

# MRCB-Quill REIT (MQREIT MK)

Property - REITS

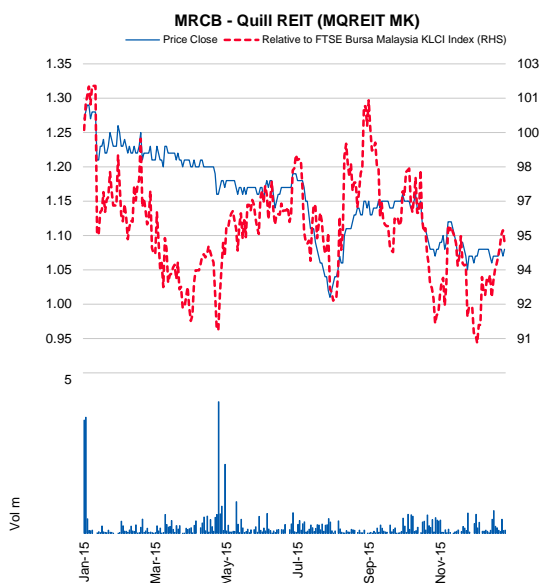
Market Cap: USD166m

**Buy** (Maintained)

Target Price: MYR1.23

Price: MYR1.08

## Lease Expiry Profile Getting Stable

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	0.20m/0.05m
Cons. Upside (%)	17.6
Upside (%)	13.6
52-wk Price low/high (MYR)	1.01 - 1.29
Free float (%)	40
Share outstanding (m)	661
<b>Shareholders (%)</b>	
CapitaCommercial Trust	30.0
Quill Group	30.0

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	2.9	(6.1)	(7.7)	(14.3)
Relative	4.0	4.0	(1.4)	(1.7)	(5.5)

**MQREIT's 4Q15 net profit met expectations. Maintain BUY with an unchanged TP of MYR1.23 (14% upside).** In line with our forecast, a DPU of 4.37 sen was declared for 2H, and at current price, the REIT offers an attractive 7.8% yield. Organically, the REIT should see a more stable lease expiry profile going forward, while the strong backing from MRCB would also ensure sustainable growth in the REIT's asset base over the medium term.

◆ **Within expectations.** MRCB-Quill REIT (MQREIT) recorded 4Q15 core net profit of MYR16.4m (+4.1% QoQ, +92.5% YoY), in line with our and market expectations. The slight improvement in QoQ earnings was mainly due to lower operating expenses arising from cost savings from Platinum Sentral, as well as lower finance costs as a result of a reduction in borrowings in 4Q. Meanwhile, portfolio occupancy remains healthy at 97.5% while gearing stood at 42%. A dividend of 4.37 sen was declared for 2H15, bringing total FY15 dividends to 8.47 sen.

◆ **Recent developments.** We note that the REIT has successfully renewed 94% of the NLA due for renewal in 2015. Going forward, its lease expiry profile looks stable as the next major renewal only happens in 2018/2019. In addition, we believe that the REIT also has some room for inorganic growth as MRCB (MRC MK, BUY, TP: MYR1.50) has indicated that it is looking to inject more of its investment assets into the REIT over the next 1-2 years. That said, the REIT has yet to enter into a formal sale and purchase agreement (SPA) with MRCB on the proposed acquisition of Menara Shell (for more details please refer to our 4 Dec 2015 report [MRCB-Quill REIT : One Step Closer To Acquiring Shell Tower](#)). Note that should the deal go through, at an assumed gross yield of 6.5% (similar to that of Platinum Sentral), we believe that MQREIT's topline could see an increase of about 10–33% for FY16-17.

◆ **Earnings forecasts.** Unchanged.

