HLIB Research
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Nazira Abdullah
NurulNazira@hlib.hongleong.com.my
(603) 2083 1717

MRCB-Quill REIT

Disposal of QB5

MQREIT has proposed to dispose Quill Building 5 (QB5) in Cyberjaya to Deriv Services Sdn Bhd (DSSB) for a cash consideration of RM45m. We are positive on the disposal as it unlocks the value of the property at 1.12x BV which further fortifies its balance sheet. Our pro-forma calculation implies that net gearing would decrease to 36.9% post disposal, from 38.2% as at 3QFY20 assuming all the proceeds will be used to pay borrowings. The building has not been contributing to MQREIT since April 2019, hence, there is no impact on the top line of the company. We maintain our forecast for now pending the completion of disposal. Maintain our BUY call with an unchanged TP of RM0.96.

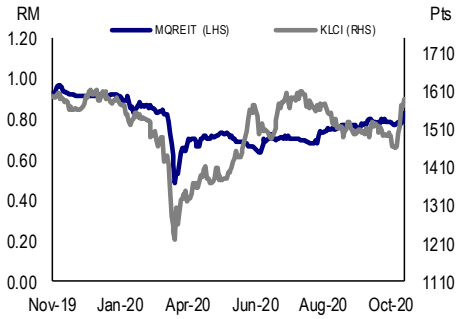
BUY (Maintain)

Target Price:	**RM0.96**
Previously:	**RM0.96**
Current Price:	**RM0.83**

Capital upside	15.7%
Dividend yield	8.6%
Expected total return	24.3%

Sector coverage: REIT
Company description: MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

Share price



Historical return (%)	1M	3M	12M
Absolute	5.1	16.9	-17.8
Relative	0.7	15.8	-17.5

Stock information

Bloomberg ticker	MQREITMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	890
3-mth average volume ('000)	519
SC Shariah compliant	No

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitaLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PAT – core (RM m)	72.1	78.3	79.5
EPU – core (sen)	6.7	7.3	7.4
P/E (x)	12.3	11.4	11.2

NEWSBREAK

MQREIT has proposed to dispose Quill Building 5 (QB5) in Cyberjaya to Deriv Services Sdn Bhd (DSSB) for a cash consideration of RM45m. The building is currently vacant and has not been contributing to MQREIT's earning since April 2019. The disposal is expected to be completed in 2QFY21 pending relevant approvals.

QB5 is a 5 storey office building with 1 level of sub-basement and 1 ½ level of a basement car park with gross floor area of 227k sq. ft. and net lettable area of 82k sq. ft. The property used to contribute c.RM3.5m annually (3-4% of top line).

HLIB's VIEW

Positive on the news. We are positive on the disposal as it unlocks the value of the property at 1.12x BV which further fortifies its balance sheet. The proceeds will be used to pare down its borrowings, asset enhancement initiatives, investments in other yield accretive properties and working capital purposes. Our pro-forma calculation implies that net gearing would decrease to 36.9% post disposal, from 38.2% as at 3QFY20 assuming all the proceeds will be used to pay borrowings. Other than that, we reckon that the selling price of RM45m is also fair as the market value of QB5 is RM40m as appraised by independent valuer on 15 Sept 2020.

Financial impact. The building has not been contributing to MQREIT since April 2019, hence, there is no impact on the top line of the company. However, assuming that all the proceeds will be used to pay the existing borrowing, the reduction in borrowings from this proposed exercise is expected to result in an interest savings of c.RM2m p.a. (c. 2% increase in bottom line annually).

Forecast. We keep our earnings forecast unchanged for now as management has not finalise what they will do with the proceeds as yet.

Maintain BUY, with an unchanged of TP: RM0.96 based on FY21 forward DPU on targeted yield of 7.6%, derived from its 2 years historical average yield spread of MQREIT and 10-year MGS. We like MQREIT for its attractive dividend yield of 8.6% (highest among REITs in our universe) and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike other mall based REITs.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	85.8	63.3	73.3	74.5	74.6
Receivables	6.7	6.3	6.4	6.6	6.6
Investment properties	2,177.6	2,143.0	2,145.0	2,147.0	2,149.0
PPE	0.3	0.4	0.2	0.1	0.1
Others	1.3	0.8	0.8	0.8	0.8
Assets	**2,271.7**	**2,213.7**	**2,225.7**	**2,229.0**	**2,231.1**
Payables	16.1	15.7	15.2	15.8	15.4
Debt	853.7	835.7	846.7	847.7	848.7
Security deposits	29.2	38.5	38.5	38.5	38.5
Derivatives	0.4	0.0	0.0	0.0	0.0
Liabilities	**899.4**	**889.9**	**900.3**	**902.0**	**902.5**
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	136.4	87.6	89.2	90.8	92.4
Equity	**1,372.3**	**1,323.5**	**1,325.1**	**1,326.6**	**1,328.3**
Total Liabilities & Equity	**2,271.7**	**2,213.7**	**2,225.7**	**2,229.0**	**2,231.1**

