

MRCB-Quill REIT (MQREIT MK)

4Q19 earnings on track

Maintain BUY with a strong 6.6% yield

4Q19 results were in-line with FY19 core earnings at 99% of our and consensus' full-year estimates. We tweak our FY20-21E earnings forecasts by +1.3% p.a. and our DDM-TP by 1sen to MYR1.19 (Ke: 7.2%). Maintain BUY as we like MQREIT for its resilient earnings from its properties with long-term tenants which contribute about half of FY20-22E revenue. FY20E net DPU remains strong at 6.6%.

No surprises

Excluding net one-off loss (i.e. net revaluation loss of MYR37m - namely from Platinum Sentral), 4Q19 core net profit was MYR18.6m (-5% YoY, +6% QoQ), taking FY19 core earnings to MYR72.1m (-15% YoY). The lower 4Q19 bottomline (YoY) was mainly dragged by: (i) Wisma Technip (occupancy fell by 25ppt YoY to 75%, but improved to 90% in Dec 2019), (ii) QB5 (vacated since end-1Q19), and (iii) Platinum Sentral (due to changing of tenants which have resulted to a temporary drop in rental income).

Raising earnings estimates by 1% p.a.

We tweak our FY20-21E earnings forecasts by +1.3% p.a. after mainly adjusting for FY19 results and pencilling in a higher occupancy rate of 90% at Wisma Technip. We note that Wisma Technip's end-FY19 occupancy rate has improved to 90% (3Q19: 75%) due to expansion of lease space by its existing tenant in Dec 2019. We also introduce our FY22 estimates.

Positive outlook intact

Notwithstanding Platinum Sentral's near-term rental income hurdles, we remain positive on MQREIT's mid to long-term earnings outlook, supported by properties with long-term tenants, i.e. Platinum Sentral 4Q19 occupancy was 84%), Menara Shell (4Q19 occupancy was 95%), QB1, QB4, QB2 and Tesco Building. These assets contribute c.51% to our FY20-22E revenue.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	173	162	166	169	173
Net property income	134	123	131	132	131
Core net profit	85	72	80	81	80
Core EPU (sen)	7.9	6.7	7.4	7.6	7.4
Core EPU growth (%)	(4.1)	(14.8)	10.7	1.9	(2.1)
Net DPU (sen)	7.3	6.1	6.6	6.7	6.4
Net DPU growth (%)	(3.7)	(15.8)	7.3	1.9	(4.1)
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
Net DPU yield (%)	6.9	6.1	6.6	6.7	6.4
ROAE (%)	5.3	2.2	6.0	6.1	6.0
ROAA (%)	3.7	3.2	3.6	3.7	3.6
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	6.1	6.4	na
MKE vs. Consensus (%)	-	-	7.3	4.2	na

BUY

Share Price	MYR 1.00
12m Price Target	MYR 1.19 (+26%)
Previous Price Target	MYR 1.19

Company Description

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

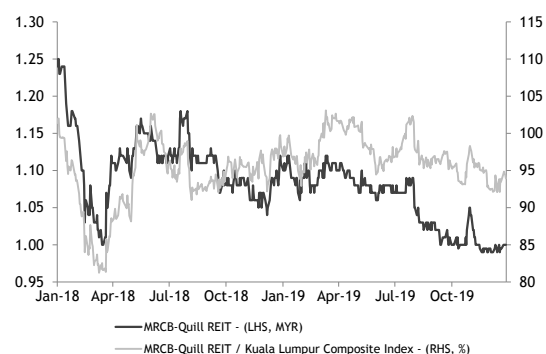
Statistics

52w high/low (MYR)	1.12/0.99
3m avg turnover (USDm)	0.0
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.1B
	USD263M

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	0	(11)
Relative to index (%)	(1)	(1)	(6)

Source: FactSet

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4QFY19	4QFY18	%YoY	3QFY19	%QoQ	FY19	FY18	%YoY
Gross revenue	42.0	42.7	(1.6)	39.9	5.2	162.1	173.4	(6.5)
Net property income	31.5	32.7	(3.6)	30.2	4.3	122.8	133.7	(8.1)
Interest income	1.1	1.7	(33.7)	0.7	60.3	3.2	4.3	(25.5)
Fair value gains/(loss)	(36.7)	(5.4)	575.9	-	NM	(36.7)	(5.4)	575.9
Finance costs	(10.3)	(10.9)	(5.7)	(9.7)	5.4	(39.6)	(40.6)	(2.5)
Other expenses/gains	(3.8)	(3.9)	(2.3)	(3.5)	7.2	(14.4)	(12.7)	13.1
Pretax profit	(18.1)	14.2	NM	17.6	NM	35.4	79.3	(55.4)
Tax	(6.2)	(6.1)	1.7	-	NM	(6.2)	(6.1)	1.7
Net profit	(24.4)	8.0	NM	17.6	NM	29.1	73.1	(60.2)
Net profit ex-EI	18.6	19.6	(4.9)	17.6	5.5	72.1	84.7	(14.8)
EPU ex-EI (sen)	1.7	1.8	(4.9)	1.6	5.5	6.7	7.7	(12.6)
Gross DPU (sen)	3.4	3.9	(12.5)	-	NM	6.8	8.1	(15.8)
	4QFY19	4QFY18	+/- ppt	3QFY19	+/- ppt	FY19	FY18	+/- ppt
Net property margin (%)	75.0	76.6	(1.5)	75.6	(0.6)	75.8	77.1	(1.3)
Net income ex-EI margin (%)	44.3	45.9	(1.5)	44.2	0.1	44.5	48.8	(4.3)

