

COMPANY RESULTS

MRCB-Quill REIT (MQREIT MK)

9M17: Results Within Expectations

MQREIT's 9M17 results came in within our expectations, accounting for 74.9% of our full-year estimate. With solid fundamentals, we think MQREIT will continue to deliver decent results underpinned by its built-to-suit strategy which allows it to lock in tenants for a longer period and also shields it from the office oversupply. Maintain HOLD. Target price: RM1.38. Entry price: RM1.20.

9M17 RESULTS

Year to 31 Dec (RMm)	2Q17	3Q17	yoy % chg	qoq % chg	9M17	yoy % chg
Gross revenue	45.1	44.8	37.9	(0.6)	135.5	38.6
Operating expenses	(10.2)	(10.5)	51.2	3.6	(30.1)	43.2
Net property income	34.9	34.3	34.3	(1.8)	105.3	37.4
Finance cost	(9.8)	(10.0)	22.8	1.1	(29.5)	23.3
Normalised Net Profit	22.0	21.4	40.4	(3.0)	66.6	45.2
EPU (sen)	2.1	2.0	(19.3)	(3.0)	6.2	(10.0)
DPU (sen)	4.2	0.0	n.m.	n.m.	4.2	0.0

Source: MQREIT, UOB Kay Hian

RESULTS

- In line.** MRCB-Quill REIT (MQREIT) reported revenue of RM44.8m (+37.9% yoy, +0.6% qoq) in 3Q17 and RM135.5m (+38.6% yoy) in 9M17. Core net profit was RM21.4m (+40.4% yoy, -3.0% qoq) in 3Q17 and RM66.6m (45.2% yoy) in 9M17. Distributable income for 9M17 accounts for 74.9% and 77.6% of our and consensus full-year forecasts respectively.

STOCK IMPACT

- Core net profit grew yoy.** Core net profit for 9M17 grew 45.2% yoy to RM66.6m, driven by contribution from newly-acquired Menara Shell. To recap, the acquisition of Menara Shell was completed on 22 Dec 16, which lifted MQREIT's total asset size by 43%. Management also attributed the improved performance during the quarter to higher rental reversions at Quill Building 2, Quill Building 3, Quill Building 5 and Wisma Technip. In 3Q17, core net profit dropped 3.0% qoq on the back of a 0.6% qoq decline in revenue and a 3.6% qoq increase in operating expenses.

KEY FINANCIALS

Year to 31 Dec (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	115	132	183	190	198
EBITDA	81	90	127	126	131
Operating profit	81	90	127	126	131
Net profit (rep./act.)	61	63	93	99	104
Net profit (adj.)	54	59	93	99	104
EPS (sen)	8.1	9.0	8.8	9.3	9.8
PE (x)	15.7	14.2	14.4	13.6	13.0
P/B (x)	1.0	0.6	0.8	0.8	0.8
EV/EBITDA (x)	22.0	19.7	13.9	14.0	13.5
Dividend yield (%)	6.4	6.4	6.4	6.8	7.1
Net margin (%)	52.8	47.6	51.1	52.1	52.5
Net debt/(cash) to equity (%)	71.2	58.7	20.7	20.5	20.2
Interest cover (x)	3.0	2.9	3.8	4.6	4.8
ROE (%)	8.4	5.5	5.9	5.5	5.8
Consensus net profit	-	-	90	94	98
UOBKH/Consensus (x)	-	-	1.04	1.05	1.06

Source: MQREIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.27
Target Price	RM1.38
Upside	+8.7%

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):	1,068.0
Market cap (RMm):	1,356.4
Market cap (US\$m):	324.9
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low			RM1.35/RM1.20	
1mth	3mth	6mth	1yr	YTD
(0.8)	(4.5)	(3.8)	2.5	5.8

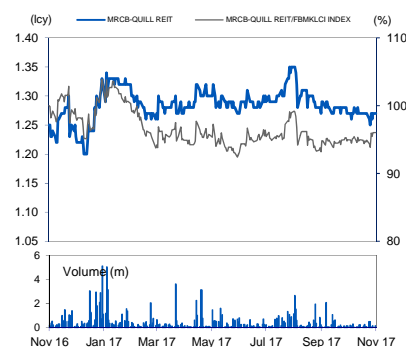
Major Shareholders

	%
MRCB	27.9
Capitaland Ltd	11.0
Quill Group	11.0
EPF	7.3

FY16 NAV/Share (RM) 1.69

FY16 Net Debt/Share (RM) 0.35

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Occupancy remained solid at 97% in 3Q17.** We continue to like MQREIT's portfolio, which consists mostly purpose-built office building with tenants in long-term contracts. MQREIT's WALE is still the highest among peers (under our coverage), at 5.5 years (peers: 3.6 years).
- **Gearing at 37%.** Post-acquisition of Menara Shell, MQREIT's gearing fell to 37% (vs 43% during the acquisition) as a result of an enlarged asset base. We think MQREIT's current gearing ratio is healthy (on a par with peers'), allowing it to tap into the debt and equity markets for future acquisitions.

EARNINGS REVISION/RISK

- None.

