

COMPANY RESULTS

MRCB-Quill Reit (MQREIT MK)

2Q20: Steady Performance As Expected

Results came in within our estimates amid steady performances, in line with other office operators which are less impacted by the COVID-19 pandemic. Unlike retail REITs, we believe MQREIT will continue to report decent results moving forward given stable occupancy rate and absence of rental relief in following quarters. Maintain BUY and target price of RM0.97.

2Q20 RESULTS

Year to 31 Dec (RMm)	2Q20	qoq % chg	yoy % chg	1H20	yoy % chg
Gross revenue	40.1	(3.8)	3.4	81.8	2.1
Operating expenses	(9.1)	(3.0)	(5.7)	(18.6)	(2.5)
Net property income	31.0	(4.1)	6.5	63.3	3.5
Finance cost	(8.9)	(6.6)	(8.3)	(18.5)	(5.7)
Core Net Profit	19.1	(3.6)	16.0	38.9	8.4
EPU (sen)	1.8	(3.6)	16.0	3.6	8.4
DPU (sen)	3.4	n.m.	0.0	3.4	0.0

Source: MRCB-Quill Reit, UOB Kay Hian

RESULTS

- **Within expectations.** MRCB-Quill REIT (MQREIT) reported 2Q20 revenue of RM40.1m (-3.8% qoq, +3.4% yoy) and core net profit of RM19.1m (-3.6% qoq, +16.0% yoy). Cumulatively, 1H20 core net profit of RM38.9m (+8.4% yoy) accounts for 51% of our and 57% of consensus' full-year forecasts.
- **Declared 3.43 sen** dividend for 1H20. This translates to a payout ratio of 94.5%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	173	162	167	170	172
EBITDA	119	108	112	115	115
Operating profit	119	108	112	115	115
Net profit (rep./act.)	73	29	76	80	83
Net profit (adj.)	83	72	76	80	83
EPS (sen)	7.7	6.7	7.1	7.5	7.8
PE (x)	9.8	11.2	10.7	10.1	9.7
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	13.2	14.4	13.9	13.6	13.6
Dividend yield (%)	10.7	9.0	9.2	9.7	10.1
Net margin (%)	42.2	18.0	45.3	47.2	48.3
Net debt/(cash) to equity (%)	56.0	58.4	56.8	54.3	50.8
Interest cover (x)	3.3	3.0	3.1	3.3	3.6
ROE (%)	5.3	2.2	5.7	6.1	6.3
Consensus net profit	-	-	68	72	73
UOBKH/Consensus (x)	-	-	1.11	1.11	1.14

Source: MRCB-Quill Reit, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM0.755
Target Price	RM0.97
Upside	+28.7%

COMPANY DESCRIPTION

MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MQREIT MK
Shares issued (m):	1,071.8
Market cap (RMm):	809.2
Market cap (US\$m):	193.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low			RM1.09/RM0.510	
1mth	3mth	6mth	1yr	YTD
2.0	0.7	(17.0)	(30.7)	(24.5)

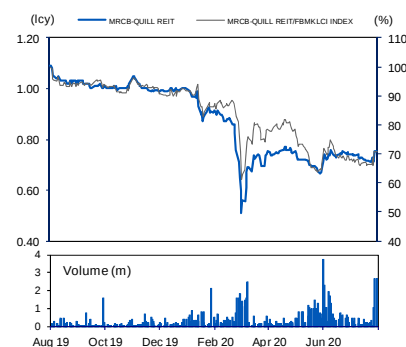
Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
Capitaland Ltd	10.9

FY20 NAV/Share (RM) 1.24

FY20 Net Debt/Share (RM) 0.70

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Less impacted by rental assistance.** 1H20 net profit improved 8.4% yoy, mainly due to lower operating expenses and finance cost. NPI margin improved slightly to 77.3% vs 1H19's 76.2%. On a sequential basis, earnings declined 3.6% qoq, reflecting the rental assistance given to the small base of retailers, mainly at Plaza Mont Kiara. Other than that, we understand that rental collection remained commendable as only a small fraction of affected tenants were given rental deferment as opposed to rental relief. Moving forward, we expect earnings to remain resilient as MQREIT's tenants are mostly well-established MNCs and local businesses that are able to ride out the current situation.
- **Stable occupancy rate.** On a portfolio basis, occupancy rate remained steady at 90.4% (1Q20: 90.5%), well above the average of 77% in 2019 for office buildings in Kuala Lumpur. Total lease due for renewal for 2020 and 2021 account for 19% and 21% of total NLA respectively. Majority of the leases due in 2020 are in 4Q20. We do not see any major risk as negotiations are already underway and there are no indications of non-renewals. MQREIT's WALE is 4.4 years.
- **Gearing at 37.9%.** MQREIT's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. Recent increase in gearing limit by Securities Commissions (from 50% to 60%) will give MQREIT debt headroom of RM493m to fund for future acquisitions.

EARNINGS REVISION/RISK

- **No changes to our estimates.** We are forecasting 5% growth for 2020 on the back of improvement in occupancy for Wisma Technip, Platinum Sentral and Menara Shell (vs 2019).

