

**AmResearch****Company report****Tan Ee Zhio**

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REIT

MRCB-QUILL REIT

(MQREIT MK EQUITY, QCAP.KL)

23 Jul 2015*Stronger income stream from Platinum Sentral***BUY**

Price: RM1.17

Fair Value: RM1.35

Rationale for report: Company result

YE to Dec	FY14	FY15F	FY16F	FY17F
DPU (sen)	8.4	8.6	8.8	9.0
Dividend yield (%)	7.2	7.3	7.5	7.7

Source: AmResearch

- We reaffirm our BUY recommendation on MRCB-Quill REIT (MQ REIT) with an unchanged fair value of RM1.35/unit, based on a 10% discount to its DCF value of RM1.50/unit. Taken together with our DPU estimate of 8.6sen for FY15F, our fair value implies a total return of 23% at the current price.
- MQ REIT reported 1HFY15 distributable income of RM22mil (31% YoY) and DPU of 4.10sen. The results is deemed to be in line with our and consensus expectations (comprising 41% of estimates) as stronger income recognition is expected in 2HFY15 arising from the acquisition of Platinum Sentral.
- The stronger 1HFY15 revenue were driven by the additional revenue stream from the Platinum Sentral (acquisition completed on March 30) and higher revenue from Plaza Mont Kiara and rental increases from some properties. The portfolio occupancy rate remained stable at 93%. 94% of NLA due in 1HFY15 have been renewed.
- We make no changes to our FY15F-FY17F EPU estimates. Gearing remains manageable at 44% as at end-1HFY15 with an average cost of debt of 4.4%.
- MQ REIT is expected to continue charting organic growth underpinned by:- (1) 25% of total leases due for renewal in FY15 at QB1, QB3, QB4, and Plaza Mont Kiara; and (2) ongoing asset enhancement initiatives works at QB2 and Plaza Mont Kiara.
- Our BUY call continues to be premised on the fact that MQ REIT will be used as MRCB's platform to house MRCB's prime commercial assets within KL Sentral given the latter's monetisation agenda.
- We see the possibility of a near-term acquisition materialising given MQ REIT's right of first refusal to purchase properties owned by MRCB and Quill Group. We understand the potential assets for acquisition have a collective value of RM1.8bil (five assets) which would see its total asset value increase by 113% to RM3.4bil. These include Shell Tower, Ascott Residences, QB6, QB9 and QB18.
- At the current level, MRCB-Quill REIT is trading at an attractive yield of 7% for FY15F vis-à-vis its sector peers' ~6% with a yield spread of 340bps over the 10-year Malaysian Government Securities yield of 3.9%.

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For AmResearchSdnBhd

Benny Chew
 Managing Director

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EXHIBIT 1: RESULTS SUMMARY

YE 31 Dec (RMmil)	1HFY14	1HFY15	%YoY	2QFY14	1QFY15	2QFY15	% QoQ	% YoY
Gross rental income	34.5	50.8	47.1	17.3	18.6	32.2	72.9	85.5
Property operating cost	(8.1)	(12.8)		(4.0)	(4.9)	(7.9)		
Net property income (NPI)	26.4	38.0	43.9	13.4	13.7	24.3	77.7	81.5
Interest expenses & interest income	(6.6)	(11.5)		(3.3)	(3.4)	(8.7)		
Other expenses	(3.1)	(4.6)		(1.6)	(2.0)	(2.0)		
Fair value adj.	-	-		-	-	-		
Net Income before tax	16.7	21.9	31.0	8.6	8.3	13.6	64.7	59.2
Taxation	-	-		-	-	-		
Net Income	16.7	21.9	31.0	8.6	8.3	13.6	64.7	59.2
Less: Fair value adj.	-	-		-	-	-		
Realised income	16.7	21.9	31.0	8.6	8.3	13.6	64.7	59.2
EPU (sen)	4.3	4.8		2.2	2.1	2.2		
DPU (sen)	4.1	4.1		4.1	1.9	2.2		
NAV/unit (RM)	1.3	1.3		1.3	1.3	1.3		
NPI margin (%)	76.5	74.8		77.2	73.5	75.6		
Pretax margin (%)	48.4	43.1		49.4	44.5	42.4		

Source: Company, AmResearch

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	68.9	70.2	106.9	120.5	122.1
Core net profit (RM mil)	34.5	34.2	53.6	61.3	62.5
EPU (sen)	8.9	8.8	9.0	9.3	9.4
EPU growth (%)	(8.6)	9.9	(2.8)	1.5	1.7
Consensus EPU (sen)	0.0	0.0	8.8	9.2	9.5
DPS (Sen)	8.4	8.4	8.6	8.8	9.0
PE (x)	12.5	11.3	11.7	11.5	11.3
EV/EBITDA (x)	14.8	13.8	16.6	15.4	15.2
Div yield (%)	7.2	7.2	7.33	7.5	7.7
ROE (%)	6.9	7.4	6.8	7.7	7.8
Gearing (%)	35.4	35.1	44.1	43.8	43.8

Source: Company, AmResearch estimates