

MRCB-Quill REIT

9M17 Within Expectations

By Marie Vaz | msvaz@kenanga.com.my

9M17 realised net income (RNI) of RM66.6m is well within our and market expectations. No dividends, as expected. FY17-18E will see minimal lease expiries of 14-26%. We make no changes to FY17-18E earnings of RM92.0-95.5m. Maintain OUTPERFORM and TP of RM1.38, based on FY18E GDPS of 8.40 sen and a +2.1ppt spread to our 10-year MGS target of 4.00%.

9M17 realised net income (RNI) of RM66.6m came in within our and consensus expectations at 72% and 74%, respectively. No dividends, as expected.

Results Highlights. YoY-Ytd, RNI increased by 45%, driven by top-line growth (+39%) from: (i) the acquisition of Menara Shell (in Dec 2016), and (ii) positive reversions from QB3, Wisma Technip and QB2, and QB5. This was despite higher property expenses (+43%) and financing costs (+23%) to part finance the acquisition of Menara Shell. Although RNI saw robust growth, EPU declined due to dilution post the placement in end FY16. **QoQ**, top-line declined by 1% likely on slightly lower occupancy or rental rates, while RNI margin was down (-1.0ppt) on higher property operating expense (+4%), causing RNI to decline by 3%.

Outlook. FY17-18E leases up for expiry are minimal at 14.0-26.0% of net lettable assets (NLA) which is preferable under current times, where the office market is facing an oversupply situation, given the risk of tenant attrition. As such, we are expecting low single-digit reversions. Additionally, we expect minimal capex in FY17-18 of RM10-12m for maintenance. The acquisition of Menara Shell was completed in Dec 2016 and is expected to accrete fully in FY17 which we have accounted for in our earnings model.

We maintain FY17-18E earnings of RM92.0-95.5m. Our FY17-18E GDPU of 8.4-8.4 sen (NDPU of 7.6-7.6 sen), suggest gross yields of 6.6-6.6% (net yields of 6.0-6.0%).

Maintain OUTPERFORM and TP of RM1.38 based on FY18E GDPS of 8.40 sen. Our TP is based on a +2.1ppt spread to the 10-year MGS target of 4.00%, implying a target yield of 6.1% vs. MREITs (>RM1b) under our coverage with an average of 5.4%. Our applied spread is above large cap MREITs (>RM1b) under our coverage (between +0.8ppt to +1.80ppt) as MQREIT is slightly smaller than large cap REITs, while the office segment may not be perceived well compared to retail and industrial assets due to oversupply issue. However, despite our conservative valuations, we are comfortable with our OUTPERFORM call as MQREIT is commanding attractive gross yields of 6.6% (net yields of 6.0%) vs. MREIT peers (>RM1b) under our coverage average of 5.8% (net yields of 5.2%).

Risks to our call include bond yield expansions or compressions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: RM1.27
Target Price: RM1.38 ↔

Share Price Performance



KLCI	1,721.66
YTD KLCI chg	4.9%
YTD stock price chg	5.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK Equity
Market Cap (RM m)	1,356.4
Issued shares	1,068.0
52-week range (H)	1.36
52-week range (L)	1.18
3-mth avg daily vol:	347,900
Free Float	54%
Beta	0.6

Major Shareholders

Malaysian Resources Corporation Berhad	27.9%
Capitaland Limited	11.0%
Employees Provident Fund Board	7.2%

Summary Earnings Table

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	127.7	182.9	193.7
EBIT	88.1	125.5	133.5
PBT	58.9	92.0	95.5
Net Profit	58.9	92.0	95.5
Core NP*	58.9	92.0	95.5
Consensus (CNP)	n.a.	90.2	94.1
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.9	8.6	8.8
Core EPS growth (%)	9%	-4%	3%
NDPS (sen)	7.6	7.6	7.6
BVPS (RM)	1.37	1.28	1.28
Core PER	14.3	14.8	14.4
Price/BV (x)	0.9	1.0	1.0
Gearing (x)	0.40	0.39	0.39
Net Div. Yield (%)	6.0	6.0	6.0

