MRCB-Quill REIT (MQREIT MK)

1Q16 results in line

BUY

Share Price	MYR 1.16
12m Price Target	MYR 1.15 (-1%)
Previous Price Target	*MYR 1.15*

Maintain BUY

1Q16 earnings were within expectations. The strong YoY net profit growth was mainly driven by Platinum Sentral. We maintain our earnings forecasts and DCF-based TP of MYR1.15. Our BUY recommendation is premised on an expected major earnings boost from the impending acquisition of Menara Shell.

Earnings lift from Platinum Sentral

1Q16 core net profit was MYR15.2m (+84.1% YoY, -6.9% QoQ), accounting for 27% of our and consensus' FY16 estimates. The jump in YoY earnings was mainly attributed to Platinum Sentral which was acquired in Mar 2015. QoQ earnings contracted due to a lower opex in 4Q15 from reversal of provision related to cost saving measures in FY15 (~MYR1m). Otherwise, QoQ earnings would have been relatively flat. Occupancy rate as at end-1Q16 remained stable at 97.1% (4Q15: 97.5%, 1Q15: 93%).

Forecasts are intact

Our FY16-18 net profit forecasts are unchanged at this juncture. We only expect a minor increase in FY16's rental income as only 6.7% of leases are up for renewal. 13%/26% of leases are expiring in FY17/18.

Waiting for the big acquisition

We note that the purchase of Menara Shell for MYR640m is still in progress and injection could take place in early-2017. Based on our estimates, Menara Shell could lift FY17/18 net profits by +39/+38% to MYR84m/88m. Our earnings forecasts and MYR1.15 TP (WACC: 6.6%, terminal yield: 7%) have yet to impute this asset purchase, pending the confirmation of the funding structure. We expect this asset purchase to be value accreting.

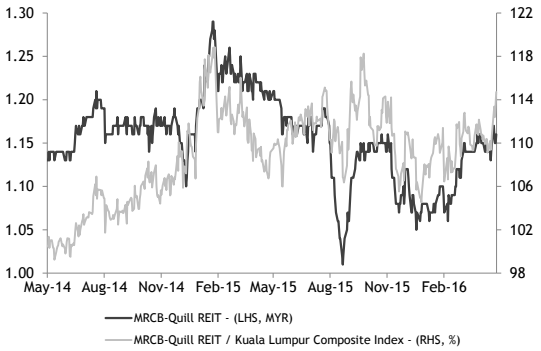
Statistics

52w high/low (MYR)	1.21/1.01
3m avg turnover (USDm)	0.1
Free float (%)	27.6
Issued shares (m)	661
Market capitalisation	MYR767.2M
	USD196M

Major shareholders:

Malaysian Resources Corp. Bhd.	31.2%
CapitaLand Commercial Trust	17.7%
Quill Land Sdn. Bhd.	7.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	5	(3)
Relative to index (%)	2	4	5

Source: FactSet

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	70	115	124	129	133
Net property income	53	90	100	104	107
Core net profit	34	54	57	61	64
Core EPU (sen)	8.8	8.2	8.6	9.2	9.7
Core EPU growth (%)	(1.1)	(6.7)	5.3	6.5	5.7
Net DPU (sen)	7.5	6.9	7.0	7.4	7.9
Net DPU growth (%)	0.0	(8.1)	0.8	6.5	5.7
P/NAV (x)	0.8	0.8	0.8	0.8	0.8
Net DPU yield (%)	6.5	6.0	6.0	6.4	6.8
ROAE (%)	6.4	7.5	6.3	6.7	7.0
ROAA (%)	4.0	4.3	3.5	3.7	3.9
Debt/Assets (x)	0.35	0.42	0.42	0.42	0.41
Consensus Net DPU	-	-	7.4	7.7	8.1
MKE vs. Consensus (%)	-	-	(5.6)	(3.3)	(2.8)

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Fig 1: Results summary table

