

26 November 2019

MRCB-Quill REIT

9MFY19 Within Expectations

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9MFY19 realised net income (RNI) of RM53.5m came in within our and consensus expectations at 71% and 72%, respectively. No dividend was declared as expected. FY19-20 will see 19-18% of NLA tenancy expiring amid a glut in the office space. Maintain FY19-20E RNI of RM76-77m. Maintain MARKET PERFORM on an unchanged TP of RM1.05 (based on an implied FY20E yield of 6.7%).

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Results' highlights. YoY, top-line was down 8% mainly from lower contributions from Platinum Sentral, Wisma Technip and QB5, possibly due to tenant movements which resulted in lower portfolio occupancy of 89% (vs. 96%), and the loss of revenue from the disposal of QB8 - DHL XPJ in 2QFY18. All in, bottom-line was down by 15% on slightly lower NPI margin (-1.3ppt) on the back of weaker top-line, while financing cost remained flattish. QoQ, top-line was up slightly by 3% possibly on better rental rates for leases renewed in 3QFY19 as occupancy remained flat at 89%. This cascaded straight to the bottom-line which was up by 7% as property expenses and financing cost remained flat.

Outlook. FY19-20E will see 19-18% of net lettable assets (NLA) up for tenancy expiry amid an oversupply of office spaces in the Klang Valley. While there is a risk of tenant attritions, MQREIT has managed to renew 93% of leases up for renewal in 3QFY19. Going forward, we are expecting flattish reversions for MQREIT's assets and expect minimal capex of RM12-10m, mostly for maintenance.

Maintain FY19-20E RNI of RM76-77m. Our earnings are based on FY19-20 portfolio occupancy of 90-92% and flattish rental reversions. As a result, our FY19-20E GDPU stand at 7.0-7.0 sen (NDPU of 6.3-6.3 sen), which suggest gross yield of 6.9-6.9% (net yield of 6.2-6.2%), respectively.

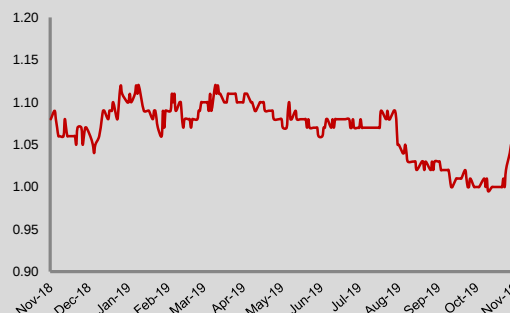
Maintain MARKET PERFORM with Target Price of RM1.05. Our TP is based on FY20E GDPU of 7.0 sen on an unchanged +3.2ppt spread to the 10-year MGS target of 3.40%. Our target yield spread for MQREIT is the highest compared to comparable MREITs under our coverage (+1.3ppt to +3.4ppt) due to the tough market conditions amid oversupply of office space. Although MQREIT is commanding decent gross yield of 6.9%, well above its peers' average gross yield of 5.6%, we believe this is justifiable given the abovementioned concerns surrounding office assets. We maintain our Market Perform call.

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

MARKET PERFORM ↔

Price: **RM1.02**
Target Price: **RM1.05** ↔

Share Price Performance



KLCI 1,591.35
YTD KLCI chg -5.9%
YTD stock price chg -3.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK EQUITY
Market Cap (RM m)	1,093.2
Shares Outstanding	1,071.8
52-week range (H)	1.13
52-week range (L)	1.00
3-mth avg daily vol:	145,487
Free Float	25%
Beta	0.5

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)	2018A	2019E	2020E
Turnover	173.4	169.5	170.7
EBIT	133.7	114.2	115.1
PBT	79.3	75.6	76.5
Net Profit	79.3	75.6	76.5
Core NP*	82.5	75.6	76.5
Consensus (CNP)	N.A	74.5	75.5
Earnings Revision	N.A	0%	0%
Core EPS (sen)	7.7	7.0	7.1
Core EPS growth (%)	-6	-9	1
NDPS (sen)	7.3	6.3	6.3
BVPS (RM)	1.28	1.30	1.31
Core PER (x)	13.2	15.2	15.1
Price/BV (x)	0.8	0.8	0.8
Gearing (x)	0.38	0.38	0.38
Net Div. Yield (%)	7.13	5.85	5.89

