

MRCB-Quill REIT (MQREIT MK)

4Q18 earnings on track

Maintain BUY

4Q18 core net profit was within our expectations as the softer YoY earnings were mainly due to the disposal of QB8 - DHL XPJ and lower portfolio occupancy (from non-renewal of several tenants). We tweak our FY19-20 earnings estimates by -0.4% p.a. but nudge up our rolled-forward DDM-TP by 5sen to MYR1.30 (unchanged ke of 7.6%). MQREIT remains a BUY for its resilient earnings from Menara Shell and single-tenanted assets, and it offers a favourable CY19E net DPU yield of 6.4%.

Revenue eased by disposal and non-renewals

Excluding one-off net loss of MYR11.5m (mainly MYR5.4m revaluation loss and MYR6.1m of deferred tax), 4Q18 core net profit was MYR19.6m (-9% YoY, -5% QoQ), bringing FY18 core net profit to MYR84.7m (-4% YoY), at 99%/97% of our/consensus' full-year estimate. 4Q18 core earnings were softer YoY, due to: (i) disposal of QB8 - DHL XPJ in Apr 2018 and (ii) non-renewal of tenants mainly at Platinum Sentral and QB5 - IBM. Consequently, Platinum Sentral's 4Q18 occupancy fell 11ppt YoY to 87% dragging 4Q18 portfolio occupancy to 93.0% vs. 96.3% in 4Q17. Similarly, the lower QoQ core earnings were also mainly from lower occupancy rates at the two aforementioned properties.

Adjusting estimates

We tweak our FY19-20 earnings forecasts by -0.4% p.a. after adjusting for full-year results and reducing our occupancy estimate at Platinum Sentral by 1ppt to 87%. Meanwhile, we roll forward our DDM-valuation base year to FY19 (from FY18) and nudge up our TP to MYR1.30 (+5sen). We also introduce our FY21 earnings forecasts.

Menara Shell as key earnings supporter

We continue to like Menara Shell (32% of MQREIT's FY19/20/21E NPI) for its resilient earnings whereby the office tower is mainly backed by its two long-term tenants, Shell People Services and AmGeneral Insurance which occupy 79% in total of Menara Shell's NLA. We are also positive on single-tenanted properties with long-term leases (i.e. QB1 - DHL 1, QB4 - DHL 2 and QB2 - HSBC) which entail lower occupancy risks.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	180	173	178	181	182
Net property income	140	134	136	138	139
Core net profit	88	85	85	87	88
Core EPU (sen)	8.2	7.9	7.9	8.1	8.1
Core EPU growth (%)	(8.0)	(4.1)	0.4	1.5	1.1
Net DPU (sen)	7.6	7.3	7.2	7.3	7.4
Net DPU growth (%)	0.1	(3.7)	(0.7)	1.5	1.0
P/NTA (x)	1.0	0.8	0.9	0.9	0.9
Net DPU yield (%)	6.0	6.9	6.4	6.5	6.6
ROAE (%)	5.1	5.3	6.2	6.3	6.4
ROAA (%)	3.8	3.7	3.8	3.8	3.9
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	7.2	7.7	na
MKE vs. Consensus (%)	-	-	(0.4)	(4.2)	na

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BUY

Share Price	MYR 1.12
12m Price Target	MYR 1.30 (+16%)
Previous Price Target	MYR 1.25

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)	1.25/1.00
3m avg turnover (USDm)	0.0
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.2B
	USD291M

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	(8)
Relative to index (%)	3	8	0

