REITs

Malaysia

MRCB-Quill REIT (MQREIT MK)

Buys Menara Shell

HOLD

Share Price	MYR 1.09
12m Price Target	MYR 1.15 (+6%)
Previous Price Target	*MYR 1.15*

Another office acquisition in KL Sentral

We are Neutral on this latest acquisition pending further details from the management. With Shell People Services Asia and AmGeneral Insurance being the anchor tenants with long-term leases, this new office building asset should have relatively low occupancy risks. We maintain our earnings forecasts and MYR1.15 DCF-based TP. HOLD.

Acquires Menara Shell from its sponsor

MQREIT has entered into a Heads of Agreement (HOA) to acquire a 33 storey office tower known as 'Menara Shell' together with a five-storey podium and a four-storey basement car park in Kuala Lumpur Sentral for MYR640m cash. The seller is 348 Sentral Sdn Bhd (a 100%-subsidiary of MQREIT's major unitholder). A definitive SPA will be signed upon the completion of the valuation and due diligence exercise on Menara Shell within 30 business days from the date of the HOA with an automatic extension of 30 business days. The purchase will be funded by debt and new units, we understand.

Neutral on the deal

We are Neutral on this acquisition pending further information from the management. Based on our back-of the-envelope calculation, the acquisition seems to be yield accretive with an estimated 6.3% net property yield, which is close to our estimated funding cost of 6.2% for MQREIT. Our assumptions include: i) an assumed ARR of MYR8.00 psf (similar to surrounding average office rental psf), 2) 100% occupancy rate and 3) 75% net property margin.

Maintain our forecasts

While we remain cautious on the broader office market segment which is in over-supply, we understand that Menara Shell is currently 60%-leased to Shell People Services Asia and is backed by a long-term lease; hence, it has a relatively low occupancy risk, providing some stability to rental income. Post-acquisition, MQREIT's gross gearing ratio could remain at about 0.43x, on par with the gearing ratio as at end-Sep 2015, assuming only 40% of the acquisition to be funded by borrowings.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	69	70	114	124	126
Net property income	53	53	86	100	103
Distributable income	35	34	52	56	60
DPU (sen)	7.5	7.5	6.7	7.3	7.8
DPU growth (%)	0.0	0.0	(10.5)	8.2	6.2
Price/DPU(x)	14.5	14.5	16.2	14.9	14.1
P/BV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	6.9	6.9	6.2	6.7	7.1
ROAE (%)	6.9	7.5	7.2	6.2	6.6
ROAA (%)	4.3	4.7	4.2	3.5	3.7
Debt/Assets (x)	0.4	0.4	0.4	0.4	0.4
Consensus DPU	-	-	0.1	0.1	0.1
MKE vs. Consensus	-	-	(8.6)	(2.2)	2.6

Company description

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

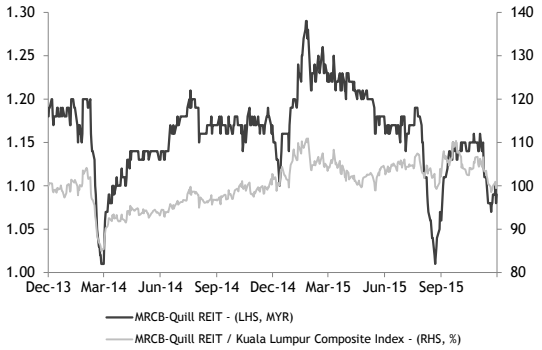
Statistics

52w high/low (MYR)	1.29/1.01
3m avg turnover (USDm)	0.0
Free float (%)	68.0
Issued shares (m)	661
Market capitalisation	MYR720.9M
	USD171M

Major shareholders:

CapitaLand Commercial Trust	17.7%
Quill Land Sdn. Bhd.	7.4%
Quill Properties Sdn. Bhd.	7.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	3	(7)
Relative to index (%)	(4)	(2)	(2)

