

COMPANY RESULTS

MRCB-Quill Reit (MQREIT MK)

1Q20: Within Expectations. Earnings To Remain Resilient

1Q20 core earnings were within expectations, accounting for 25% of our full-year forecast. Core net earnings improved 6.4% qoq on the back of stable earnings and lower expenses. Earnings will remain resilient throughout 2020, leading to sustainable dividends with an attractive current dividend yield of 10%. Maintain BUY with a lower target price of RM0.97.

1Q20 RESULTS

Year to 31 Dec (RMm)	1Q20	4Q19	qoq % chg	yoy % chg
Gross revenue	41.7	42.0	(0.6)	0.8
Operating expenses	(9.4)	(10.5)	(10.1)	0.9
Net property income	32.3	31.5	2.5	0.8
Finance cost	(9.5)	(10.3)	(7.0)	(3.1)
Core Net Profit	19.8	18.6	6.4	1.9
EPU (sen)	1.8	1.7	6.4	1.9
DPU (sen)	0.0	3.4	n.a.	n.a.

Source: MRCB-Quill Reit, UOB Kay Hian

RESULTS

- **Within expectations.** MRCB-Quill REIT (MQREIT) reported 1Q20 revenue of RM41.7m (-0.6% qoq, +0.8% yoy) and core net profit of RM19.8m (+6.4% qoq, +1.9% yoy). Core net profit accounts for 25% of our and 27% of consensus' full-year forecasts.
- MQREIT typically declares dividends in the second and final quarters.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	173	162	167	170	172
EBITDA	119	108	113	117	118
Operating profit	119	108	113	117	118
Net profit (rep./act.)	73	29	76	80	83
Net profit (adj.)	83	72	76	80	83
EPS (sen)	7.7	6.7	7.1	7.5	7.7
PE (x)	9.0	10.2	9.7	9.2	8.9
P/B (x)	0.5	0.6	0.6	0.6	0.6
EV/EBITDA (x)	12.7	13.9	13.3	12.8	12.8
Dividend yield (%)	11.7	9.9	10.1	10.6	11.0
Net margin (%)	42.2	18.0	45.3	47.1	48.2
Net debt/(cash) to equity (%)	56.0	58.4	57.9	57.4	55.9
Interest cover (x)	3.3	3.0	3.0	3.2	3.4
ROE (%)	5.3	2.2	5.7	6.1	6.2
Consensus net profit	-	-	75	76	76
UOBKH/Consensus (x)	-	-	1.02	1.06	1.09

Source: MRCB-Quill Reit, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM0.69
Target Price	RM0.97
Upside	+39.5%
(Previous TP)	RM1.17)

COMPANY DESCRIPTION

MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MQREIT MK
Shares issued (m):	1,071.8
Market cap (RMm):	739.5
Market cap (US\$m):	172.8
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low			RM1.09/RM0.510	
1mth	3mth	6mth	1yr	YTD
(7.4)	6.2	(30.7)	(35.5)	(31.0)

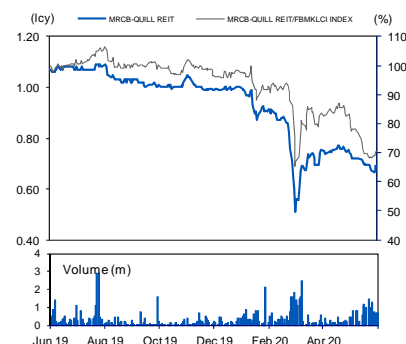
Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
Capitaland Ltd	10.9

FY20 NAV/Share (RM) 1.24

FY20 Net Debt/Share (RM) 0.72

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Third sequential earnings improvement.** Net profit improved 6.4% qoq, even though revenue was flat mainly due to stable occupancy rate as well as lower operating expenses and finance cost. NPI margin improved to 77.4% (4Q19: 75%, 1Q19: 77.4%). We expect earnings to remain resilient as MQREIT's tenants are mostly well-established MNCs and local businesses that are able to ride out the current situation.
- **Occupancy rate to continue to improve.** On a portfolio basis, occupancy rate inched up to 90.5% (4Q19: 90%, 1Q19: 89%), well above the average of 77% in 2019 for office buildings in Kuala Lumpur. Occupancy at Menara Shell improved to 99% from 95%, while occupancies for Platinum Sentral and Wisma Technip were maintained at 84% and 90% respectively. Total lease for renewal for 2020 and 2021 are 19% and 21% of total NLA respectively. MQREIT successfully renewed 93% of leases due in 1Q20. MQREIT's WALE is 4.65 years.
- **Gearing at 38.3%.** MQREIT's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions.

EARNINGS REVISION/RISK

- **Trim 2020-22F core net profit by 3%,** as we adjust our occupancy assumptions for Platinum Sentral to 86% from 90%, and Menara Shell to 99% from 96%. We have also factored in three months' rental relief for their retail tenants (small base).
- **Minimal impact from COVID-19** as its rental collection remains strong throughout the MCO period in 2Q20. Management is maintaining its dividend payout of at least 90%. Our 2020 dividend forecast translates to a dividend yield of almost 10%.
- We are forecasting 5% growth for 2020 on the back of improvement in occupancy for Wisma Technip, Platinum Sentral and Menara Shell (vs 2019).

