

HLIB Research

PP 9484/12/2012 (031413)

Nazira Abdullah
NurulNazira@hlib.hongleong.com.my

(603) 2083 1717

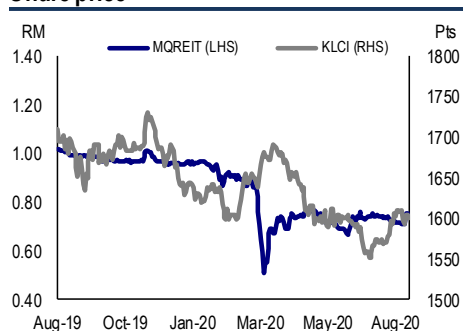
BUY (Maintain)

Target Price: **RM0.85**
Previously: **RM0.79**
Current Price: **RM0.755**

Capital upside	12.6%
Dividend yield	8.8%
Expected total return	21.4%

Sector coverage: REIT

Company description: MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

Share price


Historical return (%)	1M	3M	12M
Absolute	2.0	1.3	-30.1
Relative	4.1	-9.1	-28.5

Stock information

Bloomberg ticker	MQREITMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	809
3-mth average volume ('000)	662
SC Shariah compliant	No

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PAT – core (RM m)	72.1	72.8	75.7
EPU – core (sen)	6.7	6.8	7.1
P/E (x)	11.2	11.1	10.7

MRCB-Quill REIT

Relatively shielded from Covid-19 impact

MQREIT's 1H20 core net profit of RM38.9m (+8.4% YoY) was above our and consensus estimates, due to lower-than-expected total expenses. Overall, the improved performance was due to new tenancy and lower expenses. We anticipate resilient earnings for FY20 from these new tenants. We increase our earnings by 10% for FY20-22 to account for lower expenses and contribution from new tenancy. Maintain our BUY call with a higher TP of RM0.85 (from RM0.79).

Above expectation. 2Q20 core net profit of RM19.1m (-3.6% QoQ, +16.0% YoY) brought 1H20 core net profit to RM38.9m (+8.4% YoY). The result was above our and consensus estimates, accounting for 59% and 57%, respectively. The positive deviation was due to lower-than-expected total expenses.

Dividend. Declared semi-annual dividend of 3.43 sen per unit (1H19: 3.43 sen) going ex on 01st September 2020.

QoQ. Total gross revenue edged down by 3.8% to RM40.1m mainly due to rental rebate given to retail tenants in Plaza Mont Kiara (PMK) and Platinum Sentral. Core net profit was lower by 3.6% inline with slightly lower revenue coupled with lower property operating expenses (-3.0%) and lower total expenses (-5.0%).

YoY. Top line rose by 3.4% owing to higher income contribution from Menara Shell, Tesco, Wisma Technip and Platinum Sentral from higher occupancies. As a result of the declining property operating expenses by 5.7% and lower total expenses (-5.8%) from lower finance cost (-8.3%), core net profit showed an increment by 16.0%.

YTD. Revenue increased by 2.1% mainly due to higher revenue generated from Menara Shell, Wisma Technip and Tesco. Core net profit increase of 8.4% came from lower property operating expenses (-2.5%) and lower total expenses (-4.3%).

Other updates. Overall occupancy rate increased marginally to 90.4% in 1H20 (FY19: 90%). MQREIT has granted rental assistance in 2Q in form of rental discount to its retailers in PMK (PMK contributed only about 3-4% of total revenue), and has no intention to give any further rebates. In 2020, 19% of MQREIT's total net lettable area (NLA) is due for renewal. 1% of these leases were renewed already in 1H20 while most of it will be due in the 4Q20. We believe chances of tenancy renewal are high due to nature of business of their tenants (big corporations and multinational companies like Shell, HSBC, DHL and etc.).

Outlook. We believe MQREIT is relatively shielded from Covid-19 and MCO/CMCO/RMCO impact due to its large exposure to office and miniscule exposure to retail unlike the other mall based REITs. Hence, we reckon that MQREIT will continue to register resilient earnings in 2H supported by their rental income contribution from their tenants. We note that the current office market outlook for office REITs remains lacklustre due to unabated oversupply of office in KL city. However, we believe MQREIT will be able to sustain its earnings, at least in the near term, due to their tenancy with big corporations and MNCs.

