

UOBKH HIGHLIGHTS

MRCB-Quill REIT (MQREIT MK/HOLD/RM1.12/Target: RM1.15)

2018: Results Within Expectations

Year to 31 Dec	3Q18 (RMm)	4Q18 (RMm)	yoy % chg	qoq % chg	FY18 (RMm)	yoy % chg	Year	EPU (sen)	PE (x)
Gross Revenue	43.3	42.7	(4.5)	(1.4)	173.4	(3.7)	2019F	8.04	13.9
Operating Expenses	(9.9)	(10.0)	(0.3)	0.7	(39.7)	(1.1)	2020F	8.42	13.3
Net property Income	33.3	32.7	(5.7)	(2.0)	133.7	(4.5)	2021F	8.98	12.5
Finance Cost	(10.1)	(10.9)	(0.9)	8.2	(40.6)	0.2			
Net Profit	20.6	13.5	(37.3)	(34.5)	76.4	(13.3)			
Core Net Profit	20.6	19.6	(8.8)	(4.7)	82.5	(6.3)			
EPU (sen)	1.9	1.3	(37.5)	(34.8)	7.1	(13.4)			
DPU (sen)	0.0	3.9	(7.5)	n.m.	8.1	(3.7)			

Source: MRCB-Quill Reit, UOB Kay Hian

RESULTS

- **Within expectations.** MRCB-Quill REIT (MQREIT) reported revenue of RM42.7m (-4.5% yoy, -1.4% qoq) and core net profit of RM13.5m (-37.3% yoy, -34.5% qoq) in 4Q18. 2018 net profit of RM76.4m (-13.3% yoy) accounts for 90.6% and 87.1% of our and consensus' full-year forecasts respectively. The unexpected variance is due to tax expenses incurred related to real property gains tax (RPGT) on the fair value gain in the investment properties. Stripping out the tax expense incurred, full-year core net profit would account for 98% of our full-year forecast, which we deem in line with our expectations.
- **3.85 sen dividend declared** during the quarter. This brings full-year dividend to 8.08 sen (-3.7% yoy), which accounts for 106.6% and 99.8% of our and consensus' full-year forecasts respectively.
- **Net profit declined yoy.** 2018 net profit declined 13.3% yoy due to: a) absence of income from QB8 – DHL XPJ which was sold in Apr 18, b) lower revenue from Platinum Sentral and Menara Shell on lower occupancies, and c) tax expenses incurred related to RPGT. 4Q18 net profit declined 34.5% qoq due to the tax expense incurred related to RPGT. Core net profit declined due to lower occupancy rate for Platinum Sentral.
- **Decline in occupancy rate.** Occupancy rate declined to 93% for 2018 (2017: 97%), but this is still higher than the average of 80% in 2017 for offices in the Klang Valley. This is mainly due to MQREIT's purpose-built strategy which allows it to lock in long-term leases. MQREIT's WALE is among the highest among peers (under our coverage), at 5.04 years.
- **Gearing at 37.7%.** We think MQREIT's current gearing ratio is healthy (on a par with peers), which allows it to tap into the debt and equity markets for future acquisitions.
- No changes to our earnings forecasts. We introduce 2021 net profit forecast of RM96.2m.

VALUATION/RECOMMENDATION

- **Maintain HOLD with adjusted target price of RM1.15** (from RM1.12) after introducing our 2021 forecast. Our target price is based on a dividend discount model (required rate of return: 7.6%, terminal growth: 1.1%) and represents an implied dividend yield of 6.7%. Entry price is RM1.08.

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