

# MRCB-Quill REIT (MQREIT MK)

## 1Q18: In-line, but some easing in occupancy

### Maintain BUY

1Q18 earnings were within our estimates. Despite having stable rental income from long-term tenants at selected assets, earnings were dragged by lower occupancy rate at Platinum Sentral and higher opex. We lower our FY18-20 earnings forecasts by 2-3% p.a. and DDM-TP by 5sen to MYR1.30 (unchanged cost of equity of 7.6%). MQREIT's CY18E net DPU yield of 6.7% remains favourable and above our M-REITs coverage's average of 5.8%.

### Offset by slower topline growth and higher opex

1Q18 net profit of MYR21.0m (-9.3% YoY, -1.9% QoQ) was 23% of our and consensus' full-year estimates. YoY, 1Q18 earnings were pulled back by: (i) lower portfolio occupancy rate of 96.2% (1Q17: 97%) which was mainly attributed to two non-renewals at Platinum Sentral, (ii) higher opex as there were marginally higher routine opex incurred at some properties, and (iii) additional MYR0.6m administrative cost from the disposal of QB8 -DHL (XPJ) (completed on 12 Apr 2018). Similarly, QoQ earnings were also impacted by slower topline growth and higher opex and administrative expenses.

### Tweaking estimates

We lower our FY18/19/20 earnings forecasts by 3%/3%/2% after mainly imputing lower near-term occupancy rate at Platinum Sentral (-5ppt to 90% vs. 1Q18's c.94%) and higher opex. Consequently, we reduce our DDM-based TP by 5sen to MYR1.30.

### Long-term positive for Menara Shell

We continue to favour MQREIT's long-term tenants which provide resilient rental income - such as Shell People Services and AmGeneral Insurance which occupy approximately 79% in total of Menara Shell's NLA. Elsewhere, we also expect some earnings/occupancy improvement at Menara Shell as a new tenant has recently moved into the property (raising the office tower's occupancy to 96% from 94% as at end-FY17) and MQREIT is still in talks with potential tenants which could increase Menara Shell's occupancy rate further.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	132	180	181	183	185
Net property income	102	140	138	140	141
Core net profit	59	88	89	89	90
Core EPU (sen)	9.0	8.2	8.2	8.2	8.3
Core EPU growth (%)	9.6	(8.4)	0.1	(0.2)	1.2
Net DPU (sen)	7.5	7.6	7.5	7.5	7.3
Net DPU growth (%)	8.8	0.1	(0.4)	(0.2)	(2.8)
P/NTA (x)	0.5	0.9	0.9	0.9	0.9
Net DPU yield (%)	6.7	6.7	6.7	6.7	6.5
ROAE (%)	5.6	5.1	6.4	6.4	6.5
ROAA (%)	3.0	3.8	3.9	3.9	4.0
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	7.0	6.7	6.9
MKE vs. Consensus (%)	-	-	7.2	12.7	6.0

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## BUY

Share Price	MYR 1.12
12m Price Target	MYR 1.30 (+16%)
Previous Price Target	MYR 1.35

### Company Description

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

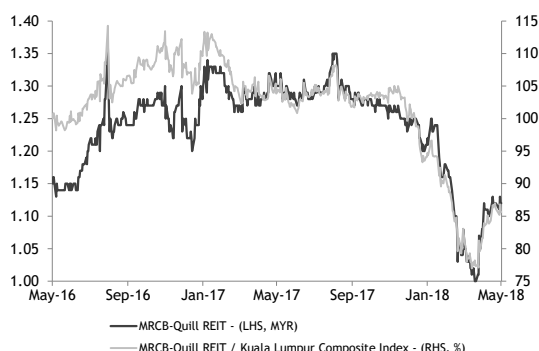
### Statistics

52w high/low (MYR)	1.35/1.00
3m avg turnover (USDm)	0.2
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.2B
	USD301M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	(5)	(14)
Relative to index (%)	5	(6)	(18)

