

MRCB-Quill REIT (MQREIT MK)

3Q17: Within estimates

Maintain BUY

3Q17 results were in-line. The stronger YoY earnings were driven by the addition of Menara Shell's contributions, positive rental reversions and sustained portfolio occupancy rate. We tweak our FY17 earnings forecast by -2% but maintain our MYR1.35 TP (cost of equity: 7.5%) due to marginal impact to our DDM valuation. Among the M-REITs within our coverage, MQREIT continues to offer the highest CY18 net DPU yield of 6.0%, vs. the sector average's 5.4%.

Double-digit YoY growth on track

3Q17 net profit was MYR21.4m (+40% YoY, -3% QoQ), bringing 9M17 earnings to MYR66.6m (+45% YoY) at 72%/74% of our/consensus' full-year estimate. YoY, 3Q17's bottomline was driven by (i) additional rental income contribution from Menara Shell (since Dec 2016), (ii) positive rental reversions at QB3, Wisma Technip, QB5 and QB2, (iii) sustained portfolio occupancy rate at 97% (unchanged YoY). This, however, was partly pulled backed by (iv) additional opex post injection of Menara Shell, and (v) higher financing costs attributed to new borrowings to fund its asset acquisition. QoQ earnings, however, eased marginally due to higher opex from some ad hoc expenses (i.e. repair works).

Marginal forecast tweak

We nudge down FY17's earnings forecast by 2% as we realign our assumptions to account for the marginally higher opex. However, we are keeping our FY18-19 forecasts intact.

Current portfolio is resilient

We remain positive on MQREIT's resilient earnings which are backed by assets with long-term tenants (i.e. Platinum Sentral and Menara Shell). There could also be a larger upside to MQREIT's earnings growth from Menara Shell as our initial assumptions are conservative.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	115	132	185	187	192
Net property income	90	102	137	141	145
Core net profit	54	59	90	95	97
Core EPU (sen)	8.2	9.0	8.4	8.8	9.0
Core EPU growth (%)	(6.7)	9.6	(5.9)	4.0	2.5
Net DPU (sen)	6.9	7.5	7.4	7.6	7.7
Net DPU growth (%)	(8.1)	8.8	(2.0)	3.4	0.4
P/NTA (x)	0.9	0.6	1.0	1.0	1.0
Net DPU yield (%)	5.5	5.9	5.8	6.0	6.0
ROAE (%)	8.4	5.6	6.6	6.9	7.1
ROAA (%)	4.3	3.0	3.9	4.1	4.2
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	7.1	7.2	7.6
MKE vs. Consensus (%)	-	-	4.0	5.6	1.6

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BUY

Share Price	MYR 1.27
12m Price Target	MYR 1.35 (+6%)
Previous Price Target	MYR 1.35

Company Description

MRCB-Quill REIT engages in the investment in commercial properties which are mainly located in the Klang Valley.

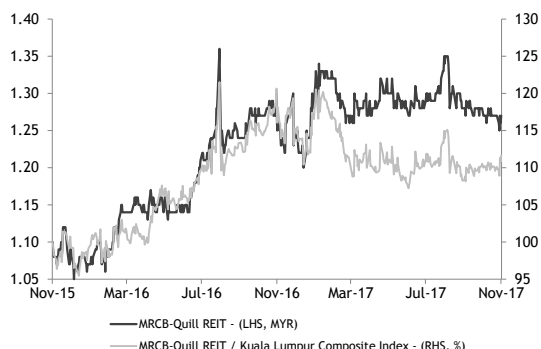
Statistics

52w high/low (MYR)	1.35/1.20
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.4B
	USD325M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(5)	2
Relative to index (%)	1	(2)	(4)

