November 12, 2020

Maybank IB Research

MRCB-Quill REIT (MQREIT MK)

Optimising portfolio

BUY

Share Price	MYR 0.83
12m Price Target	MYR 1.20 (+53%)
Previous Price Target	*MYR 1.20*

REITs

Malaysia

Maintain BUY with 8.2% net yield

We are positive on MQREIT's proposed disposal of the vacant Quill Building 5 (QB5). Our earnings forecasts and DDM-TP of MYR1.20 (Ke: 7.2%, LT: 1%) are intact. Maintain BUY with a strong FY21E net DPU yield of 8.2%. We continue to favour MQREIT's stable rental income from their long-term tenants.

Disposing QB5

MQREIT has entered into a sale and purchase agreement (SPA) with Deriv Services Sdn Bhd to dispose QB5 for MYR45.0m in cash. QB5 is a 5-storey office building in Cyberjaya, Selangor with NLA of 81.6k sqft (c.4% of MQREIT's portfolio). The building is currently vacant. QB5 was acquired in 2008 for MYR43.0m and the market value was MYR40.0m (valued on 5 Sep 2020). Upon the completion of the disposal (expected by 2Q21), MQREIT estimates a net gain of MYR3.73m.

Positive on the disposal

We are positive on the deal, as the asset has been vacant/not generating rental income since Apr 2019. Meanwhile, MQREIT intends to utilise the disposal proceeds to pare down debt, future AEIs, acquisitions and/or working capital – within 12 months from the deal completion. Based on our estimates, FY21E gross gearing is largely unchanged at 0.38x, assuming MQREIT fully utilises the disposal gains (net of deal's expenses) to pare down their debt.

Outlook is intact

We maintain our FY20-22E forecasts as we have already pencilled in zero rental income from QB5. Going forward, we estimate MQREIT's earnings to be supported by their assets with long-term tenants, i.e. Platinum Sentral, Menara Shell, QB1, QB4, QB2 and Tesco Building. These assets contribute c.51% to FY20-22E revenue. Elsewhere, we are not expecting any near-term asset acquisitions at this point.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	173	162	166	169	173
Net property income	134	123	131	132	133
Core net profit	85	72	83	85	86
Core EPU (sen)	7.9	6.7	7.7	8.0	8.0
Core EPU growth (%)	(4.1)	(14.8)	14.8	3.0	0.7
Net DPU (sen)	7.3	6.1	6.6	6.8	6.8
Net DPU growth (%)	(3.7)	(15.8)	7.9	3.0	0.7
P/NTA (x)	0.8	0.8	0.7	0.7	0.7
Net DPU yield (%)	6.9	6.1	8.0	8.2	8.2
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	5.9	6.1	6.3
MKE vs. Consensus (%)	-	-	11.1	11.1	9.1

Company Description

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

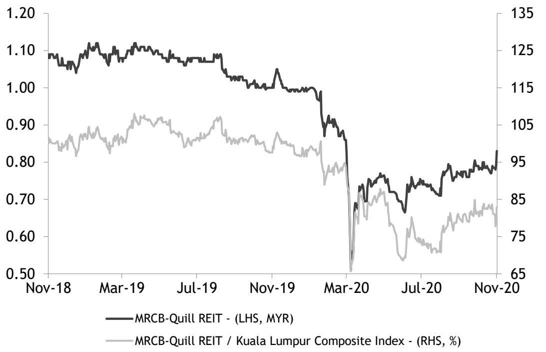
Statistics

52w high/low (MYR)	1.05/0.51
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,072
Market capitalisation	MYR889.6M
	USD215M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	14	(17)
Relative to index (%)	2	13	(15)

