COMPANY RESULTS

MRCB-Quill REIT (MQREIT MK)

1H17: Reaping The Benefits of Its Recent Acquisition

1H17 results came in within our expectation, accounting for 48.4% of our full-year estimate. MQREIT also declared a 4.2 sen dividend, representing an annualised dividend yield of 6.3%. Core earnings were bolstered by contribution from Menara Shell which was acquired in Dec 16. We expect MQREIT to continue delivering decent results driven by long-term secured tenancies. Our target price of RM1.38 implies a total upside of 11.3%, hence we maintain our BUY recommendation.

1H17 RESULTS

Year to 31 Dec (RMm)	1Q17	2Q17	yoy % chg	qoq % chg	1H17	yoy % chg
Gross revenue	45.6	45.1	38.4	(1.1)	90.6	39.0
Operating expenses	(9.4)	(10.2)	48.1	7.7	(19.6)	39.3
Net property income	36.1	34.9	35.8	(3.4)	71.0	38.9
Finance cost	(9.7)	(9.8)	23.4	1.2	(19.6)	23.6
Normalised Net Profit	23.2	22.0	43.3	(4.8)	45.2	47.6
EPU (sen)	2.2	2.1	n.m.	(4.8)	8.8	(1.8)
DPU (sen)	0.0	4.2	n.m.	n.m.	4.2	n.m.

Source: MQREIT, UOB Kay Hian

RESULTS

- **Within expectations**. MRCB-Quill REIT (MQREIT) reported a 2Q17 revenue of RM45.1m (+38.4% yoy; -1.1% qoq) which translates into a core net profit of RM22.0m (+43.3% yoy; -4.8% qoq). This brings its 1H17 revenue and core net profit of RM90.6m (+39.0% yoy) and RM45.2m (47.6% yoy), respectively. The core net profit accounts for 48.4% and 50.2% of our and consensus full-year forecasts respectively.
- **Declared 4.2 sen dividend** during the quarter which accounts for 50.0% and 52.2% of our and consensus full-year forecasts respectively.

KEY FINANCIALS

Year to 31 Dec (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	115	132	183	190	198
EBITDA	81	90	127	126	131
Operating profit	81	90	127	126	131
Net profit (rep./act.)	61	63	93	99	104
Net profit (adj.)	54	59	93	99	104
EPS (sen)	8.1	9.0	8.8	9.3	9.8
PE (x)	16.2	14.6	14.9	14.0	13.4
P/B (x)	1.0	0.6	0.8	0.8	0.8
EV/EBITDA (x)	22.0	19.7	13.9	14.0	13.5
Dividend yield (%)	6.4	6.4	6.4	6.8	7.1
Net margin (%)	52.8	47.6	51.1	52.1	52.5
Net debt/(cash) to equity (%)	71.2	58.7	20.7	20.5	20.2
Interest cover (x)	3.0	2.9	3.8	4.6	4.8
ROE (%)	8.4	5.5	5.9	5.5	5.8
Consensus net profit	-	-	89	93	-
UOBKH/Consensus (x)	-	-	1.05	1.06	-

Source: MQREIT, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Share Price	RM1.32
Target Price	RM1.38
Upside	+4.5%

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):	1,068.0
Market cap (RMm):	1,399.1
Market cap (US$m):	315.2
3-mth avg daily t'over (US$m):	0.2

Price Performance (%)

