

HLIB Research

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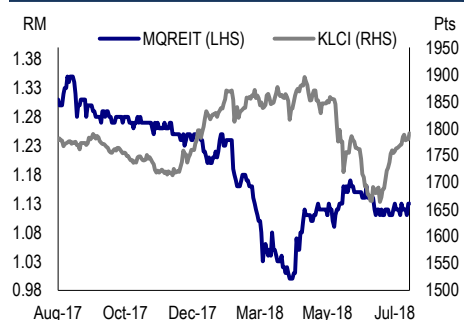
BUY (Maintain)

Target Price: **RM1.29**
Previously: **RM1.29**
Current Price: **RM1.17**

Capital upside	10.3%
Dividend yield	7.6%
Expected total return	17.9%

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


Historical return (%)	1M	3M	12M
Absolute	5.4	4.5	-10.0
Relative	-2.8	6.9	-11.2

Stock information

Bloomberg ticker	MQREITMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	1,254
3-mth average volume ('000)	282
SC Shariah compliant	No

Major shareholders

MRCB	27.8%
Capita Commercial Trust	10.9%
Employees Provident Fund	7.5%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PAT – core (RM m)	88.1	89.7	90.7
EPU – core (sen)	6.5	8.4	8.4
P/E (x)	14.2	14.0	13.9

MRCB-Quill REIT

Strive for continued stable performance

MQREIT 1H18 core net profit RM44.5m (-1.6% YoY) was in line. Declared semi-annual dividend of 4.23 sen per unit. The decline was due to the disposal of QB8 along with higher operating expenses and finance costs. Going forward, MQREIT will be focussing on cost management and tenant retention to ensure sustainability of yield. We retain our forecast. Reiterate BUY call with unchanged TP of RM1.29 based on targeted yield of 6.9%.

Within expectations. 1H18 revenue of RM87.5m (-3.5% YoY) translated into core net profit of RM44.5m (-1.6% YoY). The results were in line with ours and consensus expectations, accounting for 49.6% and 50.2%, respectively.

Dividend. Declared semi-annual dividend of 4.23 sen per unit (1H17: 4.23 sen) going ex on 21 August 2018.

QoQ. Revenue declined by 1.5% to RM43.4m mainly caused by loss of contribution after the disposal of QB8-DHL XPJ (QB8) since April 2018. However, core net profit increased by 11.8% to RM23.5m. This was essentially due to lower property operating expenses with efficient cost control initiatives.

YoY. Core net profit increased by 6.5% to RM23.5m. The improvement was driven by lower property expenses and expenditure incurred. Lower property operating expenses was attained thanks to tighter control on costs and lower expenses incurred. Nevertheless, the increment was partly mitigated by higher finance costs.

YTD. Revenue for 1H18 decreased by 3.5% to RM87.5m. The lower revenue was due to (1) loss of revenue from QB8 after disposal in April 2018; (2) lower occupancy rate from Platinum Sentral and Menara Shell. Likewise, core net profit of RM44.5m showed a decrement of 1.6% attributable to higher administrative expenses incurred pertaining to the disposal of QB8. Similarly, finance costs increase due to higher interest in borrowings after the drawdown made in March 2017.

Occupancy and gearing. Overall occupancy rate remained healthy at 96% (1Q18: 96%). Average debt to maturity has decreased slightly from 2.55 years to 2.30 years, while average cost of debt maintained at 4.4%. The gearing level decreased slightly to 37% (1Q18: 38%), which is still comfortably below the 50% limit.

Outlook. Out of the 14% total NLA that are due for renewal in 1H18, management has achieved approximately 70% renewal rate and are currently in advanced negotiations with tenants for the balance of leases due in 2H18. Also, management has successfully secured new leases with demand driving from IT, business consultancy, medical and retail sectors. Going forward, management will be focussing on cost management and tenant retention. We continue to like MQREIT given its attractive dividend yield of 7.6% (highest among REITs in our universe), stable assets in prime location of KL Sentral with high occupancy rate.

Forecast. Maintain as the results were in line.

