MRCB-Quill REIT (MQREIT MK)

2Q17: Earnings on track

BUY

Share Price	MYR 1.32
12m Price Target	MYR 1.35 (+2%)
Previous Price Target	*MYR 1.35*

Maintain BUY

2Q17 results and first gross DPU of 4.23sen were within our estimates. 2Q17's YoY earnings growth was largely contributed by the addition of Menara Shell, sustained occupancy rate and higher rental rates. Our earnings forecasts and DDM-TP (cost of equity: 7.5%) are intact. MQREIT offers a favourable CY17 net yield of 5.7%, above the sector's 5.0%.

No surprises

2Q17 net profit was MYR22.0m (+43% YoY, -5% QoQ), totalling to 1H17 net profit of MYR45.2m (+48% YoY). This is 49%/50% of our/consensus' FY17 estimates. 2Q17's YoY stronger bottomline was mainly driven by (i) Menara Shell's contribution whereby the asset was injected into MQREIT in Dec 2016, (ii) sustained occupancy rates across all properties, and (iii) positive rental reversions at QB2, QB3 and Wisma Technip. This, however, was partly offset by higher finance costs (+23% YoY) due to drawdown of debt to mainly finance the acquisition of Menara Shell. Meanwhile, 2Q17 net profit eased 5% QoQ despite having flattish revenue (-1% QoQ). This was attributed to higher opex from periodic repair and maintenance works at selected properties. The portfolio has maintained an average occupancy rate of 97% in 2Q17 (unchanged YoY).

Forecasts are intact

We maintain our FY17-19 earnings forecasts. Our earnings growth forecasts of +3% to +56% largely reflect the sizeable income contribution from Menara Shell, sustained occupancy rate and positive rental reversions.

Focusing on resilient earnings

We remain positive on MQREIT's long-term earnings outlook, despite the current oversupply of office space in the Klang Valley, as its office assets are mainly backed by long-term tenants which entail lower occupancy risks. There is also stronger earnings growth upside from Menara Shell's rental reversions as our initial estimates are conservative.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	115	132	185	187	192
Net property income	90	102	139	141	145
Core net profit	54	59	93	94	97
Core EPU (sen)	8.2	9.0	8.6	8.8	9.0
Core EPU growth (%)	(6.7)	9.6	(3.7)	1.4	2.6
Net DPU (sen)	6.9	7.5	7.6	7.6	7.7
Net DPU growth (%)	(8.1)	8.8	0.4	0.9	0.5
P/NTA (x)	1.0	0.6	1.0	1.0	1.0
Net DPU yield (%)	5.2	5.7	5.7	5.8	5.8
ROAE (%)	8.4	5.6	6.8	6.9	7.1
ROAA (%)	4.3	3.0	4.0	4.1	4.2
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	7.2	7.6	7.9
MKE vs. Consensus (%)	-	-	5.2	1.1	(2.5)

Company Description

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

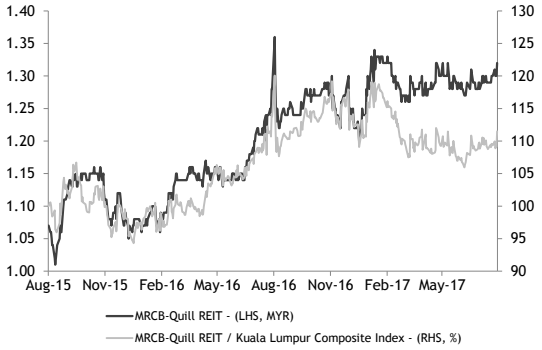
Statistics

52w high/low (MYR)	1.36/1.20
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.4B
	USD328M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	2	3
Relative to index (%)	2	2	(2)

Source: FactSet

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Fig 1: Results summary table