Forecast. We increase our earnings by 10% for FY20-22 to account for lower expenses and higher occupancies from its properties.

Maintain BUY, with a higher of TP: RM0.85 (from RM0.79) based on FY21 forward DPU on targeted yield of 8.1%, derived from its 2 years historical average yield spread of MQREIT and 10-year MGS. We like MQREIT for its attractive dividend yield of 8.8% (highest among REITs in our universe) and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike other mall based REITs.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	85.8	63.3	76.2	76.1	76.6
Receivables	6.7	6.3	6.7	6.7	6.8
Investment properties	2,177.6	2,143.0	2,145.0	2,147.0	2,149.0
PPE	0.3	0.4	0.2	0.1	0.1
Others	1.3	0.8	0.8	0.8	0.8
Assets	2,271.7	2,213.7	2,228.8	2,230.7	2,233.3
Payables	16.1	15.7	18.4	17.7	17.7
Debt	853.7	835.7	846.7	847.7	848.7
Security deposits	29.2	38.5	38.5	38.5	38.5
Derivatives	0.4	0.0	0.0	0.0	0.0
Liabilities	899.4	889.9	903.6	903.9	904.9
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	136.4	87.6	89.1	90.6	92.2
Equity	1,372.3	1,323.5	1,324.9	1,326.5	1,328.0
Total Liabilities & Equity	2,271.7	2,213.7	2,228.8	2,230.7	2,233.3

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Gross rental income	155.0	144.1	154.8	155.4	158.7
Car park income	13.2	13.0	12.4	12.6	12.9
Other revenue	4.4	3.9	3.7	3.8	3.9
Total revenue	172.5	161.0	170.9	171.8	175.5
Property opex	-39.7	-39.2	-46.0	-44.4	-44.4
Net property income	132.8	121.7	124.9	127.4	131.1
Other income	1.9	-32.4	2.4	2.9	2.9
Net invest income	134.7	89.3	127.3	130.3	134.0
Manager's fee	-13.3	-12.8	-12.7	-12.8	-13.0
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-40.6	-39.6	-40.1	-40.2	-40.2
Other non opex	-0.9	-0.9	-1.0	-1.0	-1.0
Profit before tax	79.3	35.4	72.8	75.7	79.2
Taxation	-6.1	-6.2	0.0	0.0	0.0
Profit after tax	73.1	29.1	72.8	75.7	79.2
Core net profit	84.7	72.1	72.8	75.7	79.2
Distributable income	87.1	73.0	72.8	75.7	79.2
Consensus core net profit			68.0	72.2	73.2
HLIB/ Consensus			107%	105%	108%

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	79.3	35.4	72.8	75.7	79.2
Finance costs	40.6	39.6	0.0	0.0	0.0
Depreciation	0.1	0.2	0.2	0.1	0.1
Fair value gain of assets	5.4	36.7	0.0	0.0	0.0
Interest income	-4.3	-3.2	0.0	0.0	0.0
Others	-14.6	2.2	2.3	-0.7	-0.1
CFO	106.5	110.9	75.3	75.1	79.1
Capex	-3.8	-2.1	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.2	0.0	0.0	0.0
Others	31.7	2.7	0.0	0.0	0.0
CFI	27.6	0.4	-2.0	-2.0	-2.0
Distribution paid	-89.8	-78.0	-71.3	-74.2	-77.6
Proceeds frm borrow'g	117.0	35.0	400.0	165.0	165.0
Repayment of borrow'g	-117.0	-54.0	-389.0	-164.0	-164.0
Others	-34.6	-36.8	0.0	0.0	0.0
CFF	-124.3	-133.8	-60.3	-73.2	-76.6
Net cash flow	9.7	-22.5	12.9	-0.1	0.5
Beginning cash	76.0	85.8	63.3	76.2	76.1
Ending cash	85.8	63.3	76.2	76.1	76.6

