

14 Aug 2020

# Hold

**Price**  
RM0.755

**Target Price**  
RM0.72

**Market Data**

Bloomberg Code	MQREIT MK
No. of shares (m)	1,071.8
Market cap (RMm)	787.8
52-week high/low (RM)	1.10 / 0.50
Avg daily turnover (RMm)	0.4
KLCI (pts)	1,576.4

Source: Bloomberg, KAF

**Major Shareholder (%)**

MRCB	(27.8%)
KWSP	(12.1%)
CapitaLand Ltd	(10.9%)
Free Float	347.8

Source: Bloomberg, KAF

**Performance**

	3M	6M	12M
Absolute (%)	(6.6)	(21.5)	(34.3)
Rel Market (%)	(17.2)	(23.4)	(33.6)



Source: Bloomberg, KAF

**Analyst**

**Elleena Soraya**  
03-21710506  
elleena@kaf.com.my

# MRCB-Quill REIT

## Within expectations

MRCB-Quill REIT (MQREIT)'s 1H20 DPU of 3.43 sen was broadly in line with expectations, at 51% of our full-year forecast. Portfolio occupancy has remained stable so far. FY20F will see about 19% of NLA due for renewal, with the bulk of it expiring in 4Q20. Maintain our FY20F DPU estimate of 6.7 sen and DDM-based TP of RM0.72. Keep our Hold recommendation, with MQREIT currently trading at FY20F distribution yield of 8.8%.

**Financial Highlights**

FYE Dec	2017	2018	2019	2020F	2021F
Revenue (RM mil)	180.1	173.4	162.1	160.0	158.6
Net Property Income	140.0	133.7	122.8	121.3	120.2
Realised Net profit (RM mil)	87.0	82.5	72.1	70.6	69.7
DPU (sen)	8.4	8.1	6.8	6.7	6.6
PE (x)	9.3	9.8	11.2	11.5	11.6
Div yield (%)	11.1	10.7	9.0	8.8	8.7
ROE (%)	5.0	5.3	2.2	5.3	5.3
Gearing (%)	37.3	37.6	37.8	37.8	37.8

Source: Company, KAF

**1H20 results summary**

MQREIT reported net property income (NPI) of RM31.5m in 2Q20, bringing cumulative 1H20 NPI to RM63.8m, making up 53% of our full-year forecast. The group declared its 1H20 DPU of 3.43 sen, broadly in line with our FY20 DPU estimate of 6.7 sen.

**Top-line growth driven by higher occupancy**

MQREIT's 1H20 revenue grew 2% yoy to RM82.3m, mainly due to improved/stable occupancies across most assets, mainly at Menara Shell (99%), Wisma Technip (90%), Platinum Sentral (84%), and Tesco (100%). Overall, the REIT's portfolio occupancy stood at 90.4% in 2Q20 (vs. 89.0% in 2Q19). Meanwhile, the sequential declines in revenue (-3% qoq) and NPI (-2% qoq) were expected, due to some rental assistance extended to selected retail tenants that were affected by the MCO.

**Lease expiries; to focus on tenant retention**

In terms of lease renewals, MQREIT has managed to complete c.1% of the 19% total net lettable area (NLA) due in FY20F. Active negotiations for renewal of the remaining leases are currently in progress, with the bulk of it due in 4Q20 (86%). However, we remain cautious on the rental reversionary rates as management continues to focus on tenant retention across all its properties. FY21F and FY22F will see about 21% and 14% of NLA due for renewal, respectively.

**Other updates; QB5 remains untenanted, gearing stable at 37.8%**

The group's only asset in Cyberjaya – Quill Building 5 (QB5) is still unoccupied after the key tenant moved out from the building in April last year. According to management, they have received some enquiries for the office building, but nothing has been finalised at this point of time. To note, QB5 accounts for 4% of MQREIT's total NLA.

Separately, MQREIT has refinanced an amount of RM335m in CP and TL due this year. On acquisitions front, the group has the ROFR for Menara Celcom in Petaling Jaya from its sponsor, MRCB. Gearing remains stable at 37.8%, presenting a comfortable debt headroom of c.RM490m, assuming 60% gearing level set by the SC.

**Maintain Hold**

We leave our FY20-21F DPU estimates unchanged and maintain our DDM-derived TP at RM0.72. At the current price level, MQREIT is trading at FY20F distribution yield of 8.8%. Key downside risk would be non-renewal of expiring leases.

