

12 November 2020

MRCB-Quill REIT

9MFY20 Above Expectations

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9MFY20 realised net income (RNI) of RM60.3m came in above our (83%), and consensus (81%), expectations as we were more conservative, expecting higher rental rebates for tenants. No dividends, as expected. Increase FY20-21E CNP by 7% each to RM78-82m on lower rebates and slightly better occupancy. Maintain OUTPERFORM with a higher TP of RM0.825 on attractive FY21E gross yield of 9.0% vs. large cap MREIT peers' average of 5.4% despite earnings being more resilient than retail players which are struggling amidst the pandemic.

9MFY20 realised net income (RNI) of RM60.3m came in above our and consensus expectations at 83% and 81%, respectively, as 9MFY20 rental rebates were not as high as previously anticipated. No dividends, as expected.

Results' highlights. YoY-Ytd, top-line was up by 3% on higher revenue generated from Menara Shell, Wisma Technip, and Tesco, Penang. Efficient portfolio management led to lower property operating expense (-3%) coupled with lower finance cost (-9%) which allowed RNI to increase by 13%. QoQ, top-line was up by 4.9% as 3Q saw less rental rebates required. As a result, RNI was up by 13%. Gearing remained stable at 0.38x which is below MREITs' gearing limit of 0.60x currently.

Outlook. FY20-21 will see minimal lease expiries of 19-21% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. Positively, the group has renewed 11% of the 19% of leases up for renewal in FY20 while asset occupancy remains stable at 90.5% (vs. 90.4% in 2QFY20). The group remains cautious of the Covid-19 situation which will place pressure on the office market and will continue to focus on tenant retention and cost optimisation for now.

Increase FY20-21E CNP by 7% each to RM78-81m (from RM73-76m) on slightly improved occupancy to 91-93% (from 90-91%) in FY20-21) and lower-than-expected rental rebates in 2HFY20. As a result, we increase FY20-21E GDPU/NDPU to 6.9-7.1 sen / 6.2-6.4 sen (from GDPU/NDPU 6.4-6.7 sen / 5.8-6.0 sen) implying attractive gross yield of 8.7-9.0% (net yield of 7.8-8.1%).

Maintain OUTPERFORM on a higher Target Price of RM0.825 (from RM0.800) based on a higher FY21E GDPU of 7.1 sen (from 6.7 sen) and an unchanged spread of +5.8ppt @ +1.5SD (highest spread among MREITs under coverage of +1.5 to 5.4ppt) to the 10-year MGS target of 2.80%. Our target yield spread is in line with the sector at +1.0 to +2.0SD to historical levels as we remain cautious under this Covid-19 pandemic, but we believe MQREIT warrants slightly better spreads than retail peers as its results and tenant retention have been stable thus far. Gross yields are attractive at 9.0% well above MREITs under our coverage (large cap retail and office MREITs) with an average of 5.4%, while MQREIT has proven to be more stable than its peers given that it operates within the formidable office segment.

Risks to our call include bond yield expansions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: **RM0.795**
Target Price: **RM0.825** ↑

Share Price Performance



KLCI 1,570.08
YTD KLCI chg -1.2%
YTD stock price chg -20.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK Equity
Market Cap (RM m)	852.1
Shares Outstanding	1,071.8
52-week range (H)	1.08
52-week range (L)	0.50
3-mth avg daily vol:	495,035
Free Float	32%
Beta	0.9

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.1%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	162.1	166.2	170.6
EBIT	122.8	117.1	121.5
PBT	35.4	78.4	81.8
Net Profit	35.4	78.4	81.8
Core NP*	72.1	78.4	81.8
Consensus (CNP)	n.a.	74.8	75.5
Earnings Revision	n.a.	+7%	+7%
Core EPS (sen)	6.7	7.2	7.5
Core EPS growth (%)	-13	8	4
NDPS (sen)	6.1	6.2	6.4
BVPS (RM)	1.23	1.26	1.27
Core PER (x)	11.8	11.0	10.6
Price/BV (x)	0.6	0.6	0.6
Gearing (x)	0.38	0.39	0.38
Net Div. Yield (%)	7.7	7.8	8.1

*Core NP refers to RNI



12 November 2020

OTHER POINTS

Result Highlight								
FYE 31 Dec (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9MFY19	9MFY20	YoY-Ytd
Gross revenue	42.1	40.1	4.9%	39.9	5.4%	120.1	123.9	3%
Prop Opex	-9.3	-9.1	1.8%	-9.7	-4.3%	-28.8	-27.9	-3%
NPI excl unrealised rental income	32.7	31.0	5.8%	30.2	8.5%	91.3	96.0	5%
Interest Income	0.6	0.5	16.3%	0.7	-10.1%	2.1	1.8	-16%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total Trust Income	33.4	31.5	5.9%	30.9	8.0%	93.4	97.8	5%
Expenditure	-3.6	-3.5	1.9%	-3.5	1.8%	-10.6	-10.6	0%
Finance Cost	-8.3	-8.9	-6.6%	-9.7	-14.6%	-29.3	-26.8	-9%
Income Before Tax	21.5	19.1	12.6%	17.6	21.8%	53.5	60.3	13%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	21.5	19.1	12.6%	17.6	21.8%	53.5	60.3	13%
Realised Net income (RNI)	21.5	19.1	12.6%	17.6	21.8%	53.5	60.3	13%
Core EPU (sen)	2.00	1.78	12.6%	1.65	21.8%	4.99	5.63	13%
DPU (sen)	0.00	3.43		0.00		3.43	3.43	
NAV/unit (RM)	1.22	1.24		1.26		1.26	1.22	
Gearing (x)	0.38	0.38		0.37		0.37	0.38	
NPI Margins	77.9%	77.2%		75.6%		76.0%	77.5%	
RNI Margins	51.1%	47.6%		44.2%		44.6%	48.7%	

Source: Company, Kenanga Research

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12 November 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
MREITs UNDER COVERAGE																		
AXIS REIT	2.11	3,043.3	Y	12/2020	1.8%	6.1%	12.2%	8.7%	26.3	23.5	21.7	1.5	1.5	6.2%	3.8%	2.15	MP	
CAPITALAND MALAYSIA MALL TRUST	0.590	1,216.1	N	12/2020	-21.3%	17.1%	-54.7%	65.0%	9.5	21.0	12.8	0.5	0.5	2.6%	5.1%	0.565	MP	
IGB REIT	1.72	6,124.2	N	12/2020	-25.1%	26.7%	-31.7%	33.7%	19.3	28.5	21.4	1.6	1.7	6.2%	4.1%	1.60	MP	
KLCCP STAPLED GROUP	7.73	13,955.2	Y	12/2020	-10.2%	8.4%	-17.1%	10.6%	19.3	23.1	20.9	1.1	1.1	5.4%	3.9%	8.20	OP	
MRCB-QUILL REIT	0.795	852.1	N	12/2020	-4.1%	2.6%	-5.0%	4.3%	11.8	11.0	10.6	0.6	0.6	5.3%	7.8%	0.825	OP	
PAVILION REIT	1.43	4,354.8	N	12/2020	-28.7%	37.8%	-60.2%	131.7%	17.6	44.3	19.1	1.1	1.1	2.5%	2.8%	1.40	MP	
SUNWAY REIT	1.46	5,000.2	N	12/2021	1.5%	12.2%	-10.5%	24.4%	15.2	17.0	14.5	1.0	0.9	5.4%	4.8%	1.45	MP	
Simple Average					-12.3%	15.8%	-23.9%	39.8%	16.8	24.1	17.3	1.0	1.0	4.8%	4.6%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

12 November 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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