◆ **Maintain BUY.** Maintain a DDM-based TP of MYR1.23. We maintain our BUY call on the basis of MQREIT's stable growth prospects as: i) most of its tenants are on long-term leases (>5 years), ii) high relocation costs for some tenants ensure tenants' "stickiness", and iii) inorganic growth opportunities arise from MRCB and Quill Group. Key risks include: i) slower-than-expected rental reversions, and ii) competition from the influx of new office space.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	70	115	124	126	129
Net property income (MYRm)	53.3	90.3	94.3	96.5	99.3
Reported net profit (MYRm)	34.1	53.4	57.0	57.8	60.1
Total distributable income (MYRm)	34.1	53.4	57.0	57.8	60.1
DPS (MYR)	0.08	0.08	0.08	0.08	0.09
DPS growth (%)	0.0	1.1	(4.4)	4.1	2.4
Recurring P/E (x)	12.3	12.0	12.5	12.4	11.9
P/B (x)	0.78	0.79	0.79	0.79	0.78
Dividend Yield (%)	7.8	7.8	7.5	7.8	8.0
Return on average equity (%)	6.3	7.4	6.3	6.4	6.6
Return on average assets (%)	3.9	4.3	3.5	3.5	3.7
Interest coverage ratio (x)	3.38	2.88	3.00	2.96	3.04
Our vs consensus EPS (adjusted) (%)			(7.3)	(9.0)	(5.3)

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Figure 1: MQREIT's quarterly results

FYE Dec (MYRm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	FY14	FY15	YoY (%)	Comments
Revenue	18.2	31.8	32.6	2.4	79.2	70.2	115.2	64.0	Full-year growth was due to the contribution from its new asset Platinum Sentral and higher rental from Plaza Mont' Kiara, QB2, QB3 and Tesco.
Net property income (NPI)	13.4	25.5	26.8	5.1	99.7	53.3	90.3	69.3	
Interest expense	(3.5)	(8.3)	(7.9)	(4.6)	129.9	(14.1)	(28.0)	99.1	The lower QoQ interest expense was due to the MYR30m repayment of borrowings in 4Q.
Interest income	0.1	0.4	0.3	(12.8)	213.4	0.7	0.9	28.1	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
EI	6.1	0.0	6.7	nm	9.1	6.1	6.7	9.1	
Others	(1.6)	(2.4)	0.0	nm	nm	(5.8)	0.0	nm	
<b>Pretax profit</b>	<b>14.6</b>	<b>15.7</b>	<b>23.1</b>	<b>46.5</b>	<b>57.6</b>	<b>40.3</b>	<b>60.7</b>	<b>50.7</b>	
Tax	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
<b>Net Profit</b>	<b>14.6</b>	<b>15.7</b>	<b>23.1</b>	<b>46.5</b>	<b>57.6</b>	<b>40.3</b>	<b>60.7</b>	<b>50.7</b>	Within expectations.
<b>Core Profit</b>	<b>8.5</b>	<b>15.7</b>	<b>16.4</b>	<b>4.1</b>	<b>92.5</b>	<b>34.2</b>	<b>54.0</b>	<b>58.1</b>	
<b>Core earnings per unit (sen)</b>	<b>2.18</b>	<b>2.38</b>	<b>2.48</b>	<b>4.2</b>	<b>13.8</b>	<b>8.76</b>	<b>9.06</b>	<b>3.5</b>	
<b>Dividends per unit (sen)</b>	<b>4.28</b>	<b>0.00</b>	<b>4.37</b>	<b>nm</b>	<b>2.1</b>	<b>8.38</b>	<b>8.47</b>	<b>1.1</b>	
<i>NPI Margin (%)</i>	<i>73.8</i>	<i>80.1</i>	<i>82.2</i>			<i>75.9</i>	<i>78.4</i>		
<i>Pretax Margin (%)</i>	<i>80.4</i>	<i>49.5</i>	<i>70.8</i>			<i>57.3</i>	<i>52.7</i>		
<i>Net Margin (%)</i>	<i>46.8</i>	<i>49.5</i>	<i>50.3</i>			<i>48.6</i>	<i>46.9</i>		

