

## COMPANY RESULTS

### MRCB-Quill Reit (MQREIT MK)

3Q19: On The Road To Recovery

9M19 earnings are within our expectations, accounting for 73% of our full-year forecast. Earnings improved qoq on the back of rental income from new tenants. We expect earnings to continue to improve on rental contributions from new tenants and improving occupancies at Wisma Technip, Platinum Sentral and Menara Shell. Maintain BUY on MQREIT and target price of RM1.13.

#### 3Q19 RESULTS

Year to 31 Dec (RMm)	3Q19	2Q19	qoq % chg	yoy % chg	9M19	yoy % chg
Gross revenue	39.9	38.8	2.9	(7.7)	120.1	(8.1)
Operating expenses	(9.7)	(9.7)	0.3	(2.0)	(28.8)	(3.2)
Net property income	30.2	29.1	3.8	(9.4)	91.3	(9.6)
Finance cost	(9.7)	(9.7)	0.2	(3.3)	(29.3)	(1.3)
Core Net Profit	17.6	16.5	7.2	(14.3)	53.5	(14.9)
EPU (sen)	1.6	1.5	7.2	(14.6)	5.0	(15.2)
DPU (sen)	0.0	3.4	n.a.	n.a.	3.4	(18.9)

Source: MQREIT, UOB Kay Hian

#### RESULTS

- **Within expectations.** MRCB-Quill REIT (MQREIT) reported 3Q19 revenue of RM39.9m (+2.9% qoq, -7.7% yoy) and core net profit of RM17.6m (+7.2% qoq, -14.6% yoy). 9M19 core net profit of RM53.5m (-14.9 yoy) accounts for 72.7% and 71.8% of our and consensus' full-year forecasts respectively. Results were within our expectations.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	180	173	163	171	174
EBITDA	125	119	110	116	119
Operating profit	125	119	110	116	119
Net profit (rep./act.)	70	73	73	81	83
Net profit (adj.)	88	83	73	81	83
EPS (sen)	8.3	7.7	6.9	7.5	7.8
PE (x)	12.3	13.2	14.9	13.5	13.1
P/B (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	14.9	15.7	17.0	16.0	15.7
Dividend yield (%)	8.2	7.9	6.6	7.2	7.5
Net margin (%)	38.9	42.2	45.0	47.3	48.0
Net debt/(cash) to equity (%)	54.3	56.0	55.9	55.9	56.0
Interest cover (x)	3.4	3.3	3.0	3.3	3.4
ROE (%)	5.1	5.3	5.4	5.9	6.1
Consensus net profit	-	-	75	75	79
UOBKH/Consensus (x)	-	-	0.99	1.07	1.06

Source: MQREIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.02
Target Price	RM1.13
Upside	+11.2%

#### 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):	1,093.2
Market cap (US\$m):	261.7
3-mth avg daily t'over (US\$m):	0.0

#### Price Performance (%)

52-week high/low RM1.12/RM0.995

1mth	3mth	6mth	1yr	YTD
2.0	(2.9)	(4.7)	(5.6)	(3.8)

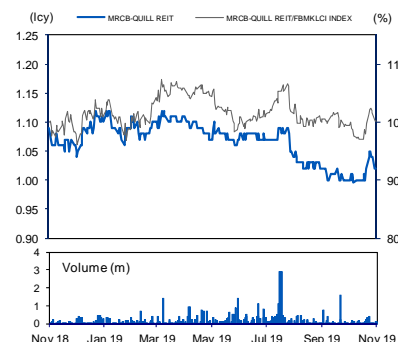
#### Major Shareholders

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

FY19 NAV/Share (RM) 1.28

FY19 Net Debt/Share (RM) 0.72

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Net profit improved 7% qoq**, mainly due to rental income from new tenants (previously on rent-free period) at Platinum Sentral. 9M19 net profit declined 15% yoy due to: a) lower revenues from Platinum Sentral, QB5 and Wisma Technip; and b) absence of income from QB8-DHL XPJ which was sold in Apr 18. We expect earnings to continue to improve as rental contributions from new tenants kick in.
- **Occupancy rate to improve.** On a portfolio basis, occupancy rate remained at 89% (2Q19: 89%, 3Q18: 94%) but was still higher than the 78% in 2018 for offices in Kuala Lumpur. MQREIT's WALE is 5.05 years. Total leases for renewal for 2019-20 are at 19% and 18% of total NLA respectively. MQREIT renewed 93% of leases due in 3Q19. We forecast occupancies at Wisma Technip, Platinum Sentral and Menara Shell at 80%, 95% and 96% respectively for 2020 (2019: 74%, 89%, 90% respectively).
- **Gearing at 37.4%.** MQREIT's current gearing ratio is healthy (on a par with peers), which allows it to tap the debt and equity markets for acquisitions.

### EARNINGS REVISION/RISK

- None.