## Exhibit 1: Quarterly trends

(RM m)	2Q19	3Q19	4Q19	1Q20	2Q20	Change		Cumulative			KAF	
FYE 31 Dec	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	% qoq	% yoy	6M19	6M20	% chg	2020F	2Q/F
<b>Revenue</b>	<b>39.2</b>	<b>39.5</b>	<b>42.0</b>	<b>41.7</b>	<b>40.6</b>	(3)	4	<b>80.6</b>	<b>82.3</b>	<b>2</b>	<b>160.0</b>	<b>51</b>
Property operating expenses	(9.7)	(9.7)	(10.5)	(9.4)	(9.1)	(3)	(6)	<b>(19.0)</b>	<b>(18.6)</b>	(3)	(38.7)	48
<b>Net property income</b>	<b>29.5</b>	<b>29.7</b>	<b>31.5</b>	<b>32.3</b>	<b>31.5</b>	(2)	7	<b>61.5</b>	<b>63.8</b>	<b>4</b>	<b>121.3</b>	<b>53</b>
Interest income	0.6	0.7	1.1	0.6	0.5	(6)	(4)	<b>1.4</b>	<b>1.1</b>	(19)	<b>2.7</b>	41
Trust expenses	(3.2)	(3.5)	(3.8)	(3.5)	(3.5)	(1)	9	<b>(6.8)</b>	<b>(7.1)</b>	3	(14.2)	50
Borrowing costs	(10.0)	(9.7)	(10.3)	(9.5)	(8.9)	(7)	(11)	<b>(19.8)</b>	<b>(18.5)</b>	(7)	(39.2)	47
Exceptional items	(0.4)	-	(36.7)	0.3	(0.5)			<b>(0.4)</b>	<b>(0.2)</b>	-		
<b>Profit before tax</b>	<b>16.5</b>	<b>17.2</b>	<b>(18.1)</b>	<b>20.1</b>	<b>19.1</b>	(5)	16	<b>35.9</b>	<b>39.2</b>	<b>9</b>	<b>70.6</b>	<b>55</b>
Tax	-	-	(6.2)	-	-			-	-		-	
<b>Net profit</b>	<b>16.5</b>	<b>17.2</b>	<b>(24.4)</b>	<b>20.1</b>	<b>19.1</b>	(5)	16	<b>35.9</b>	<b>39.2</b>	<b>9</b>	<b>70.6</b>	<b>55</b>
<b>Normalized net profit</b>	<b>16.9</b>	<b>17.2</b>	<b>18.6</b>	<b>19.8</b>	<b>19.6</b>	(1)	16	<b>36.3</b>	<b>39.4</b>	<b>9</b>	<b>70.6</b>	<b>56</b>

Source: Company, KAF

**Income Statement**

<b>FYE Dec (RMm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>
<b>Gross rental income</b>	<b>180.1</b>	<b>173.4</b>	<b>162.1</b>	<b>160.0</b>	<b>158.6</b>
Property operating expenses	(40.2)	(39.7)	(39.2)	(38.7)	(38.4)
Net property income	140.0	133.7	122.8	121.3	120.2
Non-property expenses	(14.9)	(14.9)	(14.4)	(14.2)	(14.1)
PBITDA	125.0	118.8	108.5	107.1	106.2
PBIT	125.0	118.8	108.5	107.1	106.2
Interest expense	(40.5)	(40.6)	(39.6)	(39.2)	(39.2)
Exceptional item	(18.2)	(3.2)	(36.7)	-	-
PBT	68.8	79.3	35.4	70.6	69.7
Tax	-	(6.1)	(6.2)	-	-
Distributable Income	68.8	73.1	29.1	70.6	69.7
<b>Core Net Profit</b>	<b>87.0</b>	<b>82.5</b>	<b>72.1</b>	<b>70.6</b>	<b>69.7</b>

**Balance Sheet**

<b>FYE Dec (RMm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>
Investment Properties	2,181.4	2,179.3	2,144.1	2,144.1	2,144.1
Trade and other receivables	31.0	6.7	6.3	6.2	6.2
Cash and cash equivalents	76.0	85.8	63.3	62.4	61.5
Inventories	-	-	-	-	-
Total Assets	2,288.4	2,271.7	2,213.7	2,212.7	2,211.8
Payables and accruals	33.1	26.2	21.1	20.9	20.8
Short-term Borrowings	116.9	-	332.7	332.7	332.7
Long-term Borrowings	736.6	853.7	503.0	503.0	503.0
Payables and accruals	17.1	19.6	33.1	33.1	33.1
Unit holder's capital	1,231.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed income to Reserves	152.8	136.4	87.6	86.8	86.1
Total unit holder's fund	1,384.7	1,372.3	1,323.5	1,322.7	1,322.0
Total liabilities and shareholder's fund	2,288.4	2,271.7	2,213.4	2,212.4	2,211.5

**Cash flow Statement**

<b>FYE Dec (RMm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>
<b>Pretax profit</b>	<b>68.8</b>	<b>79.3</b>	<b>35.4</b>	<b>70.6</b>	<b>69.7</b>
Working Capital	124.8	118.8	108.6	107.1	106.2
Others	nm	nm	nm	nm	nm
<b>Operating cash flows</b>	<b>128.2</b>	<b>107.2</b>	<b>112.6</b>	<b>107.0</b>	<b>106.1</b>
Acquisitions	(0.4)	-	-	-	-
Enhancement exp.	2.1	(0.4)	0.4	2.7	2.7
Others	(6.6)	28.0	-	-	-
<b>Investing cash flows</b>	<b>(4.8)</b>	<b>27.6</b>	<b>0.4</b>	<b>2.7</b>	<b>2.7</b>
Issue of shares	-	4.0	-	-	-
Dividend paid	(72.6)	(89.8)	(78.0)	(71.4)	(70.4)
Borrowings	(0.3)	-	35.0	-	-
Others	(35.7)	(39.2)	(92.5)	(39.2)	(39.2)
<b>Financing cash flow</b>	<b>(108.6)</b>	<b>(125.0)</b>	<b>(135.5)</b>	<b>(110.6)</b>	<b>(109.6)</b>
<b>Net inflows/(outflows)</b>	<b>14.7</b>	<b>9.7</b>	<b>(22.5)</b>	<b>(0.9)</b>	<b>(0.8)</b>
Change in receivables	13.5	0.6	1.5	0.1	0.1
Change in payables	(10.1)	(12.2)	2.4	(0.2)	(0.1)

Source: Bloomberg, 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.

## Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis  
Managing Director  
KAF Equities Sdn Bhd (Reg No. 198501002182)