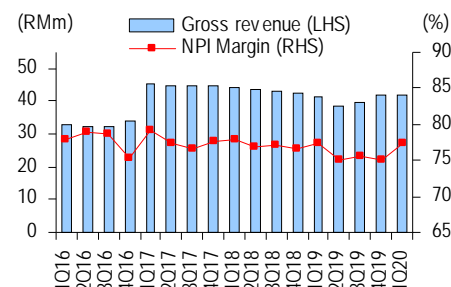
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM0.97** (from RM1.17) after earnings adjustment and updating our beta assumption. Target price is based on a dividend discount model (required rate of return: 8.5%, terminal growth: 1.3%) and represents an implied dividend yield of 7.2% and 7.6% for 2020 and 2021 respectively.
- We expect MQREIT to claw back its 31% share price decline ytd (it sorely underperformed the REIT sector which has declined 7.7% ytd) as valuation rerates to reflect its attractive sustainable high dividend yields of 10% for 2020-22, backed by its property portfolio's stable occupancy.

SHARE PRICE CATALYST

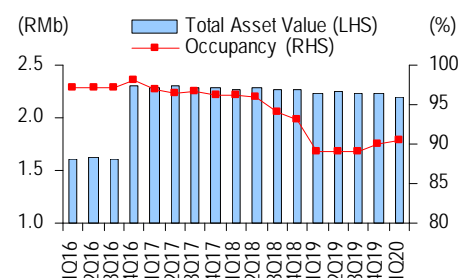
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



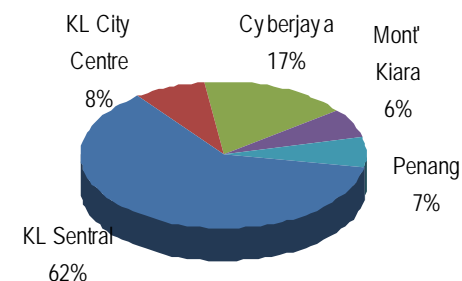
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



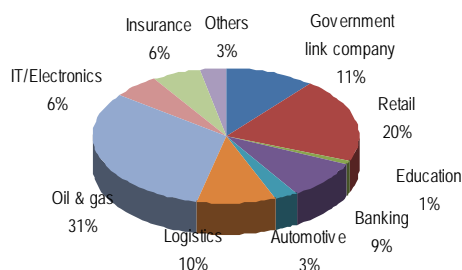
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION (BY VALUATION)



Source: MQREIT, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: MQREIT, UOB Kay Hian

FORECAST ASSUMPTIONS – OCCUPANCY

Property	2020	2021	2022
Platinum Sentral	86%	86%	86%
Menara Shell	99%	99%	99%
Wisma Technip	90%	90%	90%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	162	167	170	172
EBITDA	108	113	117	118
Deprec. & amort.	0	0	0	0
EBIT	108	113	117	118
Net interest income/(expense)	(36)	(37)	(37)	(35)
Pre-tax profit	35	76	80	83
Tax	(6)	0	0	0
Net profit	29	76	80	83
Net profit (adj.)	72	76	80	83

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,143	2,145	2,147	2,149
Other LT assets	1	1	1	1
Cash/ST investment	63	88	114	103
Other current assets	6	6	7	7
Total assets	2,214	2,241	2,268	2,260
ST debt	333	318	303	273
Other current liabilities	21	27	33	53
LT debt	503	538	573	573
Other LT liabilities	33	33	33	33
Shareholders' equity	1,323	1,325	1,327	1,328
Total liabilities & equity	2,214	2,241	2,268	2,260

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	113	117	121	123
Pre-tax profit	35	76	80	83
Deprec. & amort.	0	0	0	0
Other operating cashflows	77	41	40	40
Investing	0	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	3	0	0	0
Financing	(136)	(89)	(94)	(131)
Distribution to unitholders	(78)	(74)	(79)	(81)
Issue of shares	0	0	0	0
Proceeds from borrowings	35	50	50	30
Loan repayment	(54)	(15)	(15)	(30)
Others/interest paid	(38)	(50)	(50)	(50)
Net cash inflow (outflow)	(23)	25	25	(10)
Beginning cash & cash equivalent	86	63	88	114
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	63	88	114	103

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	66.9	67.5	69.0	68.4
Pre-tax margin	21.8	45.3	47.1	48.2
Net margin	18.0	45.3	47.1	48.2
ROA	1.3	3.4	3.6	3.7
ROE	2.2	5.7	6.1	6.2
Growth				
Turnover	(6.5)	3.3	1.8	1.0
EBITDA	(8.7)	4.3	3.9	0.2
Pre-tax profit	(55.4)	114.6	5.7	3.4
Net profit	(60.2)	160.6	5.7	3.4
Net profit (adj.)	(12.6)	5.3	5.7	3.4
EPU	(12.6)	5.3	5.7	3.4
Leverage				
Debt to total capital	38.7	39.2	39.8	38.9
Debt to equity	63.1	64.6	66.0	63.7
Net debt/(cash) to equity	58.4	57.9	57.4	55.9
Interest cover (x)	3.0	3.0	3.2	3.4

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