



MRCB-Quill REIT (MQREIT MK) : BUY

Mkt. Cap: US\$308m | **3m Avg. Daily Val:** US\$0.08m

Last Traded Price (8 Aug 2018): RM1.17

Price Target 12-mth: RM1.27 (9% upside) (Prev RM1.27)

Shariah compliant: No

Analyst

Siti Ruzanna Mohd Faruk +603 2604 3965; sruzannamf@alliancedbs.com

Meeting expectations

- 1HFY18 earnings were in line with expectations
- Lower revenue from Platinum Sentral as well as loss of income from disposal of QB8
- Dividend yields of 6.6% are attractive with total potential returns of 15.6%. Maintain BUY with TP of RM1.27

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Gross Revenue	180	175	180	184
Net Property Inc	140	134	136	136
Total Return	69.9	84.8	85.3	85.5
Distribution Inc	89.6	82.2	82.7	82.9
EPU (sen)	6.55	7.91	7.94	7.95
EPU Gth (%)	12	21	0	0
DPU (sen)	8.39	7.67	7.70	7.71
DPU Gth (%)	62	(9)	0	0
NAV per shr (sen)	130	130	130	130
PE (X)	17.9	14.8	14.7	14.7
Distribution Yield (%)	7.2	6.6	6.6	6.6
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	37.5	37.7	37.9	38.1
ROAE (%)	5.1	6.1	6.1	6.1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

What's New

2QFY18 results within expectations

MQREIT's 2QFY18 core net distributable income came in at RM21.3m (-3.4% y-o-y). This brings 1HFY18 distributable income to RM42.3m (-6.4% y-o-y). This is in line with ours/consensus expectations.

The decrease for the quarter was mainly due to lower revenue generated from Platinum Sentral as well as loss of revenue from the disposal of QB8 – DHL XPJ which took place on 12 April 2018.

Property operating expenses inched down to RM10.0m (-1.2% y-o-y) as it tightened control on costs and reduced expenses from the disposal of QB8. There was also a gain of RM2.2m from the divestment of property. Thus, NPI came in at RM23.5m (+6.5% y-o-y).

A DPU of 4.23 sen was announced implying a 96.7% payout for 1HFY18.

Stable occupancy, some lease expiries coming up

Portfolio occupancy was steady at c.96.0%, slightly lower vs 1QFY18's 96.2%.

About 28.0% of total NLA is due for renewal in FY18, of which c.3.0% have been renewed. The expiring leases in FY19 form 15% of total NLA, and 17% in FY20. We believe rental reversions were flattish, as per guidance by management, as it focused on tenant retention to cope with a challenging operating environment.



Flash Note

Going forward, we expect some challenges in negotiating positive rental reversions due to the oversupply of office space in the market.

Outlook

MRCB connection. MQREIT has the right of first refusal to MRCB's stable of investment properties, which is worth up to RM1.5bn in aggregate. Notable assets include Ascott Sentral (serviced apartments), Plaza Alam Sentral (retail), Sooka Sentral (lifestyle/retail) and Kompleks Sentral (industrial). The REIT may also acquire office assets from the Quill Group, the original sponsor of MQREIT with a remaining stake of c.11%. However, MQREIT's current

gearing of c.37% indicates that new equity issuance will likely be necessary for sizeable acquisitions in the near term.

Valuation

We maintain our BUY recommendation with an unchanged TP of RM1.27. Despite factoring in flat rental reversions, FY18 dividend yields are attractive at 6.6%. MQREIT's appeal is the availability of an asset acquisition pipeline of completed investment properties from MRCB. Confirmation of injections at accretive yields will be a re-rating catalyst for the stock. Our DDM-derived TP employs 7.4% cost of equity and 1% terminal growth.

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Gross revenue	45.1	44.0	43.4	(3.7)	(1.5)
Property expenses	(10.2)	(9.8)	(10.0)	(1.2)	2.9
Net Property Income	34.9	34.3	33.4	(4.4)	(2.7)
Other Operating expenses	(13.5)	(4.3)	(3.0)	(77.6)	(30.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	N/A	N/A
Net Interest (Exp)/Inc	0.60	(9.0)	(9.1)	N/A	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	2.20	N/A	N/A
Net Income	22.0	21.0	23.5	6.5	11.8
Tax	0.0	0.0	0.0	N/A	N/A
Minority Interest	0.0	0.0	0.0	N/A	N/A
Net Income after Tax	22.0	21.0	23.5	6.5	11.8
Total Return	22.0	21.0	23.5	6.5	11.8
Non-tax deductible Items	0.0	0.0	0.0	nm	nm
Net Inc available for Dist.	22.0	21.0	21.3	(3.4)	1.3
Ratio (%)					
Net Prop Inc Margin	77.4	77.8	76.9		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Nov 17	1.26	1.38	HOLD
2:	09 Jan 18	1.20	1.38	HOLD
3:	22 Jan 18	1.24	1.27	HOLD
4:	18 May 18	1.10	1.27	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Wong Ming Tek, Executive Director

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AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com