14 Aug 2020

MRCB-Quill REIT

Hold

Price
RM0.755

Target Price
RM0.72

Within expectations

MRCB-Quill REIT (MQREIT)'s 1H20 DPU of 3.43 sen was broadly in line with expectations, at 51% of our full-year forecast. Portfolio occupancy has remained stable so far. FY20F will see about 19% of NLA due for renewal, with the bulk of it expiring in 4Q20. Maintain our FY20F DPU estimate of 6.7 sen and DDM-based TP of RM0.72. Keep our Hold recommendation, with MQREIT currently trading at FY20F distribution yield of 8.8%.

Financial Highlights

FYE Dec	2017	2018	2019	2020F	2021F
Revenue (RM mil)	180.1	173.4	162.1	160.0	158.6
Net Property Income	140.0	133.7	122.8	121.3	120.2
Realised Net profit (RM mil)	87.0	82.5	72.1	70.6	69.7
DPU (sen)	8.4	8.1	6.8	6.7	6.6
PE (x)	9.3	9.8	11.2	11.5	11.6
Div yield (%)	11.1	10.7	9.0	8.8	8.7
ROE (%)	5.0	5.3	2.2	5.3	5.3
Gearing (%)	37.3	37.6	37.8	37.8	37.8

Source: Company, KAF

Market Data

Bloomberg Code	MQREIT MK
No. of shares (m)	1,071.8
Market cap (RMm)	787.8
52-week high/low (RM)	1.10 / 0.50
Avg daily turnover (RMm)	0.4
KLCI (pts)	1,576.4

Source: Bloomberg, KAF

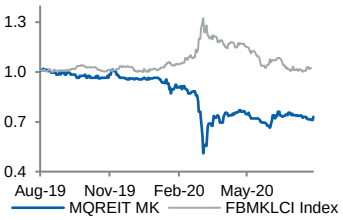
Major Shareholder (%)

MRCB	(27.8%)
KWSP	(12.1%)
CapitaLand Ltd	(10.9%)
Free Float	347.8

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(6.6)	(21.5)	(34.3)
Rel Market (%)	(17.2)	(23.4)	(33.6)



Source: Bloomberg, KAF

1H20 results summary

MQREIT reported net property income (NPI) of RM31.5m in 2Q20, bringing cumulative 1H20 NPI to RM63.8m, making up 53% of our full-year forecast. The group declared its 1H20 DPU of 3.43 sen, broadly in line with our FY20 DPU estimate of 6.7 sen.

Top-line growth driven by higher occupancy

MQREIT's 1H20 revenue grew 2% yoy to RM82.3m, mainly due to improved/stable occupancies across most assets, mainly at Menara Shell (99%), Wisma Technip (90%), Platinum Sentral (84%), and Tesco (100%). Overall, the REIT's portfolio occupancy stood at 90.4% in 2Q20 (vs. 89.0% in 2Q19). Meanwhile, the sequential declines in revenue (-3% qoq) and NPI (-2% qoq) were expected, due to some rental assistance extended to selected retail tenants that were affected by the MCO.

Lease expiries; to focus on tenant retention

In terms of lease renewals, MQREIT has managed to complete c.1% of the 19% total net lettable area (NLA) due in FY20F. Active negotiations for renewal of the remaining leases are currently in progress, with the bulk of it due in 4Q20 (86%). However, we remain cautious on the rental reversionary rates as management continues to focus on tenant retention across all its properties. FY21F and FY22F will see about 21% and 14% of NLA due for renewal, respectively.

Other updates; QB5 remains untenanted, gearing stable at 37.8%

The group's only asset in Cyberjaya – Quill Building 5 (QB5) is still unoccupied after the key tenant moved out from the building in April last year. According to management, they have received some enquiries for the office building, but nothing has been finalised at this point of time. To note, QB5 accounts for 4% of MQREIT's total NLA.

Separately, MQREIT has refinanced an amount of RM335m in CP and TL due this year. On acquisitions front, the group has the ROFR for Menara Celcom in Petaling Jaya from its sponsor, MRCB. Gearing remains stable at 37.8%, presenting a comfortable debt headroom of c.RM490m, assuming 60% gearing level set by the SC.

Maintain Hold

We leave our FY20-21F DPU estimates unchanged and maintain our DDM-derived TP at RM0.72. At the current price level, MQREIT is trading at FY20F distribution yield of 8.8%. Key downside risk would be non-renewal of expiring leases.

