

20 January 2020

MRCB-Quill REIT

FY19 Meets Expectations

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FY19 realised net income (RNI) of RM72.1m came in well within our and consensus expectations at 95% and 99%, respectively. FY19 dividend of 6.80 sen is also within (97%). FY20/Y21 will see minimal expiries of 18%/19% of NLA which is comforting given the glut of office space. Maintain FY20E RNI of RM76.5m and introduce FY21E RNI of RM77.6m. Maintain MARKET PERFORM with an unchanged TP of RM1.05 (based on an implied FY20E yield of 6.7%).

FY19 realised net income (RNI) of RM72.1m came in well within our and consensus expectations at 95% and 99%, respectively. FY19 GDPU of 6.8 sen per unit (which includes a non-taxable portion of 0.10 sen) is also within at 97% of our expected GDPU of 7.0 sen (7.0% gross yield).

Results' highlights. YoY, top-line was down by 7% mainly from lower contributions from Platinum Sentral, Wisma Technip and QB5 due to tenant movements which resulted in lower portfolio occupancy of 90% (vs. 96%), and post the disposal of QB8 - DHL XPJ in 2QFY18. As a result, RNI was down by 13% on slightly lower NPI margin (-1.3ppt) on the back of weaker top-line. QoQ, top-line was up by 5%, likely on better rental rates for leases renewed in 4QFY19 and marginally better occupancy of 90% (vs. 89% in 3QFY19). This trickled down to bottom-line which was up by 6% despite slightly higher property expenses and financing cost.

Outlook. FY20-21 will see 18-19% of net lettable assets (NLA) up for tenancy expiry amid an oversupply of office spaces in the Klang Valley. Despite concerns of tenant attritions, MQREIT has managed to renew 92% of leases up for renewal in FY19. Going forward, we are expecting flattish reversions for MQREIT's assets and expect minimal capex of RM10m, mostly for maintenance.

Maintain FY20E RNI of RM76.5m and introduce FY21E RNI of RM77.6m. Our earnings are based on FY20-21E portfolio occupancy of 92-93% (from 90% currently) and low single-digit rental reversions. As a result, our FY20-21E GDPU stand at 7.0-7.1 sen (NDPU of 6.3-6.4 sen), which suggest gross yield of 7.0-7.1% (net yield of 6.3-6.4%), respectively.

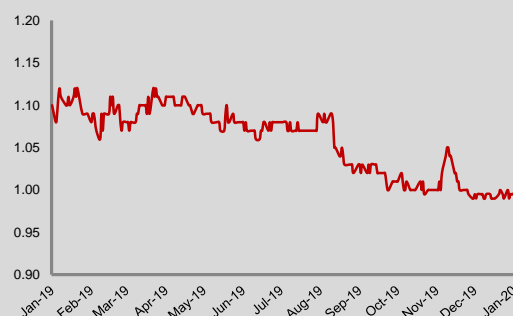
Maintain MARKET PERFORM with Target Price of RM1.05. Our TP is based on FY20E GDPU of 7.0 sen on an unchanged +3.2ppt spread to the 10-year MGS target of 3.40%. Our target yield spread for MQREIT is the highest compared to comparable MREITs under our coverage (+1.3ppt to +3.2ppt) due to the tough market conditions amid oversupply of office space. MQREIT is commanding decent gross yield of 7.0%, well above peers' average gross yield of 5.7%, but we believe this is justifiable given concerns surrounding the oversupply in the office space.

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

MARKET PERFORM ↔

Price: **RM1.00**
Target Price: **RM1.05** ↔

Share Price Performance



KLCI 1,595.81
YTD KLCI chg 0.4%
YTD stock price chg 0.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MQREIT MK EQUITY
Market Cap (RM m)	1,071.8
Shares Outstanding	1,071.8
52-week range (H)	1.13
52-week range (L)	0.99
3-mth avg daily vol:	182,986
Free Float	25%
Beta	0.5

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	170.7	172.2
EBIT	122.8	115.1	116.3
PBT	35.4	76.5	77.6
Net Profit	35.4	76.5	77.6
Core NP*	72.1	76.5	77.6
Consensus (CNP)	72.7	75.7	77.1
Earnings Revision	N.A.	N.A.	N.A.
Core EPS (sen)	6.7	7.1	7.1
Core EPS growth (%)	-13	5	1
NDPS (sen)	6.1	6.3	6.4
BVPS (RM)	1.23	1.26	1.27
Core PER (x)	14.9	14.1	14.0
Price/BV (x)	0.8	0.8	0.8
Gearing (x)	0.38	0.39	0.38
Net Div. Yield (%)	6.1	6.3	6.4