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPU (sen)	7.9	6.7	6.8	7.1	7.4
P/E (x)	9.6	11.2	11.1	10.7	10.2
EBITDA	125.4	111.8	113.1	115.9	119.5
EBIT	125.3	111.7	112.9	115.8	119.4
EV	1,577.1	1,581.7	1,579.7	1,580.8	1,581.3
EV/EBITDA (x)	12.6	14.1	14.0	13.6	13.2
DPU (sen)	8.1	6.8	6.7	6.9	7.2
Dividend yield	10.7	9.0	8.8	9.2	9.6
NTA/ share (sen)	127.3	122.7	122.9	123.0	123.2
P/ NTA	0.6	0.6	0.6	0.6	0.6
BVPS (RM)	1.28	1.23	1.24	1.24	1.24
P/B (x)	0.6	0.6	0.6	0.6	0.6
EBITDA margin	72.7%	69.5%	66.2%	67.5%	68.1%
EBIT margin	72.6%	69.4%	66.1%	67.4%	68.0%
PBT margin	45.9%	22.0%	42.6%	44.0%	45.1%
Net margin	49.1%	44.8%	42.6%	44.0%	45.1%
ROE	5.3%	2.1%	5.5%	5.7%	6.0%
ROA	3.7%	3.3%	3.3%	3.4%	3.5%
Net gearing	33.80%	34.89%	34.57%	34.59%	34.57%

Assumptions

FYE Dec	FY19	FY20f	FY21f	FY22f
Gross rental income				
Quill Building 1 - DHL 1	5.0	5.0	5.1	5.2
Quill Building 4 - DHL 2	5.4	5.4	5.5	5.5
Quill Building 2 - HSBC	9.9	10.0	10.1	10.4
Quill Building 3 - BMW	5.8	5.9	5.9	6.1
Wisma Technip	8.0	9.5	9.8	10.1
Part of Plaza Mont' Kiara	3.7	3.1	3.1	3.2
Quill Building 5 - IBM	0.0	0.0	0.0	0.0
Tesco Building - Penang	14.7	15.8	15.9	16.2
Platinum Sentral	48.3	50.9	50.9	52.0
Menara Shell	44.4	49.1	49.1	50.1
Total:	145.2	154.8	155.4	158.7

Quarterly financial summary

FYE Dec	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)
Gross Revenue	38.8	41.7	40.1	-4%	3%
Property operating expen	-9.7	-9.4	-9.1	-3%	-6%
Net Property Income	29.1	32.3	31.0	-4%	6%
Interest income	0.6	0.6	0.5	-6%	-4%
Net Investment Income	29.6	32.9	31.5	-4%	6%
Total Expenses	-13.2	-13.1	-12.4	-5%	-6%
Normalised PBT	16.5	19.8	19.1	-4%	16%
Normalised PAT	16.5	19.8	19.1	-4%	16%
Distributable income	17.4	19.8	19.1	-4%	10%
EPU (realised)	1.5	1.8	1.8	-4%	16%
DPU (sen)	3.4	0.0	3.4	N.M.	N.M.

