

MRCB-Quill REIT (MQREIT MK)

Putting the shine back into Platinum Sentral

Maintain BUY with total return of 22%

Post our recent meeting with management, we reiterate our positive, long-term outlook on MQREIT. The rental income setbacks at Platinum Sentral in FY19 should be short-lived. Meanwhile, half of MQREIT's FY19-21E revenue is still supported by long-term tenants. Our earnings forecasts and DDM-TP of MYR1.18 (Ke: 7.2%) are intact. Maintain BUY with an attractive FY20E net DPU yield of 6.4% (sector average: 5.3%).

New long-term tenant at Platinum Sentral

SPACES, a co-working space provider owned by IWG PLC (IWG LN; Not Rated) has begun operations at Platinum Sentral (c.15% of NLA) since Jul 2019. Consequently, we expect a gradual improvement in rental income from 2H19 onwards post the fit-out period of SPACES and other new tenants. Committed occupancy at Platinum Sentral has been stable since 2Q19 at 88%. We understand that IWG plans to aggressively expand SPACES in Malaysia. Hence, we do not rule out the possibility of SPACES taking on additional space at Platinum Sentral in the future, particularly in the event of non-renewal/lease expiries of existing tenants.

Limited risks at QB5

Management is still actively seeking a replacement tenant at QB5, following the vacancy of its sole tenant since end-1Q19. However, we see limited earnings risks from QB5 as it only contributed c.2% to MQREIT's FY19-21E revenue (4% of portfolio NLA), based on our estimates. We also do not discount the possibility of MQREIT disposing the asset if opportunities arise.

Long-term outlook intact

We maintain our positive outlook on MQREIT's assets and rental income where long-term tenants, i.e. Menara Shell (close to full office occupancy), QB1, QB4, QB2 and the Tesco Building are estimated to contribute 51-52% to our FY19-21E revenue. We have not factored in new assets in our forecasts.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	180	173	163	164	167
Net property income	140	134	124	129	131
Core net profit	88	85	74	79	80
Core EPU (sen)	8.2	7.9	6.9	7.4	7.5
Core EPU growth (%)	(8.0)	(4.1)	(12.8)	6.7	1.9
Net DPU (sen)	7.6	7.3	6.1	6.5	6.6
Net DPU growth (%)	0.1	(3.7)	(16.4)	6.7	1.9
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
Net DPU yield (%)	6.0	6.9	6.0	6.4	6.5
ROAE (%)	5.1	5.3	5.4	5.7	5.8
ROAA (%)	3.8	3.7	3.3	3.5	3.5
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	6.1	6.1	6.4
MKE vs. Consensus (%)	-	-	(1.0)	5.9	2.9

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BUY

Share Price	MYR 1.02
12m Price Target	MYR 1.18 (+22%)
Previous Price Target	MYR 1.18

Company Description

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

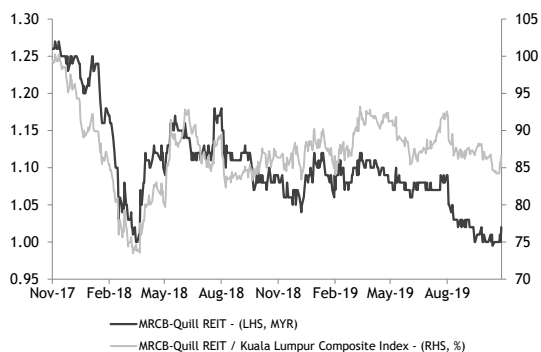
Statistics

52w high/low (MYR)	1.12/1.00
3m avg turnover (USDm)	0.0
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.1B
	USD262M

Major shareholders:

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

Price Performance

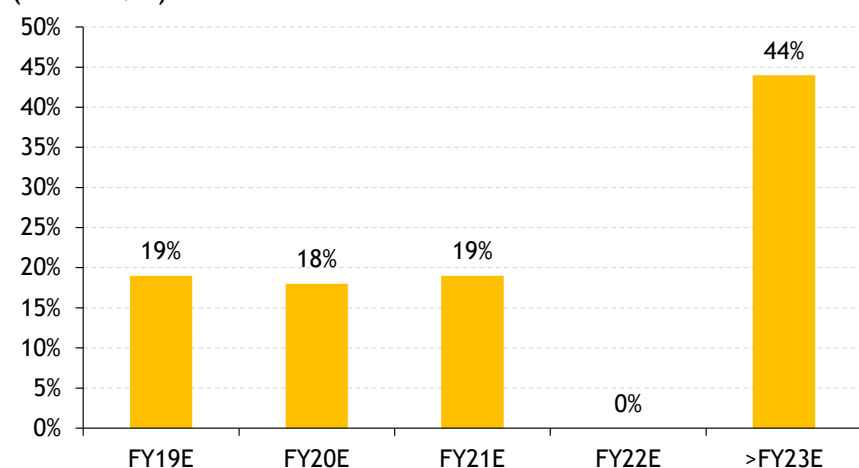


	-1M	-3M	-12M
Absolute (%)	1	(6)	(6)
Relative to index (%)	(1)	(5)	(1)

Source: FactSet

Figure 1: Lease expiry profile

(of total NLA)