*Core NP refers to RNI



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OTHER POINTS

Result Highlight								
FYE 31 Dec (RM m)	4Q19	3Q19	QoQ	4Q18	YoY	FY18	FY19	YoY
Gross revenue	42.0	39.9	5%	42.7	-2%	173.4	162.1	-7%
Prop Opex	-10.5	-9.7	8%	-10.0	5%	-39.7	-39.2	-1%
NPI excl unrealised rental income	31.5	30.2	4%	32.7	-4%	133.7	122.8	-8%
Interest Income	1.1	0.7	60%	1.7	-34%	4.3	3.2	-26%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	2.2	0.0	-100%
Surplus on revaluation	-36.7	0.0	n.a.	-5.4	576%	-5.4	-36.7	576%
Total Trust Income	-4.1	30.9	-113%	28.9	-114%	134.7	89.3	-34%
Expenditure	-3.8	-3.5	7%	-3.9	-2%	-14.9	-14.4	-4%
Finance Cost	-10.3	-9.7	5%	-10.9	-6%	-40.6	-39.6	-2%
Income Before Tax	-18.1	17.6	-203%	14.2	-228%	79.3	35.4	-55%
Net Income	-18.1	17.6	-203%	14.2	-228%	79.3	35.4	-55%
Realised Net income (RNI)	18.6	17.6	6%	19.6	-5%	82.5	72.1	-13%
Core EPU (sen)	1.74	1.65	6%	1.83	-5%	7.7	6.7	-13%
DPU (sen)	3.37	0.00	n.a.	3.85	-12%	8.1	6.8	-16%
NAV/unit (RM)	1.23	1.26		1.28		1.28	1.23	
Gearing (x)	0.38	0.37		0.38		0.38	0.38	
NPI Margins	75.0%	75.6%		76.6%		77.1%	75.8%	
RNI Margins	44.3%	44.2%		46.0%		47.6%	44.5%	

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 Price	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.	(RM)	
MREITs UNDER COVERAGE																		
AXIS REIT	1.77	2,540.4	Y	12/2019	3.3%	7.8%	1.5%	11.6%	19.3	19.1	18.2	1.3	1.2	6.5%	4.3%	2.00	OP	
CAPITALAND MALAYSIA MALL TRUST	1.01	2,072.3	N	12/2019	-2.3%	4.3%	-16.0%	3.8%	12.8	15.3	14.7	0.8	0.8	5.0%	5.8%	1.15	OP	
IGB REIT	1.91	6,778.3	N	12/2019	3.9%	1.7%	2.8%	1.6%	22.2	21.7	21.5	1.8	1.8	8.3%	4.5%	2.05	OP	
KLCCP STAPLED GROUP	7.89	14,244.1	Y	12/2019	5.5%	0.7%	4.9%	1.2%	20.4	19.5	19.2	1.1	1.1	6.0%	4.6%	8.25	MP	
MRCB-QUILL REIT	1.00	1,071.8	N	12/2020	5.3%	0.9%	6.1%	1.4%	13.0	14.9	14.0	0.8	0.8	5.5%	6.3%	1.05	MP	
PAVILION REIT	1.74	5,287.9	N	12/2019	10.8%	2.0%	4.5%	2.6%	20.7	19.8	19.3	1.3	1.3	6.8%	4.6%	1.90	MP	
SUNWAY REIT	1.83	5,389.5	N	06/2020	8.1%	2.6%	2.5%	2.4%	19.1	18.7	18.1	1.2	1.2	6.6%	4.8%	1.90	MP	
Simple Average					3.9%	2.8%	-1.2%	3.5%	18.2	18.3	17.9	1.2	1.2	6.4%	5.0%			
<i>* Core NP and Core PER</i>																		
CONSENSUS NUMBERS																		
YTL HOSPITALITY REIT	1.36	2,318.0	N	06/2020	5.6%	3.1%	24.9%	6.8%	22.1	17.7	16.6	0.9	0.8	0.0	6.2%	1.51	BUY	
AL-'AQAR HEALTHCARE REIT	1.33	978.9	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	10.7	16.0	15.5	1.0	N.A.	0.1	5.9%	1.54	BUY	
AMANAHRAYA REIT	0.735	421.3	N	12/2019	25.3%	0.8%	-52.2%	2.1%	5.2	10.9	10.6	0.5	N.A.	0.1	8.0%	0.790	N.A.	
AMFIRST REIT	0.500	343.2	N	03/2020	N.A.	N.A.	N.A.	N.A.	15.4	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.	
HEKTAR REIT	0.990	457.3	N	12/2019	-4.8%	-2.3%	N.A.	N.A.	13.8	N.A.	N.A.	0.7	N.A.	N.A.	7.1%	N.A.	N.A.	
TOWER REIT	0.810	227.2	N	06/2020	N.A.	N.A.	N.A.	N.A.	31.7	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.	
UOA REIT	1.24	524.4	N	12/2019	-0.6%	1.3%	-30.5%	0.0%	9.1	13.1	13.1	0.7	0.7	0.1	7.3%	N.A.	N.A.	
ATRIUM REIT	1.06	219.2	N	12/2019	N.A.	N.A.	N.A.	N.A.	18.9	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.	
AL-SALAM REIT	0.830	481.4	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	11.9	16.3	15.6	0.8	0.8	0.0	5.7%	0.865	N.A.	
KIP REIT	0.905	457.3	N	06/2020	25.6%	0.3%	N.A.	N.A.	13.4	N.A.	N.A.	0.9	0.9	N.A.	7.8%	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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