Figure #1 Quarterly results comparison

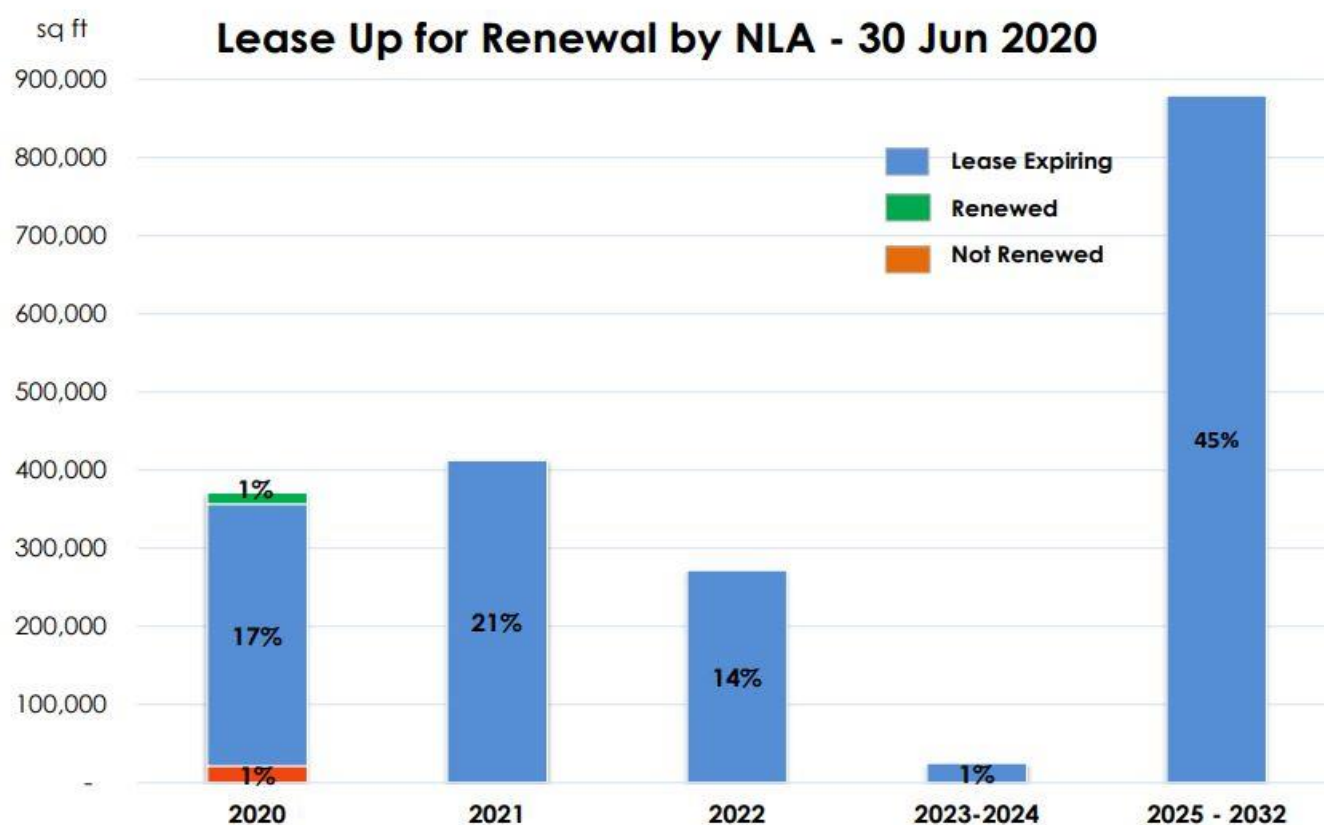
FYE Dec (RM m)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)
Gross Revenue	38.8	41.7	40.1	-3.8%	3.4%	80.2	81.8	2.1%
Property operating expenses	-9.7	-9.4	-9.1	-3.0%	-5.7%	-19.0	-18.6	-2.5%
Net Property Income	29.1	32.3	31.0	-4.1%	6.5%	61.1	63.3	3.5%
Interest income	0.6	0.6	0.5	-6.2%	-3.9%	1.4	1.1	-19.4%
Net Investment Income	29.6	32.9	31.5	-4.1%	6.3%	62.5	64.4	3.0%
Manager's fee	-3.14	-3.20	-3.17	-0.8%	1.0%	-6.4	-6.4	-0.2%
Trustee's fee	-0.17	-0.17	-0.16	-1.1%	-2.3%	-0.3	-0.3	-2.4%
Finance costs	-9.73	-9.55	-8.91	-6.6%	-8.3%	-19.6	-18.5	-5.7%
Valuation fees	-0.09	-0.09	-0.09	0.0%	3.8%	-0.2	-0.2	3.8%
Auditors' remuneration	-0.04	-0.04	-0.04	0.0%	2.6%	-0.1	-0.1	2.6%
Tax agent's fee	-0.006	-0.006	-0.006	0.0%	0.0%	-0.0	-0.0	0.0%
Administrative expenses	-0.03	-0.04	-0.04	18.4%	62.9%	-0.1	-0.1	-5.3%
Total Expenses	-13.2	-13.1	-12.4	-5.0%	-5.8%	-26.7	-25.5	-4.3%
Normalised PBT	16.5	19.8	19.1	-3.6%	16.0%	35.9	38.9	8.4%
Normalised PAT	16.5	19.8	19.1	-3.6%	16.0%	35.9	38.9	8.4%
Distributable adjustments	0.9	0.0	0.0	N.M.	N.M.	0.9	0.0	N.M.
Distributable income	17.4	19.8	19.1	-3.6%	9.9%	36.8	38.9	5.7%
EPU (realised)	1.54	1.85	1.78	-3.6%	16.0%	3.35	3.63	8.4%
DPU (sen)	3.43	0.00	3.43	N.M.	0.0%	3.43	3.43	0.0%

