COMPANY RESULTS

MRCB-Quill Reit (MQREIT MK)

2Q18: Results In Line

MQREIT reported a steady set of results for 2Q18. However, 1H18 core net profit was impacted by lower revenue contribution from its core assets, disposal of an asset as well as higher opex. Occupancy rate declined slightly during the quarter, although it is still relatively higher than the average office occupancy. Maintain HOLD and target price of RM1.15. Entry price: RM1.00.

2Q18 RESULTS

Year to 31 Dec	1Q18 (RMm)	2Q18 (RMm)	yoy % chg	qoq % chg	1H18 (RMm)	yoy % chg
Gross Revenue	44.0	43.4	(3.7)	(1.5)	87.5	(3.5)
Operating Expenses	(9.8)	(10.0)	(1.2)	2.9	(19.8)	1.0
Net Property Income	34.3	33.4	(4.4)	(2.7)	67.6	(4.8)
Finance Cost	(9.7)	(9.9)	1.0	2.5	(19.6)	0.3
Normalised Net Profit	21.0	21.3	(3.4)	1.3	42.3	(6.4)
EPU (sen)	2.1	2.0	(3.4)	1.3	4.0	(6.4)
DPU (sen)	0.0	4.2	0.0	n.m.	4.2	0.0

Source: MRCB-Quill Reit, UOB Kay Hian

RESULTS

- **Within expectations.** MRCB-Quill REIT (MQREIT) reported revenue of RM43.4m (-3.7% yoy, -1.5% qoq) and core net profit of RM21.2m (-3.4% yoy, +1.3% qoq) in 2Q18. 1H18 core net profit of RM42.3m (-6.4% yoy) accounts for 48.4% and 47.7% of our and consensus' full-year forecasts respectively.
- **Declared 4.2 sen dividend** during the quarter. This accounts for 53.9% and 52.9% of our and consensus full-year forecasts respectively.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	132	180	185	189	194
EBITDA	90	125	123	126	129
Operating profit	90	125	123	126	129
Net profit (rep./act.)	63	70	87	89	93
Net profit (adj.)	59	88	87	89	93
EPS (sen)	9.0	8.3	8.2	8.4	8.7
PE (x)	12.6	13.7	13.8	13.5	13.0
P/B (x)	0.5	0.9	0.9	0.9	0.9
EV/EBITDA (x)	22.2	16.0	16.3	15.9	15.5
Dividend yield (%)	7.4	7.4	6.9	7.1	7.4
Net margin (%)	47.6	38.9	47.2	47.1	47.9
Net debt/(cash) to equity (%)	58.7	54.3	56.8	56.5	56.2
Interest cover (x)	2.9	3.4	3.5	3.4	3.6
ROE (%)	5.5	5.1	6.3	6.4	6.7
Consensus net profit	-	-	89	91	92
UOBKH/Consensus (x)	-	-	0.98	0.99	1.01

Source: MRCB-Quill Reit, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.17
Target Price	RM1.15
Upside	-1.7%

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):	1,071.8
Market cap (RMm):	1,211.1
Market cap (US$m):	297.1
3-mth avg daily t'over (US$m):	0.1

Price Performance (%)

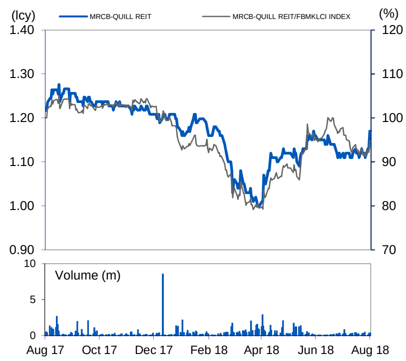
52-week high/low RM1.35/RM1.00

1mth	3mth	6mth	1yr	YTD
1.8	0.9	(3.4)	(13.7)	(9.6)

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

FY18 NAV/Share (RM)	1.30
FY18 Net Debt/Share (RM)	0.74

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Core net profit declined yoy.** On a yoy basis, 1H18 core net profit declined by 6.4% to RM42.3m due to: a) absence of income from QB8 – DHL XPJ, which was disposed of in Apr 18, b) lower revenue from Platinum Sentral and Menara Shell (lower occupancy), and c) slightly higher operating expenses. On a qoq basis, 2Q18 core PAT increased 1.3% despite a decline in revenue in addition to an increase in operating expenses. The higher core PAT was attributed to lower non-operating expenses incurred in the quarter.
- **Slight decline in occupancy rate.** Occupancy rate for MQREIT declined marginally to 96% in 2Q18 compared with 97% in 2Q17. On a qoq basis, occupancy rate also dropped marginally from 96.2% in 1Q18. Despite falling occupancy rate, we note that the rate for MQREIT is still largely higher than the average office building in Klang Valley which hovered around 80% in 2017. This is mainly due to MQREIT's purpose-built strategy which allows them to lock tenants in long-term contracts. MQREIT's WALE is among the highest among peers (under our coverage), at 4.9 years.
- **Gearing at 37%.** We think MQREIT's current gearing ratio is healthy (on par with peers), which allows it to tap into the debt and equity markets for future acquisitions.

EARNINGS REVISION/RISK

- None.