Source: FactSet

Fig 1: Results summary table

FY Dec (MYR m)	Quarterly					Cumulative		
	4QFY18	4QFY17	%YoY	3QFY18	%QoQ	FY18	FY17	%YoY
Gross revenue	42.7	44.7	(4.5)	43.3	(1.4)	173.4	180.1	(3.7)
Net property income	32.7	34.6	(5.7)	33.3	(2.0)	133.7	140.0	(4.5)
Interest income	1.7	1.7	(2.4)	1.0	66.4	4.3	3.6	20.5
Fair value gains/(loss)	(5.4)	(18.2)	(70.1)	-	NM	(5.4)	(18.2)	(70.1)
Finance costs	(10.9)	(11.0)	(0.9)	(10.1)	8.2	(40.6)	(40.5)	0.2
Other expenses/gains	(3.9)	(3.9)	(0.5)	(3.7)	4.5	(14.9)	(14.9)	(0.3)
Pretax profit	14.2	3.3	326.9	20.6	(31.1)	79.3	69.9	13.4
Tax	(6.1)	-	NM	-	NM	(6.1)	-	NM
Net profit	8.0	3.3	142.2	20.6	(60.9)	73.1	69.9	4.6
Net profit ex-EI	19.6	21.4	(8.6)	20.6	(4.9)	84.7	88.0	(3.8)
EPU ex-EI (sen)	1.8	2.0	(9.0)	1.9	(4.7)	8.0	8.4	(5.5)
Gross DPU (sen)	3.9	4.2	(7.5)	-	NM	8.1	8.4	(3.7)
	4QFY18	4QFY17	+/- ppt	3QFY18	+/- ppt	FY18	FY17	+/- ppt
Net property margin (%)	76.6	77.6	(1.0)	77.1	(0.5)	77.1	77.7	(0.6)
Net income ex-EI margin (%)	45.9	48.0	(2.1)	47.6	(1.7)	48.8	48.9	(0.0)

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 rates may lead to lower earnings for MQREIT. 19% of MQREIT's total NLA is due for lease renewal in 2019 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	16.6	14.6	15.5	15.3	15.1
P/BV (x)	1.0	0.8	0.9	0.9	0.9
P/NTA (x)	1.0	0.8	0.9	0.9	0.9
DPU yield (%)	6.7	7.6	7.2	7.3	7.3
FCF yield (%)	9.7	10.0	10.1	10.2	10.5
INCOME STATEMENT (MYR m)					
Revenue	180.1	173.4	178.5	180.7	182.4
Net property income	140.0	133.7	136.2	137.9	139.2
Management and trustee fees	(14.9)	(14.9)	(14.9)	(15.0)	(15.0)
Net financing costs	(36.9)	(36.3)	(35.9)	(36.0)	(36.1)
Exceptionals	(18.2)	(3.2)	0.0	0.0	0.0
Pretax profit	69.9	79.3	85.4	86.9	88.1
Income tax	0.0	(6.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	69.9	73.1	85.4	86.9	88.1
Distributable inc to unitholders	92.4	87.1	88.2	89.7	90.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	76.0	85.8	83.9	81.5	79.1
Accounts receivable	5.2	5.6	5.8	5.9	5.9
Property, Plant & Equip (net)	0.2	0.3	2.1	3.7	5.3
Investment properties	2,159.5	2,158.7	2,158.7	2,158.7	2,158.7
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	47.5	20.9	20.9	20.9	20.9
Total assets	2,288.4	2,271.4	2,271.4	2,270.7	2,270.0
ST interest bearing debt	116.9	0.0	0.0	0.0	0.0
Accounts payable	20.3	15.8	16.8	17.0	17.2
LT interest bearing debt	736.6	853.7	853.7	853.7	853.7
Other liabilities	29.9	29.6	29.6	29.6	29.6
Total Liabilities	903.7	899.1	900.1	900.3	900.5
Shareholders Equity	1,384.7	1,372.3	1,371.3	1,370.4	1,369.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,384.7	1,372.3	1,371.3	1,370.4	1,369.5
Total liabilities and equity	2,288.4	2,271.4	2,271.4	2,270.7	2,270.0
CASH FLOW (MYR m)					
Cash flow from operations	129.1	113.3	122.1	123.2	127.6
Acquisitions & investments	(0.4)	(4.1)	(1.8)	(1.8)	(1.8)
Disposal of FA & investments	0.0	28.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	1.0
Other investing cash flow	2.2	3.7	4.7	4.6	5.5
CF from investing activities	1.8	27.6	2.9	2.8	4.7
Dividends paid	(72.6)	(89.8)	(86.4)	(87.9)	(89.0)
Interest expense	(37.2)	(39.2)	(40.6)	(40.6)	(40.6)
Change in debt	1.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	4.0	0.0	0.0	0.0
Other financial activities	(0.0)	(0.0)	0.0	0.0	0.0
CF from financing activities	(108.8)	(125.0)	(127.0)	(128.5)	(127.6)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	22.0	15.9	(1.9)	(2.4)	4.7

