

MRCB-Quill REIT (MQREIT MK)

1Q19 in-line; BUY for strong yield

Maintain BUY - offers 6.1% net DPU yield CY19E

1Q19 core net profit (-7.6% YoY; -0.8% QoQ) was within our expectations, at 24%/23% of our/consensus estimates; the slower YoY earnings growth was attributed to lower occupancy rates of certain assets. We trim our earnings estimates by 2-3% p.a. and nudge down our DDM-based TP by 5sen to MYR1.20 (Ke: 7.6%). BUY as MQREIT continues to offer an attractive CY19 net DPU yield of 6.1% (sector average: 5.1%) and 15% total return including TP upside, while 49-50% of FY19-21E revenue is supported by long-term tenants.

Lower occupancy rates hit rental income

The quarter's slower core earnings growth was largely due to lower occupancy rates at Platinum Sentral, QB5 - IBM and Wisma Technip, which have led to lower rental income. Platinum Sentral's end-1Q19 occupancy was 86% (-8ppt) while MQREIT's average portfolio occupancy was 89% (-7ppt YoY). Meanwhile, 1Q19 earnings also reflected the absence of QB8 - DHL XPJ (disposed in Apr 2018).

Estimates reduced

We lower our FY19/20/21E earnings estimates by 3%/3%/2% after lowering our rental rate assumption to flattish growth at Platinum Sentral and a lower average occupancy rate at Menara Shell (-4ppt to 93% p.a.; end-FY18: 93%) in anticipation of a challenging outlook for office space within the Kuala Lumpur Sentral area. Nonetheless, around ¾ of Menara Shell's NLA is still backed by long-term tenants (Shell People Services and AmGeneral Insurance) with leases up to FY28-30.

Expecting tenancy stability from long-term tenants

MQREIT's earnings will be primarily supported by its office buildings with long-term tenants (i.e. Menara Shell and single-tenanted properties like QB1 - DHL 1, QB4 - DHL 2 and QB2 - HSBC). However, we expect Platinum Sentral (c.29% of MQREIT's FY19-21E revenue) to face some occupancy risks going forward due to competition from existing and new supply of office space in the Klang Valley.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	180	173	170	172	174
Net property income	140	134	130	131	133
Core net profit	88	85	79	81	82
Core EPU (sen)	8.2	7.9	7.4	7.5	7.6
Core EPU growth (%)	(8.0)	(4.1)	(6.9)	1.5	1.8
Net DPU (sen)	7.6	7.3	6.7	6.8	6.9
Net DPU growth (%)	0.1	(3.7)	(7.7)	1.5	1.7
P/NTA (x)	1.0	0.8	0.9	0.9	0.9
Net DPU yield (%)	6.0	6.9	6.1	6.2	6.3
ROAE (%)	5.1	5.3	5.8	5.9	6.0
ROAA (%)	3.8	3.7	3.5	3.5	3.6
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	7.0	7.0	7.2
MKE vs. Consensus (%)	-	-	(4.4)	(3.0)	(3.9)

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BUY

Share Price	MYR 1.10
12m Price Target	MYR 1.20 (+9%)
Previous Price Target	MYR 1.25

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)	1.18/1.04
3m avg turnover (USDm)	0.0
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.2B
	USD283M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	1	(2)
Relative to index (%)	1	4	11

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly				
	1QFY19	1QFY18	%YoY	4QFY18	%QoQ
Gross revenue	41.4	44.0	(6.0)	42.7	(3.0)
Net property income	32.0	34.3	(6.5)	32.7	(1.9)
Interest income	0.8	0.7	13.5	1.7	(51.3)
Fair value gains/(loss)	-	-	NM	(6.1)	NM
Finance costs	(9.9)	(9.7)	1.7	(10.9)	(9.5)
Other expenses/gains	(3.6)	(4.3)	(16.4)	(3.9)	(6.6)
Pretax profit	19.4	21.0	(7.6)	14.2	36.9
Tax	-	-	NM	(6.1)	NM
Net profit	19.4	21.0	(7.6)	8.0	141.2
Net profit ex-EI	19.4	21.0	(7.6)	19.6	(0.8)
EPU ex-EI (sen)	1.8	2.0	(8.1)	1.8	(1.1)
Gross DPU (sen)	-	-	NM	3.9	NM
	1QFY19	1QFY18	+/- ppt	4QFY18	+/- ppt
Net property margin (%)	77.4	77.8	(0.4)	76.6	0.9
Net income ex-EI margin (%)	46.9	47.7	(0.8)	45.9	1.0

Note: 4Q18 net profit ex-EI excludes MYR5.4m of revaluation loss and MYR6.1m of deferred tax

Sources: Trust, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for MQREIT. 19% of MQREIT's total NLA is due for lease renewal in 2019 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	16.6	14.6	16.4	16.2	15.9
P/BV (x)	1.0	0.8	0.9	0.9	0.9
P/NTA (x)	1.0	0.8	0.9	0.9	0.9
DPU yield (%)	6.7	7.6	6.8	6.9	7.0
FCF yield (%)	9.7	10.0	9.7	9.8	10.0

INCOME STATEMENT (MYR m)

Revenue	180.1	173.4	169.5	171.6	173.9
Net property income	140.0	133.7	129.8	131.4	133.1
Management and trustee fees	(14.9)	(14.9)	(14.7)	(14.8)	(14.8)
Net financing costs	(36.9)	(36.3)	(35.9)	(36.0)	(36.2)
Exceptionals	(18.2)	(3.2)	0.0	0.0	0.0
Pretax profit	69.9	79.3	79.2	80.6	82.2
Income tax	0.0	(6.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	69.9	73.1	79.2	80.6	82.2
Distributable inc to unitholders	92.4	87.1	81.9	83.3	84.9

