

# MRCB-Quill REIT (MQREIT MK)

Share Price: MYR1.17

MCap (USD): 204M

Malaysia

Target Price: MYR1.17 (-0%)

ADTV (USD): 0.1M

REITs

# HOLD

 (Unchanged)

## Within expectations

- 1H15 net profit of MYR22m (+31% YoY) was in line.
- Declares 2nd interim GDU of 2.22sen (YTD: 4.1sen, in line).
- Maintain HOLD rating, MYR1.17 DCF-based TP and earnings forecasts; MQREIT currently offers 6.6% net yield (FY16).

## What's New

2Q15 net profit of MYR13.6m (+59% YoY, +65% QoQ) brings 1H15 net profit to MYR21.9m (+31% YoY), meeting 38%/41% of our/consensus full-year estimates - within expectations, with 2H15 to see a full half-year contribution from Platinum Sentral and lower repair and maintenance expenses incurred on Plaza Mont' Kiara.

2Q15's strong YoY revenue growth of 86% (+73% QoQ) was largely attributed to: 1) a full quarter's contribution from Platinum Sentral (PS; acquisition completed on 30 Mar 2015), 2) higher revenue from Plaza Mont' Kiara (PMK), and 3) positive rental reversions of some properties. However, 2Q15 net profit grew by a relatively lower 59% on higher property operating expenses, interest costs and administrative expenses. As a result, 2Q15 net profit margin contracted 7ppt YoY to 42.4%.

A second interim gross DPU of 2.22sen which was also in line (YTD: 4.1sen), translating into a payout ratio of 96%.

## What's Our View

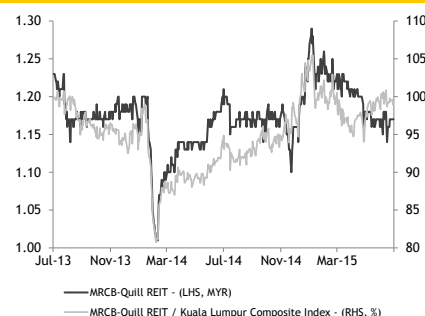
MQREIT's gearing has remained high at 0.44x (as at end-Jun 2015). This could entail the need for fund raising if MQREIT intends to embark on more M&A activity. Hence, we believe that MQREIT's inorganic growth catalysts in the near term are limited. We also remain cautious on MQREIT's near-term earnings outlook as demand for office space has remained soft.

We value MQREIT at MYR1.17 based on DCF valuation method (WACC: 6.1%, terminal yield: 7%). MQREIT offers net yield of 6.6% versus industry average of 5.8% (REITs under our coverage). HOLD.

### Key Data

52w high/low (MYR)	1.29/1.10
3m avg turnover (USDm)	0.1
Free float (%)	57.8
Issued shares (m)	661
Market capitalization	MYR773.8M
Major shareholders:	
- Malaysian Resources Corporation Bhd	31.2%
- CapitaCommercial Trust	17.7%
- Quill Land Sdn. Bhd.	7.4%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	0.0	(3.3)	(1.7)
Relative to index (%)	0.2	3.7	6.4

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	3	0
Maybank Consensus			
Target Price (MYR)	1.17	1.30	(9.8)
2015 DPU (sen)	8.3	8.6	(3.3)
2016 DPU (sen)	8.6	8.9	(3.3)

Source: FactSet; Maybank

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	68.9	70.2	113.9	124.4	126.5
Net property income	53.2	53.3	91.9	103.0	104.7
Distributable income	34.5	34.2	57.9	59.9	61.7
DPU (sen)	7.5	7.5	7.5	7.7	8.0
DPU growth (%)	0.0	0.0	(0.8)	3.5	2.9
Price/DPU(x)	15.5	15.5	15.6	15.1	14.7
P/BV (x)	0.9	0.8	0.9	0.9	0.8
DPU yield (%)	6.4	6.4	6.4	6.6	6.8
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Debt/Assets (x)	0.4	0.4	0.4	0.4	0.4

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## MRCB-Quill REIT: Results summary table

