

HLIB Research

PP 9484/12/2012 (031413)

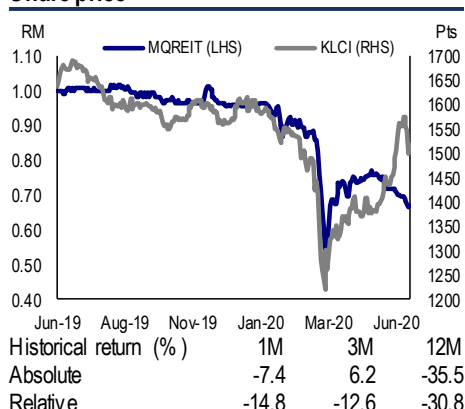
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BUY (Maintain)

Target Price: **RM0.79**
Previously: **RM0.71**
Current Price: **RM0.69**

Capital upside	14.5%
Dividend yield	8.8%
Expected total return	23.3%

Sector coverage: REIT

Company description: MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

Share price

Stock information

Bloomberg ticker	MQREITMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	740
3-mth average volume ('000)	525
SC Shariah compliant	No

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PAT – core (RM m)	72.1	65.6	69.0
EPU – core (sen)	6.7	6.1	6.4
P/E (x)	10.3	11.3	10.7

MRCB-Quill REIT

Resilient start

MQREIT's 1Q20 core net profit of RM19.8m (+6.4% QoQ, +1.9% YoY) was above our estimates but within consensus, due to lower than expected total expenses. Overall, the improved performance was due to new tenancy although it was offset by rental loss from QB5 building. We anticipate resilient earnings for FY20 from these new tenants. We increase our earnings by 6% for FY20-21 to account for lower expenses and contribution from new tenancy. Maintain our BUY call with a higher TP of RM0.79 (from RM0.71).

Above expectation. 1Q20 core net profit of RM19.8m (+6.4% QoQ, +1.9% YoY) was above our estimates but within consensus, accounting for 32% and 26%, respectively. The deviation was due to lower than expected total expenses. No dividend was declared as it is usually payable semi-annually.

QoQ. Total gross revenue edged down -0.6% to RM41.7m. However, due to lower operating expenses (-10.1%) and lower total expenses (-6.8%), core net profit was higher by 6.4%.

YoY. Top line increase marginally by 0.8% attributable to (i) income contribution from Menara Shell due to new tenancies with Microsoft and Google (occupancy rate rose to 99% in 1Q20 from 94% in FY19), (ii) income contribution from Tesco and (iii) increase occupancy of Wisma Technip whereby Technip took up 1 additional floor (from 74% in FY19 to 90% in 1Q20). Nonetheless, it was offset by rental loss from QB5 (still vacant) and rental rebates given to retailers in Plaza Mont Kiara (PMK). As a result of the declining total expenses by -2.8% due to lower finance cost (-3.1%) and lower administrative expenses (-36.7%), core net profit showed an increment by 1.9%.

Lease expiry. In 2020, 19% of MQREIT's total net lettable area (NLA) or approximately 371k sq. ft. are due for renewal. 2% of these leases were due in 1Q20 (with 93% take up) while most of it will be due in the 4Q20. MQREIT has started early negotiations for the balance of the leases with the intention to lock in the tenancy ahead of its expiry and we believe chances of tenancy renewal are high due to nature of business of their tenants (big corporations and multinational companies like Shell, HSBC, DHL and etc.).

Other updates. Overall occupancy rate increased marginally to 90.5% (FY19: 90%). MQREIT has granted rental assistance in form of rental discount to its retailers in PMK (PMK contributed only about 3-4% of total revenue), which most of it will kick in 2Q.

Outlook. We anticipate resilient earnings for FY20 from these new tenants. Furthermore, we believe MQREIT is relatively shielded from the Covid-19 and MCO impact due to its large exposure of office and miniscule exposure of retail unlike the other mall based REITs. We noted that the current office market outlook for office REITs remains lacklustre due to unabated oversupply of office in KL city. However, we believe MQREIT able to sustain its earnings, at least in the near term, due to their tenancy with big corporations and MNCs.

Forecast. We increase our earnings by 6% for FY20-21 to account for lower expenses and contribution from new tenancy. Introduced FY22 projection at RM72.8m.

