

17 August 2020

MRCB-Quill REIT

1HFY20 Better Than Expected

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1HFY20 realised net income (RNI) of RM38.9m (+8% YoY-Ytd) came in above our (65%), and consensus (57%), expectation, as we had over-estimated the rental rebates for tenants in 2QFY20. 1HFY20 dividend of 3.43 sen is also above expectation (at 63%). Hence, we increase FY20-21E CNP by 22-3% to RM73-76m on improved occupancy and lower rebates. Upgrade to **OUTPERFORM** (from MP) with a higher TP of RM0.800 (from RM0.700). MQREIT offers investors a potential total return of 14% based on our revised estimates.

1HFY20 realised net income (RNI) of RM38.9m is above our expectation at 65% and consensus at 57% as 2QFY20 rental rebates to tenants were not as high as previously anticipated. 1HFY20 GDPU of 3.43 sen per unit (which includes a non-taxable portion of 0.09 sen) is also above at 63% of our FY20E GDPU of 5.4 sen.

Results' highlights. YoY-Ytd, top-line was up by 2% on higher revenue generated from Menara Shell, Wisma Technip, and Tesco. As a result of lower property operating expense (-3%) and finance cost (-6%), RNI was up by 8%. However, DPU was flat at 3.43 sen as the group aims for prudent cash management in light of Covid-19 uncertainties. QoQ, top-line was down by 3.8% on marginally lower gross revenue recognised during the quarter due to rental rebates. RNI declined by 3.6% despite mildly lower operating expense (-3%) and finance cost (-6.6%)

Outlook. FY20-21 will see minimal lease expiries of 19-21% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. The group remains cautious of the Covid-19 situation but does not expect further rental rebates in 2HFY20 as business operations are improving. Portfolio occupancy remains stable at 90.4% in 2QFY20.

Increase FY20-21E CNP by 22-3% to RM73-76m on improved occupancy of 90-91% (from 87-90% in FY20-21E) and lower-than-expected rental rebates in 2QFY20. FY20-21E GDPU/NDPU to 6.4-6.7 sen / 5.8-6.0 sen, (from GDPU/NDPU 5.5-6.7 sen / 4.9-6.1 sen) on improved earnings but a lower pay-out ratio of 95% (from 99%) as we believe MQREIT prefers to be prudent with cash management, implying gross yields of 8.5-8.8% (net yield of 7.7-8.0%).

Upgrade to OUTPERFORM (from MP) with a higher Target Price of RM0.80 (from RM0.70). Our TP is based on FY21E GDPU of 6.7 sen but on a lower spread of +5.8ppt @ +1.5SD (from +6.3ppt @ +2SD) on a lower 10-year MGS target of 2.80% (from 3.30%). Our target yield spread is in line with the sector at +1.0 to +2.0SD to historical levels as we remain cautious under this Covid-19 pandemic, but we believe MQREIT warrants slightly better spreads given that 1HFY20 saw minimal earnings weakness contrary to our earlier poor expectation. We also do not expect further rental rebates in 2HFY20, barring any unforeseen circumstances. At current levels, the gross yields are attractive at 8.8% vs. MREITs under our coverage with an average of 5.3%, given the stability of the office segment compared to retail and hospitality segments.

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

OUTPERFORM ↑

Price: **RM0.755**
Target Price: **RM0.800** ↑

Share Price Performance



KLCI 1,564.59
YTD KLCI chg -1.5%
YTD stock price chg -24.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK Equity
Market Cap (RM m)	809.2
Shares Outstanding	1,071.8
52-week range (H)	1.10
52-week range (L)	0.50
3-mth avg daily vol:	624,400
Free Float	32%
Beta	0.9

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	166.2	170.6
EBIT	122.8	111.7	115.0
PBT	35.4	73.1	76.4
Net Profit	35.4	73.1	76.4
Core NP*	72.1	73.1	76.4
Consensus (CNP)	n.a.	68.0	72.2
Earnings Revision	n.a.	+22%	+3%
Core EPS (sen)	6.7	6.8	7.0
Core EPS growth (%)	-13%	0%	4%
NDPS (sen)	6.1	5.8	6.0
BVPS (RM)	1.23	1.26	1.27
Core PER (x)	11.2	11.2	10.7
Price/BV (x)	0.6	0.6	0.6
Gearing (x)	0.38	0.39	0.38
Net Div. Yield (%)	8.1	7.7	8.0

