

11 Nov 2020

Hold

Price
RM0.795

Target Price
RM0.72

Market Data

Bloomberg Code	MQREIT MK
No. of shares (m)	1,071.8
Market cap (RMm)	836.0
52-week high/low (RM)	1.08 / 0.50
Avg daily turnover (RMm)	0.4
KLCI (pts)	1,575.1

Source: Bloomberg, KAF

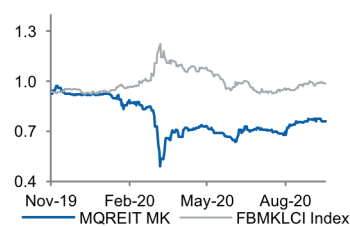
Major Shareholder (%)

MRCB	(27.8%)
KWSP	(12.1%)
CapitalLand Ltd	(10.9%)
Free Float	270.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	9.9	2.6	(22.0)
Rel Market (%)	9.6	(9.9)	(20.3)



Source: Bloomberg, KAF

MRCB-Quill REIT

9M in line

MRCB-Quill REIT (MQREIT)'s 9M20 net property income of RM96.2m (+5% yoy) came in line with our expectations. Portfolio occupancy has remained stable so far, at 90.5%. FY20F sees a remaining c.7% of NLA due for renewal, with the bulk of it from Platinum Sentral. Maintain our FY20F DPU estimate of 6.7 sen and DDM-based TP of RM0.72. Keep our Hold recommendation, with MQREIT currently trading at FY20F distribution yield of 8.4%.

Financial Highlights

FYE Dec	2017	2018	2019	2020F	2021F
Revenue (RM mil)	180.1	173.4	162.1	160.0	158.6
Net Property Income	140.0	133.7	122.8	121.3	120.2
Realised Net profit (RM mil)	87.0	82.5	72.1	70.6	69.7
EPU (sen)	8.1	7.7	6.7	6.6	6.5
DPU (sen)	8.4	8.1	6.8	6.7	6.6
PE (x)	9.8	10.3	11.8	12.1	12.2
Div yield (%)	10.6	10.2	8.6	8.4	8.3
ROE (%)	5.0	5.3	2.2	5.3	5.3
Gearing (%)	37.3	37.6	37.8	37.8	37.8

Source: Company, KAF

9M20 within expectations

MQREIT reported net property income (NPI) of RM32.4m in 3Q20, bringing cumulative 9M20 NPI to RM96.2m, making up 79% of our full-year forecast. No dividends were declared during the quarter, as they are usually declared on a semi-annual basis.

Top line driven by higher occupancy

MQREIT's 9M20 revenue grew 3% yoy to RM124.0m, mainly due to improved/stable occupancies across most assets, mainly at Menara Shell (99%), Wisma Technip (90%), and Tesco (100%). Overall, the REIT's portfolio occupancy stood at 90.5% in 3Q20 (vs. 89.0% in 3Q19). The sequential improvement in both revenue (+3% qoq) and NPI (+3% qoq) was due to absence of rental assistance during the quarter.

Lease expiries; to focus on tenant retention

As at end-3Q20, MQREIT has managed to complete c.11% of the 19% total net lettable area (NLA) due in FY20F. Active negotiations for renewal of the remaining leases are currently in progress, most of which will come from Platinum Sentral (c.64k sq ft). We remain cautious on the rental reversionary rates as management continues to focus on tenant retention across all its properties. FY21F and FY22F will see about 21% and 14% of NLA due for renewal, respectively.

Other updates; QB5 remains untenanted, gearing stable at c.38%

The group's only asset in Cyberjaya – Quill Building 5 (QB5) is still unoccupied after the key tenant moved out from the building in April last year. According to management, they have received some enquiries for the office building, but nothing has been finalised at this point of time. To note, QB5 accounts for 4% of MQREIT's total NLA.

Separately, MQREIT has refinanced an amount of RM335m in CP and TL due this year. On acquisitions front, the group has the ROFR for Menara Celcom in Petaling Jaya from its sponsor, MRCB. Gearing remains stable at c.38%, presenting a comfortable debt headroom of c.RM490m, assuming 60% gearing limit set by the SC.

Maintain Hold

We make no changes to FY20-21F DPU estimates and maintain our DDM-derived TP at RM0.72. At the current price level, MQREIT is trading at FY20F distribution yield of 8.4%. Key downside risk would be non-renewal of expiring leases.