Source: RHB

Figure 2: MQREIT's DDM breakdown

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
EPU (sen)	9.15	9.02	9.54	9.77	10.00	10.24	10.49	10.73	10.99	11.24
DPU (sen)	8.61	8.71	9.06	9.28	9.50	9.73	9.96	10.20	10.44	10.68
Payout ratio (%)	94%	97%	95%	95%	95%	95%	95%	95%	95%	95%

**COE Assumptions**

Risk-free rate	4.3%
Beta	0.78
Risk premium	6.0%

**COE** 9.0%

Terminal growth (%) 1.75%

TP (MYR) 1.23

Source: Company, RHB

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Total turnover	70	115	124	126	129
Property operating expenses	(17)	(25)	(30)	(30)	(30)
<b>Net property income</b>	<b>53</b>	<b>90</b>	<b>94</b>	<b>96</b>	<b>99</b>
Management fees	(5)	(9)	(9)	(9)	(9)
Trust expenses	(0)	(1)	(1)	(2)	(2)
<b>Operating EBIT</b>	<b>47</b>	<b>80</b>	<b>84</b>	<b>86</b>	<b>88</b>
Operating EBITDA	47	80	84	86	88
Interest income	1	1	1	1	1
Interest expense	(14)	(28)	(28)	(29)	(29)
<b>Pre-tax profit</b>	<b>34</b>	<b>53</b>	<b>57</b>	<b>58</b>	<b>60</b>
<b>Profit after tax &amp; minorities</b>	<b>34</b>	<b>53</b>	<b>57</b>	<b>58</b>	<b>60</b>
<b>Reported net profit</b>	<b>34</b>	<b>53</b>	<b>57</b>	<b>58</b>	<b>60</b>
<b>Total distributable income</b>	<b>34</b>	<b>53</b>	<b>57</b>	<b>58</b>	<b>60</b>

Source: Company data, RHB

<b>Cash flow (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
<b>Operating profit</b>	<b>47</b>	<b>80</b>	<b>84</b>	<b>86</b>	<b>88</b>
<b>Change in working capital</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>
Other operating cash flow	0	3	2	2	2
<b>Operating cash flow</b>	<b>44</b>	<b>80</b>	<b>83</b>	<b>84</b>	<b>86</b>
Interest received	1	1	1	1	1
Interest paid	(14)	(28)	(28)	(29)	(29)
<b>Cash flow from operations</b>	<b>31</b>	<b>53</b>	<b>56</b>	<b>56</b>	<b>58</b>
Capex	(6)	(2)	-	(2)	(2)
<b>Cash flow from investing activities</b>	<b>(6)</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>
Dividends paid	(33)	(41)	(52)	(55)	(56)
Proceeds from issue of shares	0	353	-	-	-
Increase in debt	0	385	-	-	-
Other financing cash flow	0	0	-	-	-
<b>Cash flow from financing activities</b>	<b>(32)</b>	<b>696</b>	<b>(52)</b>	<b>(55)</b>	<b>(56)</b>
Cash at beginning of period	31	23	45	36	36
<b>Total cash generated</b>	<b>(7)</b>	<b>746</b>	<b>4</b>	<b>(1)</b>	<b>(0)</b>
<b>Implied cash at end of period</b>	<b>24</b>	<b>770</b>	<b>48</b>	<b>36</b>	<b>35</b>

