

MRCB-Quill REIT (MQREIT MK)

3Q20 in-line, DPU yield remains strong

Maintain BUY with 8.7% net yield

3Q20 and 9M20 earnings were in-line, with the latter at 73%/81% of our/consensus' FY20 estimates. We maintain our FY20-22E earnings and DDM-TP of MYR1.20 (Ke: 7.2%, LT: 1%). We continue to favour MQREIT's stable rental income from its long-term tenants. MQREIT also currently offers a strong 8.7% FY21E net DPU yield (95% DPR). Maintain BUY.

Led by higher rental income and lower expenses

3Q20 net profit grew 22% YoY and 13% QoQ to MYR21.5m, taking 9M20 earnings to MYR60.3m (+13% YoY). YoY, 3Q20 earnings growth was driven by: (i) higher rental income from improved average rent, positive rental reversions/rental step-ups and improved occupancies at several assets (namely Menara Shell, Wisma TechnipFMC and Tesco Building Penang), and (ii) lower opex (i.e. utilities). Furthermore, 3Q20 earnings were also lifted by lower finance costs from floating rate debt (-15% YoY or MYR1.4m). Notably, portfolio occupancy was 91% (+2ppt YoY), with Menara Shell and Platinum Sentral at 99% (+3ppt YoY) and 84% (-4ppt YoY) respectively.

Estimates unchanged

Our FY20-22E net profit forecasts are intact. Notably, no rental support was provided since end-2Q20. However, MQREIT would continue to assess the necessity of rental assistance for upcoming months/quarters, namely for their retail tenants at Plaza Mont Kiara, Menara Shell and Platinum Sentral (aggregate of c.4% of portfolio NLA). This is mainly due to the ongoing Conditional Movement Control Order (9 Nov to 6 Dec 6) which adversely affects footfall traffic at these properties.

Outlook intact; solely organic growth for now

We expect earnings to be supported by its assets with long-term tenants, i.e. Platinum Sentral, Menara Shell, QB1, QB4, QB2 and Tesco Building. These assets contribute c.51% to our FY20-22E revenue. Meanwhile, we are not expecting any near-term asset acquisitions.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	173	162	166	169	173
Net property income	134	123	131	132	133
Core net profit	85	72	83	85	86
Core EPU (sen)	7.9	6.7	7.7	8.0	8.0
Core EPU growth (%)	(4.1)	(14.8)	14.8	3.0	0.7
Net DPU (sen)	7.3	6.1	6.6	6.8	6.8
Net DPU growth (%)	(3.7)	(15.8)	7.9	3.0	0.7
P/NTA (x)	0.8	0.8	0.6	0.6	0.6
Net DPU yield (%)	6.9	6.1	8.3	8.6	8.6
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	5.9	6.1	6.3
MKE vs. Consensus (%)	-	-	11.1	11.1	9.1

BUY

Share Price	MYR 0.80
12m Price Target	MYR 1.20 (+59%)
Previous Price Target	MYR 1.20

Company Description

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

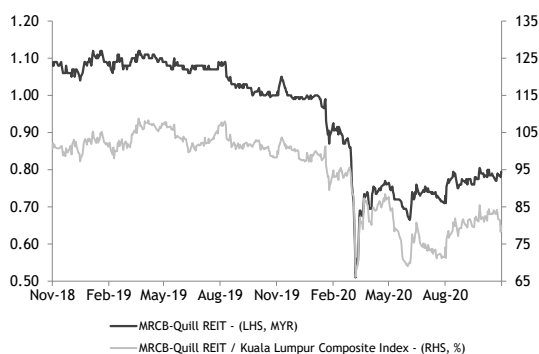
Statistics

52w high/low (MYR)	1.05/0.51
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,072
Market capitalisation	MYR852.1M
	USD207M

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	12	(21)
Relative to index (%)	(2)	11	(19)