Maintain BUY, TP: RM1.29. We maintain our BUY call with unchanged TP of RM1.29 based on targeted yield of 6.9% which is derived from 2 years historical average yield spread of MQREIT and 10-year MGS.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Cash	54.1	76.0	61.1	61.8	73.1
Receivables	18.3	6.0	6.1	6.2	6.2
Investment properties	2,222.0	2,179.2	2,181.2	2,183.2	2,185.2
PPE	0.2	0.2	0.1	0.1	0.1
Others	2.7	27.0	27.0	27.0	27.0
Assets	2,297.3	2,288.4	2,275.5	2,278.2	2,291.6
Payables	55.8	20.3	23.5	23.9	24.2
Debt	851.6	853.5	836.5	836.5	847.5
Security deposits	29.3	29.2	29.2	29.2	29.2
Derivatives	1.0	0.7	0.7	0.7	0.7
Liabilities	937.6	903.7	889.9	890.2	901.5
Unitholders' capital	1,231.9	1,231.9	1,231.9	1,231.9	1,231.9
Undistributed profit	127.8	152.8	153.7	156.1	158.2
Equity	1,359.7	1,384.7	1,385.6	1,388.0	1,390.1

Cash Flow Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	62.8	69.9	89.7	90.7	92.1
Finance costs	33.0	40.5	0.0	0.0	0.0
Depreciation	0.1	0.1	0.1	0.0	0.0
Fair value gain of assets	-3.5	18.2	0.0	0.0	0.0
Interest income	-2.4	-3.6	0.0	0.0	0.0
Others	-19.7	4.0	3.1	0.2	0.2
CFO	70.3	129.1	92.9	90.9	92.3
Capex	-647.4	-0.4	-2.0	-2.0	-2.0
Disposal / (purchase)	-1.5	0.0	0.0	0.0	0.0
Others	0.0	2.2	0.0	0.0	0.0
CFI	-648.9	1.8	-2.0	-2.0	-2.0
Distribution paid	-56.9	-72.6	-88.8	-88.8	-90.2
Proceeds from borrowings	164.0	191.0	100.0	0.0	400.0
Repayment of borrowings	0.0	-190.0	-117.0	0.0	-389.0
Placement / new share	487.9	-37.2	0.0	0.0	0.0
CFF	595.1	-108.8	-105.8	-88.8	-79.2
Net cash flow	16.5	22.0	-14.9	0.1	11.1

Assumptions

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Gross rental income					
Quill Building 1 - DHL 1			4.9	5.0	5.1
Quill Building 4 - DHL 2			5.3	5.4	5.5
Quill Building 2 - HSBC			9.8	10.0	10.2
Quill Building 3 - BMW			5.1	5.2	5.3
Wisma Technip			12.4	12.7	12.9
Part of Plaza Mont' Kiara			4.0	4.1	4.2
Quill Building 5 - IBM			4.0	4.0	4.1
Quill Building 8 - DHL XPJ			0.0	0.0	0.0
Tesco Building - Penang			14.6	14.9	15.2
Platinum Sentral			57.6	57.6	57.6
Menara Shell			48.1	49.1	50.1
Total:			165.9	168.1	170.3

Income Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Gross rental income	115.9	162.1	165.9	168.1	170.3
Car park income	10.9	12.8	14.2	14.4	14.7
Other revenue	5.0	5.2	5.8	5.9	6.1
Total revenue	136.6	181.5	185.9	188.5	191.1
Assessment & quit rent	-5.3	-8.5	-14.2	-14.4	-14.6
Depreciation	-0.1	-0.1	-0.1	-0.1	-0.1
Insurance & Prop mgmt	-3.1	-3.9	-4.0	-4.0	-4.1
Service contracts	-9.6	-10.9	-11.2	-11.3	-11.5
Utilities	-11.5	-16.7	-17.1	-17.4	-17.6
Total opex	-29.5	-40.2	-46.6	-47.2	-47.8
Net property income	77.7	101.2	92.7	94.1	95.5
Net investment income	108.2	125.4	144.4	145.3	147.4
Pretax profit	62.8	69.9	89.7	90.7	92.1
Taxation	0.0	0.0	0.0	0.0	0.0
Net profit	59.2	88.1	89.7	90.7	92.1
No. of units (units)	1,068.0	1,068.0	1,073.7	1,080.6	1,087.6

