REITs

Malaysia

MRCB-Quill REIT (MQREIT MK)

3Q16 earnings on track

BUY

Share Price	MYR 1.27
12m Price Target	MYR 1.35 (+6%)
Previous Price Target	*MYR 1.35*

Maintain BUY

3Q16 results were in line whereby the higher YoY revenue was offset by higher non-operating expenses. We nudge up FY16-18 net profit forecasts by 0.6-1.9% as we adjust our key assumptions, but our MYR1.35 DDM-TP is intact. We continue to like MQREIT for its resilient earnings and sustained distributions which are backed by long-term office tenants.

Some increase in expenses

3Q16 net profit was MYR15.2m (-3.2% YoY, -1.0% QoQ), taking 9M16 net profit to MYR45.9m (+22% YoY) and accounting for 77%/78% of our/ consensus' full-year estimates. YoY, although 3Q16's revenue grew 2.2% (from positive rental reversions) and interest costs were lower by 2.6% (from lower debts), these were offset by: (i) higher opex (+10%) from higher repairs and maintenance costs, and (ii) larger non-operating expenses (+50%; i.e. tax agent's fee and valuation fees). QoQ, the small earnings contraction was mainly due to flattish revenue (-0.2%) and also higher opex (+2%). Meanwhile, the strong 9M16 net profit growth of +22% YoY was attributed to additional earnings contribution from Platinum Sentral which was acquired in Mar 2015. We note that 3Q16's occupancy rate was stable at 97% (unchanged YoY and QoQ.)

Marginal earnings forecasts revision

We nudge up FY16/17/18 net profit forecasts by 1.9%/0.6%/0.6% as we adjust our opex assumptions. However, we maintain our MYR1.35 TP due to marginal earnings forecasts revision impact to our DDM-valuation.

Looking forward to Menara Shell deal

We remain positive on MQREIT's near-term earnings outlook which is mainly premised on the expected acquisition of Menara Shell by early-2017 which would significantly lift MQREIT's bottomline. Our FY17-18 EPU and DPU forecasts have incorporated the additional earnings and unit placement (assuming maximum placement units of 407m) impact from the anticipated purchase of Menara Shell.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	70	115	131	185	187
Net property income	53	90	102	140	142
Core net profit	40	61	61	93	94
Core EPU (sen)	10.3	9.2	9.2	8.6	8.7
Core EPU growth (%)	(5.0)	(11.1)	0.7	(6.8)	1.1
Net DPU (sen)	7.5	6.9	7.8	7.8	7.8
Net DPU growth (%)	0.0	(8.1)	12.8	(0.9)	1.1
P/NAV (x)	0.9	0.9	0.9	1.0	1.0
Net DPU yield (%)	5.9	5.5	6.2	6.1	6.2
ROAE (%)	7.5	8.4	6.7	8.2	7.0
ROAA (%)	4.7	4.9	3.8	4.7	4.1
Debt/Assets (x)	0.35	0.42	0.42	0.39	0.39
Consensus Net DPU	-	-	7.6	7.0	7.3
MKE vs. Consensus (%)	-	-	2.9	10.4	7.5

Company Description

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

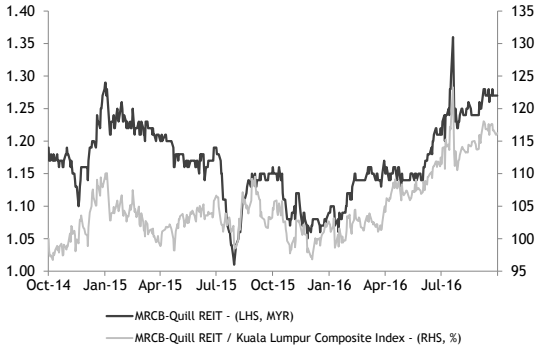
Statistics

52w high/low (MYR)	1.36/1.05
3m avg turnover (USDm)	0.1
Free float (%)	27.6
Issued shares (m)	661
Market capitalisation	MYR840.0M
	USD202M

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 (%)	2	4	10
Relative to index (%)	2	3	13

Source: FactSet

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Fig 1: Results summary table

