

MRCB-Quill REIT

FY17 Well Within Expectations

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FY17 realised net income (RNI) of RM88.0m is well within our and market expectations at 96% and 99%, respectively. FY17 GDPU is also within at 8.39 sen (100%). FY18-19 will see minimal lease expiries of 28-15% on flattish to low single-digit reversions. Maintain FY18E CNP of RM94.2m and introduce FY19E CNP of RM96.7m. Maintain **OUTPERFORM** and TP of RM1.38, on FY18E GDPS of 8.40 sen and a +2.1ppt spread to our 10-year MGS target of 4.00%.

FY17 realised net income (RNI) of RM88.0m came in within our and consensus expectations at 96% and 99%, respectively. 4Q17 GDPU of 4.16 sen was declared, which includes a 0.11 sen non-taxable portion, bringing FY17 GDPU to 8.39 sen. This also met our FY17 target (100%) of 8.40 sen, implying 6.9% gross yield (6.2% net yield).

Results Highlights. YoY-Ytd, RNI increased by 49%, driven by top-line growth (+37%) from: (i) the acquisition of Menara Shell (in Dec 2016), and (ii) positive reversions from QB3, Wisma Technip and QB2. As a result, RNI margins improved by +4.0ppt as most cost items remained fixed, despite higher property operating expenses (+36%) and financing costs (+23%) from the acquisition of Menara Shell. However, EPU declined due to dilution post the placement in end FY16. **QoQ**, NPI was up by 1% on lower property operating expenses (-5%), but higher finance cost (+10%) and expenditure (+9%) weighed on bottom-line, causing RNI to be flat. There was also RM18.2m revaluation loss in 4Q17 from Platinum Sentral and QB5, likely due to increased tenant incentives.

Outlook. FY18-19E leases up for expiry are minimal at 28-15% of net lettable assets (NLA) which is preferable under current market condition where the office market is facing an oversupply situation, and risk of tenant attrition. As such, we are expecting flattish to low single-digit reversion in FY18-19. Additionally, we expect capex in FY18-19 of RM12-10m, mostly for maintenance. MQREIT's disposal of QB8 is expected to be completed by 2Q18, but this is mostly neutral to FY18E CNP as we expect the net gains on disposal of 0.12 sen per unit to offset the loss of income, while the impact to our FY19 forecasts is negligible at <2% of RNI.

We maintain FY18E CNP of RM94.2m and introduce FY19E CNP of RM96.7m. Our FY18-19E GDPU of 8.40-8.40 sen (NDPU of 7.60-7.60 sen), suggest gross yields of 6.9-6.9% (net yields of 6.2-6.2%).

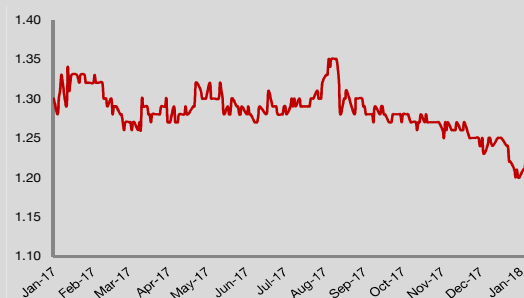
Maintain OUTPERFORM and TP of RM1.38 based on FY18E GDPS of 8.40 sen. We maintain our +2.1ppt spread to the 10-year MGS target of 4.00%, implying a target yield of 6.1% vs. MREITs (>RM1b) under our coverage with an average of 5.4%. Our applied spread is above large cap MREITs (>RM1b) under our coverage (between +0.8ppt to +1.80ppt) as MQREIT is slightly smaller than large cap REITs, while the office segment is weighed down by perceptions of an oversupply situation (vs. retail and industrial assets). However, despite our conservative valuations, we are comfortable with our **OUTPERFORM** call as MQREIT is commanding attractive gross yields of 6.9% (net yield of 6.2%) vs. MREIT peers (>RM1b) under our coverage with an average 5.7% yield (net: 5.1%).

Risks to our call include bond yield expansions or compressions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: RM1.22
Target Price: RM1.38 ↔

Share Price Performance



KLSE 1,828.83
YTD KLSE chg 1.8%
YTD stock price chg -2.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK Equity
Market Cap (RM m)	1,303.0
Issued shares	1,068.0
52-week range (H)	1.36
52-week range (L)	1.19
3-mth avg daily vol:	373,368
Free Float	54%
Beta	0.5

Major Shareholders

Malaysian Resources Corporation Berhad	27.9%
Capitaland Limited	11.0%
Employees Provident Fund Board	7.1%

Summary Earnings Table

FY Dec (RM'm)	2017A	2018E	2019E
Turnover	180.1	191.3	192.4
EBIT	138.4	131.8	132.5
PBT	71.3	95.5	96.7
Net Profit	71.3	95.5	96.7
Core NP*	88.0	94.2	96.7
Consensus (CNP)	n.a.	93.2	96.0
Earnings Revision	n.a.	n.a.	-1%
Core EPS (sen)	8.8	8.7	8.8
Core EPS growth (%)	1%	1%	1%
NDPS (sen)	7.6	7.6	7.6
BVPS (RM)	1.30	1.28	1.28
Core PER	13.8	14.0	13.8
Price/BV (x)	0.9	0.9	1.0
Gearing (x)	0.37	0.38	0.38
Net Div. Yield (%)	6.2	6.2	6.2

