

17 Jun 2020

Hold

Price
RM0.69

Target Price
RM0.72

Bloomberg code
MQREIT MK

Equity | Malaysia | REITs

Flashnote

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MRCB-Quill REIT

1Q20 in line

Financial Highlights

FYE Dec	2017	2018	2019	2020F	2021F
Revenue (RM mil)	180.1	173.4	162.1	160.0	158.6
Net Property Income	140.0	133.7	122.8	121.3	120.2
Realised Net profit (RM mil)	87.0	82.5	72.1	70.6	69.7
EPU (sen)	8.1	7.7	6.7	6.6	6.5
EPU Growth (%)	48.7	(5.5)	(12.6)	(2.0)	(1.4)
DPU (sen)	8.4	8.1	6.8	6.7	6.6
PE (x)	8.5	9.0	10.3	10.5	10.6
Div yield (%)	12.2	11.7	9.9	9.7	9.5
ROE (%)	5.0	5.3	2.2	5.3	5.3
Gearing (%)	37.3	37.6	37.8	37.8	37.8

Source: Company, KAF

- We maintain our Hold recommendation on MRCB-Quill REIT (MQREIT) with an unchanged DDM-based target price of RM0.72.
- MQREIT reported 1Q20 net property income (NPI) of RM32.3m, in line with expectations, at 27% of our full-year forecast. No dividends were declared during the quarter, as they are usually declared on a semi-annual basis.
- 1Q20 revenue increased slightly by 0.8% yoy to RM41.7m. This was due to higher revenue contribution from existing properties, namely Menara Shell, Wisma Technip and Tesco Penang. Despite an increase in property operating expenses (+0.9% yoy), NPI margin remained fairly stable at 77.4%.
- The REIT's overall portfolio occupancy rate stood at 90.5% in 1Q20, up from 90.0% as at end-FY19. We gather that this was due to better occupancy at Menara Shell (99% in 1Q20 vs. 95% as at end-FY19). At the same time, we gather that Quill Building 5 (QB5) has remained untenanted since the key tenant moved out from the building in April last year. Management has received some enquiries for the office building, but nothing has been finalized thus far. QB5 accounts for 4% of MQREIT's total NLA.
- In terms of lease renewals, MQREIT has managed to complete 0.3% of the 19% total net lettable area (NLA) due in FY20. Active negotiations for the remaining leases are currently in progress, with the bulk of it due in 4Q20. However, we remain cautious on the reversionary rates as management continues to focus on tenant retention across all its properties. Additionally, we expect some rental assistance to be extended to its non-essential retail tenants that were affected by the MCO, especially at Plaza Mont Kiara (PMK). To note, tenants with retail exposure make up 20.3% of MQREIT's tenant mix by NLA.
- We make no changes to our forecasts for now. Our FY20-21F estimates are lower than FY19, on limited rental growth assumptions. Keep our Hold call on MQREIT, supported by estimated FY20F dividend yield of 9.7%.

Exhibit 1: Results summary

(RM m)	1Q19	2Q19	3Q19	4Q19	1Q20	Change		Cumulative			KAF	
FYE 31 Dec	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	% qoq	% yoy	3M19	3M20	% chg	2020F	1Q/F
Revenue	41.4	39.2	39.5	42.0	41.7	(1)	1	41.4	41.7	1	160.0	26
Property operating expenses	(9.3)	(9.7)	(9.7)	(10.5)	(9.4)	(10)	1	(9.3)	(9.4)	1	(38.7)	24
Net property income	32.0	29.5	29.7	31.5	32.3	2	1	32.0	32.3	1	121.3	27
Interest income	0.8	0.6	0.7	1.1	0.6	(49)	(30)	0.8	0.6	(30)	2.7	21
Trust expenses	(3.6)	(3.2)	(3.5)	(3.8)	(3.5)	(6)	(2)	(3.6)	(3.5)	(2)	(14.2)	25
Borrowing costs	(9.9)	(10.0)	(9.7)	(10.3)	(9.5)	(7)	(3)	(9.9)	(9.5)	(3)	(39.2)	24
Exceptional items	-	-	-	(36.7)	0.3			-	0.3	-		
Profit before tax	19.4	16.9	17.2	(18.1)	20.1	(211)	4	19.4	20.1	4	70.6	28
Tax	-	-	-	(6.2)	-			-	-		-	
Net profit	19.4	16.9	17.2	(24.4)	20.1	(182)	4	19.4	20.1	4	70.6	28
Normalized net profit	19.4	16.9	17.2	18.6	19.8	6	2	19.4	19.8	2	70.6	28

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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