	Quarterly					Cumulative		
FY Dec (MYR m)	**3QFY16**	**3QFY15**	***%YoY***	**2QFY16**	***%QoQ***	**9MFY16**	**9MFY15**	***%YoY***
Gross revenue	32.5	31.8	*2.2*	32.6	*(0.2)*	97.7	82.6	*18.3*
Net property income	**25.5**	**25.5**	***0.2***	**25.7**	***(0.7)***	**76.7**	**63.5**	***20.8***
Interest income	0.5	0.4	*35.2*	0.4	*25.2*	1.2	0.6	*100.6*
Finance costs	(8.1)	(8.3)	*(2.6)*	(8.0)	*1.6*	(23.9)	(20.0)	*19.4*
Other expenses	(2.7)	(1.8)	*49.8*	(2.7)	*(1.6)*	(8.1)	(6.4)	*26.9*
Pretax profit	**15.2**	**15.7**	***(3.2)***	**15.4**	***(1.0)***	**45.9**	**37.6**	***21.8***
Tax	-	-	*n.m.*	-	*n.m.*	-	-	*n.m.*
Net profit	**15.2**	**15.7**	***(3.2)***	**15.4**	***(1.0)***	**45.9**	**37.6**	***21.8***
Net profit ex-EI	**15.2**	**15.7**	***(3.2)***	**15.4**	***(1.0)***	**45.9**	**37.6**	***21.8***
EPU ex-EI (sen) *	2.3	2.4	*(3.4)*	2.3	*(1.3)*	6.9	6.7	*3.9*
Gross DPU (sen) ^	**-**	**-**	***n.m.***	**4.2**	***n.m.***	**4.2**	**3.3**	***27.1***
	3QFY16	**3QFY15**	***+/- ppt***	**2QFY16**	***+/- ppt***	**9MFY16**	**9MFY15**	***+/- ppt***
Net property margin (%)	78.6	80.1	*(1.6)*	78.9	*(0.4)*	78.5	76.9	*1.6*
Net income ex-EI margin (%)	46.9	49.5	*(2.6)*	47.2	*(0.4)*	46.9	45.6	*1.3*

** Based on reported figures*

^ 9MFY15 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)	16.8	18.3	16.2	16.4	16.2
P/BV (x)	0.9	0.9	0.9	1.0	1.0
P/NTA (x)	0.9	0.9	0.9	1.0	1.0
DPU yield (%)	6.6	6.1	6.8	6.8	6.9
FCF yield (%)	9.0	10.4	11.0	10.2	9.9
INCOME STATEMENT (MYR m)					
Revenue	70.2	115.2	131.2	185.1	187.5
Net property income	**53.3**	**90.3**	**101.9**	**140.1**	**141.9**
Management and trustee fees	(5.8)	(9.8)	(10.9)	(6.3)	(6.4)
Net financing costs	(13.3)	(26.5)	(29.9)	(41.1)	(41.2)
Exceptionals	6.1	6.7	0.0	0.0	0.0
Pretax profit	**40.3**	**60.7**	**61.1**	**92.6**	**94.3**
Income tax	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**40.3**	**60.7**	**61.1**	**92.6**	**94.3**
Distributable inc to unitholders	34.2	54.0	61.1	92.6	94.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	23.3	44.9	43.6	40.5	31.6
Accounts receivable	6.1	5.6	6.5	9.1	9.2
Property, Plant & Equip (net)	0.0	0.2	6.8	15.9	25.0
Inverstment properties	837.7	1,569.8	1,569.8	2,225.8	2,225.8
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	4.7	4.7	4.7	4.7
Total assets	**868.4**	**1,625.2**	**1,631.3**	**2,296.0**	**2,296.3**
ST interest bearing debt	0.0	188.9	188.9	188.9	188.9
Accounts payable	12.2	13.6	16.0	24.7	25.0
LT interest bearing debt	305.1	500.8	500.8	708.7	708.7
Other liabilities	9.8	18.1	18.1	18.1	18.1
Total Liabilities	**327.1**	**721.4**	**723.8**	**940.3**	**940.6**
Shareholders Equity	541.3	903.9	907.5	1,355.7	1,355.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**541.3**	**903.9**	**907.5**	**1,355.7**	**1,355.7**
Total liabilities and equity	**868.4**	**1,625.2**	**1,631.3**	**2,296.0**	**2,296.3**
CASH FLOW (MYR m)					
Cash flow from operations	**44.4**	**87.0**	**92.7**	**139.9**	**136.0**
Acquisitions & investments	(6.0)	(752.2)	(6.6)	(665.3)	(9.4)
Disposal of FA & investments	0.0	27.3	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.7	(1.5)	1.1	1.1	1.0
CF from investing activities	**(5.3)**	**(726.4)**	**(5.4)**	**(664.2)**	**(8.4)**
Dividends paid	(32.7)	(38.7)	(57.5)	(92.6)	(94.3)
Interest expense	0.0	0.0	(31.0)	(42.2)	(42.2)
Change in debt	0.0	389.0	0.0	207.8	0.0
Equity raised / (purchased)	0.0	342.0	0.0	448.2	0.0
Other financial activities	(14.0)	(31.3)	0.0	0.0	0.0
CF from financing activities	**(46.7)**	**661.0**	**(88.5)**	**521.2**	**(136.5)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**(7.6)**	**21.6**	**(1.3)**	**(3.1)**	**(8.9)**