Source: FactSet

Fig 1: Results summary table

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY17	3QFY16	%YoY	2QFY17	%QoQ	9MFY17	9MFY16	%YoY
Gross revenue	44.8	32.5	37.9	45.1	(0.6)	135.5	97.7	38.6
Net property income	34.3	25.5	34.3	34.9	(1.8)	105.3	76.7	37.4
Interest income	0.7	0.5	57.3	0.6	15.1	1.8	1.2	48.6
Fair value gains	-	-	n.m.	-	n.m.	-	-	n.m.
Finance costs	(10.0)	(8.1)	22.8	(9.8)	1.1	(29.5)	(23.9)	23.3
Other expenses	(3.7)	(2.7)	38.3	(3.7)	0.7	(11.1)	(8.1)	35.9
Pretax profit	21.4	15.2	40.4	22.0	(3.0)	66.6	45.9	45.2
Tax	-	-	n.m.	-	n.m.	-	-	n.m.
Net profit	21.4	15.2	40.4	22.0	(3.0)	66.6	45.9	45.2
Net profit ex-EI	21.4	15.2	40.4	22.0	(3.0)	66.6	45.9	45.2
EPU ex-EI (sen)	2.0	2.3	(13.0)	2.3	(11.5)	6.4	6.9	(7.2)
Gross DPU (sen)	-	-	n.m.	4.2	n.m.	4.2	4.2	0.0
	3QFY17	3QFY16	+/- ppt	2QFY17	+/- ppt	9MFY17	9MFY16	+/- ppt
Net property margin (%)	76.5	78.6	(2.1)	77.4	(1.0)	77.8	78.5	(0.7)
Net income ex-EI margin (%)	47.7	46.9	0.8	48.9	(1.2)	49.2	46.9	2.2

Sources: Trust, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
Price/DPU(x)	18.3	16.8	17.2	16.6	16.5
P/BV (x)	0.9	0.6	1.0	1.0	1.0
P/NTA (x)	0.9	0.6	1.0	1.0	1.0
DPU yield (%)	6.1	6.6	6.5	6.7	6.7
FCF yield (%)	10.4	12.5	10.1	9.5	9.9
INCOME STATEMENT (MYR m)					
Revenue	115.2	131.8	185.1	187.5	192.0
Net property income	90.3	102.3	137.3	141.3	144.7
Management and trustee fees	(9.8)	(12.4)	(9.5)	(9.6)	(9.7)
Net financing costs	(26.5)	(30.7)	(37.3)	(37.1)	(37.6)
Exceptionals	6.7	3.6	0.0	0.0	0.0
Pretax profit	60.7	62.8	90.4	94.5	97.4
Income tax	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	60.7	62.8	90.4	94.5	97.4
Distributable inc to unitholders	54.0	59.2	90.4	94.5	97.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	44.9	54.1	57.6	49.3	45.4
Accounts receivable	5.6	17.6	24.8	25.1	25.7
Property, Plant & Equip (net)	0.2	0.2	9.5	18.7	27.9
Investment properties	1,569.8	2,222.0	2,222.0	2,222.0	2,222.0
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	4.7	3.4	3.4	3.4	3.4
Total assets	1,625.2	2,297.3	2,317.2	2,318.5	2,324.4
ST interest bearing debt	188.9	189.1	189.1	189.1	189.1
Accounts payable	13.6	28.4	46.0	44.4	45.5
LT interest bearing debt	500.8	662.5	662.5	662.5	662.5
Other liabilities	18.1	57.7	57.7	57.7	57.7
Total Liabilities	721.4	937.6	955.3	953.7	954.8
Shareholders Equity	903.9	1,359.7	1,362.0	1,364.8	1,369.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	903.9	1,359.7	1,362.0	1,364.8	1,369.7
Total liabilities and equity	1,625.2	2,297.3	2,317.2	2,318.5	2,324.4
CASH FLOW (MYR m)					
Cash flow from operations	87.0	105.0	138.3	129.9	135.8
Acquisitions & investments	(752.2)	(648.9)	(9.3)	(9.4)	(9.6)
Disposal of FA & investments	27.3	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(1.5)	1.6	2.7	2.9	2.5
CF from investing activities	(726.4)	(647.2)	(6.6)	(6.5)	(7.1)
Dividends paid	(38.7)	(56.9)	(88.2)	(91.7)	(92.5)
Interest expense	(28.9)	(36.4)	(40.0)	(40.0)	(40.0)
Change in debt	389.0	164.0	0.0	0.0	0.0
Equity raised / (purchased)	342.0	487.9	0.0	0.0	0.0
Other financial activities	(2.4)	(7.3)	0.0	0.0	0.0
CF from financing activities	661.0	551.4	(128.2)	(131.7)	(132.5)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	21.6	9.2	3.5	(8.3)	(3.9)