Analyst

Elleena Soraya
03-21710506
elleena@kaf.com.my

Exhibit 1: Quarterly trends

(RM m)	2Q19	3Q19	4Q19	1Q20	2Q20	Change		Cumulative			KAF	
FYE 31 Dec	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**% qoq**	**% yoy**	**6M19**	**6M20**	**% chg**	**2020F**	**2Q/F**
Revenue	**39.2**	**39.5**	**42.0**	**41.7**	**40.6**	(3)	4	**80.6**	**82.3**	**2**	**160.0**	**51**
Property operating expenses	(9.7)	(9.7)	(10.5)	(9.4)	(9.1)	(3)	(6)	**(19.0)**	**(18.6)**	(3)	(38.7)	48
Net property income	**29.5**	**29.7**	**31.5**	**32.3**	**31.5**	(2)	7	**61.5**	**63.8**	**4**	**121.3**	**53**
Interest income	0.6	0.7	1.1	0.6	0.5	(6)	(4)	**1.4**	**1.1**	(19)	**2.7**	41
Trust expenses	(3.2)	(3.5)	(3.8)	(3.5)	(3.5)	(1)	9	**(6.8)**	**(7.1)**	3	(14.2)	50
Borrowing costs	(10.0)	(9.7)	(10.3)	(9.5)	(8.9)	(7)	(11)	**(19.8)**	**(18.5)**	(7)	(39.2)	47
Exceptional items	(0.4)	-	(36.7)	0.3	(0.5)			**(0.4)**	**(0.2)**	**-**		
Profit before tax	**16.5**	**17.2**	**(18.1)**	**20.1**	**19.1**	(5)	16	**35.9**	**39.2**	**9**	**70.6**	**55**
Tax	-	-	(6.2)	-	-			**-**	**-**		-	
Net profit	**16.5**	**17.2**	**(24.4)**	**20.1**	**19.1**	(5)	16	**35.9**	**39.2**	**9**	**70.6**	**55**
Normalized net profit	**16.9**	**17.2**	**18.6**	**19.8**	**19.6**	(1)	16	**36.3**	**39.4**	**9**	**70.6**	**56**

Source: Company, KAF

Income Statement

FYE Dec (RMm)	2017	2018	2019	2020F	2021F
Gross rental income	**180.1**	**173.4**	**162.1**	**160.0**	**158.6**
Property operating expenses	(40.2)	(39.7)	(39.2)	(38.7)	(38.4)
Net property income	140.0	133.7	122.8	121.3	120.2
Non-property expenses	(14.9)	(14.9)	(14.4)	(14.2)	(14.1)
PBITDA	125.0	118.8	108.5	107.1	106.2
PBIT	125.0	118.8	108.5	107.1	106.2
Interest expense	(40.5)	(40.6)	(39.6)	(39.2)	(39.2)
Exceptional item	(18.2)	(3.2)	(36.7)	-	-
PBT	68.8	79.3	35.4	70.6	69.7
Tax	-	(6.1)	(6.2)	-	-
Distributable Income	68.8	73.1	29.1	70.6	69.7
Core Net Profit	**87.0**	**82.5**	**72.1**	**70.6**	**69.7**

Balance Sheet

FYE Dec (RMm)	2017	2018	2019	2020F	2021F
Investment Properties	2,181.4	2,179.3	2,144.1	2,144.1	2,144.1
Trade and other receivables	31.0	6.7	6.3	6.2	6.2
Cash and cash equivalents	76.0	85.8	63.3	62.4	61.5
Inventories	-	-	-	-	-
Total Assets	2,288.4	2,271.7	2,213.7	2,212.7	2,211.8
Payables and accruals	33.1	26.2	21.1	20.9	20.8
Short-term Borrowings	116.9	-	332.7	332.7	332.7
Long-term Borrowings	736.6	853.7	503.0	503.0	503.0
Payables and accruals	17.1	19.6	33.1	33.1	33.1
Unit holder's capital	1,231.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed income to Reserves	152.8	136.4	87.6	86.8	86.1
Total unit holder's fund	1,384.7	1,372.3	1,323.5	1,322.7	1,322.0
Total liabilities and shareholder's fund	2,288.4	2,271.7	2,213.4	2,212.4	2,211.5

Cash flow Statement

FYE Dec (RMm)	2017	2018	2019	2020F	2021F
Pretax profit	**68.8**	**79.3**	**35.4**	**70.6**	**69.7**
Working Capital	124.8	118.8	108.6	107.1	106.2
Others	nm	nm	nm	nm	nm
Operating cash flows	**128.2**	**107.2**	**112.6**	**107.0**	**106.1**
Acquisitions	(0.4)	-	-	-	-
Enhancement exp.	2.1	(0.4)	0.4	2.7	2.7
Others	(6.6)	28.0	-	-	-
Investing cash flows	**(4.8)**	**27.6**	**0.4**	**2.7**	**2.7**
Issue of shares	-	4.0	-	-	-
Dividend paid	(72.6)	(89.8)	(78.0)	(71.4)	(70.4)
Borrowings	(0.3)	-	35.0	-	-
Others	(35.7)	(39.2)	(92.5)	(39.2)	(39.2)
Financing cash flow	**(108.6)**	**(125.0)**	**(135.5)**	**(110.6)**	**(109.6)**
Net inflows/(outflows)	**14.7**	**9.7**	**(22.5)**	**(0.9)**	**(0.8)**
Change in receivables	13.5	0.6	1.5	0.1	0.1
Change in payables	(10.1)	(12.2)	2.4	(0.2)	(0.1)

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)