*Core NP refers to RNI

*FY18-19E per share data is based on our enlarged share base of 1081-1094m on additions from managers fee's



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OTHER POINTS

Result Highlight								
FYE 31 Dec (RM'm)	4Q17	3Q17	QoQ	4Q16	YoY	FY16	FY17	YoY-Ytd
Gross revenue	44.7	44.8	0%	34.1	31%	131.8	180.1	37%
Prop Opex	-10.0	-10.5	-5%	-8.5	19%	-29.5	-40.2	36%
NPI excl unrealised rental income	34.6	34.2	1%	25.6	35%	100.9	138.4	37%
Interest Income	1.7	0.7	133%	1.1	53%	2.4	3.6	51%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Surplus on revaluation	-18.2	0.0	n.a.	3.5	-613%	3.5	-18.2	-613%
Total Trust Income	19.6	35.0	-44%	30.3	-35%	108.2	126.7	17%
Expenditure	-3.9	-3.7	5%	-4.3	-10%	-12.9	-14.9	15%
Finance Cost	-11.0	-10.0	10%	-9.1	21%	-33.0	-40.5	23%
Total Expenditure	-14.9	-13.7	9%	-13.4	11%	-46.0	-55.4	21%
Income Before Tax	4.7	21.4	-78%	16.9	-72%	62.2	71.3	15%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	4.7	21.4	-78%	16.9	-72%	62.2	71.3	15%
Realised Net income (RNI)	21.4	21.4	0%	13.3	61%	59.2	88.0	49%
EPU (sen)	2.01	2.00	0%	2.01	0%	8.94	8.24	-8%
DPU (sen)	4.16	0.00	n.a.	4.15	0%	8.38	8.39	0%
NAV/unit (RM)	1.30	1.29		1.27		1.27	1.30	
Gearing (x)	0.37	0.32		0.37		0.37	0.37	
NPI Margins	78%	76%		75%		77%	77%	
RNI Margins	48%	48%		39%		45%	49%	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (19/1/18)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating	
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19				(x)	FY16/17	FY17/18	FY18/19	(%)	(%)		(RM)
M-REIT & PROPERTY INVESTMENT UNDER COVERAGE																
KLCCSS *	7.75	13,991	20.7	20.0	19.5	4.4%	7.0%	1.1	674.6	699.6	719.2	3.7%	2.8%	7.73	MARKET PERFORM	
Pavilion REIT	1.60	4,848	20.6	20.4	18.6	4.6%	8.0%	1.2	235.3	237.0	279.8	0.7%	18.1%	1.84	OUTPERFORM	
IGB REIT*	1.60	5,622	20.0	19.6	18.5	5.2%	6.9%	1.5	277.8	286.7	303.9	3.2%	6.0%	1.87	OUTPERFORM	
Sunway REIT*	1.70	5,007	18.7	17.0	16.8	4.8%	8.0%	1.1	267.4	294.0	298.0	9.9%	1.4%	1.87	OUTPERFORM	
CapitaMalls (M) Trust*	1.41	2,873	17.5	16.5	16.1	5.5%	6.4%	1.1	171.1	173.8	178.4	1.6%	2.6%	1.63	OUTPERFORM	
Axis REIT*	1.41	1,738	21.9	21.4	16.5	4.7%	8.9%	1.2	90.2	92.4	119.9	2.4%	29.8%	1.48	MARKET PERFORM	
MRCB-Quill REIT	1.22	1,303	13.8	14.0	13.8	6.2%	6.3%	0.9	88.0	94.2	96.7	7.0%	2.6%	1.38	OUTPERFORM	
* Core NP and Core PER																
CONSENSUS NUMBERS																
YTL Hospitality REIT	1.19	2,028	68.4	14.9	13.8	6.6%	1.8%	0.8	132.3	144.7	155.0	9.3%	7.1%	1.44	BUY	
Al-'Aqar Healthcare REIT	1.32	961	15.5	n.a.	22.4	6.3%	7.0%	1.1	60.7	64.3	n.a.	5.9%	n.a.	1.70	BUY	
AmanahRaya REIT	0.91	522	13.6	15.4	14.0	5.7%	5.6%	0.8	34.1	37.5	n.a.	10.0%	n.a.	1.11	BUY	
AmFIRST REIT	0.68	463	18.8	n.a.	n.a.	n.a.	2.8%	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY	
Hektar REIT	1.23	568.2	15.4	12.3	12.3	7.3%	5.3%	0.9	39.0	43.0	45.0	10.3%	4.7%	1.30	NEUTRAL	
Tower REIT	1.21	339.4	18.4	n.a.	n.a.	n.a.	3.5%	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY	
UOA REIT	1.61	680.8	15.5	n.a.	n.a.	n.a.	6.2%	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY	
Atrium REIT	1.09	132.8	21.4	n.a.	n.a.	n.a.	3.6%	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY	
Al-Salam REIT	0.98	565.5	11.6	15.7	14.3	5.9%	8.1%	0.9	36.8	38.3	39.8	3.9%	4.1%	1.10	BUY	
KIP REIT	0.84	422	n.a.	12.1	11.8	8.3%	n.a.	0.8	34.8	35.9	n.a.	3.2%	n.a.	n.a.	BUY	

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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