Source: FactSet

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FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	14.5	14.5	16.2	14.9	14.1
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.7	7.7	6.9	7.4	7.9
FCF yield (%)	10.9	9.4	9.5	9.0	0.0
INCOME STATEMENT (MYR m)					
Gross revenue	68.9	70.2	113.9	124.4	126.5
Net property income	**53.2**	**53.3**	**86.4**	**99.8**	**103.4**
Net financing costs	(12.9)	(13.3)	(22.2)	(30.5)	(30.4)
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
Total return before tax	**36.6**	**40.3**	**52.2**	**56.5**	**60.0**
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	52.2	56.5	60.0
Distributable inc to unitholders	**34.5**	**34.2**	**52.2**	**56.5**	**60.0**
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	30.9	23.3	40.2	46.5	46.6
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
Inverstment 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	1.0	1.2	0.0	0.0	0.0
Total assets	**860.1**	**868.4**	**1,629.1**	**1,640.4**	**1,645.4**
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	685.1	685.1	685.1
Other liabilities	10.1	9.8	26.1	34.6	36.6
Total Liabilities	**326.7**	**327.1**	**723.5**	**731.9**	**734.0**
Shareholders Equity	533.5	541.3	905.6	908.4	911.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**533.5**	**541.3**	**905.6**	**908.4**	**911.4**
Total liabilities and equity	**860.1**	**868.4**	**1,629.1**	**1,640.4**	**1,645.4**

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	(0.8)	1.9	62.1	9.3	1.6
Total return before tax growth	(8.7)	9.9	29.6	8.2	6.2
Total return growth	(8.7)	9.9	29.6	8.2	6.2
Distributable income growth	(8.7)	9.9	29.6	8.2	6.2
Profitability ratios (%)					
Total return before tax margin	53.2	57.3	45.8	45.4	47.5
Payout ratio	80.3	73.0	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	53.2	57.3	45.8	45.4	47.5
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	7.2	6.2	6.6
ROAA (%)	4.3	4.7	4.2	3.5	3.7
Liquidity & Efficiency					
Days receivable outstanding	31.0	22.4	19.4	17.8	17.5
Days payables outstanding	262.9	254.1	160.3	179.1	191.3
Dividend cover (x)	1.2	1.4	1.2	1.2	1.2
Current ratio (x)	2.0	2.0	1.5	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.3	2.2	2.2
Net debt/equity (%)	51.4	52.1	71.2	70.3	70.1
Net interest cover (x)	3.7	3.6	3.4	2.9	3.0
Debt/EBITDA (x)	6.4	6.4	9.2	7.9	7.8
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	274.0	281.8	644.9	638.6	638.6

Source: Company; Maybank

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Malaysia

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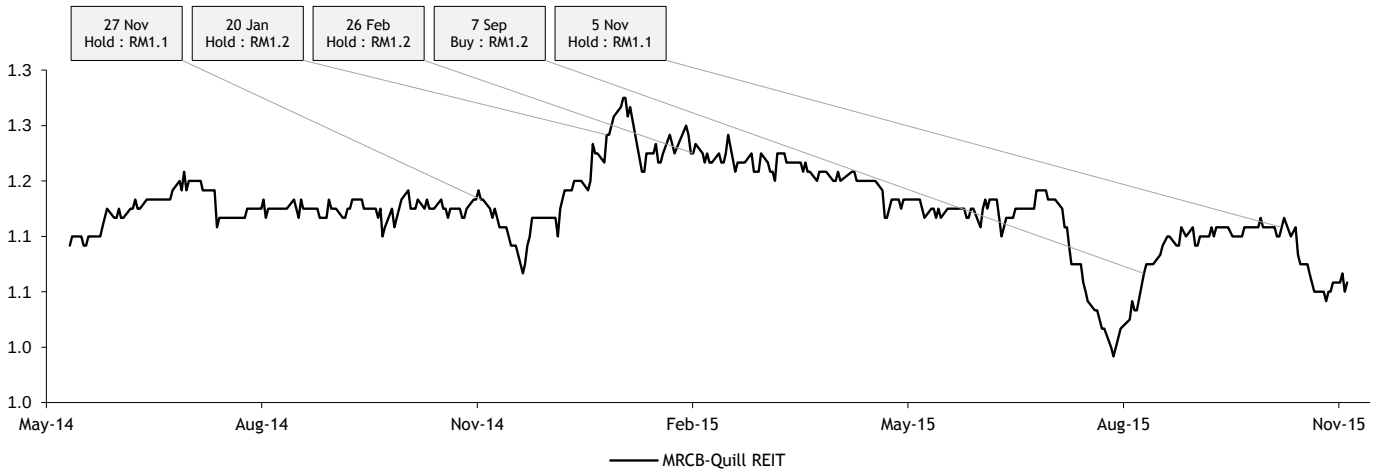
Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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