

MRCB-Quill REIT

1Q19 Within Expectations

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1Q19 realised net income (RNI) of RM19.4m came in well within our and consensus expectations at 23% and 24%, respectively. No dividends, as expected. FY19-20 will see minimal lease expiries of 19-18% of NLA on flattish reversions. Maintain FY19-20E CNP of RM84.1-84.3m. Maintain MP and TP of RM1.10.

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Results' highlights. YoY, top-line was down by 6% mainly from lower rental contributions from Platinum Sentral, Wisma Technip, and QB5 likely due to tenant incentives, as well as loss of revenue from the disposal of QB8 - DHL XPJ, which was completed in 2Q18. NPI margin was flattish at 77%, but RNI declined by 8% on the back of higher financing cost (+2%). QoQ, top-line declined by 3% likely due to similar reasons mentioned above. However, lower property operating expenditure (-7%) due to better cost management and lower financing cost (-10%) softened the impact on bottom-line, which only declined by 1%.

Outlook. FY19-20E will see minimal leases up for expiry, 19-18% of net lettable assets (NLA) which are comforting given the tough office market conditions due to the oversupply of office spaces in KL and the Klang Valley, and risk of tenant attrition. Going forward, we are expecting flattish to low single-digit reversions for MQREIT's assets, and expect minimal capex of RM12-10m, mostly for maintenance.

Maintain FY19-20E CNP of RM84.1-84.3m Our FY19-20E GDPU of 7.7-7.7 sen (NDPU of 7.0-7.0 sen), suggest gross yield of 7.0-7.0% (net yield of 6.3-6.3%), respectively.

Maintain MARKET PERFORM on an unchanged Target Price of RM1.10 on FY19E GDPS of 7.7 sen and a +3.1ppt spread to the 10-year MGS target of 3.90%. Our applied spread on MQREIT is the highest compared to other sizeable MREITs under our coverage (+1.3ppt to +3.1ppt) due to tough market conditions on concerns of oversupply in the office space. MQREIT is commanding decent gross yield of 7.0%, which is above its peers' average gross yield of 5.7%, but we believe this is justifiable given the abovementioned concerns for office assets. However, we are comfortable with our call as we believe we have priced in most downside risks into MQREIT's valuations and earnings.

Risks to our call include bond yield expansions or compressions and weaker/stronger-than-expected rental reversions.

MARKET PERFORM ↔

Price: RM1.10
Target Price: RM1.10 ↔

Share Price Performance



KLCI 1,618.53
YTD KLCI chg -4.3%
YTD stock price chg 3.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK Equity
Market Cap (RM m)	1,179.0
Shares Outstanding	1,071.8
52-week range (H)	1.19
52-week range (L)	1.04
3-mth avg daily vol:	176,692
Free Float	49%
Beta	0.5

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.0%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	173.4	173.9	175.2
EBIT	133.7	121.4	120.3
PBT	79.3	84.1	84.3
Net Profit	79.3	84.1	84.3
Core NP*	82.5	84.1	84.3
Consensus (CNP)	n.a.	83.2	84.1
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.7	7.8	7.8
Core EPS growth (%)	-6%	1%	0%
NDPS (sen)	7.3	7.0	7.0
BVPS (RM)	1.28	1.30	1.31
Core PER	14.3	14.1	14.1
Price/BV (x)	0.9	0.8	0.8
Gearing (x)	0.38	0.38	0.38
Net Div. Yield (%)	6.6	6.3	6.3

