

18 June 2020

MRCB-Quill REIT

Broadly Within, Weaker Quarters Ahead

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1QFY20 realised net income (RNI) of RM19.8m (+1% YoY) came in broadly within our expectation at 33%, and within consensus at 27%. No dividends, as expected. FY20-21 will see 19% of NLA expiring mostly in 4QFY20, while FY20 may see rental support for tenants in coming months due to Covid-19. Maintain FY20-21E RNI of RM59.7-73.8m for now. Maintain OUTPERFORM and TP of RM0.70 (based on an implied FY21E yield of 9.7%).

1QFY20 realised net income (RNI) of RM19.8m is deemed broadly within our expectation at 33% and consensus at 27% which may have yet to reflect any weakness from 2QFY20 onwards. However, our conservative estimates are on expectations of weaker quarters ahead as there will be rental support given to tenants from 2QFY20 onwards, while the bulk of FY20 lease expiries (19% of NLA renewal) will be in 4QFY20. No dividend, as expected.

Results' highlights. YoY, top-line was up by 1% on higher revenue generated from Menara Shell, Wisma Technip and Tesco. As a result, RNI was up by 2% on marginally lower financing cost (-3%). QoQ, top-line was down slightly by 0.6%, likely due to lower gross revenue recognised during the quarter. However, lower property opex (-10.1%) which is generally lower in 1Q, lower expenditure (-6%) and lower finance cost (-7%) resulted in RNI increasing by 6.3%.

Outlook. FY20-21E will see 19-21% of net lettable assets (NLA) up for tenancy expiry amid an oversupply of office spaces in the Klang Valley. Covid-19 has raised concerns of tenant attrition across the economy, with the bulk of FY20 lease expiries due in 4QFY20 while we understand that the group will assist struggling tenants via rental support in coming quarters. So far, MQREIT has managed to renew 2% of leases up for renewal in FY20. Portfolio occupancy was stable at 90.5% in 1QFY20.

Maintain FY20-21E RNI of RM59.7-73.8m. Our earnings are based on FY20-21 portfolio occupancy of 87-90% and flattish reversions and rental rebates on a case-by-case basis. Our conservative FY20-21E GDU stand at 5.5-6.7 sen (NDPU of 4.9-6.1 sen), which suggest gross yield of 7.9-9.7% (net yield of 7.1-8.8%), respectively.

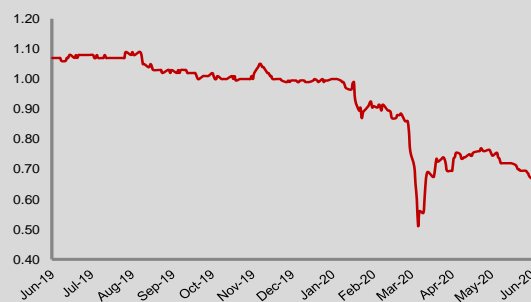
Maintain OUTPERFORM and Target Price of RM0.70. Our TP is based on FY21E GDU of 6.7 sen on an updated +2.0SD spread of +6.3ppt (from +5.9ppt), but on a lower 10-year MGS target of 3.30% (from 3.70%). Our target yield spread is in line with the sector at +2.0SD to historical levels as we remain cautious on earnings prospect during the Covid-19 pandemic, while prolonged loss of business and the new normal may affect tenants going forward in 2H 2020. Even so, we are comfortable with our call as we believe most downsides have been priced in for now, while MQREIT is commanding 9.8% gross yield for FY21 which is above its peers' average of 5.3% given its steep share price decline (-31% YTD). Our OUTPERFORM call is premised on potential return of 10.2% (consisting of 1.4% capital appreciation and 8.8% dividend income in FY21).

Risks to our call include bond yield expansions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: RM0.690
Target Price: RM0.700 ↔

Share Price Performance



KLCI 1,526.32
YTD KLCI chg -3.9%
YTD stock price chg -31.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK
Market Cap (RM m)	739.5
Shares Outstanding	1,071.8
52-week range (H)	1.10
52-week range (L)	0.50
3-mth avg daily vol:	524,659
Free Float	32%
Beta	1.0

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.1%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	162.1	148.5	167.2
EBIT	122.8	98.4	112.5
PBT	35.4	59.7	73.8
Net Profit	35.4	59.7	73.8
Core NP*	72.1	59.7	73.8
Consensus (CNP)	n.a.	74.6	75.5
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	6.7	5.5	6.8
Core EPS growth (%)	-13%	-18%	23%
NDPS (sen)	6.1	4.9	6.1
BVPS (RM)	1.23	1.26	1.27
Core PER (x)	10.3	12.5	10.2
Price/BV (x)	0.6	0.5	0.5
Gearing (x)	0.38	0.39	0.38
Net Div. Yield (%)	8.9	7.1	8.8