	Quarterly				
FY Dec (MYR m)	**1QFY16**	**1QFY15**	***%YoY***	**4QFY15**	***%QoQ***
Gross revenue	32.7	18.6	*75.5*	32.6	*0.2*
Net property income	**25.4**	**13.7**	***86.0***	**26.8**	***(5.0)***
Interest income	0.4	0.1	*210.2*	0.3	*26.9*
Fair value gains	0.0	0.0	*n.m.*	6.7	*n.m.*
Finance costs	(7.9)	(3.5)	*122.1*	(7.9)	*(1.0)*
Other expenses	(2.7)	(2.0)	*38.0*	(2.8)	*(1.5)*
Pretax profit	**15.2**	**8.3**	***84.1***	**23.1**	***(33.9)***
Tax	0.0	0.0	*n.m.*	0.0	*n.m.*
Net profit	**15.2**	**8.3**	***84.1***	**23.1**	***(33.9)***
Net profit ex-EI	**15.2**	**8.3**	***84.1***	**16.4**	***(6.9)***
EPU ex-EI (sen) *	2.3	2.1	*10.0*	2.5	*(7.3)*
Gross DPU (sen) ^	**0.0**	**1.1**	***n.m.***	**4.4**	***n.m.***
	1QFY16	**1QFY15**	***+/- ppt***	**4QFY15**	***+/- ppt***
Net property margin (%)	77.9	73.5	*4.4*	82.2	*(4.3)*
Net income ex-EI margin (%)	46.7	44.5	*2.2*	50.3	*(3.6)*

** Based on reported figures*

^ 1Q15: First interim gross DPU of 1.11sen (declared prior to issuance of new units in 1Q15) has been adjusted based on 690.1m units (pre-adjustment: 1.88sen)

Source: Trust, Maybank Kim Eng

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
Price/DPU(x)	15.4	16.7	16.6	15.6	14.8
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.2	6.6	6.7	7.1	7.5
FCF yield (%)	8.9	9.2	10.7	8.1	8.6
INCOME STATEMENT (MYR m)					
Revenue	70.2	115.2	124.4	128.9	133.5
Net property income	**53.3**	**90.3**	**100.3**	**103.5**	**107.2**
Management and trustee fees	(5.8)	(9.8)	(12.9)	(13.1)	(13.3)
Net financing costs	(13.3)	(26.5)	(30.6)	(29.9)	(29.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	**34.2**	**54.0**	**56.9**	**60.6**	**64.0**
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**34.2**	**54.0**	**56.9**	**60.6**	**64.0**
Distributable inc to unitholders	34.2	54.0	56.9	60.6	64.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	23.3	44.9	73.1	72.7	72.6
Accounts receivable	6.1	5.7	5.7	5.7	5.7
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	837.7	1,569.8	1,574.8	1,579.8	1,584.8
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	1.2	4.9	0.0	0.0	0.0
Total assets	**868.4**	**1,625.3**	**1,653.6**	**1,658.2**	**1,663.1**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	12.2	13.6	13.6	13.6	13.6
LT interest bearing debt	305.1	689.7	689.7	689.7	689.7
Other liabilities	9.8	18.1	43.5	45.1	46.9
Total Liabilities	**327.1**	**721.5**	**746.9**	**748.5**	**750.2**
Shareholders Equity	541.3	903.9	906.7	909.7	912.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**541.3**	**903.9**	**906.7**	**909.7**	**912.9**
Total liabilities and equity	**868.4**	**1,625.3**	**1,653.6**	**1,658.2**	**1,663.1**
CASH FLOW (MYR m)					
Cash flow from operations	**40.1**	**70.6**	**82.3**	**62.1**	**65.7**
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(12.1)	(732.1)	(5.0)	(5.0)	(5.0)
Disposal of FA & investments	0.0	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	0.0	0.0	0.0	0.0	0.0
CF from investing activities	**(12.1)**	**(732.1)**	**(5.0)**	**(5.0)**	**(5.0)**
Dividends paid	(32.7)	(50.9)	(54.0)	(57.5)	(60.8)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	0.2	384.6	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	0.0	361.8	0.0	0.0	0.0
CF from financing activities	**(32.5)**	**695.4**	**(54.0)**	**(57.5)**	**(60.8)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**(4.5)**	**33.9**	**23.3**	**(0.4)**	**(0.1)**

