

MRCB-Quill REIT

9M18 Within Expectations

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9M18 realised net income (RNI) of RM62.9m is within our and market expectations at 70% and 71%, respectively. No dividends, as expected. FY18-19 will see minimal lease expiries of 29-15% of NLA. Maintain FY18-19E CNP of RM90-91m. Maintain MARKET PERFORM and TP of RM1.10 as most positives have been priced in.

9M18 realised net income (RNI) of RM62.9m came within both our and consensus expectations at 70% and 71%, respectively. No dividends, as expected.

Results Highlights. YoY-Ytd, top-line was down by 3% mainly from lower rentals at Platinum Sentral and Menara Shell, likely due to tenant incentives, as well as loss of revenue from the disposal of QB8 - DHL XPJ, which was completed in 2Q18. However, RNI declined by 6% on: (i) marginally higher financing cost (+1%), and (ii) post excluding one-off gains on disposal for QB8. **QoQ**, top-line was flat, but RNI declined by 3% on: (i) higher property expenses (+23%) from administrative expenses, (ii) slight increase in financing cost (+1%), and (iii) excluding one-off gains on disposal for QB8 of RM2.2m.

Outlook. FY18-19E leases up for expiry are minimal at 29-15% of net lettable assets (NLA) which are decent under current market condition, which is facing an oversupply situation, and risk of tenant attrition. However, MQREIT has secured 71% of leases up for expiry in FY18 thus far. For FY18-19, we are expecting flattish to mildly negative reversion and capex of RM12-10m, mostly for maintenance. MQREIT's disposal of QB8-DHL was completed in mid-April 2018, but this is mostly neutral to FY18E CNP as we expect the net gains on disposal of 0.2 sen per unit to offset the loss of income, while the impact to our FY19 forecast is negligible at <2% of RNI.

Maintain FY18-19E CNP of RM90.4-90.7m. Our FY18-19E GDPU of 8.30-8.20 sen (NDPU of 7.50-7.40 sen), suggest gross yields of 7.7-7.6% (net yields of 7.0-6.8%).

Maintain MARKET PERFORM and TP of RM1.10. We maintain our +3.3ppt spread to the 10-year MGS target of 4.20%, based on FY19E GDPS of 8.20 sen. MQREIT is commanding fairly decent gross yield of 7.6%, which is close to our target yield of 7.5%, but above MREIT peers' average gross yield of 6.3%. However, we are comfortable with our call as we opt to be conservative on the sector and have priced in most downside risks into MQREIT's earnings and valuations due to tough market conditions on concerns of oversupply in the office space, while most positives if any have been accounted for in our estimates.

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

MARKET PERFORM ↔

Price: RM1.08
Target Price: RM1.10 ↔

Share Price Performance



KLCI 1,684.97
YTD KLCI chg -6.2%
YTD stock price chg -13.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK Equity
Market Cap (RM m)	1,157.5
Shares Outstanding	1,071.8
52-week range (H)	1.27
52-week range (L)	1.00
3-mth avg daily vol:	85,682
Free Float	49%
Beta	0.5

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	11.9%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM'm)	2017A	2018E	2019E
Turnover	180.1	184.4	184.2
EBIT	138.4	128.0	127.8
PBT	69.9	92.6	90.7
Net Profit	69.9	92.6	90.7
Core NP*	88.0	90.4	90.7
Consensus (CNP)	n.a.	88.5	89.9
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.2	8.4	8.3
Core EPS growth (%)	-7%	2%	-1%
NDPS (sen)	7.6	7.5	7.4
BVPS (RM)	1.30	1.28	1.28
Core PER	13.1	12.9	13.0
Price/BV (x)	0.83	0.8	0.8
Gearing (x)	0.37	0.38	0.38
Net Div. Yield (%)	7.0	7.0	6.8

*Core NP refers to RNI

*FY18-19E per share data is based on our enlarged share base of 1081-1094m on additions from managers fee's



