

25 Nov 2019

Hold

Price
RM1.02

Target Price
RM1.05

Bloomberg code
MQREIT MK

Equity | Malaysia | REITs

Flashnote

MRCB-Quill REIT

9M19 deemed in line

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RM mil)	180.1	173.4	162.6	160.6	159.2
Net Property Income	140.0	133.7	125.4	123.8	122.7
Realised Net profit (RM mil)	87.0	82.5	74.1	72.7	71.7
EPU (sen)	8.1	7.7	6.9	6.8	6.7
DPU (sen)	8.4	8.1	6.9	6.8	6.7
PE (x)	12.8	13.5	15.0	15.3	15.5
Div yield (%)	8.2	7.9	6.8	6.6	6.6
ROE (%)	5.0	5.3	5.4	5.3	5.2
Gearing (%)	37.3	37.6	37.6	37.6	37.6

Source: Company, KAF

- We maintain our Hold rating on MRCB-Quill REIT (MQREIT) with an unchanged DDM-derived target price of RM1.05.
- MQREIT reported 3Q19 core net profit of RM17.2m, bringing 9M19 earnings to RM53.5m. The results were in-line with expectations, accounting for 72% of our and consensus full-year estimates.
- No dividends were declared during the quarter, as they are paid semi-annually.
- 3Q19 revenue contracted 9% yoy to RM39.5m, mainly attributable to: i) lower rental income at Platinum Sentral due to some tenant movements, ii) lower occupancy at Wisma Technip due to the downsizing of an existing tenant, and iii) vacancy at Quill Building 5, as its key tenant moved out in April 2019, leaving the office building presently untenanted. The weaker topline growth has translated to a 2.0% pts decline in net property income margin (NPI) to 75% (vs. 3Q18: 77%). Portfolio occupancy rate stood at 89% in 3Q19 (vs. 3Q18: 94%).
- For the nine-months period, both revenue and NPI decreased to RM120.0m and RM91.3m, respectively, on lower contributions from the abovementioned office buildings, as well as loss of revenue from Quill Building 8 – DHL XPJ, after the disposal took place in April 2018. Bottom-line decreased by 16% on a slight NPI margin decline of 1.4% pts, while borrowings costs remained flat.
- About 19% of MQREIT's total net lettable area (NLA) is due for renewal in FY19, of which c.11% has thus far been renewed. We, nonetheless, see limited rental upside from these renewals as management continues to prioritize tenant retention.
- Gearing remains relatively unchanged at 37% as at 3Q19, below the 50% threshold set by the SC for REITs.
- We make no changes are made to our forecasts, given the in-line set of results. Note that we have already accounted for the vacancy at Quill Building 5 in our FY19-20F estimates.
- At the current price level, MQREIT is trading at a distribution yield of 6.8%, providing a comfortable yield spread of 340 bps against the 10-year MGS of 3.4%. Maintain Hold.

Analyst

Elleena Soraya
03-21710506
elleena@kaf.com.my

Exhibit 1: Quarterly earnings trend

(RM m)	3Q18	4Q18	1Q19	2Q19	3Q19	Change		Cumulative			KAF	
FYE 31 Dec	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	% qoq	% yoy	9M18	9M19	% chg	2019F	9M/F
Revenue	43.6	42.7	41.4	39.2	39.5	1	(9)	131.3	120.0	(9)	162.6	74
Property operating expenses	(9.9)	(10.0)	(9.3)	(9.7)	(9.7)	0	(2)	(29.7)	(28.8)	(3)	(37.3)	77
Net property income	33.7	32.7	32.0	29.5	29.7	1	(12)	101.6	91.3	(10)	125.4	73
Interest income	1.0	1.7	0.8	0.6	0.7	24	(31)	2.6	2.1	(20)	3.2	65
Trust expenses	(3.7)	(3.9)	(3.6)	(3.2)	(3.5)	9	(5)	(11.0)	(10.3)	(6)	(14.0)	74
Borrowing costs	(10.1)	(10.9)	(9.9)	(10.0)	(9.7)	(2)	(3)	(29.7)	(29.6)	(0)	(40.6)	73
Exceptional items	-	(5.4)	-	-	-			2.2	-	-		
Profit before tax	20.9	14.2	19.4	16.9	17.2	2	(18)	65.7	53.5	(19)	74.1	72
Tax	-	(6.1)	-	-	-			-	-		-	
Net profit	20.9	8.0	19.4	16.9	17.2	2	(18)	65.7	53.5	(19)	74.1	72
Normalized net profit	20.9	19.6	19.4	16.9	17.2	2	(18)	63.5	53.5	(16)	74.1	72

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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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)