

COMPANY RESULTS

MRCB-Quill REIT (MQREIT MK)

9M16: Above Expectations; Acquisition Of Menara Shell On Track

MQREIT's 9M16 results came in better than our and consensus expectations, mainly on the back of higher rental reversion. Net property income margin remained stable at 79% and occupancy rate was relatively stable at 97%. Management reaffirmed its commitment to the proposed acquisition of Menara Shell, which is expected to be completed by end-16. We retool our forecast as we have assumed higher rental reversions, which leads us to a higher target price of RM1.40. Maintain BUY.

3Q16 RESULTS

Year to 31 Dec (RMm)	2Q16	3Q16	yoy % chg	qoq % chg	9M16	yoy % chg
Gross revenue	32.6	32.5	2.2	(0.2)	97.7	18.3
Operating expenses	(6.9)	(7.0)	10.2	1.5	(21.0)	10.1
Net property income	25.7	25.5	0.2	(0.7)	76.7	20.8
Finance cost	(8.0)	(8.1)	(2.6)	1.6	(23.9)	19.4
Administrative expense	(0.1)	(0.0)	(110.9)	(62.7)	(0.2)	(25.2)
Total expense	(10.7)	(10.8)	0.7	0.8	(32.1)	18.6
Normalised Net Profit	15.4	15.2	0.6	(1.0)	45.9	23.8
EPU (sen)	2.3	2.3	0.6	(1.0)	6.9	7.1
DPU (sen)	4.2	0.0	n.m.	n.m.	4.2	3.2

Source: MQREIT, UOB Kay Hian

RESULTS

- Above expectations.** MRCB-Quill REIT (MQREIT) reported 9M16 revenue of RM97.7m (+18.3% yoy) which translates into a core net profit of RM45.9m (+23.8% yoy) and accounts for 79.7% and 78.1% of our and consensus full-year forecasts respectively.
- No dividend declared.** Dividends are usually declared semi-annually – in the second and final quarter. Ytd, MQREIT declared a 4.2 sen dividend, which forms 48.5% of our full-year dividend forecast.
- Net property income margin** was maintained at 79% during the quarter, similar to that seen in the previous quarter.

KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	70	115	123	183	190
EBITDA	47	81	86	129	132
Operating profit	47	81	86	129	132
Net profit (rep./act.)	40	61	60	93	97
Net profit (adj.)	34	54	60	93	97
EPS (sen)	8.8	8.1	9.1	8.8	9.1
PE (x)	14.5	15.7	14.0	14.5	13.9
P/B (x)	0.9	0.9	0.9	1.0	1.0
EV/EBITDA (x)	31.2	18.4	17.2	11.5	11.3
Dividend yield (%)	6.6	6.7	6.9	6.9	7.2
Net margin (%)	57.3	52.8	48.8	50.9	51.0
Net debt/(cash) to equity (%)	50.4	71.2	71.1	64.3	64.4
Interest cover (x)	3.6	3.0	3.3	3.6	3.8
ROE (%)	n.a.	8.4	6.6	8.3	7.3
Consensus net profit	-	-	59	88	92
UOBKH/Consensus (x)	-	-	1.02	1.06	1.05

Source: MQREIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.27
Target Price	RM1.40
Upside	+9.8%
(Previous TP)	RM1.35

COMPANY DESCRIPTION

MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MQREIT MK
Shares issued (m):	661.4
Market cap (RMm):	840.0
Market cap (US\$m):	202.0
3-mth avg daily t'over (US\$m):	0.1

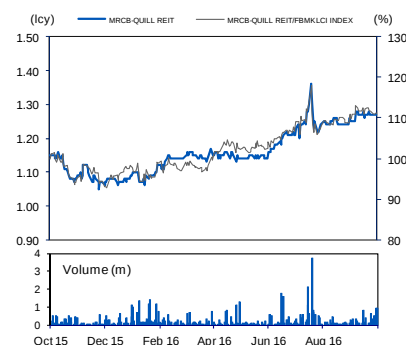
Price Performance (%)

52-week high/low			RM1.36/RM1.05	
1mth	3mth	6mth	1yr	YTD
2.4	5.0	8.5	10.4	17.6

Major Shareholders

	%
MRCB	31.8
Capitaland Ltd	17.7
FY16 NAV/Share (RM)	1.37
FY16 Net Debt/Share (RM)	0.98

PRICE CHART



Source: Bloomberg

ANALYST

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STOCK IMPACT

- **Higher revenue from Platinum Sentral** contributed to the double-digit growth in 9M16 top-line and botto- line. To recap, Platinum Sentral was acquired in Mar 15 and this resulted in MQREIT's asset base growing by 87% while net profit in 2015 jumped by 56%.
- **Marginal qoq net profit decline (-1.0%)** was primarily due to higher repair and maintenance costs incurred during the quarter. This was partially offset by lower non-operating expense during the quarter (ie valuation fees, tax agent fees and administrative expenses).
- **Occupancy remained intact** at 97%, well above the average occupancy rate of office buildings in Kuala Lumpur (81.2% in 2015). Management also shared that 64% of leases which were due up until 3Q16 have been successfully renewed. They are also targeting to finalise the rest of the 28% leases due in the final quarter.
- **The Menara Shell acquisition** is still on track as the Securities Commission (SC) had on 27 September approved the valuation and the issuance, listing of and quotation for the new units on Bursa. Management reiterated its commitment to seal the deal by the year-end and hence contribution from Menara Shell shall start from 1Q17 onwards. We have penciled in contribution from Menara Shell into our assumptions as it would essentially result in asset base and core net earnings growing by 40% and 57% respectively.
- **Limited headroom for debt** as gearing currently stands at 42% (SC limit of 50%). We are of the view that the next acquisition exercise will still be largely funded by equity fundraising or a share swap which will eventually lead to a higher share base. However, management has consistently emphasised that the enlarged share base will not dilute the DPU and it will be flattish in the worst-case scenario. Note that historically, MQREIT has been distributing earnings at a 95% payout ratio.