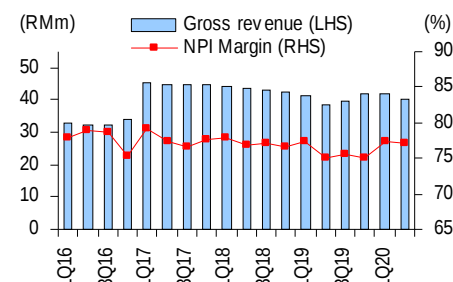
VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM0.97**, based on a dividend discount model (required rate of return: 8.5%, terminal growth: 1.3%) and representing an implied dividend yield of 7.2% and 7.6% for 2020 and 2021 respectively.
- We expect MQREIT to claw back its 24% share price decline ytd (it sorely underperformed the REIT sector which has declined 12.5% ytd) as valuation rerates to reflect its attractive sustainable high dividend yields of >9% for 2020-22, backed by its property portfolio's stable occupancy.

SHARE PRICE CATALYST

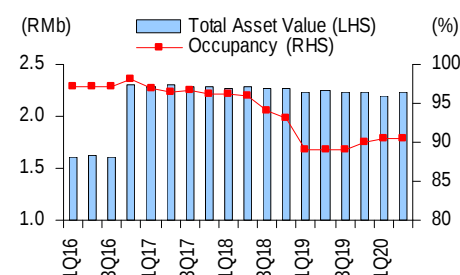
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



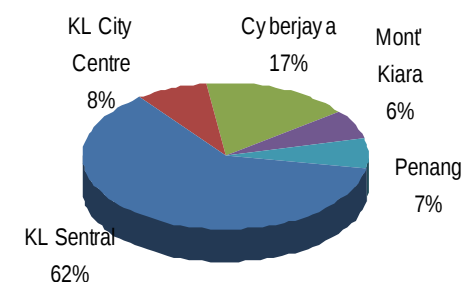
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



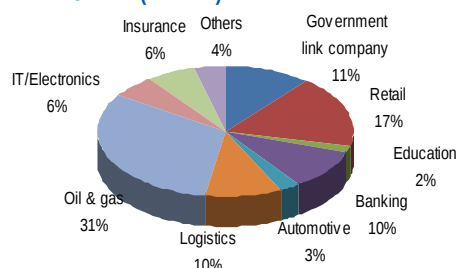
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION (BY VALUATION)



Source: MQREIT, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: MQREIT, UOB Kay Hian

FORECAST ASSUMPTIONS – OCCUPANCY

Property	2020	2021	2022
Platinum Sentral	86%	86%	86%
Menara Shell	99%	99%	99%
Wisma Technip	90%	90%	90%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	162	167	170	172
EBITDA	108	112	115	115
Deprec. & amort.	0	0	0	0
EBIT	108	112	115	115
Net interest income/(expense)	(36)	(36)	(35)	(32)
Pre-tax profit	35	76	80	83
Tax	(6)	0	0	0
Net profit	29	76	80	83
Net profit (adj.)	72	76	80	83

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,143	2,145	2,147	2,149
Other LT assets	1	1	1	1
Cash/ST investment	63	83	85	70
Other current assets	6	6	7	7
Total assets	2,214	2,235	2,240	2,227
ST debt	333	333	318	288
Other current liabilities	21	42	74	120
LT debt	503	503	488	458
Other LT liabilities	33	33	33	33
Shareholders' equity	1,323	1,325	1,327	1,328
Total liabilities & equity	2,214	2,235	2,240	2,227

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	113	116	118	119
Pre-tax profit	35	76	80	83
Deprec. & amort.	0	0	0	0
Other operating cashflows	77	40	38	35
Investing	0	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	3	0	0	0
Financing	(136)	(94)	(114)	(131)
Distribution to unitholders	(78)	(74)	(79)	(81)
Issue of shares	0	0	0	0
Proceeds from borrowings	35	0	0	0
Loan repayment	(54)	0	(15)	(30)
Others/interest paid	(38)	(20)	(20)	(20)
Net cash inflow (outflow)	(23)	20	2	(15)
Beginning cash & cash equivalent	86	63	83	85
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	63	83	85	70

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	66.9	66.9	67.5	66.9
Pre-tax margin	21.8	45.3	47.2	48.3
Net margin	18.0	45.3	47.2	48.3
ROA	1.3	3.4	3.6	3.7
ROE	2.2	5.7	6.1	6.3
Growth				
Turnover	(6.5)	3.3	1.8	1.0
EBITDA	(8.7)	3.3	2.6	0.2
Pre-tax profit	(55.4)	114.3	6.1	3.3
Net profit	(60.2)	160.2	6.1	3.3
Net profit (adj.)	(12.6)	5.1	6.1	3.3
EPU	(12.6)	5.1	6.1	3.3
Leverage				
Debt to total capital	38.7	38.7	37.8	36.0
Debt to equity	63.1	63.1	60.7	56.1
Net debt/(cash) to equity	58.4	56.8	54.3	50.8
Interest cover (x)	3.0	3.1	3.3	3.6

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