

COMPANY RESULTS

MRCB-Quill REIT (MQREIT MK)

3Q20: Steady Performance As Expected

Results came in slightly above our estimates amid overall steady performance, boosted by lower expenses and finance costs. Unlike retail REITs, office operators like MQREIT are less impacted by the COVID-19 pandemic. We believe MQREIT will continue to report decent results moving forward, given stable occupancy rate. Maintain BUY and target price of RM0.97.

3Q20 RESULTS

Year to 31 Dec (RMm)	3Q20	qoq % chg	yoy % chg	9M20	yoy % chg
Gross revenue	42.1	4.9	5.4	123.9	3.2
Operating expenses	(9.3)	1.8	(4.3)	(27.9)	(3.1)
Net property income	32.7	5.8	8.5	96.0	5.1
Finance cost	(8.3)	(6.6)	(14.6)	(26.8)	(8.7)
Core Net Profit	21.5	12.6	21.8	60.3	12.8
EPU (sen)	2.0	12.6	21.8	5.6	12.8
DPU (sen)	0.0	n.m.	n.m.	3.4	0.0

Source: MQREIT, UOB Kay Hian

RESULTS

- **Slightly above expectations.** MRCB-Quill REIT (MQREIT) reported 3Q20 revenue of RM42.1m (+4.9% qoq, +5.4% yoy) and core net profit of RM21.5m (+12.6% qoq, +21.8% yoy). Cumulatively, 9M20 core net profit of RM60.3m (+12.8% yoy) accounts for 79.6% of our and 80.7% of consensus' full-year forecasts. Earnings was boosted by lower expenses and finance costs.
- MQREIT typically declares dividends in the second and final quarters.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	173	162	167	170	172
EBITDA	119	108	112	115	115
Operating profit	119	108	112	115	115
Net profit (rep./act.)	73	29	77	80	83
Net profit (adj.)	83	72	77	80	83
EPS (sen)	7.7	6.7	7.2	7.5	7.8
PE (x)	10.3	11.8	11.0	10.6	10.2
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	13.5	14.8	14.3	14.0	13.9
Dividend yield (%)	10.2	8.6	8.9	9.3	9.6
Net margin (%)	42.2	18.0	46.2	47.2	48.2
Net debt/(cash) to equity (%)	56.0	58.4	56.9	54.4	50.9
Interest cover (x)	3.3	3.0	3.2	3.3	3.6
ROE (%)	5.3	2.2	5.8	6.1	6.3
Consensus net profit	-	-	74.8	75.5	76.7
UOBKH/Consensus (x)	-	-	1.03	1.07	1.08

Source: MQREIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.80
Target Price	RM0.97
Upside	+22.1%

COMPANY DESCRIPTION

MQREIT 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):	852.1
Market cap (US\$m):	206.3
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low		RM1.05/RM0.510		
1mth	3mth	6mth	1yr	YTD
0.6	12.0	4.6	(20.5)	(20.5)

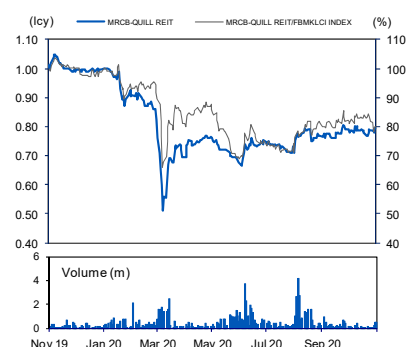
Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
Capitaland Ltd	10.9

FY20 NAV/Share (RM) 1.24

FY20 Net Debt/Share (RM) 0.70

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Less impacted by rental assistance.** 9M20 net profit improved 12.8% yoy, mainly due to lower operating expenses and finance cost. Net property income (NPI) margin improved slightly to 77.5% vs 9M19's 76.0%. On a sequential basis, earnings improved 12.6% qoq, reflecting the absence of additional rental assistance given. Other than that, we understand that rental collection remained healthy and stable. Moving forward, we expect earnings to remain resilient as MQREIT's tenants are mostly well-established MNCs and local businesses that are able to ride out the current situation.
- **Stable occupancy rate.** On a portfolio basis, occupancy rate remained steady at 90.5% (2Q20: 90.4%), well above the average of 77% in 2019 for office buildings in Kuala Lumpur. Total lease due for renewal for 2020 and 2021 account for 19% and 21% of total NLA respectively. Majority of the leases due in 2020 are in 4Q20. We do not see any major risk as negotiations are already underway and there are no indications of non-renewals. MQREIT's WALE is 4.6 years.
- **Gearing at 38.2%.** MQREIT's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. The recent increase in gearing limit by the Securities Commissions (from 50% to 60%) will give MQREIT debt headroom of RM493m to fund future acquisitions.

EARNINGS REVISION/RISK

- **Adjust 2020 forecast by +2%,** as we reduce our finance cost assumptions. We are forecasting 7% growth for 2020 on the back of improvement in occupancy for Wisma Technip, Platinum Sentral and Menara Shell (vs 2019).

