

MRCB-Quill REIT

FY18 Below Expectations

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FY18 realised net income (RNI) of RM82.5m came in below our and consensus expectations at 91% and 94%, respectively, on lower-than-expected rental from Platinum Sentral and Menara Shell. However, FY18 dividend of 8.08 sen was within, at 97%. Expect minimal expiries in FY19-20 of 19-18% of NLA. All in, we lower FY19E CNP by 7% and introduce FY20 numbers. Maintain MP but lower TP to RM1.05 (from RM1.10) on lower earnings.

Below expectations. FY18 realised net income (RNI) of RM82.5m came in below our and consensus expectations at 91% and 94%, respectively. The deviation from our estimate was due to top-line which came in at 94% of our expectation due to weaker-than-expected rental at Platinum Sentral and Menara Shell, likely due to tenant incentives, while RNI margin was weaker than expected at 48% (vs. 50%) due to slightly higher-than-expected operating and administrative expenses and financing cost. However, 4Q18 dividend of 3.85 sen (which includes a non-taxable portion of 0.15 sen) brought FY18 dividend to 8.08 sen, within our expectation at 97%. This was due to a higher payout ratio of 102% (vs. ours of 97%) from an additional RM2.4m (0.22 sen) deemed as amount not previously distributed, while our GDPU assumptions also included the 0.20 sen gain on disposal of QB8 (completed in 2Q18).

Results Highlights. YoY-Ytd, top-line was down by 4% mainly from lower rentals at Platinum Sentral and Menara Shell, likely due to tenant incentives, as well as loss of revenue from the disposal of QB8 - DHL XPJ, which was completed in 2Q18. NPI margins were flattish at 77%, but RNI declined by 6% post excluding one-off gains on disposal for QB8. QoQ, top-line declined marginally by 1% due to similar reasons mentioned above but RNI declined by 5% on: (i) higher property expenses (+1%) from administrative expenses, (ii) higher financing cost (+8%), (iii) higher expenditure (+4%), and (iv) excluding one-off gains on disposal for QB8 of RM2.2m.

Outlook. FY19-20E leases up for expiry are minimal at 19-18% of net lettable assets (NLA) which are comforting given the tough office market conditions (i.e. oversupply situation, and risk of tenant attrition). Going forward, we are expecting flattish to low single-digit reversions for MQREIT's assets on minimal capex of RM12-10m, mostly for maintenance.

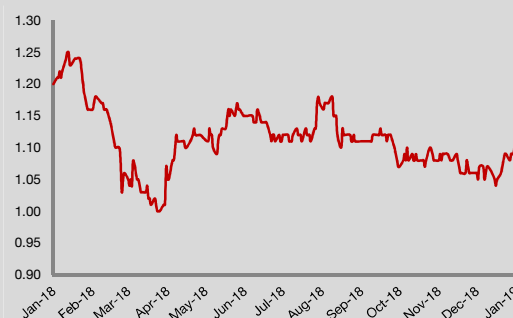
We lower FY19E CNP by 7% to RM84.1m and introduce FY20 CNP of RM84.3m. We lower our FY19E earnings on weaker rental for Platinum Sentral and Menara Shell on rental incentives and slightly lower occupancy, and reduce our CNP margins to 48% (from 50%) on higher financing cost. Our FY19-20E GDPU of 7.7-7.7 sen (NDPU of 7.0-6.9 sen), suggest gross yields of 6.9-6.9% (net yields of 6.2-6.2%).

Maintain MARKET PERFORM but lower our TP of RM1.05 (from RM1.10) on a lower FY19E GDPS of 7.8 sen (from 8.2 sen) and a +3.3ppt spread to the 10-year MGS target of 4.20% (vs. peers spread of +1.4 to 2.6ppt). We believe MQREIT warrants a higher spread and target yield due to the tough market conditions arising from oversupply concerns in the office space. Although MQREIT is commanding decent gross yield of 7.0%, which is above peers' average gross yield of 6.0%, we believe this is justifiable given the abovementioned concerns for office assets. However, we are comfortable with our call as we believe we have priced in most downside risks into MQREIT's valuations and earnings.

MARKET PERFORM ↔

Price: RM1.12
Target Price: RM1.05 ↓

Share Price Performance



KLCI 1,682.97
YTD KLCI chg -0.5%
YTD stock price chg 5.7%

Stock Information

Shariah Compliant No
Bloomberg Ticker MQREIT MK Equity
Market Cap (RM m) 1,200.4
Shares Outstanding 1,071.8
52-week range (H) 1.26
52-week range (L) 1.00
3-mth avg daily vol: 71,894
Free Float 49%
Beta 0.5

Major Shareholders

Malaysian Resources Corporation Berhad 27.8%
Employees Provident Fund Board 11.9%
CapitaLand Limited 10.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	173.4	173.9	175.2
EBIT	133.7	121.4	120.3
PBT	79.3	84.1	84.3
Net Profit	79.3	84.1	84.3
Core NP*	82.5	84.1	84.3
Consensus (CNP)	n.a.	87.4	88.1
Earnings Revision	n.a.	-7%	n.a.
Core EPS (sen)	7.7	7.8	7.8
Core EPS growth (%)	-6%	1%	0%
NDPS (sen)	7.3	7.0	6.9
BVPS (RM)	1.28	1.30	1.31
Core PER	14.5	14.3	14.4
Price/BV (x)	0.9	0.9	0.9
Gearing (x)	0.38	0.38	0.38
Net Div. Yield (%)	6.5	6.2	6.2