BALANCE SHEET (MYR m)

Cash & Short Term Investments	76.0	85.8	83.1	80.7	78.3
Accounts receivable	5.2	5.6	5.5	5.6	5.7
Property, Plant & Equip (net)	0.2	0.3	2.0	3.6	5.0
Investment properties	2,159.5	2,158.7	2,158.7	2,158.7	2,158.7
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	47.5	20.9	20.9	20.9	20.9
Total assets	2,288.4	2,271.4	2,270.3	2,269.4	2,268.6
ST interest bearing debt	116.9	0.0	0.0	0.0	0.0
Accounts payable	20.3	15.8	15.8	16.0	16.2
LT interest bearing debt	736.6	853.7	853.7	853.7	853.7
Other liabilities	29.9	29.6	29.6	29.6	29.6
Total Liabilities	903.7	899.1	899.1	899.3	899.5
Shareholders Equity	1,384.7	1,372.3	1,371.2	1,370.1	1,369.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,384.7	1,372.3	1,371.2	1,370.1	1,369.1
Total liabilities and equity	2,288.4	2,271.4	2,270.3	2,269.4	2,268.6

CASH FLOW (MYR m)

Cash flow from operations	129.1	113.3	115.2	116.9	118.7
Acquisitions & investments	(0.4)	(4.1)	(1.7)	(1.7)	(1.7)
Disposal of FA & investments	0.0	28.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.2	3.7	4.7	4.6	4.4
CF from investing activities	1.8	27.6	3.0	2.9	2.7
Dividends paid	(72.6)	(89.8)	(80.3)	(81.6)	(83.2)
Interest expense	(37.2)	(39.2)	(40.6)	(40.6)	(40.6)
Change in debt	1.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	4.0	0.0	0.0	0.0
Other financial activities	(0.0)	(0.0)	0.0	0.0	0.0
CF from financing activities	(108.8)	(125.0)	(120.9)	(122.2)	(123.8)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	22.0	15.9	(2.6)	(2.5)	(2.4)

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.7	(3.7)	(2.2)	1.2	1.3
Net property income growth	36.8	(4.5)	(2.9)	1.2	1.3
Core net profit growth	48.6	(3.8)	(6.4)	1.7	2.0
Distributable income growth	56.2	(5.8)	(5.9)	1.7	1.9
Profitability ratios (%)					
Net property income margin	77.7	77.1	76.6	76.6	76.6
Core net profit margin	48.9	48.8	46.7	46.9	47.2
Payout ratio	115.4	106.6	91.2	91.2	91.1
DuPont analysis					
Total return margin (%)	38.8	42.2	46.7	46.9	47.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.1	5.3	5.8	5.9	6.0
ROAA (%)	3.8	3.7	3.5	3.5	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.1	56.0	56.2	56.4	56.6
Net interest cover (x)	3.4	3.3	3.2	3.2	3.3
Debt/EBITDA (x)	6.8	7.2	7.4	7.3	7.2
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	777.4	767.9	770.6	773.0	775.4
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38

Source: Company; Maybank

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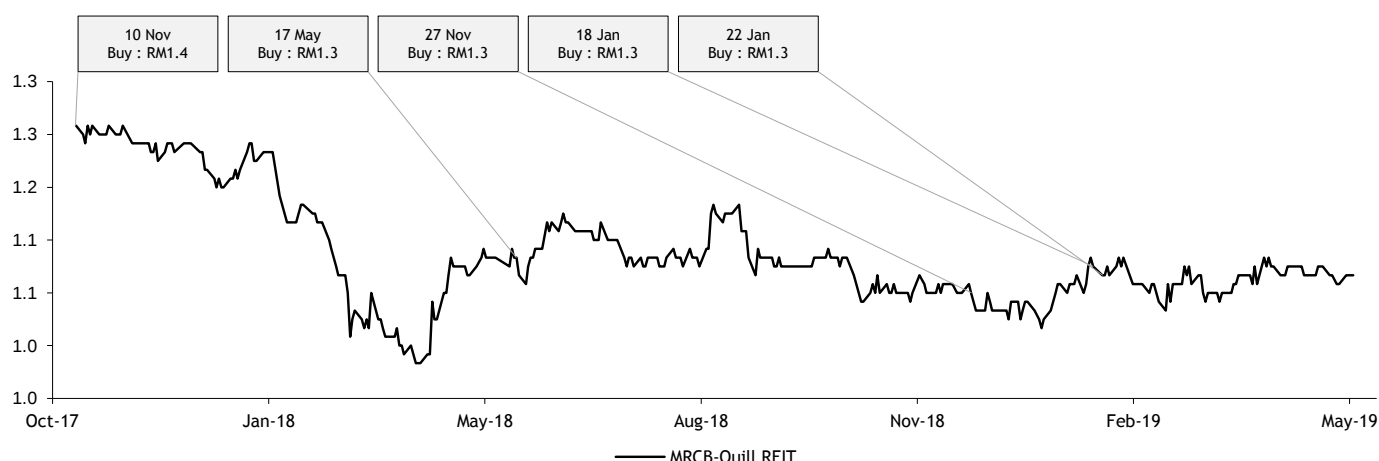
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