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.7	(3.7)	2.9	1.2	0.9
Net property income growth	36.8	(4.5)	1.9	1.2	0.9
Core net profit growth	48.6	(3.8)	0.9	1.8	1.3
Distributable income growth	56.2	(5.8)	1.3	1.7	1.3
Profitability ratios (%)					
Net property income margin	77.7	77.1	76.3	76.3	76.3
Core net profit margin	48.9	48.8	47.9	48.1	48.3
Payout ratio	115.4	106.6	91.0	91.0	90.9
DuPont analysis					
Total return margin (%)	38.8	42.2	47.9	48.1	48.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.1	5.3	6.2	6.3	6.4
ROAA (%)	3.8	3.7	3.8	3.8	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.1	56.0	56.1	56.4	56.6
Net interest cover (x)	3.4	3.3	3.4	3.4	3.4
Debt/EBITDA (x)	6.8	7.2	7.0	6.9	6.9
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	777.4	767.9	769.8	772.2	774.6
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38

Source: Company; Maybank

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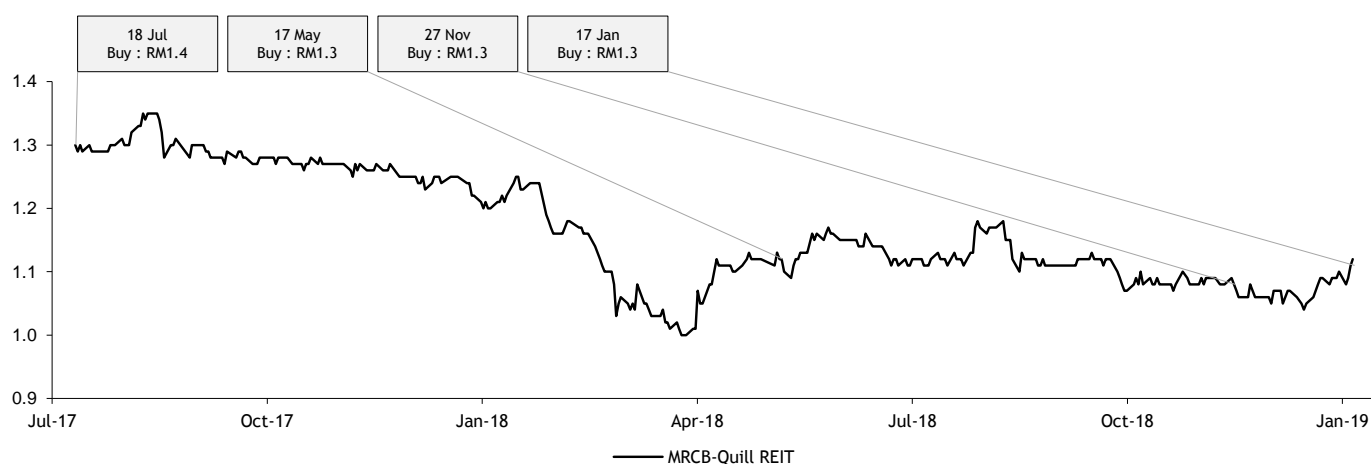
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