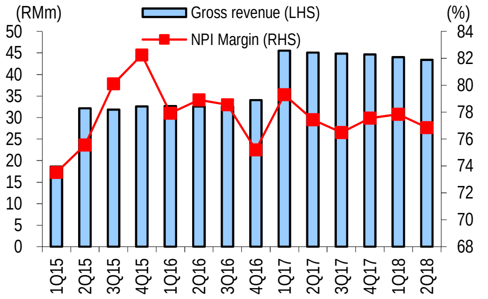
VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.15.** Our target price is based on a dividend discount model (required rate of return: 7.6%, terminal growth: 1.1%) and represents an implied dividend yield of 6.8%. We forecast an attractive dividend yield of 7.0% in 2018F. Entry price is RM1.00.

SHARE PRICE CATALYST

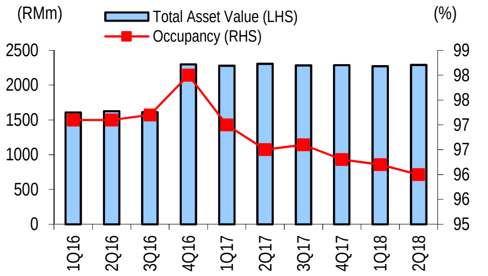
- **Inorganic growth arising from acquisitions.** We believe MQREIT's next acquisition will be Menara Celcom in PJ Sentral. With gross development value (GDV) of over RM500m, we understand that telecommunication company Celcom has already signed a lease contract with MRCB for a 21-year leasing period. Based on our back-of-envelope calculations, acquisition of Menara Celcom could potentially grow MQREIT's total asset value by 24% while core earnings are expected to increase by 23% assuming it will have 500,000 sf of NLA and conservative rental rate of RM5.50psf per month.

REVENUE AND NET PROPERTY INCOME MARGIN



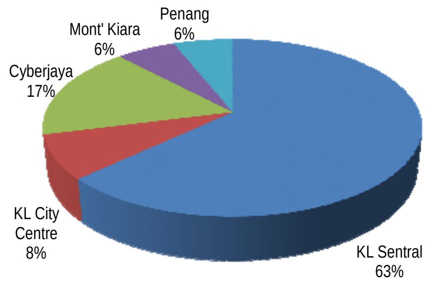
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



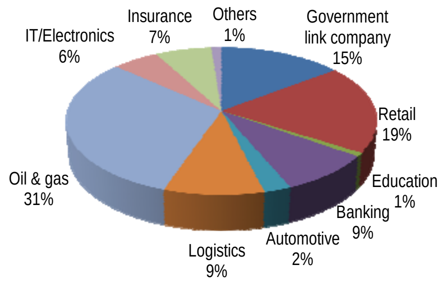
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	180	185	189	194
EBITDA	125	123	126	129
Deprec. & amort.	0	0	0	0
EBIT	125	123	126	129
Net interest income/(expense)	(37)	(36)	(37)	(36)
Pre-tax profit	70	87	89	93
Tax	0	0	0	0
Net profit	70	87	89	93
Net profit (adj.)	88	87	89	93

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	2,179	2,181	2,183	2,185
Other LT assets	2	2	2	2
Cash/ST investment	101	50	52	39
Other current assets	6	8	8	8
Total assets	2,288	2,241	2,246	2,235
ST debt	117	117	117	117
Other current liabilities	33	(3)	(2)	(1)
LT debt	737	722	722	707
Other LT liabilities	17	17	17	17
Shareholders' equity	1,385	1,388	1,392	1,396
Total liabilities & equity	2,288	2,241	2,246	2,235

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	70	87	89	93
Pre-tax profit	70	87	89	93
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Investing	(5)	(2)	(2)	(2)
Capex (growth)	(383)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	379	0	0	0
Financing	(98)	(99)	(86)	(104)
Distribution to unitholders	(73)	(84)	(86)	(89)
Issue of shares	(25)	0	0	0
Proceeds from borrowings	190	0	15	0
Loan repayment	(190)	(15)	(15)	(15)
Net cash inflow (outflow)	(33)	(14)	2	(13)
Beginning cash & cash equivalent	48	57	50	52
Changes due to forex impact	86	7	1	1
Ending cash & cash equivalent	101	50	52	39

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	69.5	66.4	66.5	66.5
Pre-tax margin	38.9	47.2	47.1	47.9
Net margin	38.9	47.2	47.1	47.9
ROA	3.1	3.9	4.0	4.2
ROE	5.1	6.3	6.4	6.7
Growth				
Turnover	36.7	2.8	2.4	2.4
EBITDA	39.3	(1.8)	2.4	2.4
Pre-tax profit	11.7	24.6	2.1	4.2
Net profit	11.7	24.6	2.1	4.2
Net profit (adj.)	49.0	(1.0)	2.1	4.2
EPU	(7.7)	(1.0)	2.1	4.2
Leverage				
Debt to total capital	38.1	37.7	37.6	37.1
Debt to equity	61.6	60.4	60.2	59.0
Net debt/(cash) to equity	54.3	56.8	56.5	56.2
Interest cover (x)	3.4	3.5	3.4	3.6

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