

05 May 2017

MRCB-Quill REIT

1Q17 Within Expectations

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1Q17 realised net income (RNI) of RM23.2m was well within our and market expectations at 25% and 26%, respectively. No dividends, as expected. Maintain FY17-18E earnings of RM92.0-95.5m. Maintain OUTPERFORM and TP to RM1.36, based on FY18E GDPS of 8.40 sen and a +2.00ppt spread to our 10-year MGS target of 4.20%.

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Results Highlights. YoY-Ytd, RNI was up by 52%, primarily driven by top-line growth (+40%) from; (i) the acquisition of Menara Shell in Dec 2016, and (ii) positive reversions from QB3, Wisma Technip and QB2. This was on the back of higher financing cost (+24%) to part finance the acquisition of Menara Shell. Despite higher RNI, EPU was slightly lower due to dilution post the completion of the placement in end FY16. **QoQ**, top-line was up by 34% due to similar reasons mentioned above, while NPI margins improved by +4.0ppt to 79% due to higher cost incurred in 4Q16 for repairs and maintenance. Additionally, lower expenditure (-14%) due to lower administrative expense (-96%) helped RNI improve by a solid 74%.

Outlook. FY17-18E leases up for expiry are minimal at 14.0-26.0% of net lettable assets (NLA) which is preferable in current times where the office market is facing an oversupply situation, given the risk of tenant attrition. As such, we are expecting low single-digit reversions. Additionally, we expect minimal capex in FY17-18 of RM10-12m for maintenance. Menara Shell's acquisition was completed in Dec 2016 and is expected to accrete fully in FY17 which we have accounted for.

Maintain FY17-18E earnings of RM92.0-95.5m. Our FY17-18E GDPU of 8.4-8.4 sen suggests gross yields of 6.4%.

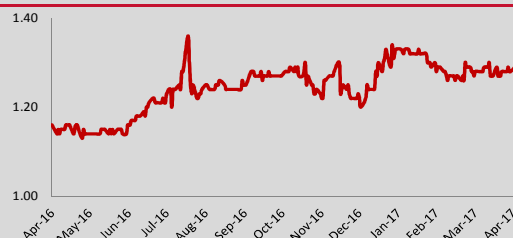
Maintain OUTPERFORM and TP of RM1.36 based on FY18E GDPS of 8.40 sen. Post rolling forward our valuation to FY18E (from FY17E), we make no changes to our TP as we expect flattish DPU YoY. To recap, we expect a slightly lower dividend pay-out of 96% in FY18 (vs. 98% in FY17), which is closer to historical pay-out ratios of 94-96%. Our TP is based on a +2.00ppt spread to the 10-year MGS target of 4.20%, implying a target yield of 6.2% vs. MREITs (>RM1b) under our coverage average of 5.5%. Our applied spread is above large cap MREITs (>RM1b) under our coverage (between +0.8ppt to +1.70ppt) as MQREIT is slightly smaller than large cap REITs, while the office segment may not be perceived well compared to retail and industrial due to oversupply issue. However, despite our conservative valuations, we are comfortable with our OUTPERFORM call as MQREIT is commanding attractive gross yields of 6.5% vs MREIT peers (>RM1b) under our coverage average of 5.8%.

Risks to our call include bond yield expansions or compressions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: RM1.32
Target Price: RM1.36 ↔

Share Price Performance



KLCI 1,758.67
YTD KLCI chg 7.1%
YTD stock price chg 10.0%

Stock Information

Shariah Compliant No
Bloomberg Ticker MQREIT MK Equity
Market Cap (RM m) 1,409.8
Issued shares 1,068.0
52-week range (H) 1.35
52-week range (L) 1.09
3-mth avg daily vol: 386,903
Free Float 54%
Beta 0.7

Major Shareholders

MRCB 27.9%
CAPITALAND LIMITED 11.0%
EMPLOYEES PROVIDENT FUND 7.3%

Summary Earnings Table

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	131.8	182.9	193.7
EBIT	102.3	125.5	133.5
PBT	62.8	92.0	95.5
Net Profit	62.8	92.0	95.5
Core NP (RNI)	59.2	92.0	95.5
Consensus (CNP)	n.a.	88.6	93.5
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.8	8.6	8.8
Core EPS growth (%)	-2%	-3%	3%
GDPS (sen)	8.4	8.4	8.4
BV/Share (RM)	1.27	1.28	1.28
Core PER (x)	15.0	15.4	15.0
ROE (%)	0.37	0.39	0.39
G. Dividend Yield (%)	6.3	6.4	6.4