*Core NP refers to RNI



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OTHER POINTS

Result Highlight								
FYE 31 Dec (RM'm)	3Q17	2Q17	QoQ	3Q16	YoY	9M16	9M17	YoY-Ytd
Gross revenue	44.8	45.1	-1%	32.5	38%	97.7	135.5	39%
Prop Opex	-10.5	-10.2	4%	-7.0	51%	-21.0	-30.1	43%
NPI excl unrealised rental income	34.2	33.4	2%	25.5	34%	75.3	103.8	38%
Interest Income	0.7	0.6	15%	0.5	57%	1.2	1.8	49%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total Trust Income	35.0	35.6	-1%	26.0	35%	77.9	107.2	38%
Expenditure	-3.7	-3.7	1%	-2.7	38%	-8.7	-11.1	28%
Finance Cost	-10.0	-9.8	1%	-8.1	23%	-23.9	-29.5	23%
Total Expenditure	-13.7	-13.5	1%	-10.8	27%	-32.6	-40.6	24%
Income Before Tax	21.4	22.0	-3%	15.2	40%	45.3	66.6	47%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	21.4	22.0	-3%	15.2	40%	45.3	66.6	47%
Realised Net income (RNI)	21.4	22.0	-3%	15.2	40%	45.9	66.6	45%
EPU (sen)	2.00	2.06	-3%	2.30	-13%	6.93	6.23	-10%
DPU (sen)	0.00	4.23	-100%	0.00	n.a.	4.23	4.23	0%
NAV/unit (RM)	1.29	1.32		1.34		1.34	1.29	
Gearing (x)	0.32	0.37		0.43		0.43	0.32	
NPI Margins	76%	74%		79%		77%	77%	
RNI Margins	48%	49%		47%		47%	49%	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (17/11/17)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating							
	(RM)		(RMm)	FY16/17	FY17/18				FY18/19	(%)	(%)					(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)
M-REIT & PROPERTY INVESTMENT UNDER COVERAGE																						
KLCCSS *	7.80	14,082	20.9	20.1	19.6	4.4%	7.0%	1.1	674.6	699.6	719.2	3.7%	2.8%	7.73	MARKET PERFORM							
Pavilion REIT	1.65	5,000	21.2	21.1	19.2	4.5%	8.0%	1.3	235.3	237.0	279.8	0.7%	18.1%	1.84	OUTPERFORM							
IGB REIT*	1.62	5,692	20.3	19.8	18.7	5.1%	6.9%	1.5	277.8	286.7	303.9	3.2%	6.0%	1.87	OUTPERFORM							
Sunway REIT*	1.67	4,918	18.4	16.7	16.5	4.9%	8.0%	1.1	267.4	294.0	298.0	9.9%	1.4%	1.87	OUTPERFORM							
CapitaMalls (M) Trust*	1.46	2,975	18.1	17.1	16.7	5.3%	6.4%	1.2	171.1	173.8	178.4	1.6%	2.6%	1.63	OUTPERFORM							
Axis REIT*	1.50	1,658	23.3	22.7	17.5	4.4%	8.9%	1.3	90.2	92.4	119.9	2.4%	29.8%	1.48	MARKET PERFORM							
MRCB-Quill REIT	1.27	1,356	14.3	14.8	14.4	6.0 %	8.4%	1.0	58.9	92.0	95.5	55.5%	3.8%	1.38	OUTPERFORM							
* Core NP and Core PER																						
CONSENSUS NUMBERS																						
YTL Hospitality REIT	1.21	2,062	n.a.	14.9	14.2	6.6%	-0.5%	0.8	129.0	136.0	n.a.	5.4%	n.a.	1.46	BUY							
Al-'Aqar Healthcare REIT	1.44	1,049	17.4	16.0	15.3	5.6%	6.7%	1.2	65.0	68.6	n.a.	5.5%	n.a.	1.70	BUY							
AmanahRaya REIT	0.94	536	13.9	14.8	14.0	6.5%	5.6%	0.8	35.9	38.6	n.a.	7.5%	n.a.	1.15	BUY							
AmFIRST REIT	0.71	487	21.6	n.a.	n.a.	n.a.	2.6%	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY							
Hektar REIT	1.26	582.1	12.2	12.6	12.6	7.1%	7.2%	0.9	39.0	43.0	45.0	10.3%	4.7%	n.a.	NEUTRAL							
Tower REIT	1.20	336.6	18.2	n.a.	n.a.	n.a.	3.5%	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY							
UOA REIT	1.64	693.5	15.5	n.a.	n.a.	n.a.	6.4%	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY							
Atrium REIT	1.11	135.2	21.8	n.a.	n.a.	n.a.	3.6%	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY							
Al-Salam REIT	1.00	580.0	11.7	15.4	14.3	6.0%	8.2%	0.9	38.1	39.6	41.1	3.8%	3.9%	1.17	BUY							
KIP REIT	0.91	457	n.a.	13.1	12.7	7.6%	n.a.	0.9	34.8	35.9	n.a.	3.2%	n.a.	n.a.	BUY							

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

kenanga