REITs

Malaysia

MRCB-Quill REIT (MQREIT MK)

4Q15 in line; U/G to BUY

BUY *[Prior:HOLD]*

Share Price	MYR 1.08
12m Price Target	MYR 1.15 (+6%)
Previous Price Target	*MYR 1.15*

Results within expectations; upgrade to BUY

4Q15 results were within our and consensus' expectations. YoY earnings growth was mainly contributed by Platinum Sentral and positive rental reversions. MQREIT declared a final gross DPU of 4.4sen which was also in line. We are positive on MQREIT's resilient earnings which are backed by long-term leases of its office tenants. Upgrade to BUY with an unchanged DCF-TP of MYR1.15 - total return including dividend is >10%.

Major contribution from Platinum Sentral

Excluding a revaluation gain of MYR6.7m, 4Q15 core net profit was MYR16.4m (+92.5% YoY, +4.1% QoQ), bringing FY15 core net profit to MYR54.0m (+58.1% YoY) and accounting for 103%/102% of our/consensus' estimates. 4Q15's strong YoY growth was mainly lifted by Platinum Sentral which was acquired in Mar 2015. Elsewhere, earnings were also driven by an improved occupancy rate of 97.5% as at end-FY15 (end-FY14 was 91%) and higher rental rates in QB2, QB3 and Tesco.

Marginal earnings adjustment

We tweaked our FY16/17 earnings forecasts by +0.7%/+0.9% after adjusting for FY15 results, and consequently derived FY16/17 gross DPU of 7.8/8.3sen (based on an unchanged 95% net profit payout). We also introduce our FY18 forecasts.

Attractive entry point

We believe MQREIT's earnings would remain resilient, backed by long-term leases and sustained occupancies of its office tenants. MQREIT also has a sizeable asset in its pipeline – Menara Shell - which is expected to be acquired in FY16. This has yet to be factored into our earnings forecasts pending further details and signing of the SPA. Menara Shell could increase end-FY16 total property value to MYR2.2bn from MYR1.6bn and is potentially DPU enhancing. We upgrade MQREIT to a BUY with an unchanged DCF-based TP of MYR1.15 (WACC: 6.2%, terminal yield: 7.0%) as total return is >10% (including FY16 net yield of 6.5%).

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	70	115	124	129	133
Net property income	53	90	100	104	107
Distributable income	34	54	57	61	64
DPU (sen)	7.5	6.9	7.0	7.4	7.9
DPU growth (%)	0.0	(8.1)	0.8	6.5	5.7
Price/DPU(x)	14.3	15.6	15.5	14.5	13.7
P/BV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.0	6.4	6.5	6.9	7.3
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)	0.4	0.4	0.4	0.4	0.4
Consensus DPU	-	-	8.3	8.4	na
MKE vs. Consensus (%)	-	-	(6.2)	(1.6)	na

Company description

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

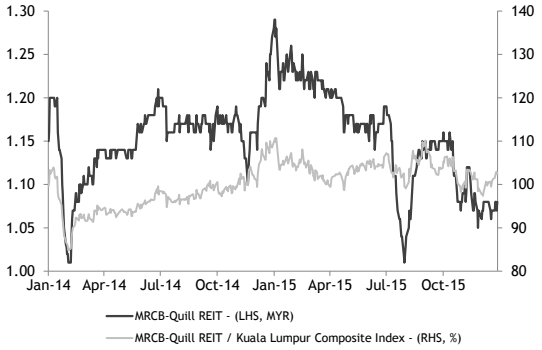
Statistics

52w high/low (MYR)	1.29/1.01
3m avg turnover (USDm)	0.1
Free float (%)	68.0
Issued shares (m)	661
Market capitalisation	MYR714.3M
	USD166M

Major shareholders:

CapitaLand Commercial Trust	17.7%
Quill Land Sdn. Bhd.	7.4%
Quill Properties Sdn. Bhd.	7.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(6)	(15)
Relative to index (%)	3	(1)	(6)

Source: FactSet

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Fig 1: Results summary table