*Core NP refers to RNI



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OTHER POINTS

Result Highlight					
FYE 31 Dec (RM'm)	1Q19	4Q18	QoQ	1Q18	YoY
Gross revenue	41.4	42.7	-3%	44.0	-6%
Prop Opex	-9.3	-10.0	-7%	-9.8	-4%
NPI excl unrealised rental income	32.0	32.7	-2%	34.3	-7%
Interest Income	0.8	1.7	-51%	0.7	14%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.
Surplus on revaluation	0.0	-5.4	-100%	0.0	n.a.
Total Trust Income	32.9	28.9	14%	35.0	-6%
Expenditure	-3.6	-3.9	-7%	-4.3	-16%
Finance Cost	-9.9	-10.9	-10%	-9.7	2%
Income Before Tax	19.4	14.2	37%	21.0	-8%
Tax	0.0	0.0	n.a.	0.0	n.a.
Net Income	19.4	14.2	37%	21.0	-8%
Realised Net income (RNI)	19.4	19.6	-1%	21.0	-8%
Core EPU (sen)	1.81	1.83	-1%	1.97	-8%
DPU (sen)	0.00	3.85	n.m.	0.00	n.a.
NAV/unit (RM)	1.26	1.28		1.27	
Gearing (x)	0.37	0.38		0.38	
NPI Margins	77.4%	76.6%		77.8%	
RNI Margins	46.9%	46.0%		47.7%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
MREITs UNDER COVERAGE																	
AXIS REIT	1.76	2,177.6	Y	12/2019	3.3%	1.8%	1.3%	0.8%	19.1	18.9	18.7	1.4	1.4	6.9%	4.8%	1.70	MP
CAPITALAND MALAYSIA MALL TRUST	1.11	2,269.0	N	12/2019	1.7%	1.7%	-0.6%	0.6%	14.1	14.2	14.1	0.9	0.9	5.9%	6.4%	1.25	OP
IGB REIT	1.87	6,625.3	N	12/2019	3.9%	1.7%	2.8%	1.6%	21.7	21.3	21.0	1.7	1.8	8.4%	4.6%	1.70	MP
KLCCP STAPLED GROUP	7.85	14,171.9	Y	12/2019	5.5%	0.7%	4.9%	1.2%	19.5	19.4	19.1	1.1	1.1	6.1%	4.6%	7.35	MP
MRCB-QUILL REIT	1.10	1,179.0	N	12/2019	0.3%	0.7%	1.9%	0.2%	14.3	14.1	14.1	0.9	0.8	6.1%	6.3%	1.10	MP
PAVILION REIT	1.80	5,470.2	N	12/2019	10.8%	2.0%	4.5%	2.6%	21.4	20.5	20.0	1.4	1.4	6.8%	4.6%	1.70	MP
SUNWAY REIT	1.91	5,625.1	N	06/2019	9.1%	6.9%	6.4%	4.0%	19.9	18.7	18.0	1.3	1.2	6.9%	4.8%	1.85	MP
Simple Average					4.9%	2.2%	3.0%	1.6%	18.6	18.2	17.9	1.2	1.2	6.7%	5.2%		
<i>* Core NP and Core PER</i>																	
CONSENSUS NUMBERS																	
YTL HOSPITALITY REIT	1.33	2,266.8	N	06/2019	-1.1%	4.6%	-37.3%	6.7%	9.6	15.3	14.3	0.8	0.8	0.0	6.4%	1.44	BUY
AL-'AQAR HEALTHCARE REIT	1.43	1,052.5	Y	12/2019	1.1%	1.9%	-32.9%	2.9%	11.5	17.2	16.7	1.1	N.A.	0.1	5.5%	1.50	BUY
AMANAHRAYA REIT	0.850	487.2	N	12/2019	27.4%	N.A.	-52.4%	N.A.	6.0	12.6	N.A.	0.6	N.A.	0.1	6.9%	0.910	BUY
AMFIRST REIT	0.520	356.9	N	03/2020	N.A.	N.A.	N.A.	N.A.	16.0	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
HEKTAR REIT	1.14	526.6	N	12/2019	N.A.	N.A.	N.A.	N.A.	15.9	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
TOWER REIT	0.890	249.6	N	06/2019	N.A.	N.A.	N.A.	N.A.	47.4	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
UOA REIT	1.39	587.8	N	12/2019	N.A.	N.A.	N.A.	N.A.	10.2	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
ATRIUM REIT	1.16	169.5	N	12/2019	N.A.	N.A.	N.A.	N.A.	14.6	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
AL-SALAM REIT	0.900	522.0	Y	12/2019	9.3%	10.0%	-27.8%	12.0%	13.0	17.9	16.0	0.8	N.A.	0.0	4.9%	0.830	NEUTRAL
KIP REIT	0.860	434.6	N	06/2019	7.4%	20.9%	-4.8%	0.8%	11.6	12.1	12.0	0.9	0.9	N.A.	7.1%	N.A.	N.A.

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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