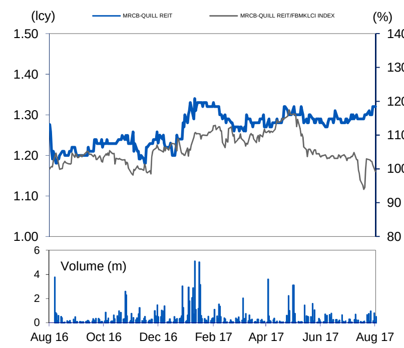
52-week high/low RM1.36/RM1.06

1mth	3mth	6mth	1yr	YTD
7.4	6.6	11.8	25.3	9.2

Major Shareholders	%
MRCB	27.9
Capitaland Ltd	11.0
Quill Group	11.0
EPF	7.3

FY16 NAV/Share (RM)	1.69
FY16 Net Debt/Share (RM)	0.35

PRICE CHART



Source: Bloomberg

ANALYST

Abdul Hadi Manaf
+603 2147 1971
abdulhadi@uobkayhian.com

STOCK IMPACT

- **Core net profit grew yoy.** Core net profit for 1H17 grew 47.6% yoy, largely driven by contribution from the newly-acquired property Menara Shell. To recap, the acquisition of Menara Shell was completed on 22 Dec 16 and had MQREIT's total asset size growing by 43%. Management also attributed the improved performance during the quarter to higher rental reversions at Quill Building 2, Quill Building 3 and Wisma Technip. For 2Q17, core net profit dropped 4.8% qoq mainly due to higher operating expanses.
- **Slight contraction in NPI margin.** Net property income (NPI) margin in 2Q17 contracted to 77.4% from 79.3% in 1Q17 on the account of higher operating expenses. We understand that higher operating expenses during the quarter was due to scheduled maintenance planned for some of the properties. On a full-year basis, NPI margin for 2017 is expected to match 2016's NPI margin (77.6%)
- **Occupancy remained solid.** We note that occupancy rate in 2Q17 remained solid at 97%. We continue to like MQREIT's assets, which consist mostly of purpose-built office buildings and with its tenants based on long-term contracts. MQREIT's WALE is still the highest among peers' (under our coverage) at 5.8 years (peers: 3.6 years).
- **Gearing at 37%.** Post-acquisition of Menara Shell, MQREIT's gearing has come down to 37% (vs 43% during the execution of the acquisition exercise) as a result of an enlarged asset base. We think MQREIT's current gearing ratio is healthy (on par with peers'), and thereby allows MQREIT to tap into the debt and equity market for future acquisition exercises.

EARNINGS REVISION/RISK

- None.

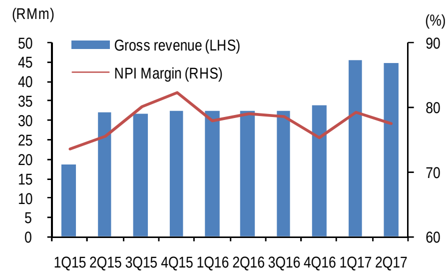
VALUATION/RECOMMENDATION

- **Maintain BUY and target price to RM1.38**. Our target price is based on a dividend discount model (required rate of return: 7.6%, terminal growth: 1.1%) and supported by an implied dividend yield of 6.1%. Our target price provides an 11% total return from the current share price level. We are forecasting MQREIT to offer an attractive dividend yield of 6.8% in 2018.

SHARE PRICE CATALYST

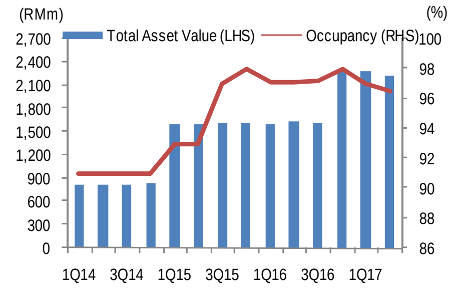
- **Inorganic growth arising from acquisition exercise.** We believe that after Menara Shell, MQREIT's next acquisition will be Menara Celcom in PJ Sentral, which is still under construction and scheduled for completion by 2017.