	Quarterly					Cumulative		
FY Dec (MYR m)	**4QFY15**	**4QFY14**	***%YoY***	**3QFY15**	***%QoQ***	**FY15**	**FY14**	***%YoY***
Gross revenue	32.6	18.2	*79.2*	31.8	*2.4*	115.2	70.2	*64.0*
Net property income	**26.8**	**13.4**	***99.7***	**25.5**	***5.1***	**90.3**	**53.3**	***69.3***
Interest income	0.3	0.1	*213.5*	0.4	*(12.8)*	0.9	0.7	*28.1*
Fair value gains	6.7	6.1	*9.1*	-	*n.m.*	7.3	6.1	*18.8*
Finance costs	(7.9)	(3.5)	*129.9*	(8.3)	*(4.5)*	(28.0)	(14.1)	*99.1*
Other expenses	(2.8)	(1.6)	*79.4*	(1.8)	*56.1*	(9.8)	(5.8)	*67.8*
Pretax profit	**23.1**	**14.6**	***57.6***	**15.7**	***46.5***	**60.7**	**40.3**	***50.7***
Tax	-	-	*n.m.*	-	*n.m.*	-	-	*n.m.*
Net profit	**23.1**	**14.6**	***57.6***	**15.7**	***46.5***	**60.7**	**40.3**	***50.7***
Net profit ex-EI	**16.4**	**8.5**	***92.5***	**15.7**	***4.1***	**54.0**	**34.2**	***58.1***
EPU ex-EI (sen) *	2.5	2.2	*13.8*	2.4	*4.2*	9.1	8.8	*3.4*
Gross DPU (sen) ^	**4.4**	**4.3**	***2.1***	**-**	***n.m.***	**7.7**	**8.4**	***(8.1)***
	4QFY15	**4QFY14**	***+/- ppt***	**3QFY15**	***+/- ppt***	**FY15**	**FY14**	***+/- ppt***
Net property margin (%)	82.2	73.8	*8.5*	80.1	*2.1*	78.4	75.9	*2.5*
Net income ex-EI margin (%)	50.3	46.8	*3.5*	49.5	*0.8*	46.9	48.6	*(1.7)*

** Based on reported figures*

^ FY15 includes first interim gross DPU of 1.11sen (declared prior to issuance of new units in 1Q15) which has been adjusted based on 690.1m units (pre-adjustment: 1.88sen)

Sources: Trust, Maybank Kim Eng

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
Price/DPU(x)	14.3	15.6	15.5	14.5	13.7
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 (%)	7.8	7.1	7.2	7.7	8.1
FCF yield (%)	9.5	9.9	11.5	8.7	9.2
INCOME STATEMENT (MYR m)					
Gross revenue	70.2	115.2	124.4	128.9	133.5
Net property income	**53.3**	**90.3**	**100.3**	**103.5**	**107.2**
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	0.0	0.0	0.0	0.0	0.0
Total return before tax	**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
Total return avail to unitholders	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**

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	1.9	64.0	8.0	3.6	3.5
Total return before tax growth	(1.1)	58.1	5.3	6.5	5.7
Total return 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 (%)					
Total return before tax 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

Source: Company; Maybank

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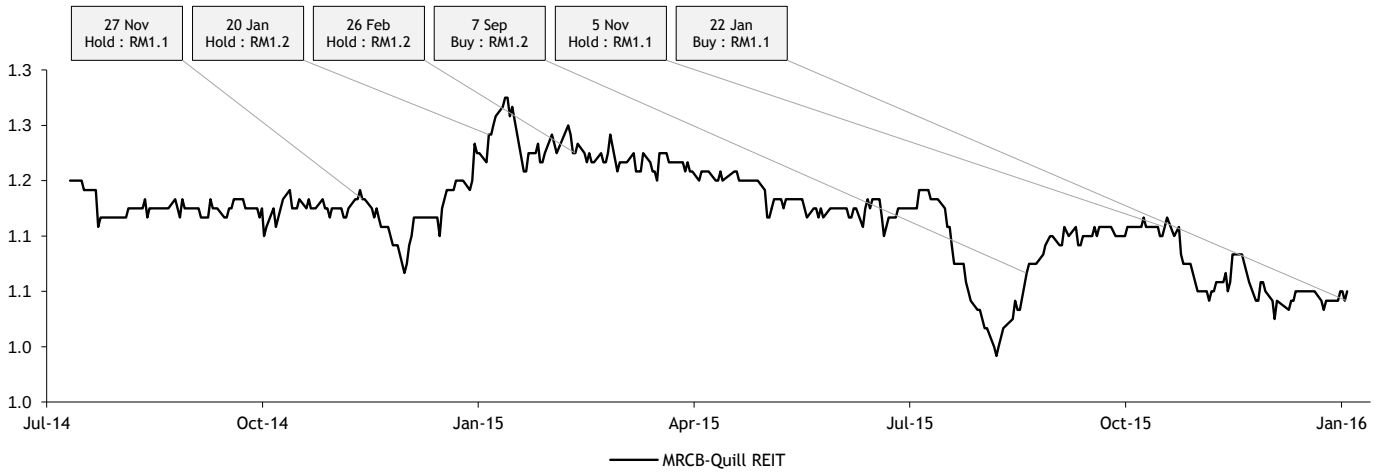

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