*Core NP refers to RNI



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OTHER POINTS

Result Highlight								
FYE 31 Dec (RM m)	3Q19	2Q19	QoQ	3Q18	YoY	9M18	9M19	YoY-Ytd
Gross revenue	39.9	38.8	3%	43.3	-8%	130.7	120.1	-8%
Prop Opex	-9.7	-9.7	0%	-9.9	-2%	-29.7	-28.8	-3%
NPI excl unrealised rental income	30.2	29.1	4%	33.3	-9%	101.0	91.3	-10%
Interest Income	0.7	0.6	24%	1.0	-31%	2.6	2.1	-20%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	2.2	0.0	-100%
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total Trust Income	30.9	29.6	4%	34.4	-10%	105.8	93.4	-12%
Expenditure	-3.5	-3.5	2%	-3.7	-5%	-11.0	-10.6	-4%
Finance Cost	-9.7	-9.7	0%	-10.1	-3%	-29.7	-29.3	-1%
Income Before Tax	17.6	16.5	7%	20.6	-14%	65.1	53.5	-18%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	17.6	16.5	7%	20.6	-14%	65.1	53.5	-18%
Realised Net income (RNI)	17.6	16.5	7%	20.6	-14%	62.9	53.5	-15%
Core EPU (sen)	1.65	1.54	7%	1.92	-14%	5.88	4.99	-15%
DPU (sen)	0.00	3.43	n.m.	0.00	n.m.	4.23	3.43	-19%
NAV/unit (RM)	1.26	1.27		1.27		1.27	1.26	
Gearing (x)	0.37	0.37		0.38		0.38	0.37	
NPI Margins	75.6%	75.0%		77.1%		77.3%	76.0%	
RNI Margins	44.2%	42.4%		47.6%		48.1%	44.6%	

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 Price	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.	1-Yr. Fwd.	(RM)	
<u>MREITs UNDER COVERAGE</u>																		
AXIS REIT	1.79	2,502.7	Y	12/2019	3.3%	7.8%	1.5%	11.6%	19.5	19.3	18.5	1.3	1.2	6.5%	4.2%	2.00	OP	
CAPITALAND MALAYSIA MALL TRUST	1.04	2,133.8	N	12/2019	-2.3%	4.3%	-16.0%	3.8%	13.2	15.7	15.2	0.8	0.8	5.0%	5.7%	1.15	OP	
IGB REIT	1.92	6,813.7	N	12/2019	3.9%	1.7%	2.8%	1.6%	22.3	21.8	21.6	1.8	1.8	8.3%	4.5%	2.05	MP	
KLCCP STAPLED GROUP	7.99	14,424.6	Y	12/2019	5.5%	0.7%	4.9%	1.2%	20.6	19.7	19.5	1.1	1.1	6.0%	4.5%	8.25	MP	
MRCB-QUILL REIT	1.02	1,093.2	N	12/2019	-2.2%	0.7%	-8.4%	1.2%	13.2	15.2	15.1	0.8	0.8	5.4%	5.8%	1.05	MP	
PAVILION REIT	1.82	5,531.0	N	12/2019	10.8%	2.0%	4.5%	2.6%	21.7	20.7	20.2	1.4	1.4	6.8%	4.4%	1.90	MP	
SUNWAY REIT	1.87	5,507.3	N	06/2020	8.1%	2.6%	2.5%	2.4%	19.5	19.1	18.5	1.2	1.3	6.6%	4.7%	1.90	MP	
Simple Average					3.9%	2.8%	-1.2%	3.5%	18.6	18.7	18.3	1.2	1.2	6.4%	4.9%			
<i>* Core NP and Core PER</i>																		
<u>CONSENSUS NUMBERS</u>																		
YTL HOSPITALITY REIT	1.36	2,318.0	N	06/2020	7.4%	3.4%	44.3%	4.6%	22.1	15.4	14.7	0.8	0.8	0.0	6.1%	1.53	BUY	
AL-'AQAR HEALTHCARE REIT	1.48	1,089.3	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	11.9	17.8	17.3	1.1	N.A.	0.1	5.3%	1.50	N.A.	
AMANAHRAYA REIT	0.765	438.5	N	12/2019	25.3%	0.8%	-52.2%	2.1%	5.4	11.3	11.1	0.6	N.A.	0.1	7.7%	0.910	BUY	
AMFIRST REIT	0.500	343.2	N	03/2020	N.A.	N.A.	N.A.	N.A.	15.4	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.	
HEKTAR REIT	0.990	457.3	N	12/2019	N.A.	N.A.	N.A.	N.A.	13.8	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.	
TOWER REIT	0.900	252.5	N	06/2020	N.A.	N.A.	N.A.	N.A.	35.2	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.	
UOA REIT	1.27	537.0	N	12/2019	-0.6%	1.3%	-30.5%	0.0%	9.3	13.4	13.4	0.7	0.7	0.1	7.1%	N.A.	N.A.	
ATRIUM REIT	1.05	216.6	N	12/2019	N.A.	N.A.	N.A.	N.A.	18.7	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.	
AL-SALAM REIT	0.840	487.2	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	12.1	16.5	15.8	0.8	0.8	0.0	5.6%	0.865	N.A.	
KIP REIT	0.855	432.0	N	06/2020	N.A.	N.A.	N.A.	N.A.	12.7	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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