	Quarterly					Cumulative		
FY Dec (MYR m)	**2QFY17**	**2QFY16**	***%YoY***	**1QFY17**	***%QoQ***	**1HFY17**	**1HFY16**	***%YoY***
Gross revenue	45.1	32.6	*38.4*	45.6	*(1.1)*	90.6	65.2	*39.0*
Net property income	**34.9**	**25.7**	***35.8***	**36.1**	***(3.4)***	**71.0**	**51.1**	***38.9***
Interest income	0.6	0.4	*71.0*	0.5	*43.7*	1.1	0.8	*43.2*
Fair value gains	-	-	*n.m.*	-	*n.m.*	-	-	*n.m.*
Finance costs	(9.8)	(8.0)	*23.4*	(9.7)	*1.2*	(19.6)	(15.8)	*23.6*
Other expenses	(3.7)	(2.7)	*35.2*	(3.7)	*(0.5)*	(7.4)	(5.5)	*34.8*
Pretax profit	22.0	15.4	*43.3*	23.2	*(4.8)*	45.2	30.6	*47.6*
Tax	-	-	*n.m.*	-	*n.m.*	-	-	*n.m.*
Net profit	**22.0**	**15.4**	***43.3***	**23.2**	***(4.8)***	**45.2**	**30.6**	***47.6***
Net profit ex-EI	**22.0**	**15.4**	***43.3***	**23.2**	***(4.8)***	**45.2**	**30.6**	***47.6***
EPU ex-EI (sen) *	2.3	2.3	*(3.0)*	2.2	*4.1*	4.4	4.6	*(4.3)*
Gross DPU (sen)	**4.2**	**4.2**	***0.0***	**-**	***n.m.***	**4.2**	**4.2**	***0.0***
	2QFY17	**2QFY16**	***+/- ppt***	**1QFY17**	***+/- ppt***	**1HFY17**	**1HFY16**	***+/- ppt***
Net property margin (%)	77.4	78.9	*(1.5)*	79.3	*(1.8)*	78.4	78.4	*(0.0)*
Net income ex-EI margin (%)	48.9	47.2	*1.7*	50.8	*(1.9)*	49.9	47.0	*2.9*

** Based on reported figures*

Sources: Trust, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
Price/DPU(x)	19.1	17.5	17.4	17.3	17.2
P/BV (x)	1.0	0.6	1.0	1.0	1.0
P/NTA (x)	1.0	0.6	1.0	1.0	1.0
DPU yield (%)	5.8	6.3	6.4	6.4	6.5
FCF yield (%)	10.0	12.0	9.8	9.3	9.5
INCOME STATEMENT (MYR m)					
Revenue	115.2	131.8	185.1	187.5	192.0
Net property income	**90.3**	**102.3**	**139.5**	**141.3**	**144.7**
Management and trustee fees	(9.8)	(12.4)	(9.5)	(9.6)	(9.7)
Net financing costs	(26.5)	(30.7)	(37.3)	(37.2)	(37.6)
Exceptionals	6.7	3.6	0.0	0.0	0.0
Pretax profit	**60.7**	**62.8**	**92.6**	**94.4**	**97.4**
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	**60.7**	**62.8**	**92.6**	**94.4**	**97.4**
Distributable inc to unitholders	54.0	59.2	92.6	94.4	97.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	44.9	54.1	55.5	49.4	45.5
Accounts receivable	5.6	17.6	24.8	25.1	25.7
Property, Plant & Equip (net)	0.2	0.2	9.5	18.7	27.9
Inverstment properties	1,569.8	2,222.0	2,222.0	2,222.0	2,222.0
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	4.7	3.4	3.4	3.4	3.4
Total assets	**1,625.2**	**2,297.3**	**2,315.2**	**2,318.5**	**2,324.5**
ST interest bearing debt	188.9	189.1	189.1	189.1	189.1
Accounts payable	13.6	28.4	43.9	44.4	45.5
LT interest bearing debt	500.8	662.5	662.5	662.5	662.5
Other liabilities	18.1	57.7	57.7	57.7	57.7
Total Liabilities	**721.4**	**937.6**	**953.1**	**953.7**	**954.8**
Shareholders Equity	903.9	1,359.7	1,362.0	1,364.8	1,369.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**903.9**	**1,359.7**	**1,362.0**	**1,364.8**	**1,369.7**
Total liabilities and equity	**1,625.2**	**2,297.3**	**2,315.2**	**2,318.5**	**2,324.5**
CASH FLOW (MYR m)					
Cash flow from operations	**87.0**	**105.0**	**138.3**	**132.1**	**135.8**
Acquisitions & investments	(752.2)	(648.9)	(9.3)	(9.4)	(9.6)
Disposal of FA & investments	27.3	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(1.5)	1.6	2.7	2.8	2.5
CF from investing activities	**(726.4)**	**(647.2)**	**(6.6)**	**(6.6)**	**(7.1)**
Dividends paid	(38.7)	(56.9)	(90.3)	(91.6)	(92.5)
Interest expense	(28.9)	(36.4)	(40.0)	(40.0)	(40.0)
Change in debt	389.0	164.0	0.0	0.0	0.0
Equity raised / (purchased)	342.0	487.9	0.0	0.0	0.0
Other financial activities	(2.4)	(7.3)	0.0	0.0	0.0
CF from financing activities	**661.0**	**551.4**	**(130.3)**	**(131.6)**	**(132.5)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**21.6**	**9.2**	**1.4**	**(6.1)**	**(3.9)**