Maintain BUY, with a higher of TP: RM0.79 (from RM0.71) based on FY21 forward DPU on targeted yield of 8.1% which is derived from its 2 years historical average yield spread of MQREIT and 10-year MGS. We like MQREIT for its attractive dividend yield of 8.8% (highest among REITs in our universe) and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike other mall based REITs.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	85.8	63.3	73.9	72.3	71.2
Receivables	6.7	6.3	6.3	6.3	6.5
Investment properties	2,177.6	2,143.0	2,145.0	2,147.0	2,149.0
PPE	0.3	0.4	0.2	0.1	0.1
Others	1.3	0.8	0.8	0.8	0.8
Assets	2,271.7	2,213.7	2,226.1	2,226.5	2,227.5
Payables	16.1	15.7	17.1	16.5	16.5
Debt	853.7	835.7	846.7	847.7	848.7
Security deposits	29.2	38.5	38.5	38.5	38.5
Derivatives	0.4	0.0	0.0	0.0	0.0
Liabilities	899.4	889.9	902.3	902.7	903.7
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	136.4	87.6	87.6	87.6	87.6
Equity	1,372.3	1,323.5	1,323.5	1,323.5	1,323.5
Total Liabilities & Equity	2,271.7	2,213.7	2,226.1	2,226.5	2,227.5

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Gross rental income	155.0	144.1	144.1	145.4	148.6
Car park income	13.2	13.0	12.4	12.6	12.9
Other revenue	4.4	3.9	3.7	3.8	3.9
Total revenue	172.5	161.0	160.3	161.9	165.3
Property opex	-39.7	-39.2	-42.8	-41.3	-41.3
Net property income	132.8	121.7	117.4	120.6	124.0
Other income	1.9	-32.4	2.4	2.8	2.7
Net invest income	134.7	89.3	119.8	123.3	126.8
Manager's fee	-13.3	-12.8	-12.5	-12.6	-12.7
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-40.6	-39.6	-40.1	-40.2	-40.2
Other non opex	-0.9	-0.9	-0.9	-0.9	-0.9
Profit before tax	79.3	35.4	65.6	69.0	72.2
Taxation	-6.1	-6.2	0.0	0.0	0.0
Profit after tax	73.1	29.1	65.6	69.0	72.2
Core net profit	84.7	72.1	65.6	69.0	72.2
Distributable income	87.1	73.0	65.6	69.0	72.2
Consensus core net profit			74.5	75.6	75.9
HLIB/ Consensus			88%	91%	95%

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	79.3	35.4	65.6	69.0	72.2
Finance costs	40.6	39.6	0.0	0.0	0.0
Depreciation	0.1	0.2	0.2	0.1	0.1
Fair value gain of assets	5.4	36.7	0.0	0.0	0.0
Interest income	-4.3	-3.2	0.0	0.0	0.0
Others	-14.6	2.2	1.5	-0.7	-0.1
CFO	106.5	110.9	67.2	68.4	72.2
Capex	-3.8	-2.1	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.2	0.0	0.0	0.0
Others	31.7	2.7	0.0	0.0	0.0
CFI	27.6	0.4	-2.0	-2.0	-2.0
Distribution paid	-89.8	-78.0	-65.6	-69.0	-72.2
Proceeds frm borrow'g	117.0	35.0	400.0	165.0	165.0
Repayment of borrow'g	-117.0	-54.0	-389.0	-164.0	-164.0
Others	-34.6	-36.8	0.0	0.0	0.0
CFF	-124.3	-133.8	-54.6	-68.0	-71.2
Net cash flow	9.7	-22.5	10.6	-1.6	-1.1
Beginning cash	76.0	85.8	63.3	73.9	72.3
Ending cash	85.8	63.3	73.9	72.3	71.2