Source: FactSet

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY20	3QFY19	%YoY	2QFY20	%QoQ	9MFY20	9MFY19	%YoY
Gross revenue	42.1	39.9	5.4	40.1	4.9	123.9	120.1	3.2
Net property income	32.7	30.2	8.5	31.0	5.8	96.0	91.3	5.1
Interest income	0.6	0.7	(10.1)	0.5	16.3	1.8	2.1	(16.3)
Fair value gains/(loss)	-	-	NM	-	NM	-	-	NM
Finance costs	(8.3)	(9.7)	(14.6)	(8.9)	(6.6)	(26.8)	(29.3)	(8.7)
Other expenses/gains	(3.6)	(3.5)	1.8	(3.5)	1.9	(10.6)	(10.6)	0.4
Pretax profit	21.5	17.6	21.8	19.1	12.6	60.3	53.5	12.8
Tax	-	-	NM	-	NM	-	-	NM
Net profit	21.5	17.6	21.8	19.1	12.6	60.3	53.5	12.8
Net profit ex-EI	21.5	17.6	21.8	19.1	12.6	60.3	53.5	12.8
EPU ex-EI (sen)	2.0	1.6	21.8	1.8	12.6	5.6	5.0	12.8
Gross DPU (sen)	-	-	NM	3.4	NM	3.4	3.4	0.0
	3QFY20	3QFY19	+/- ppt	2QFY20	+/- ppt	9MFY20	9MFY19	+/- ppt
Net property margin (%)	77.9	75.6	2.2	77.2	0.7	77.5	76.0	1.5
Net income ex-EI margin (%)	51.1	44.2	6.9	47.6	3.5	48.7	44.6	4.2

Sources: Trust

Risk statement

There are several risk factors for our earnings estimates, target price and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for MQREIT. 19% of MQREIT's total NLA is due for lease renewal in 2020 while 54% of MQREIT's total debt is based on floating rates. Another earnings risk would be if the impact from COVID-19 becomes prolonged.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	14.6	16.3	12.0	11.7	11.6
P/BV (x)	0.8	0.8	0.6	0.6	0.6
P/NTA (x)	0.8	0.8	0.6	0.6	0.6
DPU yield (%)	7.6	6.8	9.2	9.5	9.6
FCF yield (%)	10.0	11.1	13.5	13.9	14.0

INCOME STATEMENT (MYR m)

Revenue	173.4	162.1	166.5	169.1	172.7
Net property income	133.7	122.8	130.8	132.5	133.0
Management and trustee fees	(14.9)	(14.4)	(14.5)	(14.5)	(14.6)
Net financing costs	(36.3)	(36.4)	(33.6)	(32.7)	(32.6)
Exceptionals	(3.2)	(36.7)	0.0	0.0	0.0
Pretax profit	79.3	35.4	82.7	85.2	85.8
Income tax	(6.1)	(6.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	73.1	29.1	82.7	85.2	85.8
Core net profit	84.7	72.1	82.7	85.2	85.8
Distributable inc to unitholders	87.1	73.0	82.7	85.2	85.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	85.8	63.3	64.2	67.2	71.0
Accounts receivable	5.6	5.8	5.9	6.0	6.1
Property, Plant & Equip (net)	0.3	0.4	2.0	3.6	5.1
Investment properties	2,158.7	2,125.2	2,125.2	2,125.2	2,125.2
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	20.9	19.1	19.1	19.1	19.1
Total assets	2,271.4	2,213.7	2,216.4	2,221.1	2,226.6
ST interest bearing debt	0.0	332.7	332.7	332.7	332.7
Accounts payable	15.8	15.7	14.3	14.7	15.9
LT interest bearing debt	853.7	503.0	503.0	503.0	503.0
Other liabilities	29.6	38.8	38.8	38.8	38.8
Total Liabilities	899.1	890.2	888.8	889.2	890.4
Shareholders Equity	1,372.3	1,323.5	1,327.6	1,331.9	1,336.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,372.3	1,323.5	1,327.6	1,331.9	1,336.2
Total liabilities and equity	2,271.4	2,213.7	2,216.4	2,221.1	2,226.6

