

Company Focus

MRCB-Quill REIT

Bloomberg: QUIL MK | Reuters: QCAP.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

21 May 2015

HOLD RM1.16 KLCI : 1,810.11

Price Target : 12-month RM 1.25

Shariah Compliant : No

Reason for Report : 1Q15 results

Where we differ: Higher property and management cost assumptions

Analyst

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Result Summary

FY Dec (RM m)	1Q 2015	1Q 2014	4Q 2014	% chg y-o-y	% chg q-o-q
P&L Items					
Sales	18.6	17.2	18.2	8.3	2.3
Net Property Inc	13.7	13.0	13.4	5.1	2.0
Net Income Aft Tax	8.3	8.2	14.6	1.4	(43.4)
Net Inc avail. for Dist.	7.3	0.0	16.7	nm	(56.1)

Other Data (%)

Net Prop Inc Margin	73.5	75.7	73.8
Dist. Payout Ratio	88.6	0.0	95.7

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Gross Revenue	70	109	124	129
Net Property Inc	53	86	98	101
Total Return	40	50	57	58
Distribution Inc	33	50	57	58
EPU (sen)	10.3	8.4	8.6	8.8
EPU Gth (%)	10	(19)	2	3
DPU (sen)	8.4	8.4	8.6	8.8
DPU Gth (%)	0	0	2	3
NAV per shr (sen)	138.7	133.5	133.6	133.5
PE (X)	11.2	13.8	13.6	13.2
Distribution Yield (%)	7.2	7.2	7.4	7.6
P/NAV (x)	0.8	0.9	0.9	0.9
Agg. Leverage (%)	36.3	44.4	44.7	45.0
ROAE (%)	7.5	7.0	6.4	6.6

At A Glance

Issued Capital (m shrs)	661
Mkt. Cap (RMm/US\$m)	767 / 212
Avg. Daily Vol.('000)	223

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trusts

Principal Business: MRCB-Quill REIT is a real estate investment trust that focuses on office properties. Its largest asset is Platinum Sentral with 445k sq ft NLA in the Kuala Lumpur Sentral development. Its other assets are primarily in Petaling Jaya and Cyberjaya, with a small presence in Penang.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

No surprises pre-transformation

- **1Q15 earnings in line, but does not reflect full year profit as Platinum Sentral will contribute from 2Q**
- **Paid 1.88 sen DPU before injection, expect full year payout to meet our forecast**
- **Reiterate mild near-term growth due to challenging office space market**
- **Maintain HOLD for 7.2% yield; RM1.25 TP**

Highlights

Pre-injection earnings in line

- MRCB-Quill REIT (MQR, name changed from Quill Capita Trust) booked RM8.3m net income for 1Q15 (+1.4% y-o-y, -2.7% q-o-q). This is only c.17% of our/consensus earnings, but is in line as the sizeable Platinum Sentral (PS) injection will start to contribute from 2Q15 onwards.
- NPI grew 5.1% y-o-y and 2% q-o-q to RM13.7m. NPI margin edged down to 73.5% (FY14: 75.9%) due to higher property costs (repairs & maintenance) and expiry of master lease agreement at Plaza Mont Kiara asset in late 2014.
- We also note that 'other expenditures' grew 11% y-o-y to RM5.5m. But this is within expectations due to the flurry of acquisition and disposal (of QB10) activities.

Payouts to be in line

- Management had earlier paid out 1.88 sen DPU for the period 1 Jan to 23 Mar, before the substantial unit issue for the PS injection. Pro-rated for that period, this was 97% payout. We continue to expect c.100% payout for the year, to meet our full year DPU forecast of 8.38 sen.

All borrowings now on fixed rates

- MQR revealed that it had on 21 April entered into an interest swap agreement that effectively keeps all its borrowings on fixed rates.

Outlook

Lukewarm near-term growth

- MQR saw a substantial increase in asset size after the RM740m PS acquisition. But the general office space market remains challenging, and we expect mild rental growth in the near term. Consequently, organic earnings growth would be mild.
- MQR has the right of first refusal to Malaysian Resources Corp's (MRCB) investment properties, but its current gearing at c.44% implies that the trust would need to issue new units for any sizeable acquisitions in the near term.

MRCB-Quill REIT

Lease expiries pose some risk

- We deem maintaining occupancy levels to be crucial for the REIT in FY15. About 6% (c.100k sq ft) of NLA was renewed in 1Q15, leaving 19% of total NLA set to expire in the rest of FY15. Most of these leases are due in 4Q. The bulk (61%, 190k sq ft) will be from a single tenant (DHL), of which management is reasonably confident of renewal.
- The expiries for FY16 are only 7% of total NLA, and 10% in FY17, which are relatively low.

Valuation

We have a HOLD recommendation for MRCB-Quill REIT with RM1.25 price target based on the DDM model, assuming 8% cost of equity and 1% terminal growth rate.

Risks

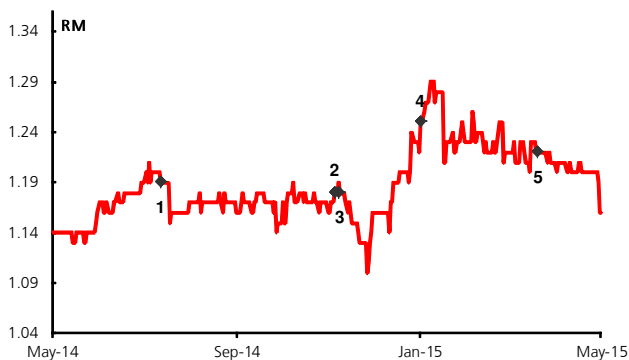
Soft office rental market

- The office sector remains tepid due to excess supply, especially in Kuala Lumpur, Klang Valley and Cyberjaya, where the REIT has exposure. Reversion potential is relatively weak and occupancies could be a risk factor.

High gearing and financing costs

- After the Platinum Sentral injection, MQR's gearing is now at 44%, near the 50% regulatory cap. Financing costs are also slated to rise because of additional facilities, but it is reassuring that all its borrowings are now at fixed rates.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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