



MRCB-Quill REIT (MQREIT MK) : BUY

Mkt. Cap: US\$182m | **3m Avg. Daily Val:** US\$0.11m

Last Traded Price (13 Aug 2020): RM0.71

Price Target 12-mth: RM1.10 (55% upside) (Prev RM1.10)

Analyst

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Supported by steady occupancy rates

- 2QFY20 earnings in line with expectations
- Revenue up 3.4% y-o-y from higher occupancy among assets
- 19% of total NLA due for renewal this year; mainly in 4Q
- Maintain BUY with TP of RM1.10; offers attractive yields of 9.7%

Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Gross Revenue	162	167	171	176
Net Property Inc	123	124	125	126
Total Return	29.1	73.1	73.6	74.3
Distribution Inc	72.9	73.1	73.6	74.3
EPU (sen)	2.72	6.82	6.87	6.93
EPU Gth (%)	(60)	151	1	1
DPU (sen)	6.80	6.82	6.87	6.93
DPU Gth (%)	(16)	0	1	1
NAV per shr (sen)	123	123	123	123
PE (X)	26.1	10.4	10.3	10.2
Distribution Yield (%)	9.6	9.6	9.7	9.8
P/NAV (x)	0.6	0.6	0.6	0.6
Aggregate Leverage (%)	37.8	38.0	38.3	38.5
ROAE (%)	2.2	5.5	5.6	5.6

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

What's New

2QFY20 results in line with expectations. MRCB-Quill REIT's (MQREIT) 2QFY20 core earnings came in at RM19.0m (+16.0% y-o-y; -3.6% q-o-q). This brings 1H FY20 core earnings to RM38.9m which is in line with our and consensus expectations.

The stronger y-o-y 2QFY20 earnings were mainly due to higher revenue generated from Menara Shell, Wisma Technip, Platinum Sentral and Tesco. Revenue came in at RM40.1m (+3.4% y-o-y; -3.8% q-o-q). This was backed by higher portfolio occupancy of 90% in 2QFY20 vs 89% in 2QFY19.

Property operating expenses amounted to RM9.1m (-5.7% y-o-y; -3.0% q-o-q), as MQREIT incurred less expenses for some properties. This resulted in higher net property income (NPI) for the quarter at RM31.0m (+6.3% y-o-y; -4.1% q-o-q).

Outlook

Occupancy steady; more room to grow. MQREIT's portfolio occupancy remained steady at 90% in 2QFY20 vs. 89% in 2QFY19. We understand that there were higher occupancies for Platinum Sentral and Wisma Technip. MQREIT is still looking for tenants to replace the vacancy in QB5 after its tenant IBM moved out in 1Q19.

About 19.0% of MQREIT's total NLA is expiring in FY20, of which c.3.8% has been renewed. The bulk of expiries will take place in 2H, which form 90.5% of the total leases expiring in FY20. We understand that rental reversions were flattish as MQREIT prioritised tenant retention to cope



Flash Note

with a challenging operating environment. Going forward, we expect some challenges in negotiating positive rental reversions due to the oversupply of office space in the market.

Valuation and Recommendation

We maintain our BUY call with an unchanged TP of RM1.10. Its current valuation offers an attractive yield of 9.6%; the

highest among its peers. We believe the negatives of an office supply glut have been overly priced in at its current valuation level. Despite factoring in conservative assumptions for MQREIT, the stock still offers ample upside with attractive distribution yields.

Quarterly Income Statement (RMm)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Gross revenue	38.8	41.7	40.1	3.4	(3.8)
Property expenses	(9.7)	(9.4)	(9.1)	(5.7)	(3.0)
Net Property Income	29.1	32.3	31.0	6.5	(4.1)
Other Operating expenses	(3.5)	(3.5)	(3.5)	1.4	(0.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	N/A	N/A
Associates & JV Inc	0.0	0.0	0.0	N/A	N/A
Net Interest (Exp)/Inc	(9.2)	(9.0)	(8.4)	8.6	6.7
Exceptional Gain/(Loss)	0.0	0.0	0.0	N/A	N/A
Net Income	16.5	19.8	19.1	16.0	(3.6)
Tax	0.0	0.0	0.0	N/A	N/A
Minority Interest	0.0	0.0	0.0	N/A	N/A
Net Income after Tax	16.5	19.8	19.1	16.0	(3.6)
Total Return	16.5	19.8	19.1	16.0	(3.6)
Non-tax deductible Items	0.0	0.0	0.0	N/A	N/A
Net Inc available for Dist.	16.5	19.8	19.1	16.0	(3.6)
Ratio (%)					
Net Prop Inc Margin	75.0	77.4	77.2		
Dist. Payout Ratio	101.7	0.0	94.6		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Nov 19	1.02	1.10	HOLD
2:	18 Jun 20	0.71	1.10	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

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

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