CASH FLOW (MYR m)

Cash flow from operations	113.3	118.8	114.8	118.4	119.7
Acquisitions & investments	(4.1)	(2.3)	(1.7)	(1.7)	(1.7)
Disposal of FA & investments	28.0	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	3.7	2.7	3.2	3.2	3.4
CF from investing activities	27.6	0.4	1.5	1.5	1.6
Dividends paid	(89.8)	(78.0)	(78.6)	(81.0)	(81.5)
Interest expense	(39.2)	(38.5)	(36.8)	(35.9)	(35.9)
Change in debt	0.0	(19.0)	0.0	0.0	0.0
Equity raised / (purchased)	4.0	0.0	0.0	0.0	0.0
Other financial activities	(0.0)	0.0	0.0	0.0	0.0
CF from financing activities	(125.0)	(135.5)	(115.4)	(116.9)	(117.5)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	15.9	(16.3)	0.9	3.0	3.9

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.7)	(6.5)	2.7	1.6	2.1
Net property income growth	(4.5)	(8.1)	6.5	1.3	0.4
Core net profit growth	(3.8)	(14.8)	14.8	3.0	0.7
Distributable income growth	(5.8)	(16.1)	13.3	3.0	0.7
Profitability ratios (%)					
Net property income margin	77.1	75.8	78.6	78.3	77.0
Core net profit margin	48.8	44.5	49.7	50.4	49.7
Payout ratio	106.6	225.2	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	42.2	18.0	49.7	50.4	49.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.0	58.4	58.1	57.7	57.2
Net interest cover (x)	3.3	3.0	3.5	3.6	3.6
Debt/EBITDA (x)	7.2	7.7	7.2	7.1	7.0
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	767.9	772.5	771.6	768.6	764.7
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank

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Malaysia

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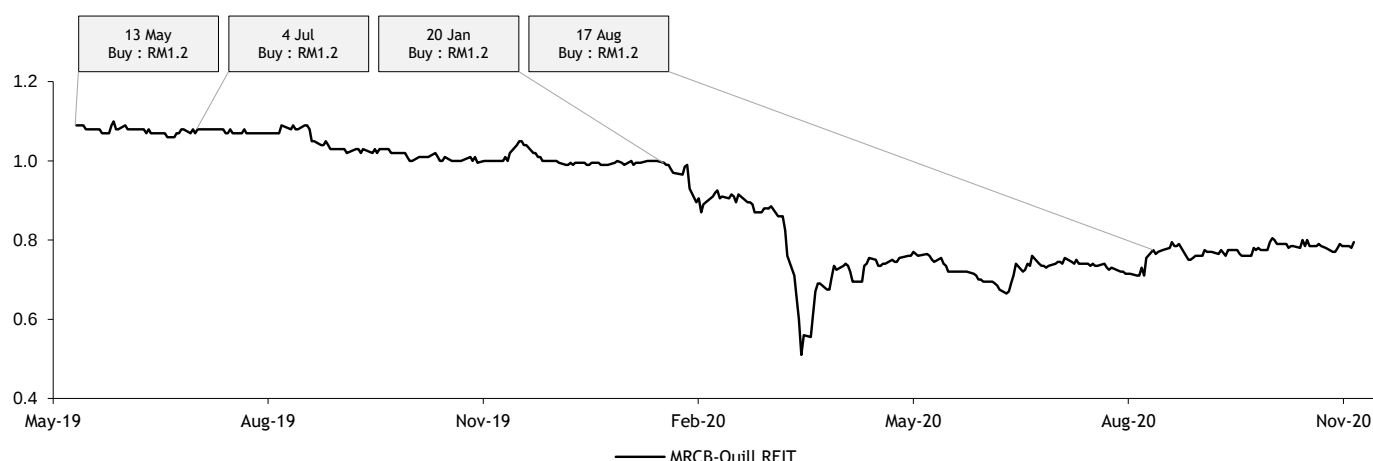
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