

09 Aug 2018

Buy

Price
RM1.17

Target Price
RM1.50

Bloomberg code
MQREIT MK

Equity | Malaysia | REITs

Flashnote

Analyst

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MRCB-Quill REIT

2Q18: In line with expectations

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RM mil)	131.8	180.1	179.5	183.1	188.5
Net Property Income	102.3	140.0	139.5	142.2	146.5
Realised Net profit (RM mil)	58.5	87.0	87.5	90.5	94.2
EPU (sen)	5.5	8.1	8.2	8.5	8.8
EPU Growth (%)	(32.2)	48.7	0.6	3.4	4.1
DPU (sen)	8.4	8.4	8.3	8.6	9.0
PE (x)	20.6	13.9	13.8	13.3	12.8
Div yield (%)	7.4	7.4	7.4	7.6	7.9
ROE (%)	5.5	5.0	6.5	6.5	6.8
Gearing (%)	37.1	37.3	37.2	37.2	37.3

Source: Company, KAF

- We maintain our Buy recommendation on MRCB-Quill REIT (MQREIT) with an unchanged target price of RM1.50 based on our DDM valuation.
- MQREIT recorded a net property income (NPI) of RM33.6m in 2Q18, a 4% decline yoy. The decrease in NPI was mainly due to lower revenue generated from Platinum Sentral and loss of income from the disposal of Quill Building 8 – DHL XPJ. This has also brought core net profit down to RM21.6m, a 2% decline yoy.
- The disposal of Quill Building 8 – DHL XPJ was completed in April 2018 for RM28m to Transmark Corporation Sdn Bhd. The property was valued at RM25m in October 2017. This has resulted in a one-off gain on disposal of RM3m.
- As we had earlier tweaked our earnings for FY18-19F to incorporate the disposal of the property, the 2Q18 results came in-line with our estimates, making up 49% of our full year FY18 forecast.
- MQREIT declared a DPU of 2.28 sen for the quarter (2Q17: 2.26 sen), making up a total of 4.23 sen DPU declared for 1H18.
- About 28% of MQREIT's total NLA (~609,000) are due for renewal this year. We understand that 14% (~87,000 sq ft) of these expiring leases have been renewed with positive rental reversions.
- Management had indicated that Menara Celcom in PJ Sentral may be injected into the REIT in 1Q19 for long-term tenure, once finalized. To date, there are 10 properties in MQREIT's portfolio with TAV of RM2.2bn.
- At the current price, MRCB-Quill REIT trades at 0.90x FY18F PB and offers an attractive yield of 7.4%. This translates to a yield spread of 337bps over the 10-yr MGS of 4.03%.

Table 1 : Quarterly earnings trend

(RM m)	Quarterly							Change		Cumulative			KAF	
FYE 31 Dec	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	% qoq	% yoy	6M17	6M18	% chg	2018F	12M/F
Revenue	34.1	45.6	45.1	44.8	44.7	44.0	43.7	(1)	(3)	90.6	87.7	(3)	179.5	49
Property operating expenses	(8.5)	(9.4)	(10.2)	(10.5)	(10.0)	(9.8)	(10.0)	3	(1)	(19.6)	(19.8)	1	(40.0)	49
Net property income	25.6	36.1	34.9	34.3	34.6	34.3	33.6	(2)	(4)	71.0	67.9	(4)	139.5	49
Interest income	1.1	0.5	0.6	0.7	1.7	0.7	0.9	20	35	1.1	1.6	46	3.5	46
Trust expenses	(4.3)	(3.7)	(3.7)	(3.7)	(3.9)	(4.3)	(3.0)	(30)	(18)	(7.4)	(7.3)	(0)	(14.9)	49
Borrowing costs	(9.1)	(9.7)	(9.8)	(10.0)	(11.0)	(9.7)	(9.9)	3	1	(19.6)	(19.6)	0	(40.6)	48
Exceptional items	3.5	-	-	-	(18.2)	-	2.2	nm	nm	-	-	-	-	-
Profit before tax	16.9	23.2	22.0	21.4	3.3	21.0	23.8	13	8	45.2	44.8	(1)	90.5	49
Tax	-	-	-	-	-	-	-	nm	nm	-	-	-	-	-
Net profit	16.9	23.2	22.0	21.4	3.3	21.0	23.8	13	8	45.2	44.8	(1)	90.5	49
Normalized net profit	13.4	23.2	22.0	21.4	21.5	21.0	21.6	3	(2)	45.2	42.6	(6)	87.5	49

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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