*Core NP refers to RNI



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OTHER POINTS

Result Highlight								
FYE Dec (RM m)	2Q20	1Q20	QoQ	2Q19	YoY	1H19	1H20	YoY-Ytd
Gross revenue	40.1	41.7	-3.8%	38.8	3.4%	80.2	81.8	2%
Prop Opex	-9.1	-9.4	-3.0%	-9.7	-5.7%	-19.0	-18.6	-3%
NPI excl. unrealised rental income	31.0	32.3	-4.1%	29.1	6.5%	61.1	63.3	3%
Interest Income	0.5	0.6	-6.2%	0.6	-3.9%	1.4	1.1	-19%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total Trust Income	31.5	32.9	-4.1%	29.6	6.3%	62.5	64.4	3%
Expenditure	-3.5	-3.5	-0.6%	-3.5	1.4%	-7.1	-7.1	0%
Finance Cost	-8.9	-9.5	-6.6%	-9.7	-8.3%	-19.6	-18.5	-6%
Income Before Tax	19.1	19.8	-3.6%	16.5	16.0%	35.9	38.9	8%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	19.1	19.8	-3.6%	16.5	16.0%	35.9	38.9	8%
Realised Net income (RNI)	19.1	19.8	-3.6%	16.5	16.0%	35.9	38.9	8%
Core EPU (sen)	1.78	1.85	-3.6%	1.54	16.0%	3.3	3.6	8%
DPU (sen)	3.43	0.00	n.a.	3.43	0.0%	3.4	3.4	0%
NAV/unit (RM)	1.24	1.22		1.27		1.27	1.24	
Gearing (x)	0.38	0.38		0.37		0.37	0.38	
NPI Margins	77.2%	77.4%		75.0%		76.2%	77.3%	
RNI Margins	47.6%	47.4%		42.4%		44.7%	47.5%	

Source: Company, Kenanga Research

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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	2.05	2,956.8	Y	12/2020	1.3%	3.9%	11.8%	7.0%	25.5	23.0	21.5	1.4	1.4	6.2%	3.9%	1.90	MP
CAPITALAND MALAYSIA MALL TRUST	0.70	1,428.5	N	12/2020	-17.7%	15.2%	-45.4%	49.4%	11.2	20.4	13.7	0.5	0.5	2.6%	4.5%	0.65	UP
IGB REIT	1.78	6,331.7	N	12/2020	-20.0%	22.1%	-14.4%	24.2%	20.0	27.0	21.3	1.7	1.7	6.2%	3.7%	1.65	MP
KLCCP STAPLED GROUP	7.85	14,171.9	Y	12/2020	-3.7%	3.5%	-7.8%	3.8%	19.4	21.1	20.3	1.1	1.1	5.4%	4.2%	8.55	OP
MRCB-QUILL REIT	0.76	809.2	N	12/2020	-4.1%	2.6%	-11.4%	4.5%	11.2	11.2	10.7	0.6	0.6	4.3%	8.5%	0.80	OP
PAVILION REIT	1.56	4,750.7	N	12/2020	-12.0%	15.9%	-38.8%	59.6%	19.2	31.3	19.7	1.2	1.2	3.8%	3.1%	1.50	MP
SUNWAY REIT	1.58	4,653.2	N	06/2021	1.5%	12.2%	-10.5%	24.4%	16.5	18.4	15.7	1.0	1.0	5.4%	4.4%	1.50	MP
Simple Average					-7.8%	10.8%	-16.6%	24.7%	17.4	21.8	17.6	1.1	1.1	4.9%	4.6%		
* Core NP and Core PER																	
CONSENSUS NUMBERS																	
YTL HOSPITALITY REIT	0.78	1,329.4	N	06/2021	-23.0%	14.8%	1014.8 %	20.4%	138.6	12.4	10.3	0.5	0.5	0.0	5.9%	1.00	N.A.
AL-'AQAR HEALTHCARE REIT	1.38	1,015.7	Y	12/2020	0.5%	4.6%	-17.1%	6.8%	13.3	16.1	15.1	1.1	n.a.	0.1	5.8%	1.55	BUY
AMANAHRAYA REIT	0.63	358.3	N	12/2020	-3.5%	2.6%	-8.4%	5.2%	10.1	11.0	10.5	0.5	n.a.	0.0	8.8%	0.680	N.A.
AMFIRST REIT	0.40	271.1	N	03/2021	n.a.	n.a.	n.a.	n.a.	11.5	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	N.A.
HEKTAR REIT	0.57	261.0	N	12/2020	n.a.	n.a.	n.a.	n.a.	22.8	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	N.A.
TOWER REIT	0.62	173.9	N	06/2021	n.a.	n.a.	n.a.	n.a.	22.4	n.a.	n.a.	0.3	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	1.06	216.9	N	12/2020	n.a.	n.a.	n.a.	n.a.	62.1	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	N.A.
AL-SALAM REIT	0.67	388.6	Y	12/2020	-9.0%	2.0%	-34.9%	18.9%	10.7	16.5	13.9	0.6	0.6	0.0	5.7%	0.700	N.A.
KIP REIT	0.82	411.8	N	06/2021	16.7%	2.0%	22.9%	4.6%	12.9	10.5	10.0	0.8	0.8	0.1	7.4%	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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