

Company Focus

MRCB-Quill REIT

Bloomberg: MQREIT MK | Reuters: MQRE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

6 Nov 2015

HOLD

Last Traded Price: RM1.15 (KLCI : 1,688.54)

Price Target: RM1.20 (4% upside) (Prev RM1.20)

Shariah Compliant: No

Reason for Report: 3Q15 results

Where we differ: Largely in line with consensus

Analyst

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Result Summary

FY Dec (RM m)	3Q 2015	3Q 2014	2Q 2015	% chg yoy	% chg qoq
P&L Items					
Sales	31.8	17.5	32.2	81.4	(1.1)
Net Property Inc	25.5	13.5	24.3	88.7	4.8
Net Income Aft Tax	15.7	8.9	13.6	76.1	15.4
Net Inc avail. for Dist.	15.1	8.9	13.9		
Other Data (%)					
Net Prop Inc Margin	80.1	77.0	75.6		
Dist. Payout Ratio	0.0	0.0	101.7		
DPU (sen)	0.0	0.0	2.2		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Gross Revenue	70	109	124	129
Net Property Inc	53	86	98	101
Total Return	40	50	57	58
Distribution Inc	33	50	57	58
EPU (sen)	10.3	8.4	8.6	8.8
EPU Gth (%)	10	(19)	2	3
DPU (sen)	8.4	8.4	8.6	8.8
DPU Gth (%)	0	0	2	3
NAV per shr (sen)	138.7	133.5	133.6	133.5
PE (X)	11.1	13.7	13.4	13.1
Distribution Yield (%)	7.3	7.3	7.4	7.7
P/NAV (x)	0.8	0.9	0.9	0.9
Agg. Leverage (%)	36.3	44.4	44.7	45.0
ROAE (%)	7.5	7.0	6.4	6.6

At A Glance

Issued Capital (m shrs)	661
Mkt. Cap (RMm/US\$m)	761 / 177
3m Avg. Daily Val (US\$m)	0.0

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trusts

Principal Business: MRCB-Quill REIT is a real estate investment trust that focuses on office properties. Its largest asset is Platinum Sentral with 445k sq ft NLA in the Kuala Lumpur Sentral transport hub. Its other assets include five office assets in Cyberjaya, one retail/commercial asset, one industrial asset and one hypermarket.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

No surprises

- 3Q/9M15 earnings in line
- No dividend this quarter, slated for 4Q
- Office rental growth outlook still lukewarm
- Maintain HOLD, RM1.20 TP

Highlights

Earnings as expected

- 3Q15 core net income of RM15.1m brought 9M15 to RM37m, making up 74%/75% of our/consensus estimates. This is in line with expectations, taking into account that 1Q15 did not have the Platinum Sentral (PS) contribution.
- NPI was 5% higher q-o-q due to some reversals in agency fees upon completion of the Quill Building 10 (QB10) sale. Nonetheless, 9M15 NPI margin of 77% was as expected, higher than 76% in FY14 as PS carries higher margins.
- There was also a gain of disposal of RM0.6m from the sale of QB10 in Sept.

Higher occupancy, some lease expiries coming up

- Portfolio occupancy was steady at 97%, up from 93% at end 2Q due to the disposal of the fully vacant QB10 and minor take-ups at PS retail and Plaza Mont Kiara.
- About 12% of total NLA was renewed in 9M15, with another 13% expiring in 4Q15. The bulk (190k sq ft or 11% of total) comes from a single tenant (DHL), and management is reasonably confident of lease renewal. Expiring leases in FY16 are 7% of total NLA, and 10% in FY17.

Outlook

Lukewarm outlook for office space

- We expect some challenges in negotiating positive rental reversions, and occupancy replenishment going forward for MQREIT's office assets. This is due to additional space coming onstream, prolonging the office supply overhang, particularly in Kuala Lumpur and Selangor state where MQREIT's office assets are located.

Acquisition will benefit only with strong yields

- MQREIT has the right of first refusal (ROFR) on investment properties from major shareholder Malaysian Resources Corp (MRCB). As the latter may need liquidity given recently announced project wins, we view an increasing likelihood of an injection into MQREIT in the near term. However, as gearing is high at 44%, additional unit issuance may be required to fund such a purchase. Thus, we view that

MRCB-Quill REIT

acquisitions, if any, require strong injection yields of 7% or more to secure DPU accretion.

Valuation:

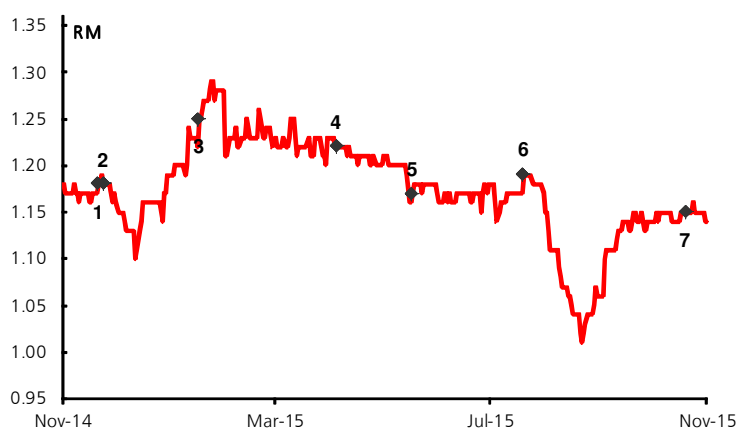
Our TP is RM1.20, assuming 8.4% cost of equity and 1% terminal growth.

Key Risks:

Soft office rental market. The office sector outlook remains tepid due to excess supply, especially in Kuala Lumpur and Cyberjaya, where the REIT has exposure. Rental reversion potential is relatively weak and occupancies could be a risk factor.

Higher gearing and financing costs. After the Platinum Sentral injection, MQREIT's gearing is now 44%, near the 50% regulatory cap. Financing costs are also slated to rise because of additional facilities, but it is reassuring that all its borrowings are now at fixed interest rates.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	24 Nov 14	1.18	1.25	HOLD
2:	27 Nov 14	1.18	1.25	HOLD
3:	20 Jan 15	1.25	1.25	HOLD
4:	08 Apr 15	1.22	1.25	HOLD
5:	21 May 15	1.17	1.25	HOLD
6:	23 Jul 15	1.19	1.25	HOLD
7:	23 Oct 15	1.15	1.20	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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