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.9	64.0	13.9	41.1	1.3
Net property income growth	0.2	69.3	12.9	37.4	1.3
Core net profit growth	(5.0)	50.7	0.7	51.6	1.8
Distributable income growth	(1.1)	58.1	13.1	51.6	1.8
Profitability ratios (%)					
Net property income margin	75.9	78.4	77.7	75.7	75.7
Core net profit margin	57.3	52.7	46.6	50.0	50.3
Payout ratio	73.0	75.5	84.6	90.0	90.0
DuPont analysis					
Total return margin (%)	57.3	52.7	46.6	50.0	50.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.8	1.8	1.7	1.7
ROAE (%)	7.5	8.4	6.7	8.2	7.0
ROAA (%)	4.7	4.9	3.8	4.7	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.3	2.3	2.4	2.4
Net gearing (%) (excl. perps)	52.1	71.3	71.2	63.2	63.9
Net interest cover (x)	3.6	3.0	3.0	3.3	3.3
Debt/EBITDA (x)	6.4	8.6	7.6	6.7	6.6
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	281.8	644.9	646.1	857.1	866.0
Debt/Assets (x)	0.35	0.42	0.42	0.39	0.39

Source: Company; Maybank

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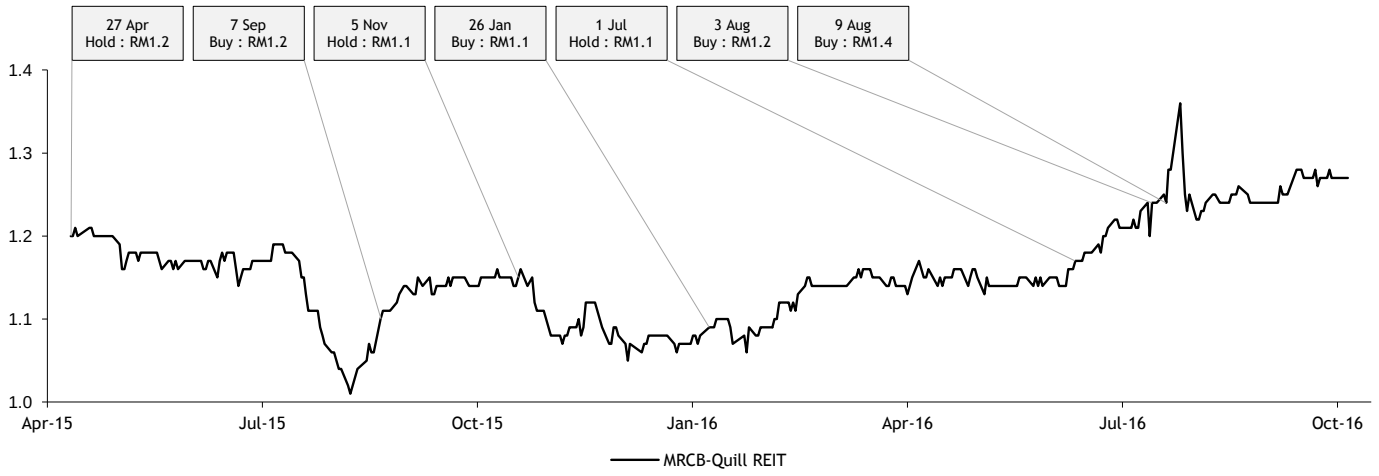

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