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.0	14.4	40.5	1.3	2.4
Net property income growth	69.3	13.3	34.2	2.9	2.4
Core net profit growth	58.1	9.6	52.7	4.5	3.0
Distributable income growth	58.1	9.5	52.9	4.5	3.0
Profitability ratios (%)					
Net property income margin	78.4	77.6	74.2	75.4	75.4
Core net profit margin	46.9	44.9	48.9	50.4	50.7
Payout ratio	75.5	79.4	87.7	87.3	85.5
DuPont analysis					
Total return margin (%)	52.7	47.7	48.9	50.4	50.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	8.4	5.6	6.6	6.9	7.1
ROAA (%)	4.3	3.0	3.9	4.1	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.5	2.4	2.4	2.4
Net gearing (%) (excl. perps)	71.3	58.7	58.3	58.8	58.9
Net interest cover (x)	3.0	2.9	3.4	3.5	3.6
Debt/EBITDA (x)	8.6	9.5	6.7	6.5	6.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	644.9	797.5	794.0	802.3	806.1
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37

Source: Company; Maybank

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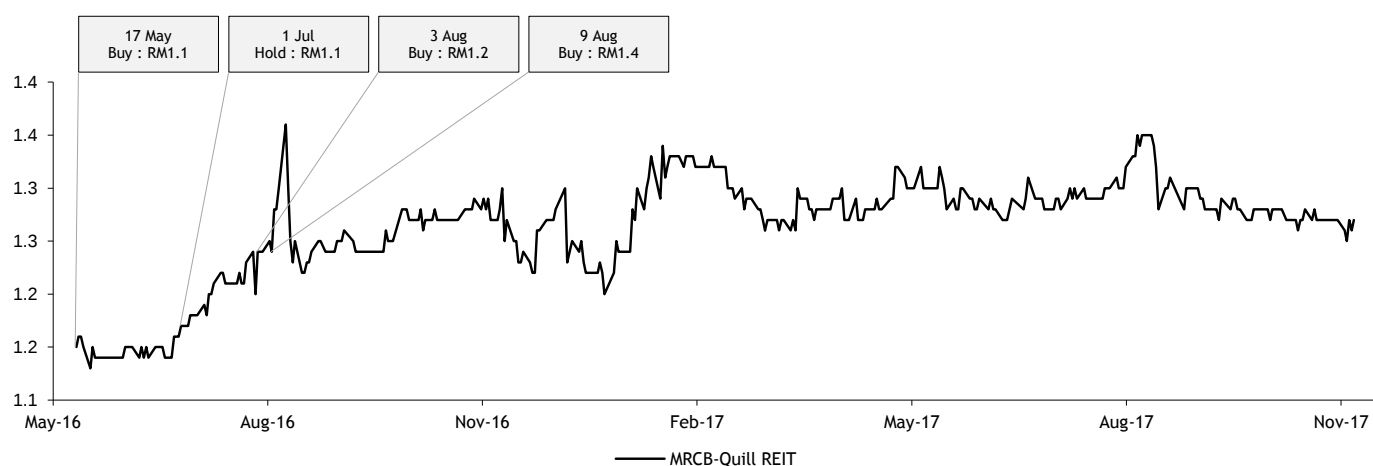
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