REITs

Malaysia

MRCB-Quill REIT (MQREIT MK)

Softer occupancy in 3Q18

BUY

Share Price	MYR 1.08
12m Price Target	MYR 1.25 (+16%)
Previous Price Target	*MYR 1.30*

Maintain BUY

3Q18 results fell short whereby earnings were largely impacted by lower portfolio occupancy rate but partly mitigated by positive rental reversions. Single-tenanted buildings continued to sustain their full occupancy rates. We lower our FY18-20 earnings forecasts by 3% p.a. and nudge down our DDM-TP to MYR1.25 (-5sen; cost of equity: 7.6%).

Some easing of tenancy rates

3Q18 earnings eased by 4% YoY and 3% QoQ to MYR20.6m, bringing 9M18 net profit to MYR62.9m (-6% YoY), at 71% of our and consensus' full-year estimates. Results missed our estimates mainly due to lower occupancy at *Platinum Sentral*. In 3Q18, portfolio occupancy was at 94% vs. 3Q17's 97%. Meanwhile, the lower YoY 3Q18 earnings was also attributed to the disposal of *QB8 - DHL XPJ* in Apr 2018. Barring *Platinum Sentral*, 3Q18 earnings were partly offset by sustained occupancies across most properties (i.e. *Menara Shell* and single-tenanted office buildings) and positive rental reversions at selected assets.

Adjusting forecasts

We reduce our FY18-20 earnings forecasts by about 3% p.a. after lowering our occupancy estimates by 3-5ppt at selected properties, particularly at *Platinum Sentral*. Our revised portfolio occupancy rate is 95%/96%/96% in FY18/19/20 vs. 97%/97%/97% previously.

Cautious on multi-tenanted offices

Our earnings estimates are largely supported by positive rental reversions (single-digits) and sustained occupancy rates at most of its properties. However, we believe the ongoing oversupply of office space in the Klang Valley would continue to put pressure on MQREIT's office tenancies, namely multi-tenanted office buildings (i.e. *Platinum Sentral*, *Menara Shell*). Elsewhere, we have yet to impute acquisition of new asset(s) into our forecasts. MQREIT offers an attractive FY19 net DPU yield of 6.7%.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	132	180	177	179	181
Net property income	102	140	135	137	138
Core net profit	59	88	85	86	87
Core EPU (sen)	9.0	8.2	7.9	7.9	8.0
Core EPU growth (%)	9.6	(8.4)	(3.4)	(0.1)	1.4
Net DPU (sen)	7.5	7.6	7.3	7.3	7.1
Net DPU growth (%)	8.8	0.1	(3.6)	(0.1)	(2.7)
P/NTA (x)	0.6	1.0	0.8	0.8	0.8
Net DPU yield (%)	6.3	6.0	6.7	6.7	6.6
ROAE (%)	5.6	5.1	6.2	6.2	6.3
ROAA (%)	3.0	3.8	3.8	3.8	3.9
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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Company Description

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

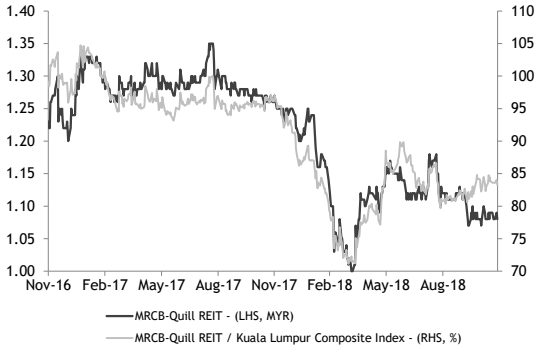
Statistics

52w high/low (MYR)	1.27/1.00
3m avg turnover (USDm)	0.0
Free float (%)	37.4
Issued shares (m)	1,072
Market capitalisation	MYR1.2B
	USD276M

Major shareholders:

Malaysian Resources Corp. Bhd.	27.8%
Employees Provident Fund	11.9%
CapitaLand Commercial Trust	10.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(2)	(14)
Relative to index (%)	(1)	5	(13)

