REITs

Malaysia

MRCB-Quill REIT (MQREIT MK)

3Q19 within estimates

BUY

Share Price	MYR 1.02
12m Price Target	MYR 1.18 (+22%)
Previous Price Target	*MYR 1.18*

Maintain BUY with FY20E net DPU yield of 6.4%

3Q19 core net profit was in-line with 9M19 at 72% of our and consensus' full-year estimates. We tweak our FY19E net profit by -1% but maintain our DDM-TP of MYR1.18 (Ke: 7.2%). Maintain BUY with total return of 22%, including an attractive FY20E net DPU yield of 6.4%. We expect MQREIT's earnings to be sustained by its assets with long-term tenants (contributes about half of FY19-21E revenue) which provide resilient rental income and entail lower occupancy risks.

Lower occupancy as expected

3Q19 net profit was MYR17.6m (-14% YoY, +7% QoQ) and 9M19 was MYR53.5m (-15% YoY). YoY, 3Q19 was largely impacted by: (i) Platinum Sentral, which recorded lower rental income due to transitions of several tenants; (ii) vacancy of QB5 since end-1Q19; and (iii) lower occupancy rate at Wisma Technip. Nonetheless, this was partly cushioned by stable rental income from assets with long-term tenants (namely Menara Shell with 96% occupancy) and lower financing costs.

Earnings stabilisation in the near term

Our FY20-21E DPU growth estimates are based on an unchanged DPR of 98%, normalisation of rental income at Platinum Sentral, stable occupancy across assets (except the vacated QB5) and positive rental reversions at selected properties. Meanwhile, we have not imputed new assets into our forecasts.

Outlook intact

We remain positive on MQREIT's rental income outlook as 51-52% of our FY19-21E revenue are supported by assets with long-term tenants that entail lower occupancy risks; namely Menara Shell, QB1, QB4, QB2 and Tesco Building. Its end-3Q19 gross gearing of 0.37x would allow acquisition(s) up to approximately MYR561m in value via borrowings (up to 0.5x), we estimate.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	180	173	163	164	167
Net property income	140	134	123	129	131
Core net profit	88	85	73	79	80
Core EPU (sen)	8.2	7.9	6.8	7.3	7.5
Core EPU growth (%)	(8.0)	(4.1)	(13.8)	7.9	1.9
Net DPU (sen)	7.6	7.3	6.0	6.5	6.6
Net DPU growth (%)	0.1	(3.7)	(17.4)	7.9	1.9
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
Net DPU yield (%)	6.0	6.9	5.9	6.4	6.5
ROAE (%)	5.1	5.3	5.3	5.7	5.8
ROAA (%)	3.8	3.7	3.2	3.5	3.5
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	6.1	6.1	6.4
MKE vs. Consensus (%)	-	-	(2.1)	5.9	2.8

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Company Description

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

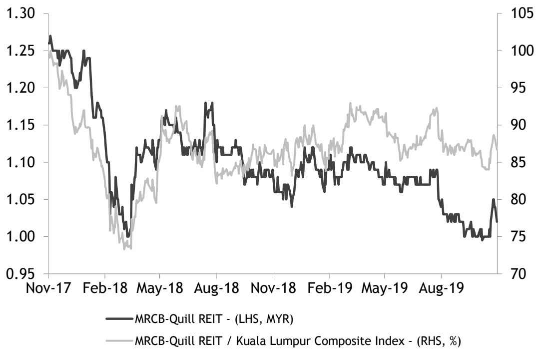
Statistics

52w high/low (MYR)	1.12/1.00
3m avg turnover (USDm)	0.0
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.1B
	USD261M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(3)	(6)
Relative to index (%)	0	(2)	0