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Gross rental income	155.0	144.1	151.0	154.7	155.6
Car park income	13.2	13.0	10.6	10.9	11.2
Other revenue	4.4	3.9	3.0	3.0	3.1
Total revenue	**172.5**	**161.0**	**164.6**	**168.7**	**169.8**
Property opex	-39.7	-39.2	-37.9	-39.6	-38.4
Net property income	**132.8**	**121.7**	**126.7**	**129.1**	**131.5**
Other income	1.9	-32.4	2.4	2.8	2.8
Net invest income	**134.7**	**89.3**	**129.1**	**131.9**	**134.3**
Manager's fee	-13.3	-12.8	-12.8	-13.0	-13.0
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-40.6	-39.6	-36.4	-37.7	-37.8
Other non opex	-0.9	-0.9	-0.9	-0.9	-0.9
Profit before tax	**79.3**	**35.4**	**78.3**	**79.5**	**81.9**
Taxation	**-6.1**	**-6.2**	**0.0**	**0.0**	**0.0**
Profit after tax	**73.1**	**29.1**	**78.3**	**79.5**	**81.9**
Core net profit	**84.7**	**72.1**	**78.3**	**79.5**	**81.9**
Distributable income	**87.1**	**73.0**	**78.3**	**79.5**	**81.9**
Consensus core net profit			74.8	75.5	76.7
HLIB/ Consensus			105%	105%	107%

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	79.3	35.4	78.3	79.5	81.9
Finance costs	40.6	39.6	0.0	0.0	0.0
Depreciation	0.1	0.2	0.2	0.1	0.1
Fair value gain of assets	5.4	36.7	0.0	0.0	0.0
Interest income	-4.3	-3.2	0.0	0.0	0.0
Others	-14.6	2.2	-0.7	0.5	-0.5
CFO	**106.5**	**110.9**	**77.7**	**80.1**	**81.5**
Capex	-3.8	-2.1	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.2	0.0	0.0	0.0
Others	31.7	2.7	0.0	0.0	0.0
CFI	**27.6**	**0.4**	**-2.0**	**-2.0**	**-2.0**
Distribution paid	-89.8	-78.0	-76.7	-77.9	-80.3
Proceeds frm borrow'g	117.0	35.0	400.0	165.0	165.0
Repayment of borrow'g	-117.0	-54.0	-389.0	-164.0	-164.0
Others	-34.6	-36.8	0.0	0.0	0.0
CFF	**-124.3**	**-133.8**	**-65.7**	**-76.9**	**-79.3**
Net cash flow	**9.7**	**-22.5**	**10.0**	**1.2**	**0.2**
Beginning cash	76.0	85.8	63.3	73.3	74.5
Ending cash	85.8	63.3	73.3	74.5	74.6

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPU (sen)	7.9	6.7	7.3	7.4	7.6
P/E (x)	10.5	12.3	11.4	11.2	10.9
EBITDA	125.4	111.8	114.8	117.3	119.8
EBIT	125.3	111.7	114.7	117.2	119.7
EV	1,657.5	1,662.0	1,663.0	1,662.8	1,663.7
EV/EBITDA (x)	13.2	14.9	14.5	14.2	13.9
DPU (sen)	8.1	6.8	7.2	7.3	7.5
Dividend yield	9.7	8.2	8.6	8.8	9.0
NTA/ share (sen)	127.3	122.7	122.9	123.0	123.2
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.28	1.23	1.24	1.24	1.24
P/B (x)	0.6	0.7	0.7	0.7	0.7
EBITDA margin	72.7%	69.5%	69.8%	69.6%	70.5%
EBIT margin	72.6%	69.4%	69.7%	69.5%	70.5%
PBT margin	45.9%	22.0%	47.6%	47.1%	48.2%
Net margin	49.1%	44.8%	47.6%	47.1%	48.2%
ROE	5.3%	2.1%	5.9%	6.0%	6.2%
ROA	3.7%	3.3%	3.5%	3.6%	3.7%
Net gearing	33.80%	34.89%	34.75%	34.69%	34.69%

Assumptions

FYE Dec	FY19	FY20f	FY21f	FY22f
Gross rental income				
Quill Building 1 - DHL 1	5.0	5.0	5.1	5.1
Quill Building 4 - DHL 2	5.4	5.4	5.5	5.6
Quill Building 2 - HSBC	9.9	9.9	10.1	10.1
Quill Building 3 - BMW	5.8	5.8	5.8	5.9
Wisma Technip	8.0	8.4	8.9	8.9
Part of Plaza Mont' Kiara	3.7	3.0	3.0	3.1
Quill Building 5 - IBM	0.0	0.0	0.0	0.0
Tesco Building - Penang	14.7	14.9	15.2	15.3
Platinum Sentral	48.3	50.2	51.7	52.0
Menara Shell	44.4	48.4	49.4	49.6
Total:	145.2	151.0	154.7	155.6

Quarterly financial summary

FYE Dec	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)
Gross Revenue	39.9	40.1	42.1	5%	5%
Property operating expen	-9.7	-9.1	-9.3	2%	-4%
Net Property Income	30.2	31.0	32.7	6%	8%
Interest income	0.7	0.5	0.6	16%	-10%
Net Investment Income	30.9	31.5	33.4	6%	8%
Total Expenses	-13.3	-12.4	-11.9	-4%	-10%
Normalised PBT	17.6	19.1	21.5	13%	22%
Normalised PAT	17.6	19.1	21.5	13%	22%
Distributable income	17.6	19.1	21.5	13%	22%
EPU (realised)	1.6	1.8	2.0	13%	22%
DPU (sen)	0.0	3.4	0.0	N.M.	N.M.

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Hong Leong Investment Bank Berhad (10209-W)
Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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