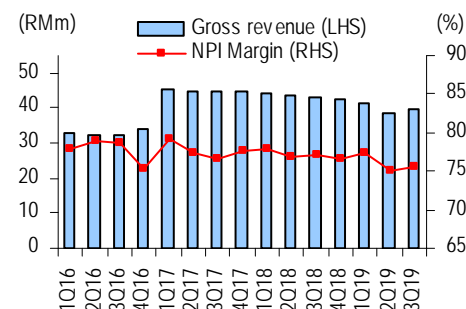
### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.13**, based on a dividend discount model (required rate of return: 6.6%, terminal growth: 1.3%) and represents an implied dividend yield of 6.6%. We expect the likely sustained overhang on share price from tenancy renewal risks to be compensated by high dividend yields of 6.6-7.5% for 2019-21. Total returns inclusive of dividend yield exceed 10%.

### SHARE PRICE CATALYST

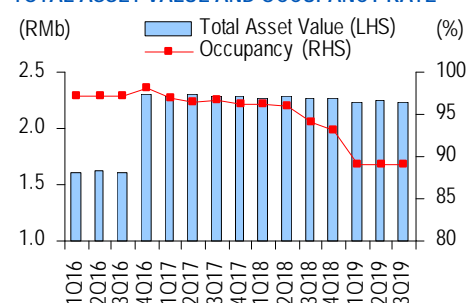
- Inorganic growth arising from acquisitions.

### REVENUE AND NPI MARGIN



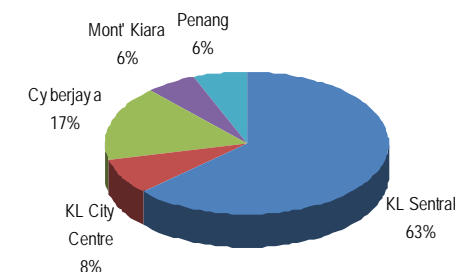
Source: MQREIT, UOB Kay Hian

### TOTAL ASSET VALUE AND OCCUPANCY RATE



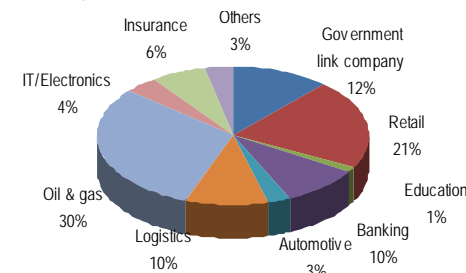
Source: MQREIT, UOB Kay Hian

### GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

### TENANCY MIX



Source: MQREIT, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	173	163	171	174
EBITDA	119	110	116	119
Deprec. & amort.	0	0	0	0
EBIT	119	110	116	119
Net interest income/(expense)	(36)	(36)	(35)	(35)
Pre-tax profit	79	73	81	83
Tax	(6)	0	0	0
Net profit	73	73	81	83
Net profit (adj.)	83	73	81	83

### BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Fixed assets	2,178	2,180	2,182	2,184
Other LT assets	2	2	2	1
Cash/ST investment	86	86	70	53
Other current assets	6	6	6	6
<b>Total assets</b>	<b>2,271</b>	<b>2,273</b>	<b>2,259</b>	<b>2,244</b>
ST debt	0	0	0	0
Other current liabilities	32	28	27	26
LT debt	854	854	839	824
Other LT liabilities	13	18	18	18
Shareholders' equity	1,372	1,374	1,375	1,377
<b>Total liabilities &amp; equity</b>	<b>2,271</b>	<b>2,273</b>	<b>2,259</b>	<b>2,244</b>

### CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>107</b>	<b>114</b>	<b>120</b>	<b>122</b>
Pre-tax profit	79	73	81	83
Deprec. & amort.	0	0	0	0
Other operating cashflows	28	40	39	39
<b>Investing</b>	<b>28</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Capex (growth)	(4)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	31	0	0	0
<b>Financing</b>	<b>(125)</b>	<b>(112)</b>	<b>(134)</b>	<b>(137)</b>
Distribution to unitholders	(90)	(72)	(79)	(82)
Issue of shares	4	0	0	0
Proceeds from borrowings	0	15	0	0
Loan repayment	0	(15)	(15)	(15)
Others/interest paid	(39)	(40)	(40)	(40)
<b>Net cash inflow (outflow)</b>	<b>10</b>	<b>0</b>	<b>(16)</b>	<b>(17)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>101</b>	<b>86</b>	<b>86</b>	<b>70</b>
Changes due to forex impact	(25)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>86</b>	<b>86</b>	<b>70</b>	<b>53</b>

### KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	68.5	67.1	67.9	68.4
Pre-tax margin	45.7	45.0	47.3	48.0
Net margin	42.2	45.0	47.3	48.0
ROA	3.2	3.2	3.6	3.7
ROE	5.3	5.4	5.9	6.1
<b>Growth</b>				
Turnover	(3.7)	(5.9)	4.8	1.5
EBITDA	(5.1)	(7.8)	6.0	2.3
Pre-tax profit	13.1	(7.3)	9.9	3.2
Net profit	4.3	0.5	9.9	3.2
Net profit (adj.)	(6.5)	(10.9)	9.9	3.2
EPU	(6.8)	(10.9)	9.9	3.2
<b>Leverage</b>				
Debt to total capital	38.4	38.3	37.9	37.4
Debt to equity	62.2	62.1	61.0	59.8
Net debt/(cash) to equity	56.0	55.9	55.9	56.0
Interest cover (x)	3.3	3.0	3.3	3.4

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