EARNINGS REVISION/RISK

- **Revised net profit forecasts upwards** as we factor in a higher rental step-up for QB2, QB3 and Wsima Technip. This has led to an increase of 3-4% in our 2016-18 net profit estimates.

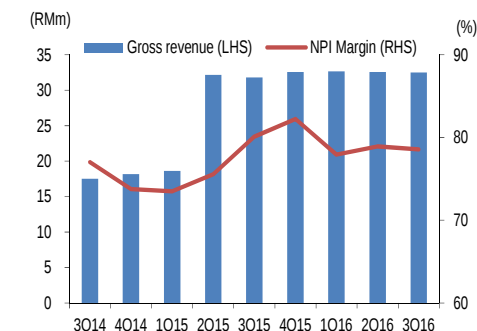
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM1.40** based on dividend discount model (required rate of return: 7.3%; terminal growth: 1.0%) and supported by 2016 dividend yield of 6.9%.

SHARE PRICE CATALYST

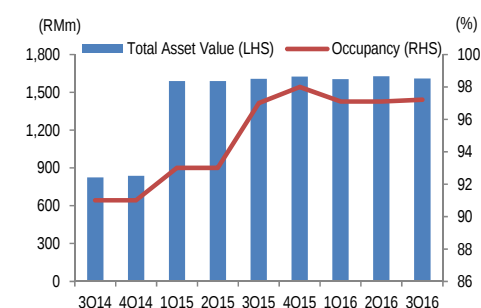
- **Inorganic growth arising from acquisition exercise.** We believe that after Menara Shell, MQREIT's next acquisition will be Menara Celcom in PJ Sentral which is still under construction and scheduled for completion in 2017.

REVENUE AND NET PROPERTY INCOME MARGIN



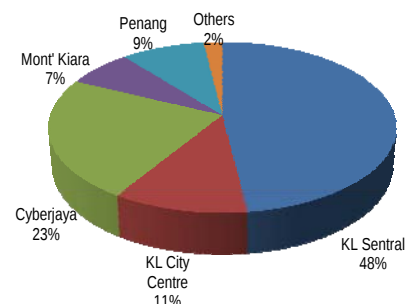
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



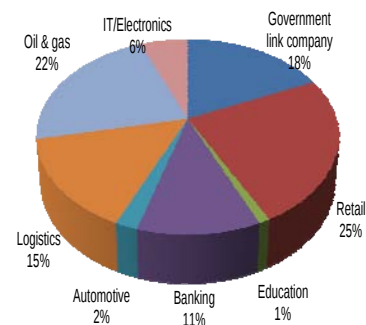
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Net turnover	115	123	183	190
EBITDA	81	86	129	132
Deprec. & amort.	0	0	0	0
EBIT	81	86	129	132
Net interest income/(expense)	(27)	(26)	(35)	(35)
Pre-tax profit	61	60	93	97
Tax	0	0	0	0
Net profit	61	60	93	97
Net profit (adj.)	54	60	93	97

BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Fixed assets	1,570	1,572	2,212	2,214
Other LT assets	4	4	4	4
Cash/ST investment	47	31	32	15
Other current assets	7	6	8	9
Total assets	1,627	1,612	2,256	2,241
ST debt	189	189	189	189
Other current liabilities	18	16	18	18
LT debt	501	486	700	685
Other LT liabilities	16	16	16	16
Shareholders' equity	904	906	1,333	1,333
Total liabilities & equity	1,627	1,612	2,256	2,241

CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Operating	61	60	93	97
Pre-tax profit	61	60	93	97
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Investing	(727)	(2)	(640)	(2)
Capex (growth)	(752)	(2)	(640)	(2)
Proceeds from sale of assets	27	0	0	0
Others	(2)	0	0	0
Financing	690	(73)	548	(112)
Distribution to unitholders	(39)	(58)	(93)	(97)
Issue of shares	340	0	427	0
Proceeds from borrowings	534	0	229	0
Loan repayment	(145)	(15)	(15)	(15)
Net cash inflow (outflow)	23	(15)	1	(17)
Beginning cash & cash equivalent	23	45	31	32
Ending cash & cash equivalent	47	30	32	15

KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	69.9	70.2	70.3	69.2
Pre-tax margin	52.8	48.8	50.9	51.0
Net margin	52.8	48.8	50.9	51.0
ROA	4.9	3.7	4.8	4.3
ROE	8.4	6.6	8.3	7.3
Growth				
Turnover	64.1	6.8	48.7	4.0
EBITDA	69.7	7.3	48.8	2.5
Pre-tax profit	51.0	(1.2)	55.2	4.1
Net profit	51.0	(1.2)	55.2	4.1
Net profit (adj.)	56.8	12.2	55.2	4.1
EPU	(7.5)	12.2	(3.3)	4.1
Leverage				
Debt to total capital	43.3	42.7	40.0	39.6
Debt to equity	76.3	74.5	66.7	65.5
Net debt/(cash) to equity	71.2	71.1	64.3	64.4
Interest cover (x)	3.0	3.3	3.6	3.8

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