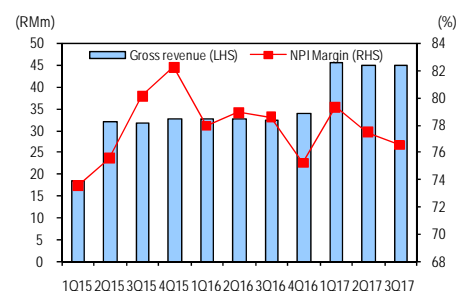
VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.38,** based on a dividend discount model (required rate of return: 7.6%, terminal growth: 1.1%) and supported by an implied dividend yield of 6.1%. We forecast an attractive dividend yield of 6.8% in 2018. Entry price is RM1.20.

SHARE PRICE CATALYST

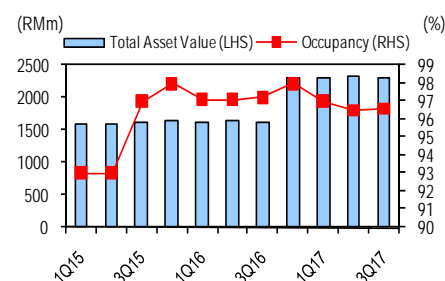
- **Inorganic growth arising from acquisitions.** We believe MQREIT's next acquisition will be Menara Celcom in PJ Sentral, which is still under construction and scheduled for completion by end-17. With gross development value (GDV) of over RM500m, we understand that telecommunication company Celcom has signed a lease contract with MRCB for 21 years. Based on our back-of-the-envelope calculations, the acquisition of Menara Celcom could grow MQREIT's total asset value by 24% and core earnings by 23% assuming 500,000sf of NLA and conservative rental rate of RM5.50psf per month. We think the contribution from Menara Celcom would come earliest in 2019, based on previous acquisitions which took slightly more than a year to complete.

REVENUE AND NET PROPERTY INCOME MARGIN



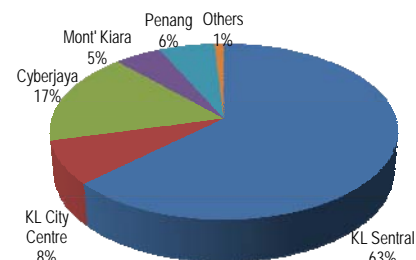
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



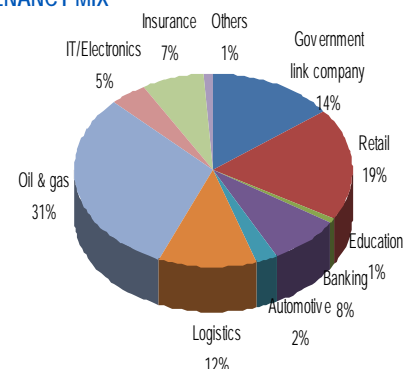
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Net turnover	132	183	190	198
EBITDA	90	127	126	131
Deprec. & amort.	0	0	0	0
EBIT	90	127	126	131
Net interest income/(expense)	(31)	(34)	(27)	(27)
Pre-tax profit	63	93	99	104
Tax	0	0	0	0
Net profit	63	93	99	104
Net profit (adj.)	59	93	99	104

BALANCE SHEET

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Fixed assets	2,222	2,224	2,226	2,228
Other LT assets	3	3	3	3
Cash/ST investment	54	467	457	461
Other current assets	18	8	8	9
Total assets	2,297	2,701	2,694	2,700
ST debt	189	189	189	189
Other current liabilities	63	50	53	54
LT debt	662	647	632	632
Other LT liabilities	23	23	23	23
Shareholders' equity	1,360	1,791	1,796	1,802
Total liabilities & equity	2,297	2,701	2,694	2,700

CASH FLOW

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Operating	63	95	100	105
Pre-tax profit	63	95	100	105
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Investing	(647)	(2)	(2)	(2)
Capex (growth)	(647)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	588	322	(110)	(100)
Distribution to unitholders	(57)	(90)	(95)	(100)
Issue of shares	481	427	0	0
Proceeds from borrowings	164	0	0	15
Loan repayment	0	(15)	(15)	(15)
Net cash inflow (outflow)	3	415	(12)	3
Beginning cash & cash equivalent	45	48	467	457
Ending cash & cash equivalent	6	4	2	1

KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	68.2	70.3	66.9	66.8
Pre-tax margin	47.6	51.9	52.6	53.0
Net margin	47.6	51.9	52.6	53.0
ROA	3.2	3.8	3.7	3.9
ROE	5.5	6.0	5.6	5.8
Growth				
Turnover	14.3	38.9	4.0	4.0
EBITDA	11.5	43.1	(1.1)	4.0
Pre-tax profit	3.2	51.4	5.3	4.9
Net profit	3.2	51.4	5.3	4.9
Net profit (adj.)	10.6	60.4	5.3	4.9
EPU	10.6	0.0	5.3	4.9
Leverage				
Debt to total capital	38.5	31.8	31.4	31.3
Debt to equity	62.6	46.7	45.7	45.6
Net debt/(cash) to equity	58.7	20.7	20.3	20.0
Interest cover (x)	2.9	3.8	4.7	4.8

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