

**HLIB Research**

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**HOLD** (Maintain)

**Target Price:** **RM1.05**
**Previously:** **RM1.05**
**Current Price:** **RM1.00**

Capital upside	5.0%
Dividend yield	6.8%
Expected total return	11.8%

**Sector coverage:** REIT

**Company description:** MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	0.5	0.0	-10.7
Relative	-0.7	-1.3	-5.8

**Stock information**

Bloomberg ticker	MQREITMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	1,072
3-mth average volume ('000)	183
SC Shariah compliant	No

**Major shareholders**

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

**Earnings summary**

FYE (Dec)	FY19	FY20f	FY21f
PAT – core (RM m)	72.1	74.8	77.5
EPU – core (sen)	6.7	7.0	7.2
P/E (x)	14.9	14.3	13.8

# **MRCB-Quill REIT**

## **FY19 results within expectation**

MQREIT FY19 core profit of RM72.1m (-14.8% YoY) was within our expectations and consensus. The decline was mainly due to lower revenue contribution from Platinum Sentral, Wisma Technip and QB5. Although occupancy rate has ticked up marginally QoQ from 89% to 90% (thanks to arrival of new tenancy in 4Q), we remain cautious on MQREIT's rental reversion given lacklustre of overall office market; this is likely to remain under pressure, leading to flattish reversion in FY20. We maintain our forecast; reiterate HOLD call with unchanged TP of RM1.05 based on targeted yield of 6.6%.

**Within expectations.** 4Q19 core net profit of RM18.6m (+5.4% QoQ, -5.2% YoY) brought FY19 sum to RM72.1m (-14.8% YoY). The results were within our estimates and consensus, accounting for 100.8% and 99.1%, respectively.

**Dividend.** Declared dividend of 3.37 sen, bringing FY19 dividend to 6.80 sen (FY18: 8.08 sen) per unit in line with our expectations.

**QoQ.** Total gross revenue edged up 5.2% to RM42m, which in turn, helped to lift core net profit by 5.4% to RM18.6m. The revenue increase was contributed by (i) income contribution in Menara Shell due to new tenancies with Microsoft and Google, (ii) income contribution from Platinum Sentral, thanks to Regus tenancy kicking in 4Q, and (iii) increase occupancy of Wisma Technip whereby Technip took up 1 additional floor.

**YoY.** Top line decreased marginally by 1.6% attributable to lower revenue contribution mainly from Platinum Sentral, Wisma Technip and QB5. Property operating expense increased marginally by 4.8% mainly due to higher operating expenses incurred for some properties, which in turn brought down the net property income (NPI) by 3.7%. As a result, bottom line showed a decrement of 5.2%.

**YTD.** Revenue for FY19 decreased by 6.5% to RM162.1m. Similarly, core net profit of RM72.1m showed a decline of 14.8%. The lower revenue was due to (i) loss of revenue from QB8 (disposed in April 2018); (ii) lower occupancy rate from Platinum Sentral (SPAD downsized & MyHSR moved out), Wisma Technip (tenant downsized) and QB5 (IBM moved out). Nevertheless, it was cushioned marginally (i) lower property expenses (-1.2%) and (ii) lower finance costs (-2.5%).

**Occupancy and gearing.** Overall occupancy rate increased marginally to 90% (3Q19: 89%). As for gearing level, it edged up to 37.8% (3Q19: 37.4%), with a majority of its total borrowings being charged a fixed interest rate (76%).

**Outlook.** MQREIT has completed renewals that due in 2019 with 92% take up and 8% not renewed (vacant). Furthermore, occupancy rate has increased marginally thanks to arrival of new tenancy in 4Q. As a result, we are anticipating a better income contribution for FY20 from these new tenants and low base effect of FY19. However, we remain cautious on MQREIT's rental reversion given lacklustre of overall office market; this is likely to remain under pressure, leading to flattish reversion in FY20. Notably, there are 18% of occupied NLA that are due for renewal in FY20.

**Forecast.** Maintain as the results were inline.

**Maintain HOLD, TP: RM1.05.** We maintain our HOLD call with an unchanged TP of RM1.05 based on FY20 forward DPU on targeted yield of 6.6% which is derived from 2 years historical average yield spread of MQREIT and 10-year MGS. Although MQREIT provides investors with attractive dividend yield of 6.8% (highest among REITs in our universe), we are vigilant on market outlook for office REITs as it remains lacklustre due to unabated oversupply of office in KL city.

**Figure #1 Financial forecast summary**

FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	181.5	173.4	162.1	165.6	167.0
Core PBT	88.1	84.7	72.1	74.8	77.5
Core PAT	88.1	84.7	72.1	74.8	77.5
Core EPU (sen)	8.2	7.9	6.7	7.0	7.2
P/E (x)	12.1	12.7	14.9	14.3	13.8
DPU (sen)	8.4	8.1	6.8	7.0	7.2
Dividend yield (%)	8.4	8.1	6.8	7.0	7.2
BVPS (RM/share)	1.30	1.28	1.23	1.28	1.28
P/B (x)	0.8	0.8	0.8	0.8	0.8
ROE (%)	5.0%	5.3%	5.4%	5.4%	5.6%
Net Gearing (%)	34.0%	33.8%	37.8%	33.8%	33.9%

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**Figure #2 Quarterly results comparison**

FYE Dec (RM m)	4Q18	3Q19	4Q19	QoQ	YoY	FY18	FY19	YoY
Gross revenue	42.7	39.9	42.0	5.2%	-1.6%	173.4	162.1	-6.5%
Property operating expenses	-10.0	-9.7	-10.5	7.7%	4.8%	-39.7	-39.2	-1.2%
<b>Net property income</b>	<b>32.7</b>	<b>30.2</b>	<b>31.5</b>	<b>4.3%</b>	<b>-3.7%</b>	<b>132.8</b>	<b>122.8</b>	<b>-7.5%</b>
Interest income	1.7	0.7	1.1	60.3%	-33.7%	4.3	3.2	-25.5%
Net investment income	34.4	30.9	32.6	5.6%	-5.0%	134.7	126.0	-6.5%
Finance costs	-10.9	-9.7	-10.3	5.4%	-5.7%	-40.6	-39.6	-2.5%
Valuation fees	-0.1	-0.1	-0.1	-36.7%	-40.2%	-0.4	-0.3	-8.0%
Administrative expenses	-0.3	-0.0	-0.3	873.8%	19.1%	-0.4	-0.4	5.1%
Total expenses	-14.8	-13.3	-14.0	5.9%	-4.8%	-55.5	-54.0	-2.7%
Core PBT	19.6	17.6	18.6	5.4%	-5.2%	84.7	72.1	-14.8%
<b>Core PAT</b>	<b>19.6</b>	<b>17.6</b>	<b>18.6</b>	<b>5.4%</b>	<b>-5.2%</b>	<b>84.7</b>	<b>72.1</b>	<b>-14.8%</b>
Distributable adjustments	-1.4	0.0	0.0	N.M	N.M	2.4	0.9	-62.5%
<b>Distributable income</b>	<b>18.2</b>	<b>17.6</b>	<b>18.6</b>	<b>5.4%</b>	<b>2.0%</b>	<b>87.1</b>	<b>73.0</b>	<b>-16.2%</b>
Core EPU (sen)	1.8	1.6	1.7	5.7%	-4.9%	7.9	6.7	-14.8%
DPU (sen)	3.9	0.0	3.4	N.M	-12.5%	8.1	6.8	-15.8%

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