Source: FactSet

Fig 1: Results summary

		Quarterly				Cumulative		
FY Dec (MYR m)	**3QFY19**	**3QFY18**	***%YoY***	**2QFY19**	***%QoQ***	**9MFY19**	**9MFY18**	***%YoY***
Gross revenue	39.9	43.3	*(7.7)*	38.8	*2.9*	120.1	130.7	*(8.1)*
Net property income	**30.2**	**33.3**	***(9.4)***	**29.1**	***3.8***	**91.3**	**101.0**	***(9.6)***
Interest income	0.7	1.0	*(31.2)*	0.6	*24.2*	2.1	2.6	*(20.2)*
Fair value gains/(loss)	-	-	*NM*	-	*NM*	-	-	*NM*
Finance costs	(9.7)	(10.1)	*(3.3)*	(9.7)	*0.2*	(29.3)	(29.7)	*(1.3)*
Other expenses/gains	(3.5)	(3.7)	*(4.9)*	(3.5)	*1.5*	(10.6)	(8.8)	*19.9*
Pretax profit	**17.6**	**20.6**	***(14.3)***	**16.5**	***7.2***	**53.5**	**65.1**	***(17.8)***
Tax	-	-	*NM*	-	*NM*	-	-	*NM*
Net profit	**17.6**	**20.6**	***(14.3)***	**16.5**	***7.2***	**53.5**	**65.1**	***(17.8)***
Net profit ex-EI	**17.6**	**20.6**	***(14.3)***	**16.5**	***7.2***	**53.5**	**62.9**	***(14.9)***
EPU ex-EI (sen)	1.6	1.9	*(14.3)*	1.5	*7.2*	5.0	5.9	*(15.0)*
Gross DPU (sen)	**-**	**-**	***NM***	**3.4**	***NM***	**3.4**	**4.2**	***(18.9)***
	3QFY19	**3QFY18**	***+/- ppt***	**2QFY19**	***+/- ppt***	**9MFY19**	**9MFY18**	***+/- ppt***
Net property margin (%)	*75.6*	*77.1*	*(1.4)*	*75.0*	*0.6*	*76.0*	*77.3*	*(1.2)*
Net income ex-EI margin (%)	*44.2*	*47.6*	*(3.4)*	*42.4*	*1.8*	*44.6*	*48.1*	*(3.6)*

Note: 2Q18 net profit ex-EI excludes MYR2.2m divestment gain

Sources: Trust

Risk statement

There are several risk factors for our earnings estimates, target price and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for MQREIT. 18% of MQREIT's total NLA is due for lease renewal in 2020 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	16.6	14.6	17.0	15.7	15.4
P/BV (x)	1.0	0.8	0.8	0.8	0.8
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
DPU yield (%)	6.7	7.6	6.5	7.1	7.2
FCF yield (%)	9.7	10.0	10.0	10.3	10.7
INCOME STATEMENT (MYR m)					
Revenue	180.1	173.4	163.1	164.4	167.1
Net property income	**140.0**	**133.7**	**123.4**	**129.3**	**131.0**
Management and trustee fees	(14.9)	(14.9)	(14.6)	(14.7)	(14.8)
Net financing costs	(36.9)	(36.3)	(35.8)	(35.8)	(35.9)
Exceptionals	(18.2)	(3.2)	0.0	0.0	0.0
Pretax profit	**69.9**	**79.3**	**73.0**	**78.8**	**80.3**
Income tax	0.0	(6.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**69.9**	**73.1**	**73.0**	**78.8**	**80.3**
Distributable inc to unitholders	92.4	87.1	73.0	78.8	80.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	76.0	85.8	86.0	84.2	84.7
Accounts receivable	5.2	5.6	5.3	5.4	5.4
Property, Plant & Equip (net)	0.2	0.3	1.9	3.4	4.8
Inverstment properties	2,159.5	2,158.7	2,158.7	2,158.7	2,158.7
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	47.5	20.9	20.9	20.9	20.9
Total assets	**2,288.4**	**2,271.4**	**2,272.8**	**2,272.6**	**2,274.6**
ST interest bearing debt	116.9	0.0	0.0	0.0	0.0
Accounts payable	20.3	15.8	15.8	14.0	14.4
LT interest bearing debt	736.6	853.7	853.7	853.7	853.7
Other liabilities	29.9	29.6	29.6	29.6	29.6
Total Liabilities	**903.7**	**899.1**	**899.1**	**897.3**	**897.7**
Shareholders Equity	1,384.7	1,372.3	1,373.7	1,375.3	1,376.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**1,384.7**	**1,372.3**	**1,373.7**	**1,375.3**	**1,376.9**
Total liabilities and equity	**2,288.4**	**2,271.4**	**2,272.8**	**2,272.6**	**2,274.6**
CASH FLOW (MYR m)					
Cash flow from operations	**129.1**	**113.3**	**109.2**	**112.9**	**116.8**
Acquisitions & investments	(0.4)	(4.1)	(1.6)	(1.6)	(1.7)
Disposal of FA & investments	0.0	28.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.2	3.7	4.7	4.7	4.6
CF from investing activities	**1.8**	**27.6**	**3.1**	**3.1**	**3.0**
Dividends paid	(72.6)	(89.8)	(71.5)	(77.2)	(78.7)
Interest expense	(37.2)	(39.2)	(40.6)	(40.6)	(40.6)
Change in debt	1.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	4.0	0.0	0.0	0.0
Other financial activities	(0.0)	(0.0)	0.0	0.0	0.0
CF from financing activities	**(108.8)**	**(125.0)**	**(112.1)**	**(117.7)**	**(119.2)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**22.0**	**15.9**	**0.2**	**(1.8)**	**0.5**