*Core NP refers to RNI



18 June 2020

OTHER POINTS**Result Highlight**

FYE 31 Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY
Gross revenue	41.7	42.0	-0.6%	41.4	0.8%
Prop Opex	-9.4	-10.5	-10.1%	-9.3	0.9%
NPI excl unrealised rental income	32.3	31.5	2.5%	32.0	0.8%
Interest Income	0.6	1.1	-48.5%	0.8	-30.0%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.
Surplus on revaluation	0.0	-36.7	n.m.	0.0	n.a.
Total Trust Income	32.9	-4.1	-902.2%	32.9	0.0%
Expenditure	-3.5	-3.8	-6.2%	-3.6	-1.9%
Finance Cost	-9.5	-10.3	-7.0%	-9.9	-3.1%
Income Before Tax	19.8	-18.1	-209.1%	19.4	1.9%
Tax	0.0	0.0	n.a.	0.0	n.a.
Net Income	19.8	-18.1	-209.1%	19.4	1.9%
Realised Net income (RNI)	19.8	18.6	6.3%	19.4	1.9%
Core EPU (sen)	1.85	1.74	6.3%	1.81	1.9%
DPU (sen)	0.00	3.37	n.m.	0.00	n.a.
NAV/unit (RM)	1.22	1.23		1.26	
Gearing (x)	0.38	0.38		0.37	
NPI Margins	77.4%	75.0%		77.4%	
RNI Margins	47.4%	44.3%		46.9%	

Source: Company, Kenanga Research

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18 June 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
MREITs UNDER COVERAGE																	
AXIS REIT	2.03	2,927.9	Y	12/2020	1.3%	3.9%	11.8%	7.0%	25.3	22.7	21.3	1.4	1.4	6.2%	3.9%	1.90	MP
CAPITALAND MALAYSIA MALL TRUST	0.81	1,664.9	N	12/2020	-17.7%	15.2%	-45.4%	49.4%	13.1	23.8	16.0	0.6	0.6	2.6%	3.8%	0.65	UP
IGB REIT	1.75	6,221.3	N	12/2020	-20.0%	22.1%	-14.4%	24.2%	19.7	26.6	21.0	1.6	1.7	6.2%	3.8%	1.65	MP
KLCCP STAPLED GROUP	8.00	14,442.7	Y	12/2020	-3.7%	8.4%	-7.8%	9.1%	19.8	21.5	19.7	1.1	1.1	5.5%	4.5%	8.10	MP
MRCB-QUILL REIT	0.69	739.5	N	12/2020	-14.4%	12.6%	-17.2%	23.6%	10.3	12.5	10.2	0.5	0.5	4.3%	7.1%	0.70	OP
PAVILION REIT	1.66	5,051.9	N	12/2020	-12.0%	15.9%	-38.8%	59.6%	20.4	33.3	20.9	1.3	1.3	3.8%	2.9%	1.50	MP
SUNWAY REIT	1.68	4,947.7	N	06/2020	1.5%	9.1%	-10.4%	17.0%	17.5	19.6	16.7	1.1	1.1	5.7%	4.1%	1.65	MP
Simple Average					-9.3%	12.5%	-17.5%	27.1%	18.0	22.9	18.0	1.1	1.1	4.9%	4.3%		
* Core NP and Core PER																	
CONSENSUS NUMBERS																	
YTL HOSPITALITY REIT	1.10	1,874.8	N	06/2020	-23.1%	7.4%	3.9%	6.7%	17.9	17.2	16.2	0.7	0.7	0.0	5.3%	1.19	N.A.
AL-AQAR HEALTHCARE REIT	1.37	1,008.3	Y	12/2020	0.5%	4.6%	-17.1%	6.8%	13.2	16.0	15.0	1.1	n.a.	0.1	5.8%	1.55	BUY
AMANAHRAYA REIT	0.68	389.8	N	12/2020	1.3%	0.6%	4.8%	-0.5%	11.0	10.5	10.5	0.5	n.a.	0.0	9.3%	n.a.	N.A.
AMFIRST REIT	0.42	288.3	N	03/2021	n.a.	n.a.	n.a.	n.a.	12.2	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	N.A.
HEKTAR REIT	0.68	314.1	N	12/2020	n.a.	n.a.	n.a.	n.a.	27.5	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	N.A.
TOWER REIT	0.72	200.6	N	06/2020	n.a.	n.a.	n.a.	n.a.	28.0	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	N.A.
UOA REIT	1.21	511.7	N	12/2020	n.a.	n.a.	n.a.	n.a.	25.8	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	N.A.
ATRIUM REIT	1.02	208.7	N	12/2020	n.a.	n.a.	n.a.	n.a.	59.8	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	N.A.
AL-SALAM REIT	0.71	411.8	Y	12/2020	-9.0%	2.0%	-34.9%	18.9%	11.4	17.5	14.7	0.7	0.7	0.0	5.4%	0.700	N.A.
KIP REIT	0.82	411.8	N	06/2020	n.a.	n.a.	n.a.	n.a.	12.1	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	N.A.

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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