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.0	14.4	40.5	1.3	2.4
Net property income growth	69.3	13.3	36.3	1.3	2.4
Core net profit growth	58.1	9.6	56.4	2.0	3.1
Distributable income growth	58.1	9.5	56.5	2.0	3.1
Profitability ratios (%)					
Net property income margin	78.4	77.6	75.4	75.4	75.4
Core net profit margin	46.9	44.9	50.0	50.4	50.7
Payout ratio	75.5	79.4	87.8	87.3	85.5
DuPont analysis					
Total return margin (%)	52.7	47.7	50.0	50.4	50.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	8.4	5.6	6.8	6.9	7.1
ROAA (%)	4.3	3.0	4.0	4.1	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.5	2.4	2.4	2.4
Net gearing (%) (excl. perps)	71.3	58.7	58.4	58.8	58.8
Net interest cover (x)	3.0	2.9	3.5	3.5	3.6
Debt/EBITDA (x)	8.6	9.5	6.6	6.5	6.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	644.9	797.5	796.1	802.2	806.1
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37

Source: Company; Maybank

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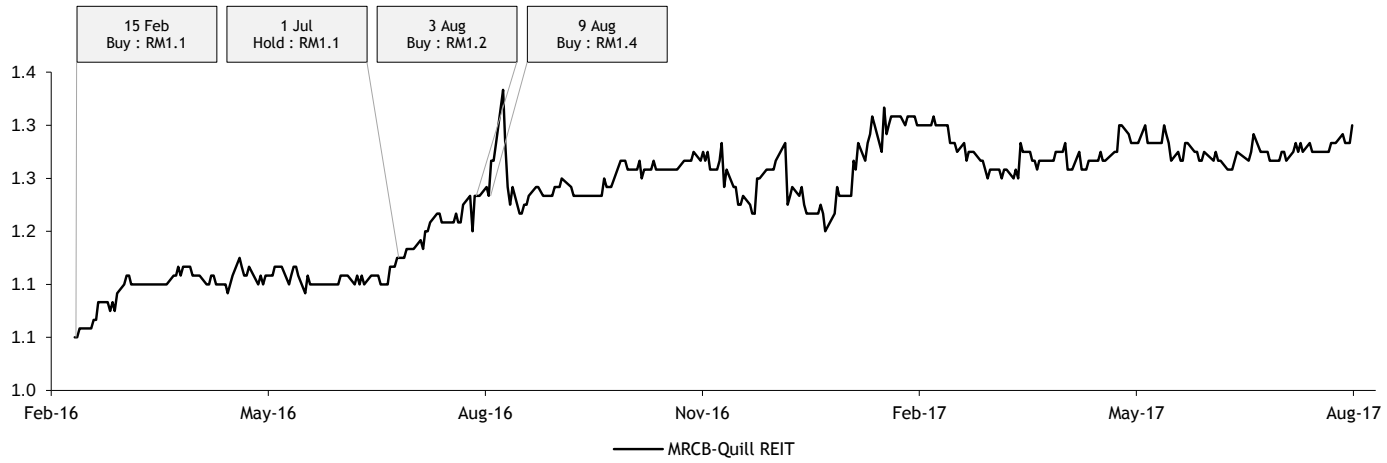

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