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Result Highlight						
	FYE 31 Dec (RM'm)	1Q17	4Q16	QoQ	1Q16	YoY
Gross revenue		45.6	34.1	34%	32.7	40%
Prop Opex		-9.4	-8.5	12%	-7.2	31%
NPI excl unrealised rental income		36.1	25.6	41%	25.4	42%
Interest Income		0.5	1.1	-60%	0.4	16%
Gain on divestment prop		0.0	0.0	n.a.	0.0	n.a.
Surplus on revaluation		0.0	3.5	-100%	0.0	n.a.
Total Trust Income		36.6	30.3	21%	25.8	42%
Expenditure		-3.7	-4.3	-14%	-2.7	34%
Finance Cost		-9.7	-9.1	7%	-7.9	24%
Total Expenditure		-13.4	-13.4	0%	-10.6	27%
Income Before Tax		23.2	16.9	37%	15.2	52%
Tax		0.0	0.0	n.a.	0.0	n.a.
Net Income		23.2	16.9	37%	15.2	52%
Realised Net income (RNI)		23.2	13.3	74%	15.2	52%
EPU (sen)		2.17	1.89	15%	2.3	-6%
DPU (sen)		0	4.15	-100%	0	
NAV/unit (RM)		1.30	1.27		1.34	
Gearing (x)		0.37	0.37		0.43	
NPI Margins		79%	75%		78%	
RNI Margins		51%	39%		47%	
Source: Company, Kenanga Research						

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Peer Comparison

NAME	Price (4/5/17) (RM)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
			FY15/16	FY16/17	FY17/18				FY15/16	FY16/17	FY17/18				
M-REIT & PROPERTY INVESTMENT UNDER COVERAGE															
KLCCSS *	7.91	14,280	21.2	19.0	18.7	4.7%	9.2%	1.1	674.6	752.2	765.2	11.5%	1.7%	7.84	MARKET PERFORM
Pavilion REIT	1.72	5,205	22.1	18.8	18.3	4.9%	7.4%	1.3	235.3	276.6	285.6	17.5%	3.3%	1.94	OUTPERFORM
IGB REIT*	1.68	5,886	21.0	20.6	19.4	5.0%	6.9%	1.6	277.8	286.7	303.9	3.2%	6.0%	1.82	OUTPERFORM
Sunway REIT*	1.71	5,036	19.6	18.6	17.3	4.9%	8.0%	1.1	256.3	271.3	290.7	5.9%	7.2%	1.80	MARKET PERFORM
CapitaMalls (M) Trust*	1.49	3,032	18.5	17.4	17.0	5.2%	6.4%	1.1	171.1	173.8	178.4	1.6%	2.6%	1.59	MARKET PERFORM
Axis REIT*	1.70	1,879	20.8	18.2	17.4	4.9%	8.9%	1.3	90.2	103.2	108.1	14.4%	4.8%	1.66	MARKET PERFORM
MRCB-Quill REIT	1.32	1,410	15.0	15.4	15.0	5.7%	8.4%	1.6	59.2	92.0	95.5	55.5%	3.8%	1.36	OUTPERFORM
* Core NP and Core PER															
** KLCCSS, CMMT, AXREIT, PAVREIT and IGBREIT based on FYDec16E and SUNREIT on FYJun16E/FY17E															
CONSENSUS NUMBERS															
YTL Hospitality REIT	1.19	2,028	n.a.	16.3	15.3	6.2%	-0.2%	0.9	111.0	131.5	138.0	18.5%	4.9%	1.35	BUY
Al-'Aqar Healthcare REIT	1.54	1,121	17.7	17.9	n.a.	5.5%	7.1%	1.3	61.3	n.a.	n.a.	n.a.	n.a.	1.80	BUY
AmanahRaya REIT	0.94	539	13.3	14.9	14.0	5.9%	5.9%	0.8	35.9	38.6	n.a.	7.5%	n.a.	1.15	BUY
AmFIRST REIT	0.78	535	24.0	n.a.	n.a.	n.a.	2.5%	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
Hektar REIT	1.59	637	14.8	13.8	14.5	6.6%	7.4%	1.1	44.0	48.0	50.0	9.1%	4.2%	1.59	NEUTRAL
MRCB-Quill REIT	1.32	1,410	15.1	15.9	15.0	6.1%	5.5%	1.0	88.6	93.5	97.4	5.6%	4.1%	1.35	BUY
Tower REIT	1.20	337	16.9	n.a.	n.a.	n.a.	3.7%	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
UOA REIT	1.74	736	14.8	n.a.	n.a.	n.a.	7.1%	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
Atrium REIT	1.14	139	25.9	n.a.	n.a.	n.a.	2.7%	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
Al-Salam REIT	1.04	603	12.9	16.0	16.0	5.8%	7.8%	1.0	38.1	39.1	40.2	2.5%	2.9%	1.16	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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