

MRCB-Quill REIT (MQREIT MK)

2Q18 within estimates

Maintain BUY

2Q18 results and 1st gross DPU of 4.23sen were in-line. The softer YoY earnings were due to lower rental income (mainly from Platinum Sentral) and lower earnings post the disposal of QB8. Our earnings forecasts and DDM-TP of MYR1.30 (cost of equity: 7.6%) are intact. The trust still offers a favourable FY19 net DPU yield of 6.4% (sector average: 5.7%).

Slight ease in occupancy rate

Excluding QB8 disposal gain of MYR2.2m (completed on 12 Apr 2018), 2Q18 core net profit was MYR21.3m (-3% YoY, +1% QoQ), bringing 1H18 core earnings to MYR42.3m (-6% YoY), at 48% of our and consensus' FY18 estimates. YoY, 2Q18's earnings were mainly lowered by: (i) lower occupancy rate of 92% (-5ppt YoY) at Platinum Sentral due to non-renewal of two tenants, and (ii) lower NPI contribution post the disposal of QB8. Consequently, portfolio's end-2Q18 occupancy rate eased to 96.0% (end-2Q17: 96.5%) which was mainly attributed to Platinum Sentral. Nonetheless, in 1H18, about 70% of leases due for renewal in 2018 have been renewed (FY18: 28% of portfolio NLA is up for renewal).

Estimates unchanged

Our FY18-20 net profit estimates are intact. Our marginal, near-term earnings growth forecasts are largely backed by positive rental reversions and sustained occupancy while we have not factored in any new assets' contributions. We remain positive on MQREIT's office assets with long-term tenants, namely Menara Shell (79% of NLA tenanted by Shell People Services and AmGeneral Insurance).

Acquisition(s) beyond FY19

We understand that MQREIT's next office building acquisition(s) would only take place from FY19 onwards, and do not discount the possibility of acquisition from third-parties, if deemed suitable. Its gross gearing of 0.37x (end-2Q18) still provide approx. MYR580m for M&A activities.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	132	180	181	183	185
Net property income	102	140	138	140	141
Core net profit	59	88	89	89	90
Core EPU (sen)	9.0	8.2	8.2	8.2	8.3
Core EPU growth (%)	9.6	(8.4)	0.1	(0.2)	1.2
Net DPU (sen)	7.5	7.6	7.5	7.5	7.3
Net DPU growth (%)	8.8	0.1	(0.4)	(0.2)	(2.8)
P/NTA (x)	0.6	1.0	0.9	0.9	0.9
Net DPU yield (%)	6.4	5.9	6.4	6.4	6.2
ROAE (%)	5.6	5.1	6.4	6.4	6.5
ROAA (%)	3.0	3.8	3.9	3.9	4.0
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	7.0	7.1	7.7
MKE vs. Consensus (%)	-	-	7.9	6.1	(4.6)

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BUY

Share Price	MYR 1.17
12m Price Target	MYR 1.30 (+11%)
Previous Price Target	MYR 1.30

Company Description

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

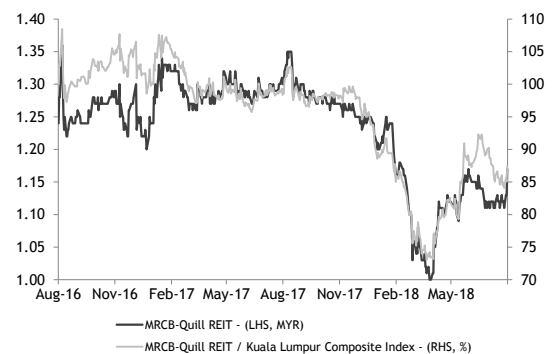
Statistics

52w high/low (MYR)	1.35/1.00
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,072
Market capitalisation	MYR1.3B
	USD308M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	4	(10)
Relative to index (%)	(2)	8	(10)