Note: As at 30 Jun 2019

Source: 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 2019 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	16.6	14.6	16.8	15.7	15.4
P/BV (x)	1.0	0.8	0.8	0.8	0.8
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
DPU yield (%)	6.7	7.6	6.6	7.1	7.2
FCF yield (%)	9.7	10.0	10.0	10.3	10.7
INCOME STATEMENT (MYR m)					
Revenue	180.1	173.4	163.4	164.5	167.2
Net property income	140.0	133.7	124.3	129.4	131.0
Management and trustee fees	(14.9)	(14.9)	(14.6)	(14.7)	(14.8)
Net financing costs	(36.9)	(36.3)	(35.8)	(35.8)	(35.9)
Exceptionals	(18.2)	(3.2)	0.0	0.0	0.0
Pretax profit	69.9	79.3	73.9	78.8	80.3
Income tax	0.0	(6.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	69.9	73.1	73.9	78.8	80.3
Distributable inc to unitholders	92.4	87.1	73.9	78.8	80.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	76.0	85.8	85.7	84.2	84.7
Accounts receivable	5.2	5.6	5.3	5.4	5.4
Property, Plant & Equip (net)	0.2	0.3	2.0	3.4	4.8
Investment properties	2,159.5	2,158.7	2,158.7	2,158.7	2,158.7
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	47.5	20.9	20.9	20.9	20.9
Total assets	2,288.4	2,271.4	2,272.6	2,272.6	2,274.6
ST interest bearing debt	116.9	0.0	0.0	0.0	0.0
Accounts payable	20.3	15.8	15.6	14.0	14.4
LT interest bearing debt	736.6	853.7	853.7	853.7	853.7
Other liabilities	29.9	29.6	29.6	29.6	29.6
Total Liabilities	903.7	899.1	898.9	897.3	897.7
Shareholders Equity	1,384.7	1,372.3	1,373.8	1,375.3	1,376.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,384.7	1,372.3	1,373.8	1,375.3	1,376.9
Total liabilities and equity	2,288.4	2,271.4	2,272.6	2,272.6	2,274.6
CASH FLOW (MYR m)					
Cash flow from operations	129.1	113.3	109.8	113.1	116.8
Acquisitions & investments	(0.4)	(4.1)	(1.6)	(1.6)	(1.7)
Disposal of FA & investments	0.0	28.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.2	3.7	4.7	4.7	4.6
CF from investing activities	1.8	27.6	3.1	3.1	3.0
Dividends paid	(72.6)	(89.8)	(72.4)	(77.2)	(78.7)
Interest expense	(37.2)	(39.2)	(40.6)	(40.6)	(40.6)
Change in debt	1.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	4.0	0.0	0.0	0.0
Other financial activities	(0.0)	(0.0)	0.0	0.0	0.0
CF from financing activities	(108.8)	(125.0)	(112.9)	(117.8)	(119.3)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	22.0	15.9	(0.0)	(1.5)	0.5

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.7	(3.7)	(5.8)	0.7	1.6
Net property income growth	36.8	(4.5)	(7.0)	4.1	1.3
Core net profit growth	48.6	(3.8)	(12.8)	6.7	1.9
Distributable income growth	56.2	(5.8)	(15.2)	6.7	1.9
Profitability ratios (%)					
Net property income margin	77.7	77.1	76.1	78.7	78.4
Core net profit margin	48.9	48.8	45.2	47.9	48.0
Payout ratio	115.4	106.6	88.2	88.2	88.2
DuPont analysis					
Total return margin (%)	38.8	42.2	45.2	47.9	48.0
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 (%)	5.1	5.3	5.4	5.7	5.8
ROAA (%)	3.8	3.7	3.3	3.5	3.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.1	56.0	55.9	56.0	55.8
Net interest cover (x)	3.4	3.3	3.1	3.2	3.2
Debt/EBITDA (x)	6.8	7.2	7.8	7.4	7.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	777.4	767.9	768.0	769.5	769.0
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38

Source: Company; Maybank

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Malaysia

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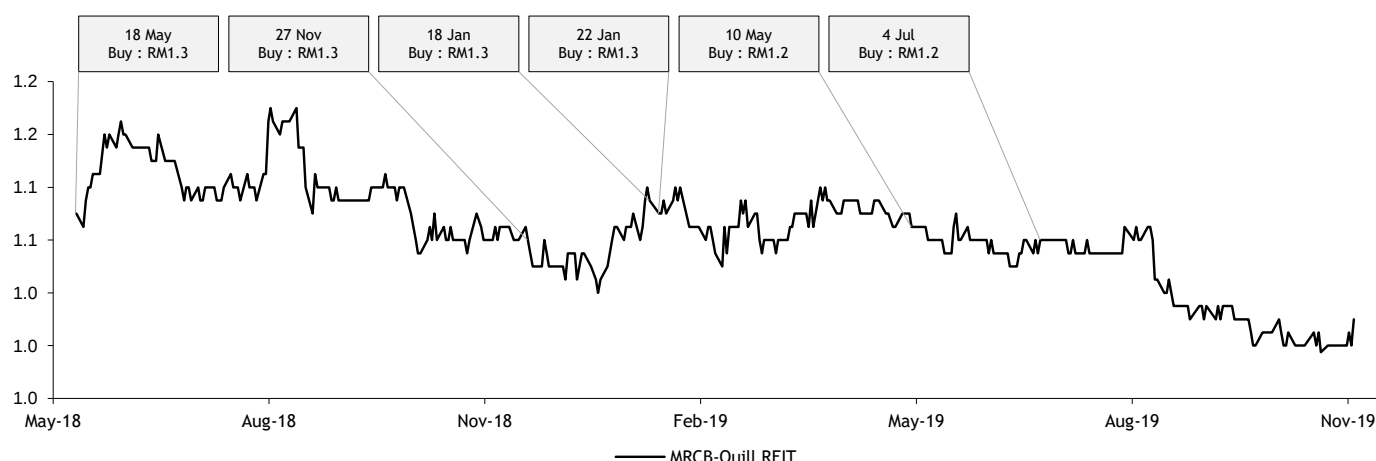
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