Source: Company data, RHB

## Financial Exhibits

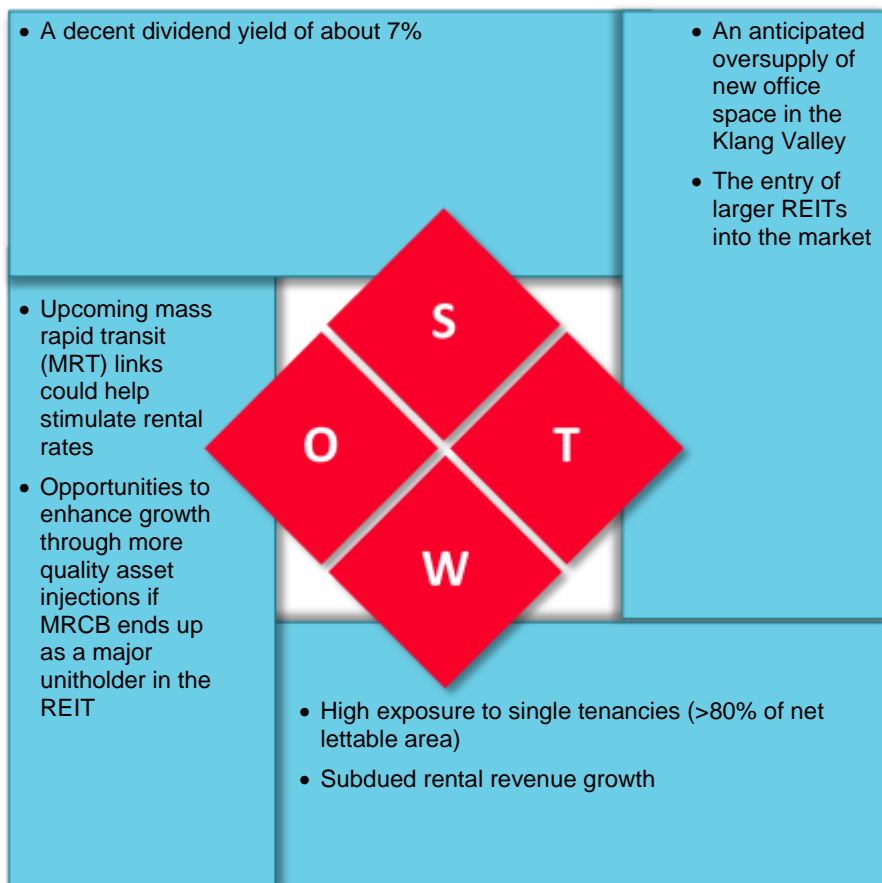
<b>Balance Sheet (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Total cash and equivalents	23	45	36	36	35
Accounts receivable	6	6	6	6	6
Other current assets	-	1	14	17	20
<b>Total current assets</b>	<b>29</b>	<b>52</b>	<b>55</b>	<b>58</b>	<b>61</b>
Total investments	839	1,573	1,573	1,573	1,573
Total other assets	0	0	0	0	0
Total non-current assets	839	1,573	1,573	1,573	1,573
<b>Total assets</b>	<b>868</b>	<b>1,625</b>	<b>1,629</b>	<b>1,631</b>	<b>1,635</b>
Accounts payable	12	14	14	14	14
Other current liabilities	2	3	3	3	3
<b>Total current liabilities</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>
Total long-term debt	305	690	690	690	690
Other liabilities	8	16	16	16	17
<b>Total non-current liabilities</b>	<b>313</b>	<b>705</b>	<b>706</b>	<b>706</b>	<b>706</b>
<b>Total liabilities</b>	<b>327</b>	<b>721</b>	<b>722</b>	<b>722</b>	<b>722</b>
Share capital	412	751	751	751	751
Retained earnings reserve	130	153	156	158	161
Other reserves	-	(0)	(0)	(0)	(0)
<b>Shareholders' equity</b>	<b>541</b>	<b>904</b>	<b>907</b>	<b>909</b>	<b>912</b>
<b>Total equity</b>	<b>541</b>	<b>904</b>	<b>907</b>	<b>909</b>	<b>912</b>
<b>Total liabilities &amp; equity</b>	<b>868</b>	<b>1,625</b>	<b>1,629</b>	<b>1,631</b>	<b>1,635</b>