Source: FactSet

Fig 1: Results summary table

	Quarterly					Cumulative		
FY Dec (MYR m)	**3QFY18**	**3QFY17**	***%YoY***	**2QFY18**	***%QoQ***	**9MFY18**	**9MFY17**	***%YoY***
Gross revenue	43.3	44.8	*(3.5)*	43.4	*(0.3)*	130.7	135.5	*(3.5)*
Net property income	**33.3**	**34.3**	***(2.8)***	**33.4**	***(0.1)***	**101.0**	**105.3**	***(4.1)***
Interest income	1.0	0.7	*36.6*	0.9	*16.5*	2.6	1.8	*42.1*
Fair value gains	-	-	*NM*	-	*NM*	-	-	*NM*
Finance costs	(10.1)	(10.0)	*1.2*	(9.9)	*1.4*	(29.7)	(29.5)	*0.6*
Other expenses/gains	(3.7)	(3.7)	*0.0*	(0.8)	*352.5*	(11.0)	(11.1)	*(0.3)*
Pretax profit	**20.6**	**21.4**	***(3.7)***	**23.5**	***(12.3)***	**65.1**	**66.6**	***(2.3)***
Tax	-	-	*NM*	-	*NM*	-	-	*NM*
Net profit	**20.6**	**21.4**	***(3.7)***	**23.5**	***(12.3)***	**65.1**	**66.6**	***(2.3)***
Net profit ex-EI	**20.6**	**21.4**	***(3.7)***	**21.3**	***(3.3)***	**62.9**	**66.6**	***(5.6)***
EPU ex-EI (sen)	1.9	2.0	*(4.0)*	2.3	*(15.0)*	6.2	6.4	*(4.4)*
Gross DPU (sen)	**-**	**-**	***NM***	**4.2**	***NM***	**4.2**	**4.2**	***0.0***
	3QFY18	**3QFY17**	***+/- ppt***	**2QFY18**	***+/- ppt***	**9MFY18**	**9MFY17**	***+/- ppt***
Net property margin (%)	77.1	76.5	*0.6*	76.9	*0.2*	77.3	77.8	*(0.5)*
Net income ex-EI margin (%)	47.6	47.7	*(0.1)*	49.0	*(1.5)*	48.1	49.2	*(1.0)*

Sources: Trust, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest costs may lead to lower earnings for MQREIT. 12% of MQREIT's total NLA is due for renewal in 2019 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	15.9	16.6	14.8	14.9	15.3
P/BV (x)	0.6	1.0	0.8	0.8	0.8
P/NTA (x)	0.6	1.0	0.8	0.8	0.8
DPU yield (%)	7.0	6.7	7.5	7.5	7.3
FCF yield (%)	13.2	9.6	10.4	10.5	10.6
INCOME STATEMENT (MYR m)					
Revenue	131.8	180.1	176.5	179.0	181.2
Net property income	**102.3**	**140.0**	**134.9**	**136.7**	**138.3**
Management and trustee fees	(12.4)	(14.9)	(14.7)	(14.7)	(14.7)
Net financing costs	(30.7)	(36.9)	(34.8)	(36.2)	(36.4)
Exceptionals	3.6	(18.2)	0.0	0.0	0.0
Pretax profit	**62.8**	**69.9**	**85.4**	**85.8**	**87.2**
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	**62.8**	**69.9**	**85.4**	**85.8**	**87.2**
Distributable inc to unitholders	59.2	92.4	91.8	92.2	89.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	54.1	76.0	45.3	42.2	42.6
Accounts receivable	17.6	5.2	5.1	5.2	5.3
Property, Plant & Equip (net)	0.2	0.2	1.9	3.6	5.2
Inverstment properties	2,222.0	2,159.5	2,159.5	2,159.5	2,159.5
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	3.4	47.5	47.5	47.5	47.5
Total assets	**2,297.3**	**2,288.4**	**2,259.3**	**2,257.9**	**2,260.0**
ST interest bearing debt	189.1	116.9	116.9	116.9	116.9
Accounts payable	28.4	20.3	21.0	21.4	21.7
LT interest bearing debt	662.5	736.6	708.6	708.6	708.6
Other liabilities	57.7	29.9	29.9	29.9	29.9
Total Liabilities	**937.6**	**903.7**	**876.4**	**876.8**	**877.1**
Shareholders Equity	1,359.7	1,384.7	1,382.9	1,381.1	1,382.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**1,359.7**	**1,384.7**	**1,382.9**	**1,381.1**	**1,382.9**
Total liabilities and equity	**2,297.3**	**2,288.4**	**2,259.3**	**2,257.9**	**2,260.0**
CASH FLOW (MYR m)					
Cash flow from operations	**105.0**	**129.1**	**121.1**	**122.4**	**124.0**
Acquisitions & investments	(648.9)	(0.4)	(1.8)	(1.8)	(1.8)
Disposal of FA & investments	0.0	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	1.6	2.2	5.1	3.0	2.8
CF from investing activities	**(647.2)**	**1.8**	**3.3**	**1.2**	**1.0**
Dividends paid	(56.9)	(72.6)	(87.2)	(87.6)	(85.4)
Interest expense	(36.4)	(37.2)	(39.8)	(39.2)	(39.2)
Change in debt	164.0	1.0	(28.0)	0.0	0.0
Equity raised / (purchased)	487.9	0.0	0.0	0.0	0.0
Other financial activities	(7.3)	(0.0)	0.0	0.0	0.0
CF from financing activities	**551.4**	**(108.8)**	**(155.1)**	**(126.8)**	**(124.6)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**9.2**	**22.0**	**(30.7)**	**(3.1)**	**0.4**