Source: FactSet

Fig 1: Results summary table

FY Dec (MYR m)	Quarterly			Cumulative				
	2QFY18	2QFY17	%YoY	1QFY18	%QoQ	1H FY18	1H FY17	%YoY
Gross revenue	43.4	45.1	(3.7)	44.0	(1.5)	87.5	90.6	(3.5)
Net property income	33.4	34.9	(4.4)	34.3	(2.7)	67.6	71.0	(4.8)
Interest income	0.9	0.6	35.0	0.7	20.2	1.6	1.1	45.8
Fair value gains	-	-	NM	-	NM	-	-	NM
Finance costs	(9.9)	(9.8)	1.0	(9.7)	2.5	(19.6)	(19.6)	0.3
Other expenses/gains	(3.0)	(3.7)	(17.9)	(4.3)	(30.2)	(7.3)	(7.4)	(0.4)
Pretax profit	23.5	22.0	6.5	21.0	11.8	44.5	45.2	(1.6)
Tax	-	-	NM	-	NM	-	-	NM
Net profit	23.5	22.0	6.5	21.0	11.8	44.5	45.2	(1.6)
Net profit ex-EI	21.3	22.0	(3.4)	21.0	1.3	42.3	45.2	(6.4)
EPU ex-EI (sen)	2.3	2.3	0.0	2.0	14.7	4.2	4.4	(4.5)
Gross DPU (sen)	4.2	4.2	0.0	-	NM	4.2	4.2	0.0
	2QFY18	2QFY17	+/- ppt	1QFY18	+/- ppt	1H FY18	1H FY17	+/- ppt
Net property margin (%)	76.9	77.4	(0.6)	77.8	(1.0)	77.4	78.4	(1.0)
Net income ex-EI margin (%)	49.0	48.9	0.1	47.7	1.3	48.4	49.9	(1.5)

Sources: Trust, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest costs may lead to lower earnings for MQREIT.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	15.7	17.0	15.6	15.6	16.0
P/BV (x)	0.6	1.0	0.9	0.9	0.9
P/NTA (x)	0.6	1.0	0.9	0.9	0.9
DPU yield (%)	7.1	6.5	7.1	7.1	6.9
FCF yield (%)	13.4	9.4	9.9	9.9	10.0
INCOME STATEMENT (MYR m)					
Revenue	131.8	180.1	180.8	183.0	185.0
Net property income	102.3	140.0	138.1	139.7	141.2
Management and trustee fees	(12.4)	(14.9)	(14.8)	(14.8)	(14.8)
Net financing costs	(30.7)	(36.9)	(34.8)	(36.1)	(36.3)
Exceptionals	3.6	(18.2)	0.0	0.0	0.0
Pretax profit	62.8	69.9	88.5	88.8	90.0
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	62.8	69.9	88.5	88.8	90.0
Distributable inc to unitholders	59.2	92.4	94.9	95.2	92.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	54.1	76.0	45.8	42.8	43.3
Accounts receivable	17.6	5.2	5.3	5.3	5.4
Property, Plant & Equip (net)	0.2	0.2	2.0	3.7	5.3
Investment properties	2,222.0	2,159.5	2,159.5	2,159.5	2,159.5
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	3.4	47.5	47.5	47.5	47.5
Total assets	2,297.3	2,288.4	2,260.0	2,258.7	2,260.9
ST interest bearing debt	189.1	116.9	116.9	116.9	116.9
Accounts payable	28.4	20.3	21.6	21.9	22.2
LT interest bearing debt	662.5	736.6	708.6	708.6	708.6
Other liabilities	57.7	29.9	29.9	29.9	29.9
Total Liabilities	937.6	903.7	876.9	877.3	877.5
Shareholders Equity	1,359.7	1,384.7	1,383.1	1,381.4	1,383.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,359.7	1,384.7	1,383.1	1,381.4	1,383.4
Total liabilities and equity	2,297.3	2,288.4	2,260.0	2,258.7	2,260.9
CASH FLOW (MYR m)					
Cash flow from operations	105.0	129.1	124.6	125.3	126.8
Acquisitions & investments	(648.9)	(0.4)	(1.8)	(1.8)	(1.9)
Disposal of FA & investments	0.0	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	1.6	2.2	5.1	3.0	2.8
CF from investing activities	(647.2)	1.8	3.2	1.2	1.0
Dividends paid	(56.9)	(72.6)	(90.2)	(90.4)	(88.1)
Interest expense	(36.4)	(37.2)	(39.8)	(39.2)	(39.2)
Change in debt	164.0	1.0	(28.0)	0.0	0.0
Equity raised / (purchased)	487.9	0.0	0.0	0.0	0.0
Other financial activities	(7.3)	(0.0)	0.0	0.0	0.0
CF from financing activities	551.4	(108.8)	(158.0)	(129.6)	(127.3)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	9.2	22.0	(30.2)	(3.1)	0.5