Source: Company data, RHB

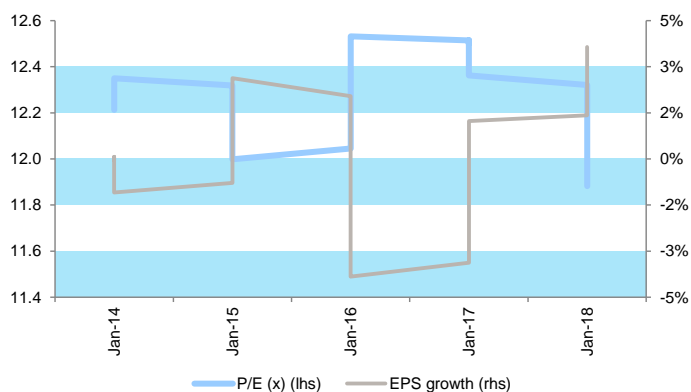
<b>Key Ratios (MYR)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Revenue growth (%)	1.9	64.0	7.6	1.8	2.2
Net profit growth (%)	(1.2)	56.6	6.7	1.4	4.0
EPS growth (%)	(1.2)	2.9	(4.3)	1.4	4.0
BVPS growth (%)	1.5	(1.5)	0.4	0.2	0.3
Net profit margin (%)	48.6	46.4	46.0	45.8	46.6
Return on average assets (%)	3.9	4.3	3.5	3.5	3.7
Return on average equity (%)	6.3	7.4	6.3	6.4	6.6
Net debt to equity (%)	52.1	71.4	72.1	72.0	71.7
DPS	0.08	0.08	0.08	0.08	0.09
Recurrent cash flow per share	0.08	0.09	0.08	0.08	0.09

Source: Company data, RHB

## SWOT Analysis

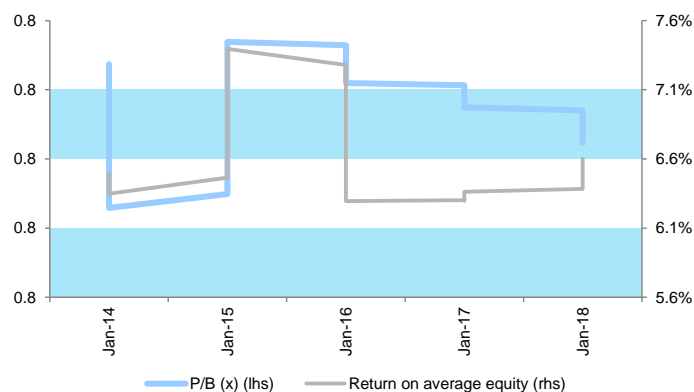


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

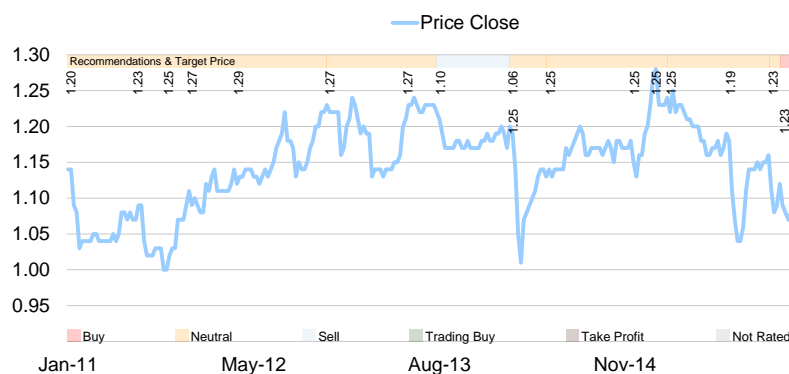


Source: Company data, RHB

## Company Profile

MRCB-Quill REIT is a mid-cap MREIT that focuses on office/commercial assets. Its assets are largely concentrated in the Klang Valley and Cyberjaya areas.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-12-04	Buy	1.23	1.12
2015-11-06	Neutral	1.23	1.16
2015-07-23	Neutral	1.19	1.19
2015-02-26	Neutral	1.25	1.23
2015-01-20	Neutral	1.25	1.25
2014-11-27	Neutral	1.25	1.18
2014-05-02	Neutral	1.25	1.13
2014-01-30	Neutral	1.25	1.20
2014-01-29	Sell	1.06	1.20
2013-08-02	Sell	1.10	1.22

Source : RHB, Bloomberg

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