

Company Flash Note

MRCB-Quill REIT

Bloomberg: MQREIT MK | Reuters: MQRE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

4 Dec 2015

HOLD

Last Traded Price: RM1.09 (KLCI : 1,673.92)

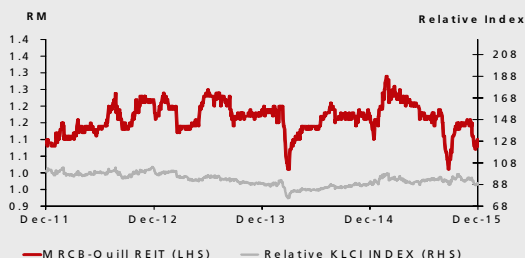
Price Target : RM1.20 (10% upside) (Prev RM1.20)

Shariah Compliant: No

Analyst

Marvin KHOR +603 2604 3911
marvinkhor@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	70	109	124	129
EBITDA	47	77	89	93
Pre-tax Profit	40	50	57	58
Net Profit	40	50	57	58
Net Pft (Pre Ex.)	34	50	57	58
EPS (sen)	10.3	8.4	8.6	8.8
EPS Pre Ex. (sen)	8.8	8.4	8.6	8.8
EPS Gth (%)	10	(19)	2	3
EPS Gth Pre Ex (%)	(1)	(4)	2	3
Diluted EPS (sen)	10.3	8.4	8.6	8.8
Net DPS (sen)	8.4	8.4	8.6	8.8
BV Per Share (sen)	138.7	133.5	133.6	133.5
PE (X)	10.6	13.0	12.7	12.4
PE Pre Ex. (X)	12.4	13.0	12.7	12.4
P/Cash Flow (X)	8.4	8.8	8.2	7.8
EV/EBITDA (X)	15.1	17.2	15.7	15.2
Net Div Yield (%)	7.7	7.7	7.8	8.1
P/Book Value (X)	0.8	0.7	0.8	0.8
Net Debt/Equity (X)	0.5	0.8	0.8	0.8
ROAE (%)	7.5	7.0	6.4	6.6

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

Shelling out for major office space

- Enters HoA with MRCB for proposed RM640m acquisition of Menara Shell
- Definitive SPA to come after due diligence, minimal details for now
- Sizeable capital raising required due to high gearing
- Keeping forecasts under review pending further details from management

Sizeable buy from MRCB. MQREIT yesterday announced that it had entered into a Heads of Agreement (HoA) with 348 Sentral Sdn Bhd, subsidiary of major shareholder Malaysian Resources Corp (MRCB), for the proposed acquisition of Menara Shell for RM640m. The definitive sale and purchase agreement (SPA) will only be entered into after due diligence is completed by MQREIT, within 30 business days of the HoA plus a 30-day extension.

Well-located office asset. Menara Shell is a 33-storey office building, with an adjoining 5-storey podium and 4-storey basement car park, located in the well-connected Kuala Lumpur Sentral development. Occupancy is near-full, with established tenants like Shell People Services Asia Sdn Bhd, AmlInsurance General Bhd and Tradewinds Corporation. The total NLA of 556,468 sq ft implies a price of RM1,180psf. While no rental or NPI guidance was given, we did a brief sensitivity analysis (see overleaf) on the potential injection yields.

Significant cash raising needed. MQREIT's relatively high gearing of 42.8% implies immediate debt headroom of only c.RM116m, given the 50% cap as per REIT requirements. As such, the buy will have to be sizeably equity funded at least in the initial stages, which may involve substantial unit issuance and raises the risks of some near-term dilution. We include a sensitivity analysis of the possible funding structure overleaf. Another wrinkle in the fold is the 25% public spread requirement - as the major shareholders (MRCB, Quill group, and Capitaland) already collectively hold 67% of MQREIT.

Under review pending further guidance. While the acquisition could potentially boost MQREIT's AUM by 41% to RM2.1bn, accretion to unitholders remains a key question due to the variability of key factors. To clarify, DPU upside may come from higher NPI yields or smaller unit issuance, and vice versa. Pending further details from management, we make no changes to our forecast.

NPI yield sensitivity analysis

NLA (sq ft)	556,468		
Purchase consideration (RM m)	640.0		
Average rental (RM psf/mth)*	7.0	7.5	8.0
Occupancy (%)*	99%	99%	99%
Rental revenue (RM m)*	46.3	49.6	52.9
Other revenue (RM m)*^	4.6	5.0	5.3
Total income (RM m)*	50.9	54.5	58.2
NPI margin (%)*	80%	80%	80%
NPI (RM m)*	40.7	43.6	46.5
Implied NPI yield	6.4%	6.8%	7.3%

*assumptions

^assumed 10% of rental revenue

Source: AllianceDBS

Unit issuance sensitivity analysis

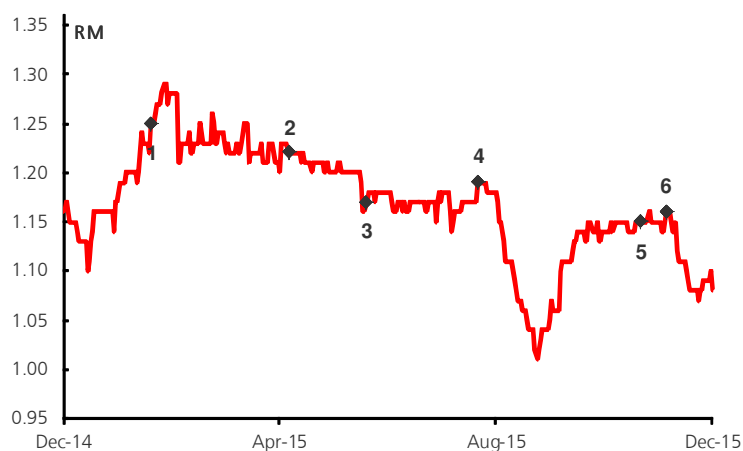
Units in circulation (m)	661.4		
Current total borrowings (RM m)	688.2		
Current total assets (RM m)	1,607.7		
Current gearing (total debt/total assets)	42.8%		
Capital raised (RM m)*	300.0	350.0	400.0
Additional debt (RM m)*^	340.0	290.0	240.0
Unit issuance (m)*#	275.2	321.1	367.0
Implied debt:equity structure	53:47	45:55	27:63
Implied final gearing	45.7%	43.5%	41.3%
Implied unit base increase	42%	49%	55%

*assumptions

^assumed taken post-equity raising

#assumed 3 Dec closing price of RM1.09/unit

Source: AllianceDBS

Target Price & Ratings History**Note:** Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	20 Jan 15	1.25	1.25	HOLD
2:	08 Apr 15	1.22	1.25	HOLD
3:	21 May 15	1.17	1.25	HOLD
4:	23 Jul 15	1.19	1.25	HOLD
5:	23 Oct 15	1.15	1.20	HOLD
6:	06 Nov 15	1.16	1.20	HOLD

Source: AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com