REITs

Malaysia

MRCB-Quill REIT (MQREIT MK)

Disposes QB8

BUY

Share Price	MYR 1.21
12m Price Target	MYR 1.35 (+12%)
Previous Price Target	*MYR 1.35*

Maintain BUY

We are neutral on MQREIT's proposed disposal of its industrial property which has decent occupancy rate but the disposal enables MQREIT to channel its resources into existing and future office assets. Earnings impact is marginal. We nudge down our FY18-19 earnings estimates by <1.0% p.a. but maintain our DDM-TP of MYR1.35 (cost of equity: 7.5%).

Selling its sole industrial asset

MQREIT has proposed to dispose Quill Building 8 – DHL XPJ (QB8) to Transmark Corporation Sdn Bhd (primarily in the business of trading of fitness equipment) for MYR28.0m cash. QB8 is a single-storey detached warehouse annexed with a 3-storey purposed built office building on an 88,856 sq.ft. land (NLA is 65,205 sq.ft.). MQREIT acquired the asset on 25 Mar 2008 with an investment cost of MYR28.8m and the market value as at 17 Oct 2017 was MYR25.0m. MQREIT expects a minimal disposal gain of MYR1.28m and the deal is expected to be completed by 2Q18.

Focusing on office assets

We are neutral on deal whereby the asset has decent occupancy rate of 92% (end-Sep 2017; single tenant). However, we understand that MQREIT plans to focus and channel its resources on its existing office assets and also making way for future injection of office building(s). We note that proceeds from the disposal is intended for paring down existing borrowings, asset enhancement initiatives (AEI), future acquisition(s) and working capital purposes. Based on our estimate, the deal could ease MQREIT's gross gearing to 0.36x from 0.37x (as at end-3Q17).

Minimal earnings impact

We nudge down FY18/19 earnings forecasts by 0.3%/0.7% after excluding QB8's rental income contributions from 2H18 onwards and assuming the entire disposal proceed goes to paring down its debt. Based on our estimates, QB8 contributes 1.5% p.a. to MQREIT's FY18-19 NPI. However, we maintain our DDM-TP of MYR1.35 as earnings impact is marginal.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	115	132	185	186	190
Net property income	90	102	137	140	142
Core net profit	54	59	90	94	97
Core EPU (sen)	8.2	9.0	8.4	8.7	8.9
Core EPU growth (%)	(6.7)	9.6	(5.9)	3.7	2.1
Net DPU (sen)	6.9	7.5	7.4	7.6	7.6
Net DPU growth (%)	(8.1)	8.8	(2.0)	3.2	0.0
P/NTA (x)	0.9	0.6	1.0	1.0	1.0
Net DPU yield (%)	5.7	6.2	6.1	6.3	6.3
ROAE (%)	8.4	5.6	6.6	6.9	7.1
ROAA (%)	4.3	3.0	3.9	4.1	4.2
Debt/Assets (x)	0.42	0.37	0.37	0.36	0.36
Consensus Net DPU	-	-	7.2	7.3	7.7
MKE vs. Consensus (%)	-	-	2.7	4.6	(1.4)

Company Description

MRCB-Quill REIT engages in the investment in commercial properties which are mainly located in the Klang Valley.

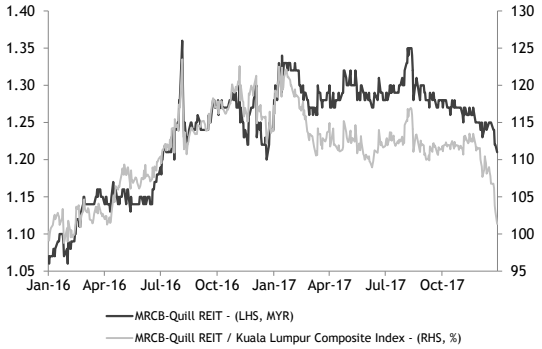
Statistics

52w high/low (MYR)	1.35/1.21
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.3B
	USD323M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(5)	(2)
Relative to index (%)	(9)	(9)	(11)

