



MRCB-Quill REIT (MQREIT MK) : HOLD

Mkt. Cap: US\$284m | **3m Avg. Daily Val:** US\$0.05m

Last Traded Price (9 May 2019): RM1.10

Price Target 12-mth: RM1.15 (5% upside) (Prev RM1.15)

Analyst

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Vacant offices dampen earnings

- 1Q19 results in line with expectations
- Lower contribution from assets coupled with loss of income from disposal of QB8
- Maintain HOLD with TP of RM1.15

Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Gross Revenue	173	172	176	180
Net Property Inc	134	130	130	131
Total Return	73.1	79.1	79.3	80.1
Distribution Inc	86.6	76.7	76.9	77.7
EPU (sen)	6.82	7.37	7.37	7.44
EPU Gth (%)	4	8	0	1
DPU (sen)	8.08	7.15	7.15	7.21
DPU Gth (%)	(4)	(12)	0	1
NAV per shr (sen)	128	128	128	129
PE (X)	16.1	14.9	14.9	14.8
Distribution Yield (%)	7.3	6.5	6.5	6.6
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	37.6	37.8	38.0	38.1
ROAE (%)	5.3	5.8	5.7	5.8

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

What's New

MQREIT's 1QFY19 core earnings came in at RM19.4m (-7.6% y-o-y; -1.0% q-o-q). 1QFY19 numbers are in line with our and consensus expectations.

The earnings decline in the quarter was mainly due to lower revenue generated from Platinum Sentral, Wisma Technip, QB5 as well as loss of revenue from the disposal of QB8 – DHL XPJ which took place on 12 April 2018.

Property operating expenses inched down to RM9.3m (-4.3% y-o-y) as it tightened control on costs and reduced expenses from the disposal of QB8. Net property income (NPI) for the quarter came in at RM32.0m (-6.5% y-o-y).

Portfolio occupancy fell to 89% in 1QFY19 vs 93% in 4QFY18. We understand there was lower occupancy in QB5 – IBM, as well as Platinum Sentral and Menara Shell, as tenants opted to downsize operations.

Outlook

About 18.0% of total NLA is due for renewal in FY19, of which c.0.1% has been renewed and 3% not renewed. The expiring leases in FY20 form 18% of total NLA and 19% in FY20. We understand rental reversions were flattish as it focused on tenant retention to cope with a challenging operating environment. Going forward, we expect some challenges in negotiating positive rental reversions due to the oversupply of office space in the market.

Valuation and Recommendation

We maintain our HOLD with a TP of RM1.15. Our DDM-derived TP employs 7.6% cost of equity and 1% terminal growth. The key concerns hanging over the stock include the challenge of filling up vacancies, as well as downward



Flash Note

pressure on rental rates as it grapples with incoming supply of new office space. As we factor in weakness in the office market, we see limited upside for the stock at this juncture. Downside risks include a slower-than-expected pick-up in pace for filling up vacancies.

Quarterly Income Statement (RMm)

FY Dec	1Q2018	4Q2018	1Q2019	% chg yoy	% chg qoq
Gross revenue	44.0	42.7	41.4	(6.0)	(3.0)
Property expenses	(9.8)	(10.0)	(9.3)	(4.3)	(6.5)
Net Property Income	34.3	32.7	32.0	(6.5)	(1.9)
Other Operating expenses	(4.3)	(3.9)	(3.6)	(16.4)	(6.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	N/A	N/A
Net Interest (Exp)/Inc	(9.0)	(9.2)	(9.0)	(0.7)	1.8
Exceptional Gain/(Loss)	0.0	(11.6)	0.0	N/A	N/A
Net Income	21.0	8.05	19.4	(7.6)	141.2
Tax	0.0	0.0	0.0	N/A	N/A
Minority Interest	0.0	0.0	0.0	N/A	N/A
Net Income after Tax	21.0	8.05	19.4	(7.6)	141.2
Total Return	21.0	8.05	19.4	(7.6)	141.2
Non-tax deductible Items	0.0	(5.4)	0.0	nm	(100.0)
Net Inc available for Dist.	21.0	19.6	19.4	(7.6)	(1.0)
Ratio (%)					
Net Prop Inc Margin	77.8	76.6	77.4		
Dist. Payout Ratio	0.0	90.6	0.0		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S. No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 May 18	1.10	1.27	BUY
2:	09 Aug 18	1.18	1.27	BUY
3:	28 Nov 18	1.07	1.24	BUY
4:	18 Jan 19	1.11	1.15	HOLD

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

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

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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