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Buy

Price
RM1.32
Target price
RM1.45

Equity | Malaysia | Real Estate Investment Trust

Flashnote

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MRCB-Quill REIT

2Q17 results in line

Financial Highlights

Year to Dec (RMm)	2014	2015	2016	2017F	2018F
Revenue	70.2	115.2	127.6	181.0	186.3
Reported net profit	40.3	60.7	60.1	87.4	91.3
Normalised net profit	34.2	53.4	60.1	87.4	91.3
EPS (sen)	10.3	9.2	9.1	8.2	8.5
DPU (sen)	8.4	8.5	8.7	7.8	8.1
P/E (x)	12.8	14.4	14.5	16.1	15.4
Dividend yield (%)	6.3	6.4	6.6	5.9	6.2
Net gearing (%)	35.1	42.4	42.3	40.0	39.9
PBV (x)	1.0	1.0	1.0	1.1	1.1

Source: Company, KAF

- We maintain our Buy recommendation on MRCB-Quill REIT (MQREIT) with an unchanged target price of RM1.45 based on our DDM valuation.
- MQREIT recorded a net property income (NPI) of RM34m in 2Q17, up 35% yoy. This is in-line with our FY17 estimates, making up 50% of our NPI forecast. The improvement in NPI was mainly due to the acquisition of Menara Shell in 4Q16.
- We estimate the revenue contribution from Menara Shell in FY17F to be c.27% of MQREIT's total revenue. We maintain our forecasts for FY17F and FY18F NPI of RM142m and RM146m, respectively.
- MQREIT recorded a normalised net profit of RM22m in 2Q17, +43% yoy. This is due to the same reason as the improvement in NPI i.e. the acquisition of Menara Shell. We maintain our forecasts for FY17F and FY18F normalised net profit of RM87m and RM91m, respectively.
- Overall, the results were in-line with our FY17 estimates, making up 52% of our normalised net profit forecast.
- MQREIT has declared a DPS of 4.2 sen for the quarter (2Q16: 4.2 sen). This represents 100% of its normalised net profit in 6M17. We estimate dividend payout to be 95% for FY17F, translating into DPS of 7.8 sen. Overall, 6M17 DPS is slightly ahead of our estimate, making up 53% of our FY17 DPS estimate.
- MQREIT has no near-term acquisition plans in FY17F. The potential injection of Menara Celcom in PJ Sentral and Ascott Sentral into the REIT is still at the initial stage. Management expects the information on the potential acquisition will only be available for evaluation in 4Q17. Hence, we maintain our forecast for FY17F revenue of RM181m.
- MQREIT reported a gearing of 0.37x in 2Q17, which is an improvement from 0.42x in 2Q16. This is due to the acquisition of Menara Shell in 4Q16, which increased its total assets by RM640m. The acquisition was funded by share placement (c.75%) and borrowings (c.25%), hence leading to an improvement in MQREIT's overall gearing level.
- At the current price, MRCB-Quill REIT trades at 1.1x FY17F PB and offers a yield of 5.9%, which translates to a yield spread of 193bps over the 10-yr MGS of 3.95%.

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Important disclosures can be found in the Disclosure Appendix

Table 1 : Quarterly trends

(RM m)	Quarterly						Change		Cumulative			KAF	
FYE 31 Dec	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	% qoq	% yoy	6M16	6M17	% chg	2017F	6M/F
Revenue	32.7	32.6	32.5	34.1	45.6	45.1	(1)	38	65.2	90.6	39	181.0	50
Property operating expenses	(7.2)	(6.9)	(7.0)	(8.5)	(9.4)	(10.2)	8	48	(14.1)	(19.6)	39	(39.1)	50
Net property income	25.4	25.7	25.5	25.6	36.1	34.9	(3)	36	51.1	71.0	39	141.8	50
Interest income	0.4	0.4	0.5	1.1	0.5	0.6	44	71	0.8	1.1	43	1.4	79
Trust expenses	(2.7)	(2.7)	(2.7)	(4.3)	(3.7)	(3.7)	(0)	35	(5.5)	(7.4)	35	(15.4)	48
Borrowing costs	(7.9)	(8.0)	(8.1)	(9.1)	(9.7)	(9.8)	1	23	(15.8)	(19.6)	24	(40.4)	48
Exceptional items	-	-	-	3.5	-	-	nm	nm	-	-	nm	-	nm
Profit before tax	15.2	15.4	15.2	16.9	23.2	22.0	(5)	43	30.6	45.2	48	87.4	52
Tax	-	-	-	-	-	-	nm	nm	-	-	nm	-	nm
Net profit	15.2	15.4	15.2	16.9	23.2	22.0	(5)	43	30.6	45.2	48	87.4	52
Normalised net profit	15.2	15.4	15.2	13.4	23.2	22.0	(5)	43	30.6	45.2	48	87.4	52

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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