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPU (sen)	7.9	6.7	6.1	6.4	6.7
P/E (x)	8.7	10.3	11.3	10.7	10.2
EBITDA	125.4	111.8	105.9	109.2	112.5
EBIT	125.3	111.7	105.7	109.1	112.4
EV	1,507.5	1,512.0	1,512.4	1,515.0	1,517.1
EV/EBITDA (x)	12.0	13.5	14.3	13.9	13.5
DPU (sen)	8.1	6.8	6.1	6.4	6.7
Dividend yield	11.7	9.9	8.9	9.3	9.8
NTA/ share (sen)	127.3	122.7	122.7	122.7	122.7
P/ NTA	0.5	0.6	0.6	0.6	0.6
BVPS (RM)	1.28	1.23	1.23	1.23	1.23
P/B (x)	0.5	0.6	0.6	0.6	0.6
EBITDA margin	72.7%	69.5%	66.1%	67.5%	68.0%
EBIT margin	72.6%	69.4%	66.0%	67.4%	68.0%
PBT margin	45.9%	22.0%	40.9%	42.6%	43.7%
Net margin	49.1%	44.8%	40.9%	42.6%	43.7%
ROE	5.3%	2.1%	5.0%	5.2%	5.5%
ROA	3.7%	3.3%	2.9%	3.1%	3.2%
Net gearing	33.80%	34.89%	34.72%	34.83%	34.91%

Assumptions

FYE Dec	FY19	FY20f	FY21f	FY22f
Gross rental income				
Quill Building 1 - DHL 1	5.0	5.0	5.0	5.2
Quill Building 4 - DHL 2	5.4	5.4	5.5	5.5
Quill Building 2 - HSBC	9.9	10.0	10.1	10.4
Quill Building 3 - BMW	5.8	5.8	5.9	6.1
Wisma Technip	8.0	9.0	9.4	9.7
Part of Plaza Mont Kiara	3.7	2.9	2.9	3.0
Quill Building 5 - IBM	0.0	0.0	0.0	0.0
Tesco Building - Penang	14.7	14.9	15.0	15.3
Platinum Sentral	48.3	44.8	44.8	45.7
Menara Shell	44.4	46.3	46.8	47.7
Total:	145.2	144.1	145.4	148.6

Quarterly financial summary

FYE Dec	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Gross Revenue	41.4	42.0	41.7	-1%	1%
Property operating expen:	-9.3	-10.5	-9.4	-10%	1%
Net Property Income	32.0	31.5	32.3	2%	1%
Interest income	0.8	1.1	0.6	-49%	-30%
Net Investment Income	32.9	32.6	32.9	1%	0%
Total Expenses	-13.5	-14.0	-13.1	-7%	-3%
PBT	19.4	18.6	19.8	6%	2%
PAT	19.4	12.4	19.8	60%	2%
Normalised PBT	19.4	18.6	19.8	6%	2%
Normalised PAT	19.4	18.6	19.8	6%	2%
Distributable income	19.4	18.6	19.8	6%	2%
EPU (realised)	1.8	1.7	1.8	6%	2%
DPU (sen)	0.0	3.4	0.0	N.M.	N.M.