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. 18% of MQREIT's total NLA is due for lease renewal in 2020 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	14.6	16.3	15.2	14.9	15.6
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.6	6.8	7.3	7.4	7.1
FCF yield (%)	10.0	11.1	10.7	11.0	11.1
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	130.7
Management and trustee fees	(14.9)	(14.4)	(14.5)	(14.5)	(14.5)
Net financing costs	(36.3)	(36.4)	(36.5)	(36.6)	(36.6)
Exceptionals	(3.2)	(36.7)	0.0	0.0	0.0
Pretax profit	79.3	35.4	79.8	81.4	79.6
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	79.8	81.4	79.6
Distributable inc to unitholders	87.1	73.0	79.8	81.4	79.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	85.8	63.3	61.6	62.0	65.6
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	2,213.9	2,215.9	2,221.2
ST interest bearing debt	0.0	332.7	332.7	332.7	332.7
Accounts payable	15.8	15.7	14.3	14.7	16.8
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	891.3
Shareholders Equity	1,372.3	1,323.5	1,325.1	1,326.7	1,329.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,372.3	1,323.5	1,325.1	1,326.7	1,329.9
Total liabilities and equity	2,271.4	2,213.7	2,213.9	2,215.9	2,221.2
CASH FLOW (MYR m)					
Cash flow from operations	113.3	118.8	114.8	118.4	118.4
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	3.1	3.1
CF from investing activities	27.6	0.4	1.5	1.4	1.4
Dividends paid	(89.8)	(78.0)	(78.2)	(79.7)	(76.4)
Interest expense	(39.2)	(38.5)	(39.7)	(39.7)	(39.7)
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)	(117.9)	(119.4)	(116.1)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	15.9	(16.3)	(1.6)	0.4	3.7

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	(1.3)
Core net profit growth	(3.8)	(14.8)	10.7	1.9	(2.1)
Distributable income growth	(5.8)	(16.1)	9.3	1.9	(2.1)
Profitability ratios (%)					
Net property income margin	77.1	75.8	78.6	78.3	75.7
Core net profit margin	48.8	44.5	48.0	48.1	46.1
Payout ratio	106.6	225.2	88.2	88.2	86.4
DuPont analysis					
Total return margin (%)	42.2	18.0	48.0	48.1	46.1
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	6.0	6.1	6.0
ROAA (%)	3.7	3.2	3.6	3.7	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.0	58.4	58.4	58.3	57.9
Net interest cover (x)	3.3	3.0	3.2	3.2	3.2
Debt/EBITDA (x)	7.2	7.7	7.2	7.1	7.2
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	767.9	772.5	774.1	773.7	770.1
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank

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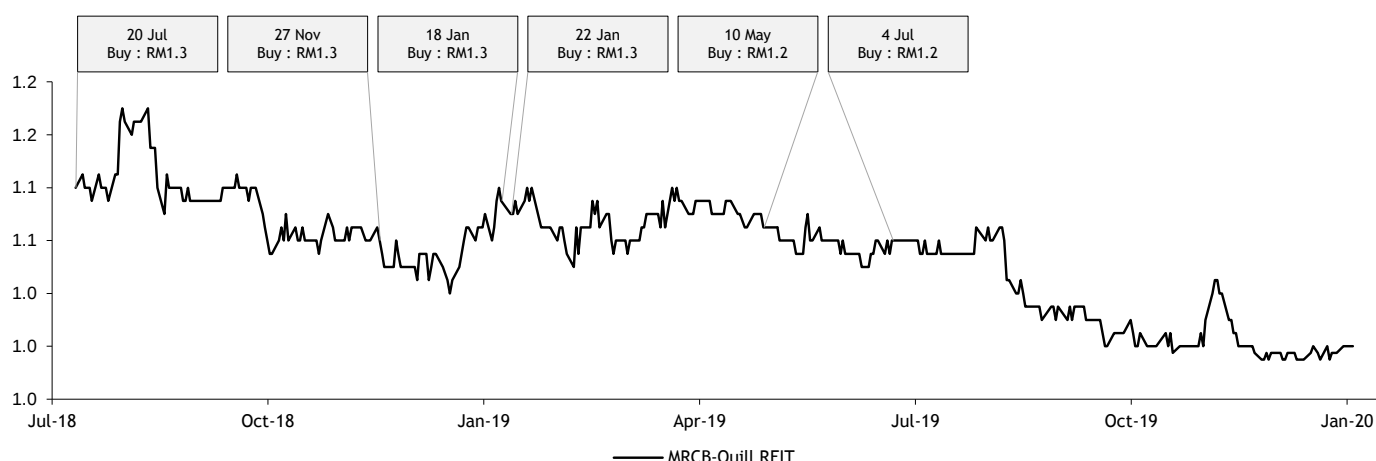
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Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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