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.7	(3.7)	(5.9)	0.8	1.6
Net property income growth	36.8	(4.5)	(7.7)	4.8	1.3
Core net profit growth	48.6	(3.8)	(13.8)	7.9	1.9
Distributable income growth	56.2	(5.8)	(16.2)	7.9	1.9
Profitability ratios (%)					
Net property income margin	77.7	77.1	75.6	78.7	78.4
Core net profit margin	48.9	48.8	44.7	47.9	48.0
Payout ratio	115.4	106.6	88.2	88.2	88.2
DuPont analysis					
Total return margin (%)	38.8	42.2	44.7	47.9	48.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.1	5.3	5.3	5.7	5.8
ROAA (%)	3.8	3.7	3.2	3.5	3.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.1	56.0	55.9	56.0	55.8
Net interest cover (x)	3.4	3.3	3.0	3.2	3.2
Debt/EBITDA (x)	6.8	7.2	7.8	7.4	7.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	777.4	767.9	767.7	769.5	769.0
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38

Source: Company; Maybank

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Malaysia

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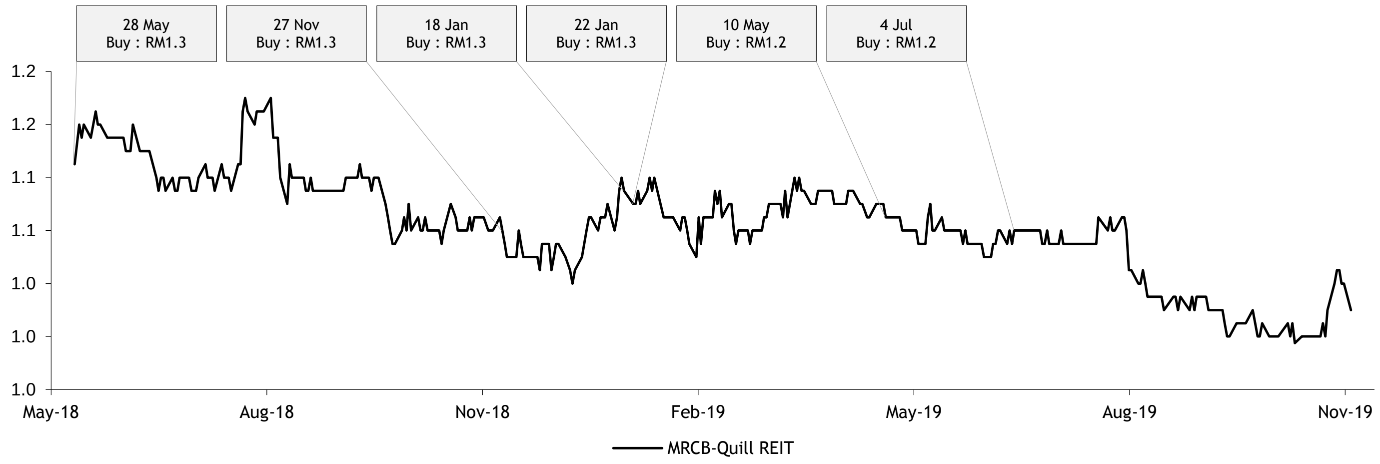
Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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