Source: FactSet

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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. 19% of MQREIT's total NLA is due for lease renewal in 2020 while 54% of MQREIT's total debt is based on floating rates. Another earnings risk would be if the impact from COVID-19 becomes prolonged.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	14.6	16.3	12.6	12.2	12.1
P/BV (x)	0.8	0.8	0.7	0.7	0.7
P/NTA (x)	0.8	0.8	0.7	0.7	0.7
DPU yield (%)	7.6	6.8	8.8	9.1	9.2
FCF yield (%)	10.0	11.1	12.9	13.3	13.5
INCOME STATEMENT (MYR m)					
Revenue	173.4	162.1	166.5	169.1	172.7
Net property income	**133.7**	**122.8**	**130.8**	**132.5**	**133.0**
Management and trustee fees	(14.9)	(14.4)	(14.5)	(14.5)	(14.6)
Net financing costs	(36.3)	(36.4)	(33.6)	(32.7)	(32.6)
Exceptionals	(3.2)	(36.7)	0.0	0.0	0.0
Pretax profit	**79.3**	**35.4**	**82.7**	**85.2**	**85.8**
Income tax	(6.1)	(6.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**73.1**	**29.1**	**82.7**	**85.2**	**85.8**
Core net profit	84.7	72.1	82.7	85.2	85.8
Distributable inc to unitholders	87.1	73.0	82.7	85.2	85.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	85.8	63.3	64.2	67.2	71.0
Accounts receivable	5.6	5.8	5.9	6.0	6.1
Property, Plant & Equip (net)	0.3	0.4	2.0	3.6	5.1
Inverstment properties	2,158.7	2,125.2	2,125.2	2,125.2	2,125.2
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	20.9	19.1	19.1	19.1	19.1
Total assets	**2,271.4**	**2,213.7**	**2,216.4**	**2,221.1**	**2,226.6**
ST interest bearing debt	0.0	332.7	332.7	332.7	332.7
Accounts payable	15.8	15.7	14.3	14.7	15.9
LT interest bearing debt	853.7	503.0	503.0	503.0	503.0
Other liabilities	29.6	38.8	38.8	38.8	38.8
Total Liabilities	**899.1**	**890.2**	**888.8**	**889.2**	**890.4**
Shareholders Equity	1,372.3	1,323.5	1,327.6	1,331.9	1,336.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**1,372.3**	**1,323.5**	**1,327.6**	**1,331.9**	**1,336.2**
Total liabilities and equity	**2,271.4**	**2,213.7**	**2,216.4**	**2,221.1**	**2,226.6**
CASH FLOW (MYR m)					
Cash flow from operations	**113.3**	**118.8**	**114.8**	**118.4**	**119.7**
Acquisitions & investments	(4.1)	(2.3)	(1.7)	(1.7)	(1.7)
Disposal of FA & investments	28.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	3.7	2.7	3.2	3.2	3.4
CF from investing activities	**27.6**	**0.4**	**1.5**	**1.5**	**1.6**
Dividends paid	(89.8)	(78.0)	(78.6)	(81.0)	(81.5)
Interest expense	(39.2)	(38.5)	(36.8)	(35.9)	(35.9)
Change in debt	0.0	(19.0)	0.0	0.0	0.0
Equity raised / (purchased)	4.0	0.0	0.0	0.0	0.0
Other financial activities	(0.0)	0.0	0.0	0.0	0.0
CF from financing activities	**(125.0)**	**(135.5)**	**(115.4)**	**(116.9)**	**(117.5)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**15.9**	**(16.3)**	**0.9**	**3.0**	**3.9**

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.7)	(6.5)	2.7	1.6	2.1
Net property income growth	(4.5)	(8.1)	6.5	1.3	0.4
Core net profit growth	(3.8)	(14.8)	14.8	3.0	0.7
Distributable income growth	(5.8)	(16.1)	13.3	3.0	0.7
Profitability ratios (%)					
Net property income margin	77.1	75.8	78.6	78.3	77.0
Core net profit margin	48.8	44.5	49.7	50.4	49.7
Payout ratio	106.6	225.2	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	42.2	18.0	49.7	50.4	49.7
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 (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.0	58.4	58.1	57.7	57.2
Net interest cover (x)	3.3	3.0	3.5	3.6	3.6
Debt/EBITDA (x)	7.2	7.7	7.2	7.1	7.0
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	767.9	772.5	771.6	768.6	764.7
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank

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Malaysia

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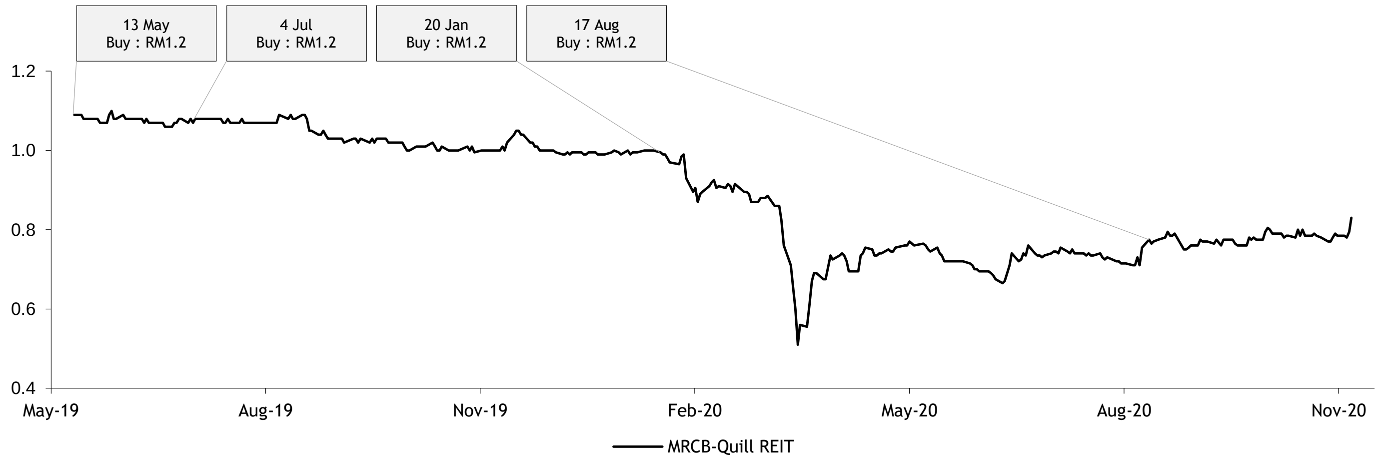
Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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