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Result Highlight

FYE 31 Dec (RM'm)	3Q18	2Q18	QoQ	3Q17	YoY	9M17	9M18	YoY-Ytd
Gross revenue	43.3	43.4	0%	44.8	-3%	135.5	130.7	-3%
Prop Opex	-9.9	-10.0	-1%	-10.5	-6%	-30.1	-29.7	-1%
NPI excl unrealised rental income	33.3	33.4	0%	34.2	-3%	103.8	101.0	-3%
Interest Income	1.0	0.9	16%	0.7	37%	1.8	2.6	42%
Gain on divestment prop	0.0	2.2	n.m.	0.0	n.a.	0.0	2.2	n.a.
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total Trust Income	34.4	36.4	-6%	35.0	-2%	107.1	105.8	-1%
Expenditure	-3.7	-3.0	23%	-3.7	0%	-11.1	-11.0	0%
Finance Cost	-10.1	-9.9	1%	-10.0	1%	-29.5	-29.7	1%
Income Before Tax	20.6	23.5	-12%	21.3	-3%	66.5	65.1	-2%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	20.6	23.5	-12%	21.3	-3%	66.5	65.1	-2%
Realised Net income (RNI)	20.6	21.3	-3%	21.4	-4%	66.6	62.9	-6%
Core EPU (sen)	1.92	1.99	-4%	2.00	-4%	6.23	5.88	-6%
DPU (sen)	0.00	4.23	-100%	0.00	n.a.	4.23	4.23	0%
NAV/unit (RM)	1.27	1.30		1.29		1.29	1.27	
Gearing (x)	0.38	0.37		0.32		0.32	0.38	
NPI Margins	77%	77%		76%		77%	77%	
RNI Margins	48%	49%		48%		49%	48%	

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)	
<u>MREITs UNDER COVERAGE</u>																	
AXIS REIT	1.47	1,811.5	Y	12/2018	15.9%	12.0%	9.8%	11.5%	19.9	18.1	16.3	1.1	1.1	6.3%	5.0%	1.35	UP
CAPITALAND MALAYSIA MALL TRUST	1.03	2,105.5	N	12/2018	-0.3%	2.4%	-1.8%	0.6%	13.2	12.9	12.7	0.8	0.9	6.1%	7.0%	1.25	OP
IGB REIT	1.68	5,938.5	N	12/2018	3.4%	2.6%	0.2%	2.7%	19.3	19.5	19.1	1.6	1.6	8.2%	5.2%	1.55	MP
KLCCP STAPLED GROUP	7.68	13,865.0	Y	12/2018	6.8%	1.6%	7.2%	1.8%	20.7	19.3	18.9	1.1	1.1	6.0%	4.6%	6.90	UP
MRCB-QUILL REIT	1.08	1,157.5	N	12/2018	2.3%	-0.1%	2.7%	0.3%	13.1	12.9	13.0	0.8	0.8	6.6%	7.0%	1.10	MP
PAVILION REIT	1.57	4,767.6	N	12/2018	18.7%	5.7%	8.3%	5.9%	20.5	18.9	17.9	1.2	1.2	6.4%	4.9%	1.55	MP
SUNWAY REIT	1.64	4,829.9	N	06/2019	7.5%	2.7%	5.7%	1.3%	17.1	16.2	15.9	1.1	1.1	7.1%	5.5%	1.60	MP
Simple Average					7.8%	3.8%	4.6%	3.5%	17.7	16.8	16.3	1.1	1.1	6.7%	5.6%		
<i>* Core NP and Core PER</i>																	
<u>CONSENSUS NUMBERS</u>																	
YTL HOSPITALITY REIT	1.18	2,011.2	N	06/2019	1.3%	3.3%	-35.6%	5.3%	8.5	13.2	12.5	0.7	0.7	0.0	0.1	1.4	BUY
AL-'AQAR HEALTHCARE REIT	1.25	910.3	Y	12/2018	0.1%	0.0%	-28.3%	0.3%	10.8	15.0	14.9	1.0	N.A.	0.1	0.1	1.6	BUY
AMANAHRAYA REIT	0.830	475.8	N	12/2018	49.1%	34.9%	16.9%	13.5%	15.0	12.9	11.3	0.6	N.A.	0.0	0.1	0.9	BUY
AMFIRST REIT	0.575	394.7	N	03/2019	N.A.	N.A.	N.A.	N.A.	34.8	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
HEKTAR REIT	1.13	522.0	N	12/2018	N.A.	N.A.	N.A.	N.A.	16.0	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
TOWER REIT	0.900	252.5	N	06/2019	N.A.	N.A.	N.A.	N.A.	12.8	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
UOA REIT	1.36	575.1	N	12/2018	N.A.	N.A.	N.A.	N.A.	15.2	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
ATRIUM REIT	1.14	138.9	N	12/2018	N.A.	N.A.	N.A.	N.A.	7.7	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
AL-SALAM REIT	0.780	452.4	Y	12/2018	4.7%	17.1%	-19.2%	18.9%	11.1	13.8	11.6	0.7	N.A.	0.1	0.1	0.9	NEUTRAL
KIP REIT	0.805	406.8	N	06/2019	N.A.	N.A.	N.A.	N.A.	10.8	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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