Source: FactSet



Fig 1: Results summary table

FY Dec (MYR m)	Quarterly				
	1QFY18	1QFY17	%YoY	4QFY17	%QoQ
Gross revenue	44.0	45.6	(3.3)	44.7	(1.4)
<b>Net property income</b>	<b>34.3</b>	<b>36.1</b>	<b>(5.1)</b>	<b>34.6</b>	<b>(1.0)</b>
Interest income	0.7	0.5	61.3	1.7	(58.1)
Fair value gains/(losses)	-	-	NM	(18.2)	NM
Finance costs	(9.7)	(9.7)	(0.3)	(11.0)	(11.8)
Other expenses	(4.3)	(3.7)	17.0	(3.9)	11.2
<b>Pretax profit</b>	<b>21.0</b>	<b>23.2</b>	<b>(9.3)</b>	<b>3.3</b>	<b>532.5</b>
Tax	-	-	NM	-	NM
<b>Net profit</b>	<b>21.0</b>	<b>23.2</b>	<b>(9.3)</b>	<b>3.3</b>	<b>532.5</b>
<b>Net profit ex-EI</b>	<b>21.0</b>	<b>23.2</b>	<b>(9.3)</b>	<b>21.4</b>	<b>(1.9)</b>
EPU ex-EI (sen)	2.0	2.2	(9.2)	2.0	(2.0)
<b>Gross DPU (sen)</b>	<b>-</b>	<b>-</b>	<b>NM</b>	<b>4.2</b>	<b>NM</b>
	<b>1QFY18</b>	<b>1QFY17</b>	<b>+/- ppt</b>	<b>4QFY17</b>	<b>+/- ppt</b>
Net property margin (%)	77.8	79.3	(1.4)	77.6	0.3
Net income ex-EI margin (%)	47.7	50.8	(3.1)	48.0	(0.3)

Sources: Trust, Maybank Kim Eng



FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
Price/DPU(x)	14.9	14.8	14.9	14.9	15.3
P/BV (x)	0.5	0.9	0.9	0.9	0.9
P/NTA (x)	0.5	0.9	0.9	0.9	0.9
DPU yield (%)	7.5	7.5	7.5	7.4	7.2
FCF yield (%)	14.2	10.7	10.3	10.3	10.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	131.8	180.1	180.8	183.0	185.0
<b>Net property income</b>	<b>102.3</b>	<b>140.0</b>	<b>138.1</b>	<b>139.7</b>	<b>141.2</b>
Management and trustee fees	(12.4)	(14.9)	(14.8)	(14.8)	(14.8)
Net financing costs	(30.7)	(36.9)	(34.8)	(36.1)	(36.3)
Exceptionals	3.6	(18.2)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>62.8</b>	<b>69.9</b>	<b>88.5</b>	<b>88.8</b>	<b>90.0</b>
Income tax	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>62.8</b>	<b>69.9</b>	<b>88.5</b>	<b>88.8</b>	<b>90.0</b>
Distributable inc to unitholders	59.2	92.4	94.9	95.2	92.7
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	54.1	76.0	45.8	42.8	43.3
Accounts receivable	17.6	5.2	5.3	5.3	5.4
Property, Plant & Equip (net)	0.2	0.2	2.0	3.7	5.3
Investment properties	2,222.0	2,159.5	2,159.5	2,159.5	2,159.5
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	3.4	47.5	47.5	47.5	47.5
<b>Total assets</b>	<b>2,297.3</b>	<b>2,288.4</b>	<b>2,260.0</b>	<b>2,258.7</b>	<b>2,260.9</b>
ST interest bearing debt	189.1	116.9	116.9	116.9	116.9
Accounts payable	28.4	20.3	21.6	21.9	22.2
LT interest bearing debt	662.5	736.6	708.6	708.6	708.6
Other liabilities	57.7	29.9	29.9	29.9	29.9
<b>Total Liabilities</b>	<b>937.6</b>	<b>903.7</b>	<b>876.9</b>	<b>877.3</b>	<b>877.5</b>
Shareholders Equity	1,359.7	1,384.7	1,383.1	1,381.4	1,383.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,359.7</b>	<b>1,384.7</b>	<b>1,383.1</b>	<b>1,381.4</b>	<b>1,383.4</b>
<b>Total liabilities and equity</b>	<b>2,297.3</b>	<b>2,288.4</b>	<b>2,260.0</b>	<b>2,258.7</b>	<b>2,260.9</b>
<b>CASH FLOW (MYR m)</b>					
<b>Cash flow from operations</b>	<b>105.0</b>	<b>129.1</b>	<b>124.6</b>	<b>125.3</b>	<b>126.8</b>
Acquisitions & investments	(648.9)	(0.4)	(1.8)	(1.8)	(1.9)
Disposal of FA & investments	0.0	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	1.6	2.2	5.1	3.0	2.8
<b>CF from investing activities</b>	<b>(647.2)</b>	<b>1.8</b>	<b>3.2</b>	<b>1.2</b>	<b>1.0</b>
Dividends paid	(56.9)	(72.6)	(90.2)	(90.4)	(88.1)
Interest expense	(36.4)	(37.2)	(39.8)	(39.2)	(39.2)
Change in debt	164.0	1.0	(28.0)	0.0	0.0
Equity raised / (purchased)	487.9	0.0	0.0	0.0	0.0
Other financial activities	(7.3)	(0.0)	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>551.4</b>	<b>(108.8)</b>	<b>(158.0)</b>	<b>(129.6)</b>	<b>(127.3)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>9.2</b>	<b>22.0</b>	<b>(30.2)</b>	<b>(3.1)</b>	<b>0.5</b>



FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	14.4	36.7	0.4	1.2	1.1
Net property income growth	13.3	36.8	(1.3)	1.1	1.1
Core net profit growth	9.6	48.6	0.6	0.3	1.4
Distributable income growth	9.5	56.2	2.7	0.3	(2.6)
<b>Profitability ratios (%)</b>					
Net property income margin	77.6	77.7	76.4	76.3	76.3
Core net profit margin	44.9	48.9	49.0	48.5	48.6
Payout ratio	79.4	115.9	91.7	91.7	88.1
<b>DuPont analysis</b>					
Total return margin (%)	47.7	38.8	49.0	48.5	48.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.6	1.6	1.6
ROAE (%)	5.6	5.1	6.4	6.4	6.5
ROAA (%)	3.0	3.8	3.9	3.9	4.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.5	2.6	2.6	2.6
Net gearing (%) (excl. perps)	58.7	56.1	56.4	56.7	56.5
Net interest cover (x)	2.9	3.4	3.5	3.5	3.5
Debt/EBITDA (x)	9.5	6.8	6.7	6.6	6.5
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	797.5	777.4	779.6	782.7	782.2
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37

Source: Company; Maybank



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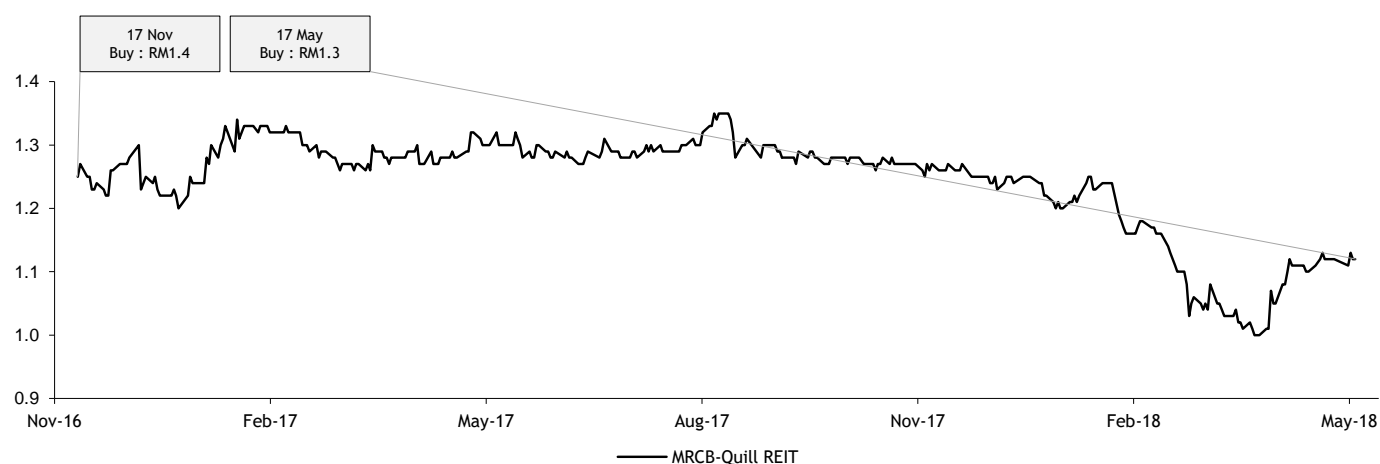
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