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	14.4	36.7	(2.0)	1.4	1.2
Net property income growth	13.3	36.8	(3.6)	1.3	1.2
Core net profit growth	9.6	48.6	(2.9)	0.4	1.6
Distributable income growth	9.5	56.2	(0.6)	0.4	(2.5)
Profitability ratios (%)					
Net property income margin	77.6	77.7	76.4	76.3	76.3
Core net profit margin	44.9	48.9	48.4	47.9	48.1
Payout ratio	79.4	115.9	91.9	91.9	88.2
DuPont analysis					
Total return margin (%)	47.7	38.8	48.4	47.9	48.1
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.6	1.6	1.6
ROAE (%)	5.6	5.1	6.2	6.2	6.3
ROAA (%)	3.0	3.8	3.8	3.8	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.6	2.6	2.6
Net gearing (%) (excl. perps)	58.7	56.1	56.4	56.7	56.6
Net interest cover (x)	2.9	3.4	3.5	3.4	3.4
Debt/EBITDA (x)	9.5	6.8	6.9	6.8	6.7
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	797.5	777.4	780.1	783.3	782.9
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37

Source: Company; Maybank

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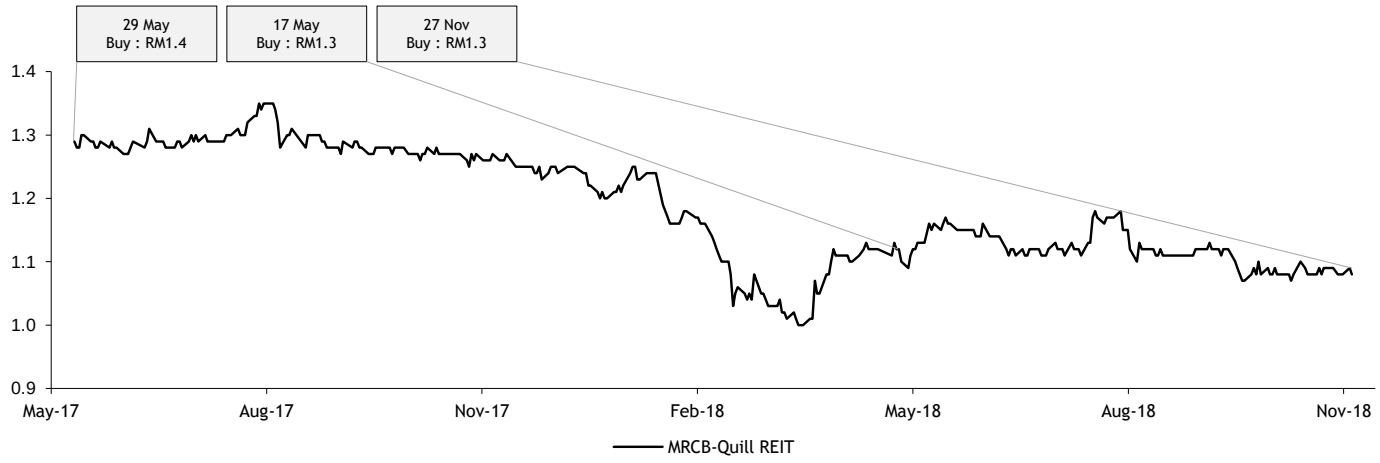

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