REVENUE AND NET PROPERTY INCOME MARGIN



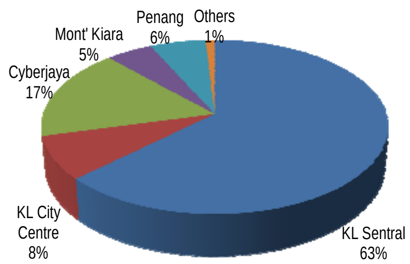
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



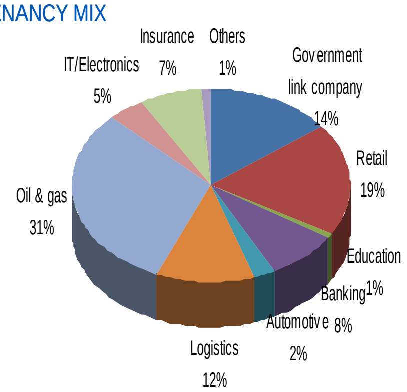
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Net turnover	132	183	190	198
EBITDA	90	127	126	131
Deprec. & amort.	0	0	0	0
EBIT	90	127	126	131
Net interest income/(expense)	(31)	(34)	(27)	(27)
Pre-tax profit	63	93	99	104
Tax	0	0	0	0
Net profit	63	93	99	104
Net profit (adj.)	59	93	99	104

BALANCE SHEET

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Fixed assets	2,222	2,224	2,226	2,228
Other LT assets	3	3	3	3
Cash/ST investment	54	467	457	461
Other current assets	18	8	8	9
Total assets	2,297	2,701	2,694	2,700
ST debt	189	189	189	189
Other current liabilities	63	50	53	54
LT debt	662	647	632	632
Other LT liabilities	23	23	23	23
Shareholders' equity	1,360	1,791	1,796	1,802
Total liabilities & equity	2,297	2,701	2,694	2,700

CASH FLOW

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Operating	63	95	100	105
Pre-tax profit	63	95	100	105
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Investing	(647)	(2)	(2)	(2)
Capex (growth)	(647)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	588	322	(110)	(100)
Distribution to unitholders	(57)	(90)	(95)	(100)
Issue of shares	481	427	0	0
Proceeds from borrowings	164	0	0	15
Loan repayment	0	(15)	(15)	(15)
Net cash inflow (outflow)	3	415	(12)	3
Beginning cash & cash equivalent	45	48	467	457
Ending cash & cash equivalent	6	4	2	1

KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	68.2	70.3	66.9	66.8
Pre-tax margin	47.6	51.9	52.6	53.0
Net margin	47.6	51.9	52.6	53.0
ROA	3.2	3.8	3.7	3.9
ROE	5.5	6.0	5.6	5.8
Growth				
Turnover	14.3	38.9	4.0	4.0
EBITDA	11.5	43.1	(1.1)	4.0
Pre-tax profit	3.2	51.4	5.3	4.9
Net profit	3.2	51.4	5.3	4.9
Net profit (adj.)	10.6	60.4	5.3	4.9
EPU	10.6	0.0	5.3	4.9
Leverage				
Debt to total capital	38.5	31.8	31.4	31.3
Debt to equity	62.6	46.7	45.7	45.6
Net debt/(cash) to equity	58.7	20.7	20.3	20.0
Interest cover (x)	2.9	3.8	4.7	4.8

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Securities (M) Sdn. Bhd. ("UOBKHM") which is a licensed corporation providing investment advisory services in Malaysia.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKHM. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKHM may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKHM and its associated persons (as defined in the Capital Market Services Act 2007) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKHM to be reliable. However, UOBKHM makes no representation as to the accuracy or completeness of such sources or the Information and UOBKHM accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKHM and its associate may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKHM and its connected persons are subject to change without notice. UOBKHM reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKHM, its associated persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKHM, its associated persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKHM may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKHM may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report is prepared by UOBKHM, a company authorized, as noted above, to engage in investment advisory in Malaysia. UOBKHM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKHM (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKHM by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKHM.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKHM who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKHM or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKHM's total revenues, a portion of which are generated from UOBKHM's business of investment advisory.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia. Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ("U.S.")	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://www.utrade.com.my