.6
Net DPU (sen)	6.9	7.5	7.6	7.6	7.7
Net DPU growth (%)	(8.1)	8.8	0.4	0.9	0.5
P/NAV (x)	1.0	0.6	1.0	1.0	1.0
Net DPU yield (%)	5.2	5.7	5.7	5.8	5.8
ROAE (%)	8.4	5.6	6.8	6.9	7.1
ROAA (%)	4.3	3.0	4.0	4.1	4.2
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	7.2	7.4	7.5
MKE vs. Consensus (%)	-	-	5.4	2.9	1.9

Company Description

MRCB-Quill REIT engages in the investment in commercial properties which are mainly located in the Klang Valley.

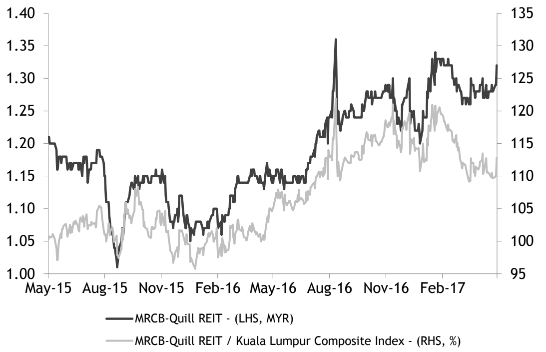
Statistics

52w high/low (MYR)	1.36/1.13
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.4B
	USD326M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(1)	15
Relative to index (%)	2	(6)	7

Source: FactSet

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Fig 1: Results summary table

			Quarterly		
FY Dec (MYR m)	**1QFY17**	**1QFY16**	***%YoY***	**4QFY16**	***%QoQ***
Gross revenue	45.6	32.7	*39.5*	34.1	*33.7*
Net property income	**36.1**	**25.4**	***42.0***	**25.6**	***41.0***
Interest income	0.5	0.4	*16.1*	1.1	*(60.3)*
Exceptional items	-	-	*n.m.*	3.5	*n.m.*
Finance costs	(9.7)	(7.9)	*23.8*	(9.1)	*6.9*
Other expenses	(3.7)	(2.7)	*34.4*	(4.3)	*(13.9)*
Pretax profit	**23.2**	**15.2**	***52.0***	**16.9**	***36.9***
Tax	-	-	*n.m.*	-	*n.m.*
Net profit	**23.2**	**15.2**	***52.0***	**16.9**	***36.9***
Net profit ex-EI	**23.2**	**15.2**	***52.0***	**13.3**	***74.1***
EPU ex-EI (sen) *	2.2	2.3	*(5.7)*	1.9	*14.8*
Gross DPU (sen)	**-**	**-**	***n.m.***	**4.2**	***n.m.***
	1QFY17	**1QFY16**	***+/- ppt***	**4QFY16**	***+/- ppt***
Net property margin (%)	79.3	77.9	*1.4*	75.2	*4.1*
Net income ex-EI margin (%)	50.8	46.7	*4.2*	39.1	*11.8*

** Based on reported figures*

Sources: Trust, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
Price/DPU(x)	19.1	17.5	17.4	17.3	17.2
P/BV (x)	1.0	0.6	1.0	1.0	1.0
P/NTA (x)	1.0	0.6	1.0	1.0	1.0
DPU yield (%)	5.8	6.3	6.4	6.4	6.5
FCF yield (%)	10.0	12.0	9.8	9.3	9.5
INCOME STATEMENT (MYR m)					
Revenue	115.2	131.8	185.1	187.5	192.0
Net property income	**90.3**	**102.3**	**139.5**	**141.3**	**144.7**
Management and trustee fees	(9.8)	(12.4)	(9.5)	(9.6)	(9.7)
Net financing costs	(26.5)	(30.7)	(37.3)	(37.2)	(37.6)
Exceptionals	6.7	3.6	0.0	0.0	0.0
Pretax profit	**60.7**	**62.8**	**92.6**	**94.4**	**97.4**
Income tax	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**60.7**	**62.8**	**92.6**	**94.4**	**97.4**
Distributable inc to unitholders	54.0	59.2	92.6	94.4	97.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	44.9	54.1	55.5	49.4	45.5
Accounts receivable	5.6	17.6	24.8	25.1	25.7
Property, Plant & Equip (net)	0.2	0.2	9.5	18.7	27.9
Inverstment properties	1,569.8	2,222.0	2,222.0	2,222.0	2,222.0
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	4.7	3.4	3.4	3.4	3.4
Total assets	**1,625.2**	**2,297.3**	**2,315.2**	**2,318.5**	**2,324.5**
ST interest bearing debt	188.9	189.1	189.1	189.1	189.1
Accounts payable	13.6	28.4	43.9	44.4	45.5
LT interest bearing debt	500.8	662.5	662.5	662.5	662.5
Other liabilities	18.1	57.7	57.7	57.7	57.7
Total Liabilities	**721.4**	**937.6**	**953.1**	**953.7**	**954.8**
Shareholders Equity	903.9	1,359.7	1,362.0	1,364.8	1,369.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**903.9**	**1,359.7**	**1,362.0**	**1,364.8**	**1,369.7**
Total liabilities and equity	**1,625.2**	**2,297.3**	**2,315.2**	**2,318.5**	**2,324.5**
CASH FLOW (MYR m)					
Cash flow from operations	**87.0**	**105.0**	**138.3**	**132.1**	**135.8**
Acquisitions & investments	(752.2)	(648.9)	(9.3)	(9.4)	(9.6)
Disposal of FA & investments	27.3	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(1.5)	1.6	2.7	2.8	2.5
CF from investing activities	**(726.4)**	**(647.2)**	**(6.6)**	**(6.6)**	**(7.1)**
Dividends paid	(38.7)	(56.9)	(90.3)	(91.6)	(92.5)
Interest expense	(28.9)	(36.4)	(40.0)	(40.0)	(40.0)
Change in debt	389.0	164.0	0.0	0.0	0.0
Equity raised / (purchased)	342.0	487.9	0.0	0.0	0.0
Other financial activities	(2.4)	(7.3)	0.0	0.0	0.0
CF from financing activities	**661.0**	**551.4**	**(130.3)**	**(131.6)**	**(132.5)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**21.6**	**9.2**	**1.4**	**(6.1)**	**(3.9)**

