

MRCB-Quill REIT (MQREIT MK)

4Q17 earnings in-line

Maintain BUY

4Q17 results and final interim gross DPU of 4.16sen (FY17: 8.39sen) were within estimates. The stronger core earnings were mainly driven by Menara Shell's contributions and rental step-ups. We tweak our FY18-19 earnings forecasts by -3% p.a.. Our DDM-TP is unchanged at MYR1.35.

No surprises

Excluding revaluation loss of MYR18.2m, 4Q17 core net profit was MYR21.4m (+61% YoY, +0.2% QoQ). This brings FY17 core earnings to MYR88.0m (+49% YoY) and constitutes 97%/100% of our/consensus' full-year forecasts. YoY, 4Q17's core earnings were mainly driven by (i) inclusion of Menara Shell into the portfolio in Dec 2016, (ii) positive rental reversions at QB2, QB3 and Wisma Technip. However, (iii) portfolio occupancy rate was marginally lower at 96.3% (4Q16: 98.0%), and (iv) finance costs were higher due to higher drawdown of borrowings. Meanwhile, QoQ core earnings were flattish with no significant operational charges. Elsewhere, the revaluation loss were mainly led by Platinum Sentral (-MYR25.0m) which had a marginal drop in rental income due to some rebates offered to tenants.

Some estimate adjustments

We tweak our FY18-19 earnings estimates by -3% p.a. after adjusting for full-year results and having lowered our rental step-up assumptions at Platinum Sentral and Menara Shell. Subsequently, we also roll forward our DDM-valuation base year to FY18 (from FY17; FY18-FY28) and factor in a higher risk free rate assumption of 4.00% (from 3.85%). Our TP is maintained at MYR1.35, based on 7.6% cost of equity (from 7.5%). We also introduce our FY20 earnings forecast.

Positive outlook unchanged

We remain positive on MQREIT's resilient earnings which are mainly premised on its assets with long-term tenants (i.e. Platinum Sentral, Menara Shell). However, the current oversupply of office space in Klang Valley could dampen/suppress near-term's positive rental reversions.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	132	180	184	186	188
Net property income	102	140	137	138	139
Core net profit	59	88	92	94	94
Core EPU (sen)	9.0	8.2	8.5	8.6	8.7
Core EPU growth (%)	9.6	(8.4)	3.5	1.8	0.3
Net DPU (sen)	7.5	7.6	7.8	7.4	7.4
Net DPU growth (%)	8.8	0.1	2.8	(4.8)	0.3
P/NTA (x)	0.6	0.9	0.9	0.9	0.9
Net DPU yield (%)	6.2	6.2	6.4	6.1	6.1
ROAE (%)	5.6	5.1	6.6	6.8	6.8
ROAA (%)	3.0	3.8	4.0	4.1	4.1
Debt/Assets (x)	0.37	0.37	0.36	0.36	0.36
Consensus Net DPU	-	-	7.3	7.7	na
MKE vs. Consensus (%)	-	-	6.5	(4.6)	na

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BUY

Share Price	MYR 1.21
12m Price Target	MYR 1.35 (+12%)
Previous Price Target	MYR 1.35

Company Description

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

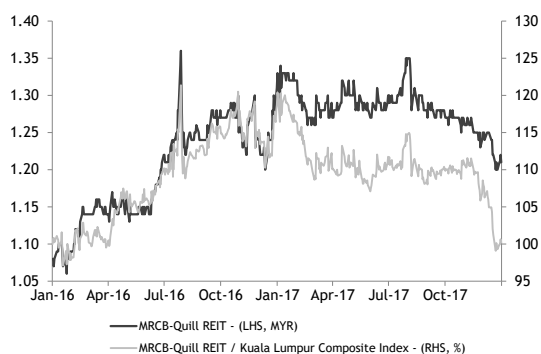
Statistics

52w high/low (MYR)	1.35/1.20
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.3B
	USD327M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(5)	(8)
Relative to index (%)	(7)	(10)	(16)

Source: FactSet

Fig 1: Results summary table

FY Dec (MYR m)	Quarterly					Cumulative		
	4QFY17	4QFY16	%YoY	3QFY17	%QoQ	FY17	FY16	%YoY
Gross revenue	44.7	34.1	31.1	44.8	(0.3)	180.1	131.8	36.7
Net property income	34.6	25.6	35.2	34.3	1.0	140.0	102.3	36.8
Interest income	1.7	1.1	52.9	0.7	132.7	3.6	2.4	50.6
Fair value gains/(losses)	(18.2)	3.5	NM	-	NM	(18.2)	3.5	NM
Finance costs	(11.0)	(9.1)	20.8	(10.0)	10.4	(40.5)	(33.0)	22.6
Other expenses	(3.9)	(4.3)	(9.4)	(3.7)	5.0	(14.9)	(12.4)	20.3
Pretax profit	3.3	16.9	(80.4)	21.4	(84.5)	69.9	62.8	11.4
Tax	-	-	NM	-	NM	-	-	NM
Net profit	3.3	16.9	(80.4)	21.4	(84.5)	69.9	62.8	11.4
Net profit ex-EI	21.4	13.3	61.0	21.4	0.2	88.0	59.2	48.8
 EPU ex-EI (sen)	 2.0	 1.9	 6.3	 2.0	 0.5	 8.4	 8.8	 (4.3)
Gross DPU (sen)	4.2	4.2	0.2	-	NM	8.4	8.4	0.1
	4QFY17	4QFY16	+/- ppt	3QFY17	+/- ppt	FY17	FY16	+/- ppt
Net property margin (%)	77.6	75.2	2.4	76.5	1.1	77.7	77.6	0.1
Net income ex-EI margin (%)	48.0	39.1	8.9	47.7	0.3	48.9	44.9	4.0

