COMPANY RESEARCH | Rating Change

Maybank IB Research

September 7, 2015

MRCB-Quill REIT (MQREIT MK)

Share Price: MYR1.06	MCap (USD): 165M	Malaysia
Target Price: MYR1.17 (+10%)	ADTV (USD): 0.0M	REITs

BUY (Upgrade)

Turning attractive; U/G to BUY

- Recent unit price decline reveals value; 7.3% net yield (306bps >MGS) provides buffer against volatile bond yields.
- A well-managed office REIT with a weighted average lease expiry (WALE) of 7.6 years.
- Maintain earnings forecasts but upgrade the call to BUY (from HOLD) with an unchanged MYR1.17 DCF-based TP.

What's New

With the expected completion of Quill Building (QB) 10 sale to Aldwych Capital Sdn Bhd soon, MQREIT's overall occupancy rate will improve to 97% from 93%. Apart from paring down its debts, proceeds from the sale (MYR27m) will be used to build an additional 500+ parking bays at QB2-HSBC. These parking bays would start contributing from 2017 onwards, we were told.

Elsewhere, BMW would likely sign another ten years lease at QB3, we understand. The building's occupancy rate has been improved to 80% (from 73%) since July 2015 as BMW takes up more space.

What's Our View

We are turning positive on MQREIT's hands-on management and its ability to retain tenants. In our view, strong tenant management is paramount to ensure income stability especially when the office market outlook remains challenging. Most of MQREIT's office assets are backed by long leases. Despite KL CBD's office market being in an oversupply situation, Platinum Sentral (PS) and Wisma Technip are 100%-occupied as at Sep 2015. PS' tenants are largely GLCs (63% of total NLA) with long lease agreement of >5 years. As for its retail assets, Plaza Mont Kiara is on a 3-year lease term but enjoys almost full tenancy at 97%.

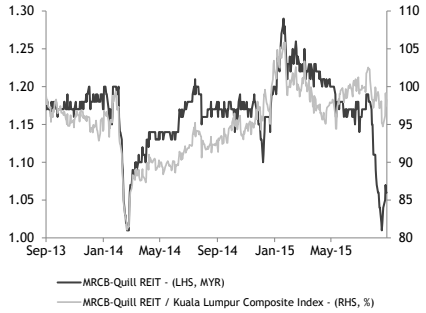
MQREIT's unit price has declined by -5.5% YTD and it now offers an attractive net yield of 7.3% (versus 10-year MGS' 4.24%), providing some buffer if there is a sudden surge in bond yield. Oversupply in the office market should have been fully reflected in MQREIT's unit price. Our DCF-TP is based on 6.1% WACC and 7% terminal yield.

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)	14.1	14.1	14.2	13.7	13.3
P/BV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.1	7.1	7.1	7.3	7.5
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

Key Data

52w high/low (MYR)	1.29/1.01
3m avg turnover (USDm)	0.0
Free float (%)	57.8
Issued shares (m)	661
Market capitalization	MYR701.1M
Major shareholders:	
-CapitaLand Commercial Trust	17.7%
-Quill Land Sdn. Bhd.	7.4%
-Quill Properties Sdn. Bhd.	7.0%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(7.8)	(9.4)	(9.4)
Relative to index (%)	(0.0)	(0.7)	6.6

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	3	0
	Maybank	Consensus	% +/-
Target Price (MYR)	1.17	1.27	(8.0)
2015 DPU (sen)	8.3	8.4	(0.4)
2016 DPU (sen)	8.6	8.7	(1.0)

Source: FactSet; Maybank

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FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	14.1	14.1	14.2	13.7	13.3
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 (%)	7.9	7.9	7.8	8.1	8.4
FCF yield (%)	11.3	9.7	10.6	10.1	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**	**91.9**	**103.0**	**104.7**
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
Total return before tax	**36.6**	**40.3**	**57.9**	**59.9**	**61.7**
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
Distributable inc to unitholders	**34.5**	**34.2**	**57.9**	**59.9**	**61.7**
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
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	0.0	0.0	0.0	0.0	0.0
Total assets	**859.1**	**867.1**	**1,609.4**	**1,623.5**	**1,627.6**
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
Total Liabilities	**326.7**	**327.1**	**703.5**	**714.6**	**715.6**
Shareholders Equity	533.5	541.3	905.9	908.9	912.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**533.5**	**541.3**	**905.9**	**908.9**	**912.0**

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	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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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