*Core NP refers to RNI



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OTHER POINTS

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

Result Highlight									
FYE 31 Dec (RM'm)	4Q18	3Q18	QoQ	4Q17	YoY	FY17	FY18	YoY-Ytd	
Gross revenue	42.7	43.3	-1%	44.7	-4%	180.1	173.4	-4%	
Prop Opex	-10.0	-9.9	1%	-10.0	0%	-40.2	-39.7	-1%	
NPI excl unrealised rental income	32.7	33.3	-2%	34.6	-6%	138.4	133.7	-3%	
Interest Income	1.7	1.0	66%	1.7	-2%	3.6	4.3	21%	
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	2.2	n.a.	
Surplus on revaluation	-5.4	0.0	n.a.	-18.2	-70%	-18.2	-5.4	-70%	
Total Trust Income	28.9	34.4	-16%	18.2	59%	125.3	134.7	8%	
Expenditure	-3.9	-3.7	4%	-3.9	0%	-14.9	-14.9	0%	
Finance Cost	-10.9	-10.1	8%	-11.0	-1%	-40.5	-40.6	0%	
Income Before Tax	14.2	20.6	-31%	3.3	325%	69.9	79.3	13%	
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.	
Net Income	14.2	20.6	-31%	3.3	325%	69.9	79.3	13%	
Realised Net income (RNI)	19.6	20.6	-5%	21.4	-8%	88.0	82.5	-6%	
Core EPU (sen)	1.83	1.92	-5%	2.01	-9%	8.24	7.71	-6%	
DPU (sen)	3.85	0.00	n.a.	4.16	-7%	8.39	8.08	-4%	
NAV/unit (RM)	1.28	1.27		1.30		5.20	5.12		
Gearing (x)	0.38	0.38		0.37		0.37	0.38		
NPI Margins	77%	77%		78%		77%	77%		
RNI Margins	46%	48%		48%		49%	48%		

Source: Company, Kenanga Research

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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.	Price (RM)	
MREITs UNDER COVERAGE																	
AXIS REIT	1.63	2,016.8	Y	12/2018	15.9%	12.0%	9.8%	11.5%	22.0	20.1	18.1	1.3	1.3	6.3%	4.5%	1.35	UP
CAPITALAND MALAYSIA MALL TRUST	1.04	2,125.9	N	12/2018	-2.2%	3.0%	-4.8%	0.6%	12.7	13.3	13.3	0.9	0.9	5.9%	6.7%	1.15	OP
IGB REIT	1.75	6,185.9	N	12/2018	3.4%	2.6%	0.2%	2.7%	20.1	20.3	19.9	1.7	1.7	8.2%	5.0%	1.55	MP
KLCCP STAPLED GROUP	7.85	14,171.9	Y	12/2018	6.8%	1.6%	7.2%	1.8%	21.1	19.7	19.4	1.1	1.1	6.0%	4.5%	6.90	UP
MRCB-QUILL REIT	1.12	1,200.4	N	12/2019	0.3%	0.7%	1.9%	0.2%	14.5	14.3	14.4	0.9	0.9	6.1%	6.2%	1.05	MP
PAVILION REIT	1.66	5,040.9	N	12/2018	18.7%	5.7%	8.3%	5.9%	21.6	20.0	18.9	1.3	1.3	6.4%	4.7%	1.55	MP
SUNWAY REIT	1.72	5,065.5	N	06/2019	9.1%	6.9%	6.4%	4.0%	17.9	16.9	16.2	1.2	1.1	6.9%	5.3%	1.65	MP
Simple Average					7.4%	4.6%	4.1%	3.8%	18.6	17.8	17.2	1.2	1.2	6.5%	5.3%		
<i>* Core NP and Core PER</i>																	
CONSENSUS NUMBERS																	
YTL HOSPITALITY REIT	1.23	2,096.4	N	06/2019	0.0%	3.1%	-36.4%	5.1%	8.9	13.9	13.2	0.8	0.8	0.0	7.1%	1.44	BUY
AL-'AQAR HEALTHCARE REIT	1.35	993.6	Y	12/2018	0.1%	0.0%	-28.3%	0.3%	11.7	16.4	16.3	1.1	N.A.	0.1	5.8%	1.62	BUY
AMANAHRAYA REIT	0.825	472.9	N	12/2018	49.1%	34.9%	13.4%	7.8%	14.9	13.2	12.2	0.6	N.A.	0.0	7.4%	0.925	BUY
AMFIRST REIT	0.530	363.8	N	03/2019	N.A.	N.A.	N.A.	N.A.	32.1	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
HEKTAR REIT	1.15	531.3	N	12/2018	N.A.	N.A.	N.A.	N.A.	16.2	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
TOWER REIT	0.910	255.3	N	06/2019	N.A.	N.A.	N.A.	N.A.	12.9	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
UOA REIT	1.37	579.3	N	12/2018	N.A.	N.A.	N.A.	N.A.	15.3	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
ATRIUM REIT	1.14	138.9	N	12/2018	N.A.	N.A.	N.A.	N.A.	7.7	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
AL-SALAM REIT	0.800	464.0	Y	12/2018	4.7%	17.1%	-20.5%	18.6%	11.4	14.4	12.1	0.8	N.A.	0.1	5.9%	0.850	NEUTRAL
KIP REIT	0.805	406.8	N	06/2019	7.4%	20.9%	-4.8%	0.8%	10.8	11.4	11.3	0.8	0.8	N.A.	7.6%	N.A.	N.A.

Source: Bloomberg, Kenanga Research

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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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