FY Dec (MYR m)	Quarterly					Cumulative		
	2QFY15	2QFY14	%YoY	1QFY15	%QoQ	1H FY15	1H FY14	%YoY
Gross revenue	32.2	17.3	85.5	18.6	72.9	50.8	34.5	47.1
Net property income	24.3	13.4	81.5	13.7	77.7	38.0	26.4	43.9
Interest income	0.1	0.3	(51.0)	0.1	14.1	0.3	0.4	(33.8)
Interest expense	(8.2)	(3.6)	129.7	(3.5)	131.5	(11.7)	(7.0)	67.6
Other expenses	(2.6)	(1.6)	68.8	(2.0)	32.5	(4.6)	(3.1)	49.4
Pretax profit	13.6	8.6	59.2	8.3	64.7	21.9	16.7	31.0
Tax	0.0	0.0	NA	0.0	NA	0.0	0.0	NA
Net profit	13.6	8.6	59.2	8.3	64.7	21.9	16.7	31.0
Net profit ex-EI	13.6	8.6	59.2	8.3	64.7	21.9	16.7	31.0
EPU (sen)	2.2	2.2	0.5	2.1	5.3	4.3	4.3	0.2
Gross DPU (sen)	2.2	2.0	10.4	1.9	18.1	4.1	4.1	0.0
	2QFY15	2QFY14	+/- ppt	1QFY15	+/- ppt	1H FY15	1H FY14	+/- ppt
Net property margin (%)	75.6	77.2	(1.6)	73.5	2.1	74.8	76.5	(1.7)
Net income ex-EI margin (%)	42.4	49.4	(7.0)	44.5	(2.1)	43.1	48.4	(5.3)

Source: Trust, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
Price/DPU(x)	15.5	15.5	15.6	15.1	14.7
P/BV (x)	0.9	0.8	0.9	0.9	0.8
P/NTA (x)	0.9	0.8	0.9	0.9	0.8
DPU yield (%)	7.2	7.2	7.1	7.4	7.6
FCF yield (%)	10.2	8.8	9.6	9.2	0.0

**INCOME STATEMENT (MYR m)**

Gross revenue	68.9	70.2	113.9	124.4	126.5
<b>Net property income</b>	<b>53.2</b>	<b>53.3</b>	<b>91.9</b>	<b>103.0</b>	<b>104.7</b>
Net financing costs	(12.9)	(13.3)	(21.7)	(30.1)	(29.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.1	6.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
<b>Total return before tax</b>	<b>36.6</b>	<b>40.3</b>	<b>57.9</b>	<b>59.9</b>	<b>61.7</b>
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	36.6	40.3	57.9	59.9	61.7
<b>Distributable inc to unitholders</b>	<b>34.5</b>	<b>34.2</b>	<b>57.9</b>	<b>59.9</b>	<b>61.7</b>

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	30.9	23.3	20.5	29.7	28.7
Accounts receivable	2.6	6.1	6.1	6.1	6.1
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	825.6	837.7	1,582.7	1,587.7	1,592.7
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	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>859.1</b>	<b>867.1</b>	<b>1,609.4</b>	<b>1,623.5</b>	<b>1,627.6</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	11.7	12.2	12.2	12.2	12.2
LT interest bearing debt	304.9	305.1	665.1	665.1	665.1
Other liabilities	10.1	9.8	26.1	37.3	38.2
<b>Total Liabilities</b>	<b>326.7</b>	<b>327.1</b>	<b>703.5</b>	<b>714.6</b>	<b>715.6</b>
Shareholders Equity	533.5	541.3	905.9	908.9	912.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>533.5</b>	<b>541.3</b>	<b>905.9</b>	<b>908.9</b>	<b>912.0</b>

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Gross revenue growth	(0.8)	1.9	62.1	9.3	1.6
Total return before tax growth	(8.7)	9.9	43.7	3.5	2.9
Total return growth	(8.7)	9.9	43.7	3.5	2.9
Distributable income growth	(8.7)	9.9	43.7	3.5	2.9
<b>Profitability ratios (%)</b>					
Total return before tax margin	53.2	57.3	50.8	48.2	48.8
Payout ratio	80.3	73.0	85.5	85.5	85.5
<b>DuPont analysis</b>					
Total return margin (%)	53.2	57.3	50.8	48.2	48.8
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.8	1.8	1.8
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
<b>Liquidity &amp; Efficiency</b>					
Days receivable outstanding	31.0	22.4	19.4	17.8	17.5
Days payables outstanding	262.9	254.1	200.9	205.8	202.3
Dividend cover (x)	1.2	1.4	1.2	1.2	1.2
Current ratio (x)	2.0	2.0	0.9	0.9	0.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.6	2.7	2.3	2.3	2.3
Net debt/equity (%)	51.4	52.1	71.2	69.9	69.8
Net interest cover (x)	3.7	3.6	3.7	3.0	3.1
Debt/EBITDA (x)	6.4	6.4	8.4	7.4	7.4
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	274.0	281.8	644.6	635.4	636.4

Source: Company; Maybank

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