Valuation & Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Core EPU (sen)	5.9	6.5	8.4	8.4	8.5
P/E (x)	21.1	14.2	14.0	13.9	13.8
EBITDA	92.3	128.7	129.5	130.4	132.3
EBIT	92.3	128.6	129.4	130.4	132.3
EV	2,047.1	2,027.0	2,031.6	2,039.0	2,046.9
EV/EBITDA (x)	22.2	15.8	15.7	15.6	15.5
DPU (sen)	8.4	8.4	8.9	9.0	9.0
Dividend yield	7.2	7.2	7.6	7.7	7.7
NTA/ share (sen)	126.8	129.0	128.3	127.6	126.8
P/ NTA	0.9	0.9	0.9	0.9	0.9
BVPS (RM)	1.3	1.3	1.3	1.3	1.3
P/B (x)	0.9	0.9	0.9	0.9	0.9
EBITDA margin	67.6%	70.9%	69.7%	69.2%	69.2%
EBIT margin	67.5%	70.9%	69.6%	69.2%	69.2%
PBT margin	45.9%	38.5%	48.3%	48.1%	48.2%
Net margin	43.3%	48.5%	48.3%	48.1%	48.2%
ROE	4.6%	5.0%	6.5%	6.5%	6.6%
ROA	2.6%	3.8%	3.9%	4.0%	4.0%
Net gearing	34.7%	34.0%	34.1%	34.0%	33.8%

Quarterly financial summary

FYE Dec	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)
Gross revenue	45.1	44.0	43.4	-1.5	-3.7
Property opex	-10.2	-9.8	-10.0	-2.9	1.2
Net property income	34.9	34.3	33.4	-2.7	-4.4
Interest income	0.6	0.7	0.9	20.2	35.0
Revaluation gains	0.0	0.0	0.0	0.0	0.0
Net investment income	35.6	35.0	36.4	4.1	2.5
Finance costs	-9.8	-9.7	-9.9	-2.5	-1.0
Valuation fees	-0.1	-0.1	-0.1	49.4	32.6
Administrative expenses	0.0	-0.7	0.6	>100	>100
TOTAL EXPENSES	-13.5	-14.0	-12.9	7.6	4.2
Normalised PBT	22.0	21.0	23.5	11.8	6.5
Normalised PAT	22.0	21.0	23.5	11.8	6.5
EPU (realised)	2.3	2.0	2.2	11.8	-2.7
DPU (sen)	4.2	0.0	4.2	NM	0.0

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	1H17	1H18	YoY (%)
Gross revenue	45.1	44.0	43.4	-1.5	-3.7	90.6	87.5	-3.5
Property operating expenses	-10.2	-9.8	-10.0	-2.9	1.2	-19.6	-19.8	1.0
Net property income	34.9	34.3	33.4	-2.7	-4.4	71.0	67.6	-4.8
Interest income	0.6	0.7	0.9	20.2	35.0	1.1	1.6	45.8
Gain on divestment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investment income	35.6	35.0	36.4	4.1	2.5	72.1	71.5	-0.9
Finance costs	-9.8	-9.7	-9.9	-2.5	-1.0	-19.6	-19.6	0.3
Valuation fees	-0.1	-0.1	-0.1	49.4	32.6	-0.1	-0.2	37.8
Administrative expenses	0.0	-0.7	0.6	>100	>100	-0.1	-0.1	53.3
Total expenses	-13.5	-14.0	-12.9	7.6	4.2	-26.9	-27.0	0.1
Core PBT	22.0	21.0	23.5	11.8	6.5	45.2	44.5	-1.6
Core PAT	22.0	21.0	23.5	11.8	6.5	45.2	44.5	-1.6
Distributable adjustments	0.0	1.4	1.0	-28.0	NM	0.0	2.4	NM
Distributable income	22.0	22.4	24.5	9.3	11.1	45.2	46.9	3.7
Core EPU (sen)	2.3	2.0	2.2	11.8	-2.7	4.4	4.2	-6.0
DPU (sen)	4.2	0.00	4.2	NM	0.0	4.2	4.2	0.0

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BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% 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 to a change from the previous rating.
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