Analyst

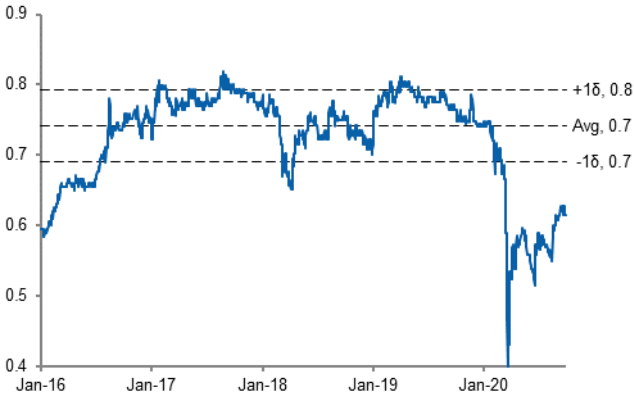
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Exhibit 1: Quarterly trends

(RM m)	3Q19	4Q19	1Q20	2Q20	3Q20	Change		Cumulative			KAF	
FYE 31 Dec	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	% qoq	% yoy	9M19	9M20	% chg	2020F	1Q/F
Revenue	39.5	42.0	41.7	40.6	41.7	3	6	120.0	124.0	3	160.0	78
Property operating expenses	(9.7)	(10.5)	(9.4)	(9.1)	(9.3)	2	(4)	(28.8)	(27.9)	(3)	(38.7)	72
Net property income	29.7	31.5	32.3	31.5	32.4	3	9	91.3	96.2	5	121.3	79
Interest income	0.7	1.1	0.6	0.5	0.6	16	(10)	2.1	1.8	(16)	2.7	65
Trust expenses	(3.5)	(3.8)	(3.5)	(3.5)	-	(100)	(100)	(10.3)	(7.1)	(32)	(14.2)	50
Borrowing costs	(9.7)	(10.3)	(9.5)	(8.9)	(8.3)	(7)	(15)	(29.6)	(26.8)	(9)	(39.2)	68
Exceptional items	-	(36.7)	0.3	(0.5)	-			(0.4)	(0.2)	-		
Profit before tax	17.2	(18.1)	20.1	19.1	24.7	29	44	53.0	63.9	20	70.6	90
Tax	-	(6.2)	-	-	-			-	-		-	
Net profit	17.2	(24.4)	20.1	19.1	24.7	29	44	53.0	63.9	20	70.6	90
Normalized net profit	17.2	18.6	19.8	19.6	24.7	26	44	53.5	64.1	20	70.6	91

Source: Company, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



Source: Company, KAF, Bloomberg

MRCB-Quill REIT

Income Statement

FYE Dec (RMm)	2017	2018	2019	2020F	2021F
Gross rental income	180.1	173.4	162.1	160.0	158.6
Property operating expenses	(40.2)	(39.7)	(39.2)	(38.7)	(38.4)
Net property income	140.0	133.7	122.8	121.3	120.2
Non-property expenses	(14.9)	(14.9)	(14.4)	(14.2)	(14.1)
PBITDA	125.0	118.8	108.5	107.1	106.2
PBIT	125.0	118.8	108.5	107.1	106.2
Interest expense	(40.5)	(40.6)	(39.6)	(39.2)	(39.2)
Exceptional item	(18.2)	(3.2)	(36.7)	-	-
PBT	68.8	79.3	35.4	70.6	69.7
Tax	-	(6.1)	(6.2)	-	-
Distributable Income	68.8	73.1	29.1	70.6	69.7
Core Net Profit	87.0	82.5	72.1	70.6	69.7

Balance Sheet

FYE Dec (RMm)	2017	2018	2019	2020F	2021F
Investment Properties	2,181.4	2,179.3	2,144.1	2,144.1	2,144.1
Trade and other receivables	31.0	6.7	6.3	6.2	6.2
Cash and cash equivalents	76.0	85.8	63.3	62.4	61.5
Inventories	-	-	-	-	-
Total Assets	2,288.4	2,271.7	2,213.7	2,212.7	2,211.8
Payables and accruals	33.1	26.2	21.4	21.2	21.1
Short-term Borrowings	116.9	-	332.7	332.7	332.7
Long-term Borrowings	736.6	853.7	503.0	503.0	503.0
Payables and accruals	17.1	19.6	33.1	33.1	33.1
Unit holder's capital	1,231.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed income to Reserves	152.8	136.4	87.6	86.8	86.1
Total unit holder's fund	1,384.7	1,372.3	1,323.5	1,322.7	1,322.0
Total liabilities and shareholder's fund	2,288.4	2,271.7	2,213.7	2,212.7	2,211.8

Cash flow Statement

FYE Dec (RMm)	2017	2018	2019	2020F	2021F
Pretax profit	68.8	79.3	35.4	70.6	69.7
Working Capital	124.8	118.8	108.6	107.1	106.2
Others	nm	nm	nm	nm	nm
Operating cash flows	128.2	107.2	112.6	107.0	106.1
Acquisitions	(0.4)	-	-	-	-
Enhancement exp.	2.1	(0.4)	0.4	2.7	2.7
Others	(6.6)	28.0	-	-	-
Investing cash flows	(4.8)	27.6	0.4	2.7	2.7
Issue of shares	-	4.0	-	-	-
Dividend paid	(72.6)	(89.8)	(78.0)	(71.4)	(70.4)
Borrowings	(0.3)	-	35.0	-	-
Others	(35.7)	(39.2)	(92.5)	(39.2)	(39.2)
Financing cash flow	(108.6)	(125.0)	(135.5)	(110.6)	(109.6)
Net inflows/(outflows)	14.7	9.7	(22.5)	(0.9)	(0.8)
Change in receivables	13.5	0.6	1.5	0.1	0.1
Change in payables	(10.1)	(12.2)	2.4	(0.2)	(0.1)

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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