Sources: Trust, Maybank Kim Eng

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	16.0	16.0	15.6	16.4	16.3
P/BV (x)	0.6	0.9	0.9	0.9	0.9
P/NTA (x)	0.6	0.9	0.9	0.9	0.9
DPU yield (%)	6.9	6.9	7.1	6.8	6.8
FCF yield (%)	13.1	9.9	9.9	9.8	9.8
INCOME STATEMENT (MYR m)					
Revenue	131.8	180.1	183.7	186.0	188.0
Net property income	102.3	140.0	136.6	138.1	139.5
Management and trustee fees	(12.4)	(14.9)	(10.2)	(10.3)	(11.5)
Net financing costs	(30.7)	(36.9)	(34.8)	(34.1)	(33.9)
Exceptionals	3.6	(18.2)	0.0	0.0	0.0
Pretax profit	62.8	69.9	91.5	93.6	94.1
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	91.5	93.6	94.1
Distributable inc to unitholders	59.2	92.4	97.9	100.0	96.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	54.1	76.0	76.1	79.4	82.7
Accounts receivable	17.6	5.2	5.3	5.4	5.5
Property, Plant & Equip (net)	0.2	0.2	2.0	3.7	5.4
Investment properties	2,222.0	2,159.5	2,131.5	2,131.5	2,131.5
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	2,262.4	2,267.5	2,272.5
ST interest bearing debt	189.1	116.9	116.9	116.9	116.9
Accounts payable	28.4	20.3	23.8	24.2	24.5
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	879.2	879.6	879.9
Shareholders Equity	1,359.7	1,384.7	1,383.2	1,387.9	1,392.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,359.7	1,384.7	1,383.2	1,387.9	1,392.6
Total liabilities and equity	2,297.3	2,288.4	2,262.4	2,267.5	2,272.5
CASH FLOW (MYR m)					
Cash flow from operations	105.0	129.1	129.7	128.2	128.5
Acquisitions & investments	(648.9)	(0.4)	(1.8)	(1.9)	(1.9)
Disposal of FA & investments	0.0	0.0	28.0	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	5.1	5.3
CF from investing activities	(647.2)	1.8	31.2	3.2	3.4
Dividends paid	(56.9)	(72.6)	(93.0)	(89.0)	(89.4)
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)	(160.9)	(128.1)	(128.6)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	9.2	22.0	0.1	3.3	3.3

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	14.4	36.7	2.0	1.3	1.1
Net property income growth	13.3	36.8	(2.4)	1.1	1.0
Core net profit growth	9.6	48.6	4.0	2.3	0.5
Distributable income growth	9.5	56.2	6.0	2.2	(3.2)
Profitability ratios (%)					
Net property income margin	77.6	77.7	74.4	74.2	74.2
Core net profit margin	44.9	48.9	49.8	50.3	50.0
Payout ratio	79.4	115.9	91.5	85.5	85.5
DuPont analysis					
Total return margin (%)	47.7	38.8	49.8	50.3	50.0
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	6.6	6.8	6.8
ROAA (%)	3.0	3.8	4.0	4.1	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.6	2.6	2.6
Net gearing (%) (excl. perps)	58.7	56.1	54.2	53.8	53.3
Net interest cover (x)	2.9	3.4	3.6	3.7	3.8
Debt/EBITDA (x)	9.5	6.8	6.5	6.5	6.4
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	797.5	777.4	749.3	746.0	742.7
Debt/Assets (x)	0.37	0.37	0.36	0.36	0.36

Source: Company; Maybank

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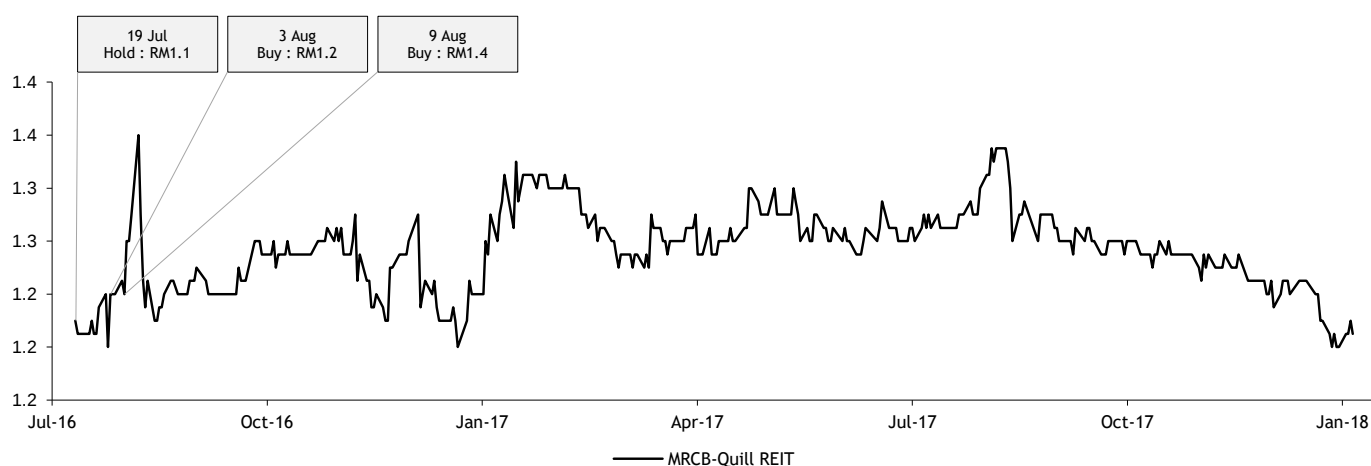
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