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Figure #2 Lease expiry profile

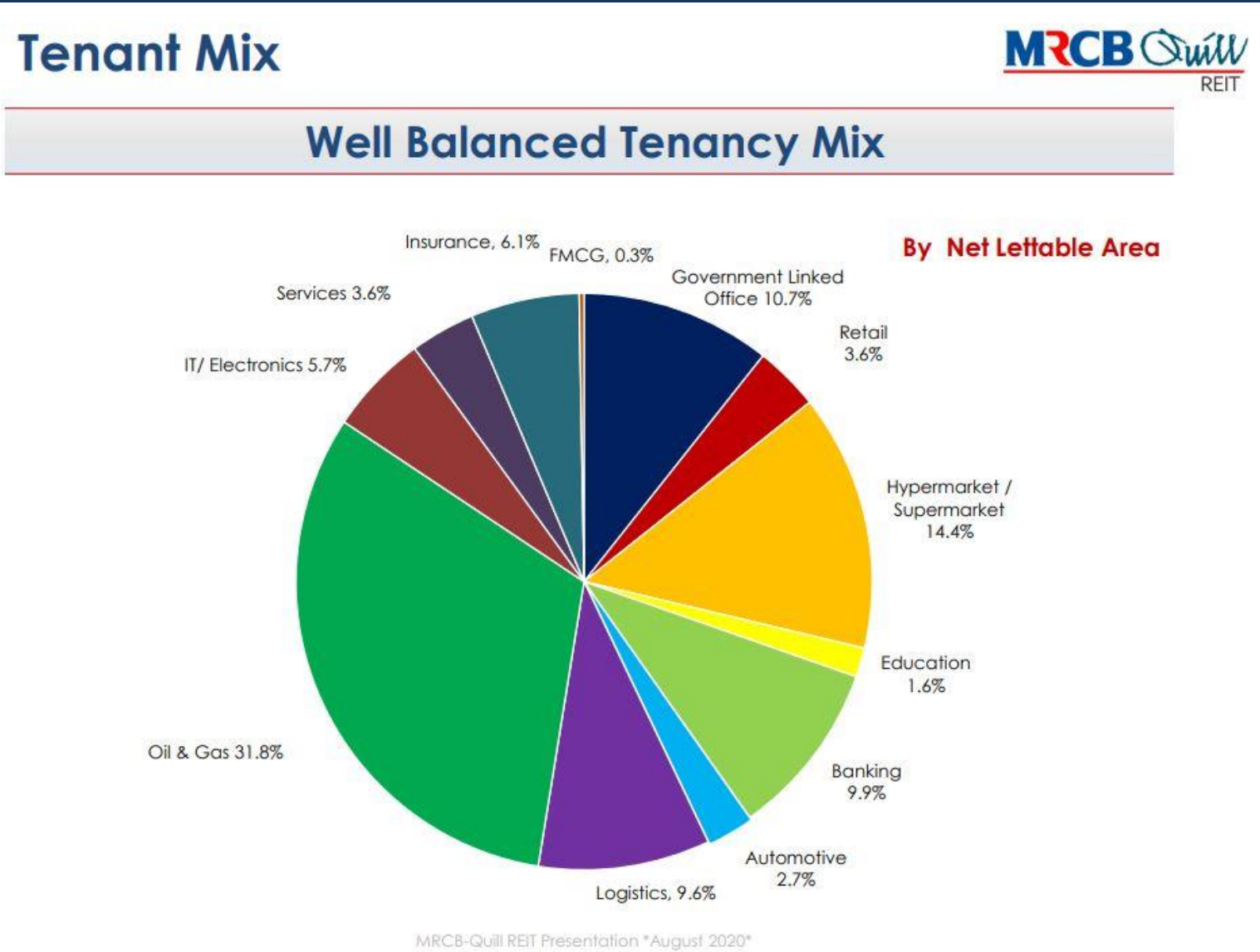
Lease Expiry Profile

- 19% of Total NLA due in 2020



% of net lettable area that are due for renewal
MRCB-Quill REIT Presentation *August 2020*

Figure #3 Tenant Mix



Company

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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