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	14.4	36.7	0.4	1.2	1.1
Net property income growth	13.3	36.8	(1.3)	1.1	1.1
Core net profit growth	9.6	48.6	0.6	0.3	1.4
Distributable income growth	9.5	56.2	2.7	0.3	(2.6)
Profitability ratios (%)					
Net property income margin	77.6	77.7	76.4	76.3	76.3
Core net profit margin	44.9	48.9	49.0	48.5	48.6
Payout ratio	79.4	115.9	91.7	91.7	88.1
DuPont analysis					
Total return margin (%)	47.7	38.8	49.0	48.5	48.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.6	1.6	1.6
ROAE (%)	5.6	5.1	6.4	6.4	6.5
ROAA (%)	3.0	3.8	3.9	3.9	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.6	2.6	2.6
Net gearing (%) (excl. perps)	58.7	56.1	56.4	56.7	56.5
Net interest cover (x)	2.9	3.4	3.5	3.5	3.5
Debt/EBITDA (x)	9.5	6.8	6.7	6.6	6.5
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	797.5	777.4	779.6	782.7	782.2
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37

Source: Company; Maybank

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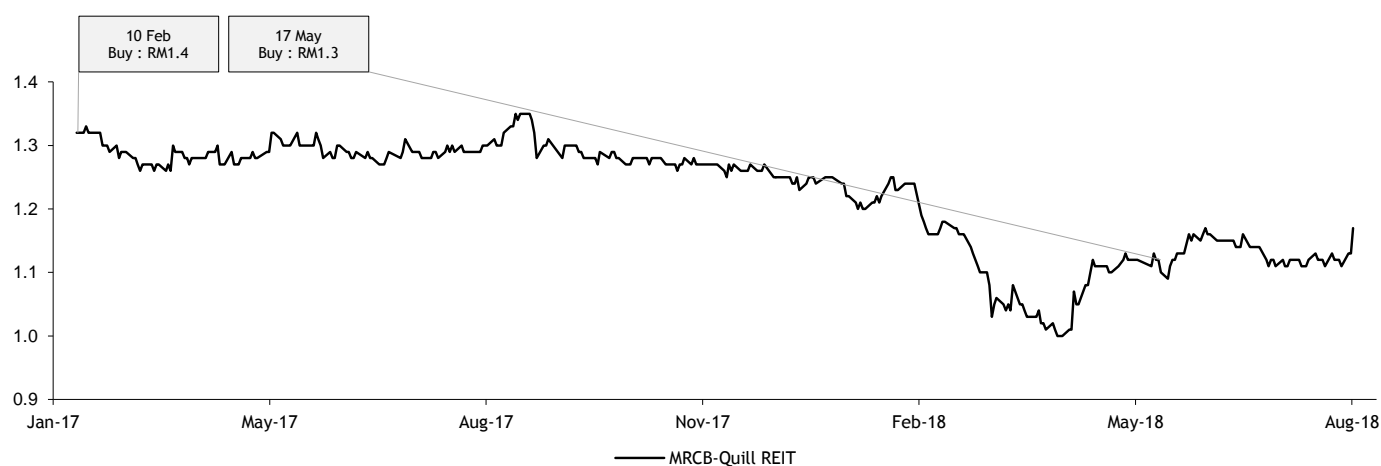
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