Source: FactSet

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FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
Price/DPU(x)	17.5	16.0	16.4	15.9	15.9
P/BV (x)	0.9	0.6	1.0	1.0	1.0
P/NTA (x)	0.9	0.6	1.0	1.0	1.0
DPU yield (%)	6.4	6.9	6.8	7.0	7.0
FCF yield (%)	10.9	13.1	10.6	9.9	10.2
INCOME STATEMENT (MYR m)					
Revenue	115.2	131.8	185.1	186.3	189.6
Net property income	**90.3**	**102.3**	**137.3**	**140.2**	**142.5**
Management and trustee fees	(9.8)	(12.4)	(9.5)	(9.5)	(9.5)
Net financing costs	(26.5)	(30.7)	(37.3)	(36.5)	(36.2)
Exceptionals	6.7	3.6	0.0	0.0	0.0
Pretax profit	**60.7**	**62.8**	**90.4**	**94.2**	**96.7**
Income tax	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**60.7**	**62.8**	**90.4**	**94.2**	**96.7**
Distributable inc to unitholders	54.0	59.2	90.4	94.2	96.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	44.9	54.1	57.6	49.4	45.7
Accounts receivable	5.6	17.6	24.8	24.9	25.4
Property, Plant & Equip (net)	0.2	0.2	9.5	18.6	27.7
Inverstment properties	1,569.8	2,222.0	2,222.0	2,194.0	2,194.0
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	4.7	3.4	3.4	3.4	3.4
Total assets	**1,625.2**	**2,297.3**	**2,317.2**	**2,290.4**	**2,296.2**
ST interest bearing debt	188.9	189.1	189.1	189.1	189.1
Accounts payable	13.6	28.4	46.0	44.3	45.3
LT interest bearing debt	500.8	662.5	662.5	634.5	634.5
Other liabilities	18.1	57.7	57.7	57.7	57.7
Total Liabilities	**721.4**	**937.6**	**955.3**	**925.6**	**926.5**
Shareholders Equity	903.9	1,359.7	1,362.0	1,364.8	1,369.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**903.9**	**1,359.7**	**1,362.0**	**1,364.8**	**1,369.6**
Total liabilities and equity	**1,625.2**	**2,297.3**	**2,317.2**	**2,290.4**	**2,296.2**
CASH FLOW (MYR m)					
Cash flow from operations	**87.0**	**105.0**	**138.3**	**129.1**	**133.9**
Acquisitions & investments	(752.2)	(648.9)	(9.3)	(9.3)	(9.5)
Disposal of FA & investments	27.3	0.0	0.0	28.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(1.5)	1.6	2.7	2.9	2.5
CF from investing activities	**(726.4)**	**(647.2)**	**(6.6)**	**21.6**	**(7.0)**
Dividends paid	(38.7)	(56.9)	(88.2)	(91.4)	(91.9)
Interest expense	(28.9)	(36.4)	(40.0)	(39.4)	(38.7)
Change in debt	389.0	164.0	0.0	(28.0)	0.0
Equity raised / (purchased)	342.0	487.9	0.0	0.0	0.0
Other financial activities	(2.4)	(7.3)	0.0	0.0	0.0
CF from financing activities	**661.0**	**551.4**	**(128.2)**	**(158.8)**	**(130.6)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**21.6**	**9.2**	**3.5**	**(8.2)**	**(3.7)**

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.0	14.4	40.5	0.6	1.8
Net property income growth	69.3	13.3	34.2	2.1	1.6
Core net profit growth	58.1	9.6	52.7	4.2	2.6
Distributable income growth	58.1	9.5	52.9	4.2	2.6
Profitability ratios (%)					
Net property income margin	78.4	77.6	74.2	75.3	75.2
Core net profit margin	46.9	44.9	48.9	50.6	51.0
Payout ratio	75.5	79.4	87.7	87.3	85.5
DuPont analysis					
Total return margin (%)	52.7	47.7	48.9	50.6	51.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	8.4	5.6	6.6	6.9	7.1
ROAA (%)	4.3	3.0	3.9	4.1	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.5	2.4	2.5	2.5
Net gearing (%) (excl. perps)	71.3	58.7	58.3	56.7	56.8
Net interest cover (x)	3.0	2.9	3.4	3.6	3.7
Debt/EBITDA (x)	8.6	9.5	6.7	6.3	6.2
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	644.9	797.5	794.0	774.2	777.9
Debt/Assets (x)	0.42	0.37	0.37	0.36	0.36

Source: Company; Maybank

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Malaysia

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Thailand

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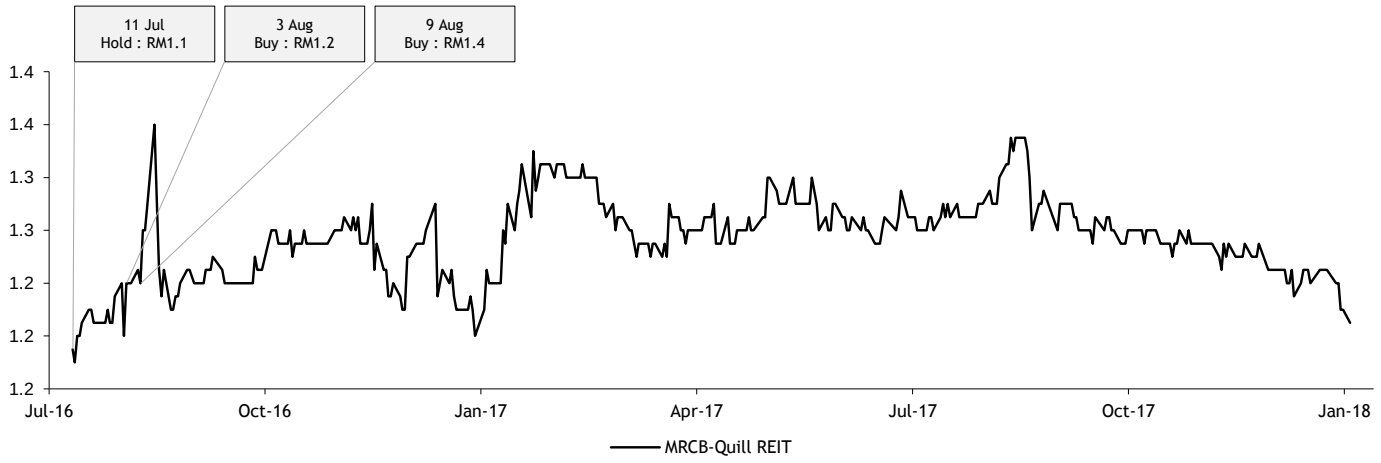
Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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