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.9	64.0	8.0	3.6	3.5
Net property income growth	0.2	69.3	11.2	3.2	3.5
Core net profit growth	(1.1)	58.1	5.3	6.5	5.7
Distributable income growth	(1.1)	58.1	5.3	6.5	5.7
Profitability ratios (%)					
Net property income margin	75.9	78.4	80.6	80.3	80.3
Core net profit margin	48.6	46.9	45.7	47.0	47.9
Payout ratio	86.1	84.8	81.2	81.2	81.2
DuPont analysis					
Total return margin (%)	48.6	46.9	45.7	47.0	47.9
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.8	1.8	1.8	1.8
ROAE (%)	6.4	7.5	6.3	6.7	7.0
ROAA (%)	4.0	4.3	3.5	3.7	3.9
Liquidity & Efficiency					
Days receivable outstanding	22.4	18.5	16.5	16.0	15.4
Days payables outstanding	254.1	187.1	203.9	193.7	187.0
Dividend cover (x)	1.2	1.2	1.2	1.2	1.2
Current ratio (x)	2.0	3.2	1.9	1.8	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.3	2.2	2.2	2.2
Net debt/equity (%)	52.1	71.3	68.0	67.8	67.6
Net interest cover (x)	3.6	3.0	2.9	3.0	3.1
Debt/EBITDA (x)	6.4	8.6	7.9	7.8	7.7
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	281.8	644.9	616.6	617.0	617.1
Debt/Assets (x)	0.35	0.42	0.42	0.42	0.41

Source: Company; Maybank

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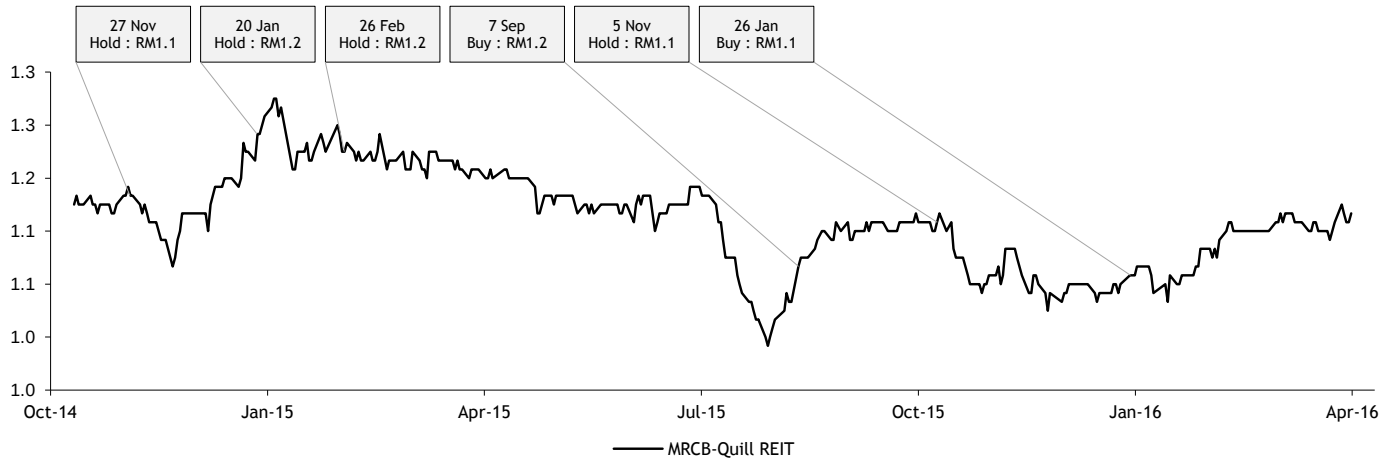

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