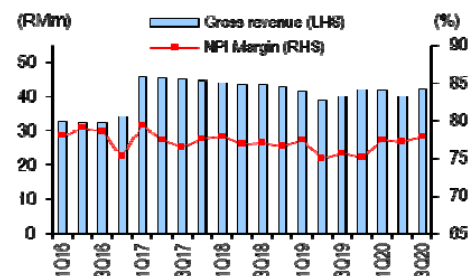
VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM0.97,** based on a dividend discount model (required rate of return: 8.5%, terminal growth: 1.3%) and representing an implied dividend yield of 7.6% for 2021.
- We expect MQREIT to claw back its 20.5% share price decline ytd (it sorely underperformed the REIT sector which has declined 16% ytd) as valuation rerates to reflect its attractive sustainable high dividend yields of at least 9% for 2020-22, backed by its property portfolio's stable occupancy.

SHARE PRICE CATALYST

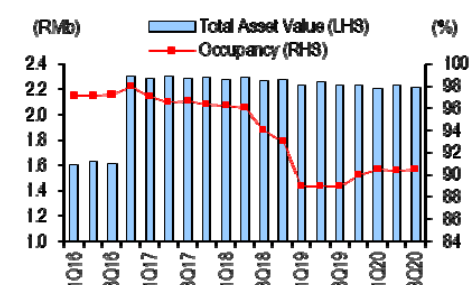
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



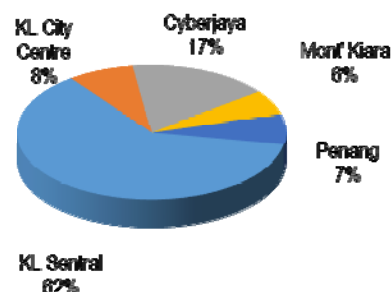
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



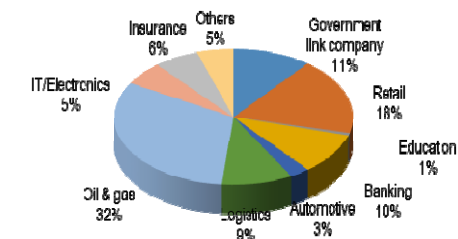
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION (BY VALUATION)



Source: MQREIT, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: MQREIT, UOB Kay Hian

FORECAST ASSUMPTIONS – OCCUPANCY

Property	2020	2021	2022
Platinum Sentral	86%	86%	86%
Menara Shell	99%	99%	99%
Wisma Technip	90%	90%	90%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	162	167	170	172
EBITDA	108	112	115	115
Deprec. & amort.	0	0	0	0
EBIT	108	112	115	115
Net interest income/(expense)	(36)	(35)	(35)	(32)
Pre-tax profit	35	77	80	83
Tax	(6)	0	0	0
Net profit	29	77	80	83
Net profit (adj.)	72	77	80	83

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,143	2,145	2,147	2,149
Other LT assets	1	1	1	1
Cash/ST investment	63	81	84	69
Other current assets	6	6	7	7
Total assets	2,214	2,234	2,238	2,225
ST debt	333	333	318	288
Other current liabilities	21	40	73	118
LT debt	503	503	488	458
Other LT liabilities	33	33	33	33
Shareholders' equity	1,323	1,325	1,327	1,328
Total liabilities & equity	2,214	2,234	2,238	2,225

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	113	116	118	119
Pre-tax profit	35	77	80	83
Deprec. & amort.	0	0	0	0
Other operating cashflows	77	39	38	35
Investing	0	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	3	0	0	0
Financing	(136)	(96)	(114)	(131)
Distribution to unitholders	(78)	(76)	(79)	(81)
Issue of shares	0	0	0	0
Proceeds from borrowings	35	0	0	0
Loan repayment	(54)	0	(15)	(30)
Others/interest paid	(38)	(20)	(20)	(20)
Net cash inflow (outflow)	(23)	18	2	(15)
Beginning cash & cash equivalent	86	63	81	84
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	63	81	84	69

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	66.9	66.9	67.5	66.9
Pre-tax margin	21.8	46.2	47.2	48.2
Net margin	18.0	46.2	47.2	48.2
ROA	1.3	3.5	3.6	3.7
ROE	2.2	5.8	6.1	6.3
Growth				
Turnover	(6.5)	3.3	1.8	1.0
EBITDA	(8.7)	3.3	2.6	0.2
Pre-tax profit	(55.4)	118.6	4.0	3.3
Net profit	(60.2)	165.4	4.0	3.3
Net profit (adj.)	(12.6)	7.2	4.0	3.3
EPU	(12.6)	7.2	4.0	3.3
Leverage				
Debt to total capital	38.7	38.7	37.8	36.0
Debt to equity	63.1	63.1	60.7	56.1
Net debt/(cash) to equity	58.4	56.9	54.4	50.9
Interest cover (x)	3.0	3.2	3.3	3.6

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