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.0	14.4	40.5	1.3	2.4
Net property income growth	69.3	13.3	36.3	1.3	2.4
Core net profit growth	58.1	9.6	56.4	2.0	3.1
Distributable income growth	58.1	9.5	56.5	2.0	3.1
Profitability ratios (%)					
Net property income margin	78.4	77.6	75.4	75.4	75.4
Core net profit margin	46.9	44.9	50.0	50.4	50.7
Payout ratio	75.5	79.4	87.8	87.3	85.5
DuPont analysis					
Total return margin (%)	52.7	47.7	50.0	50.4	50.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	8.4	5.6	6.8	6.9	7.1
ROAA (%)	4.3	3.0	4.0	4.1	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.5	2.4	2.4	2.4
Net gearing (%) (excl. perps)	71.3	58.7	58.4	58.8	58.8
Net interest cover (x)	3.0	2.9	3.5	3.5	3.6
Debt/EBITDA (x)	8.6	9.5	6.6	6.5	6.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	644.9	797.5	796.1	802.2	806.1
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37

Source: Company; Maybank

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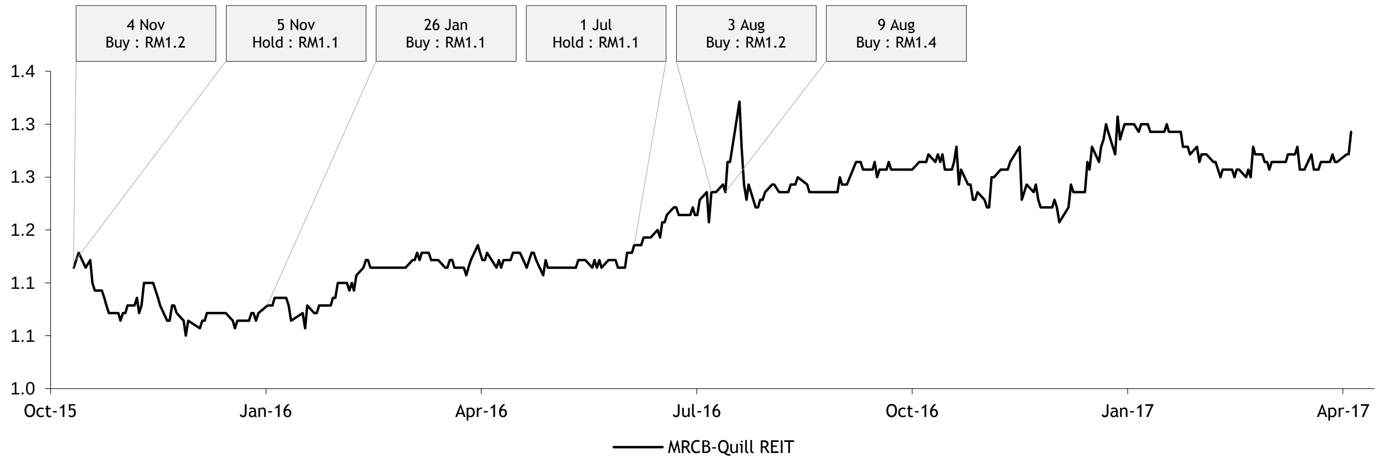
Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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