Figure #1 Quarterly results comparison

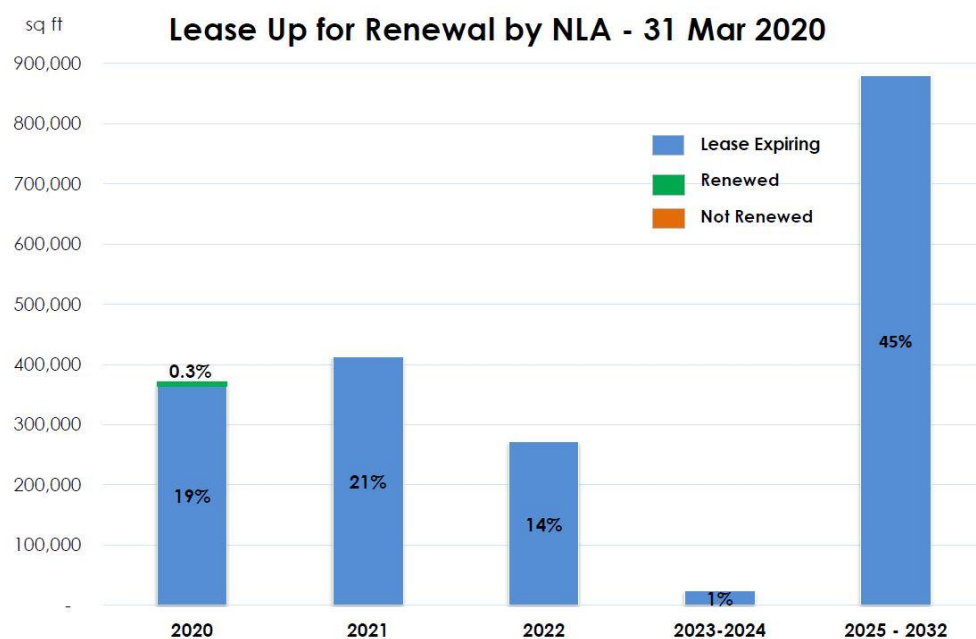
FYE Dec (RM m)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Gross Revenue	41.4	42.0	41.7	-0.6%	0.8%
Property operating expenses	-9.3	-10.5	-9.4	-10.1%	0.9%
Net Property Income	32.0	31.5	32.3	2.5%	0.8%
Interest income	0.8	1.1	0.6	-48.5%	-30.0%
Net Investment Income	32.9	32.6	32.9	0.7%	0.0%
Manager's fee	-3.24	-3.19	-3.20	0.0%	-1.5%
Trustee's fee	-0.17	-0.17	-0.17	-1.2%	-2.6%
Finance costs	-9.86	-10.27	-9.55	-7.0%	-3.1%
Valuation fees	-0.09	-0.06	-0.09	63.9%	3.8%
Auditors' remuneration	-0.04	-0.04	-0.04	-7.0%	2.6%
Tax agent's fee	-0.006	-0.013	-0.006	-49.9%	0.0%
Administrative expenses	-0.06	-0.30	-0.04	-87.7%	-36.7%
Total Expenses	-13.5	-14.0	-13.1	-6.8%	-2.8%
Normalised PBT	19.4	18.6	19.8	6.4%	1.9%
Normalised PAT	19.4	18.6	19.8	6.4%	1.9%
Distributable income	19.4	18.6	19.8	6.4%	1.9%
EPU (realised)	1.81	1.74	1.85	6.1%	1.9%
DPU (sen)	0.00	3.37	0.00	N.M.	N.M.

HLIB Research

Figure #2 Lease expiry profile

Lease Expiry Profile

- 19% of Total NLA due in 2020

MRCB *Quill*
REIT


% of net lettable area that are due for renewal

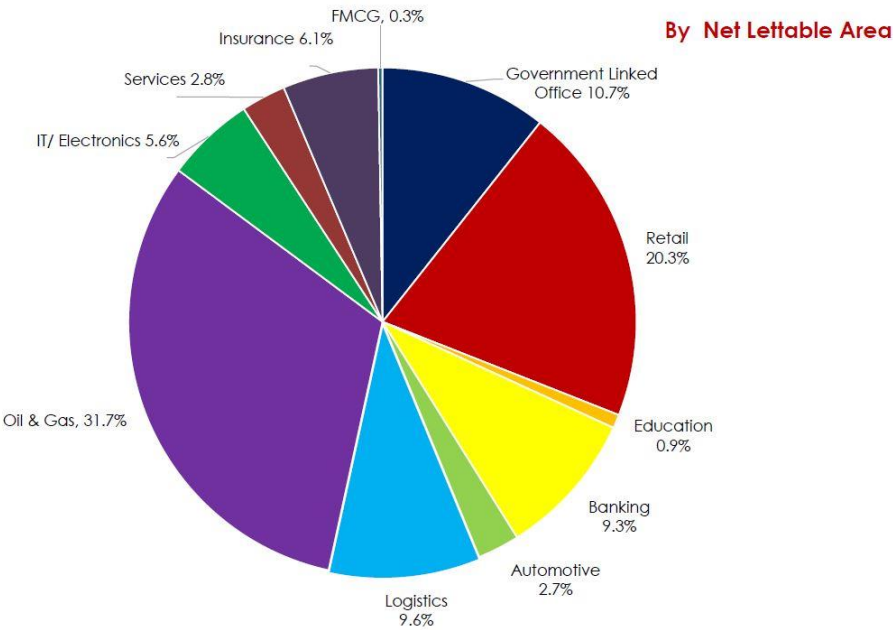
Company

Figure #3 Tenant Mix

Tenant Mix



Well Balanced Tenancy Mix



Company

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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