

03 August 2016

**Buy**

Price  
RM1.20

Target price  
RM1.40

Bloomberg ticker  
MQREIT MK

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# MRCB-Quill REIT

## Ahead of expectations

### Financial Highlights

Year to Dec (RMm)	2014	2015	2016F	2017F	2018F
Revenue	70.2	115.2	120.5	124.9	129.5
Reported net profit	40.3	60.7	55.1	58.3	61.5
Normalised net profit	34.2	53.4	55.1	58.3	61.5
EPS (sen)	10.3	9.2	8.3	8.8	9.3
Net DPS (sen)	8.4	7.7	7.9	8.4	8.9
P/E (x)	11.6	13.1	14.4	13.6	12.9
ROE (%)	7.5	8.4	6.1	6.4	6.8
Dividend yield (%)	7.0	6.4	6.6	7.0	7.4
Net gearing (%)	35.1	42.4	42.4	42.3	42.2
PBV (x)	0.9	0.9	0.9	0.9	0.9

Source: Company, KAF

- Revenue was flat qoq and up 1% mainly due to better income from Platinum Sentral and positive rental reversions from Quill Buildings 2, 3 and 8. Property expenses declined 5% qoq and 13% yoy on the back of lower repair and maintenance costs, and as a result, NPI increased 1% qoq and 6% yoy.
- Interest cost was 2% higher qoq but fell 3% yoy, mainly due to lower borrowings after a refinancing exercise, and as a result, normalised net profit increased 1% qoq and 13% yoy.
- For the six month period, revenue jumped 28% from the same period last year following the acquisition of Platinum Sentral in 2Q15. Interest cost climbed 35% due to additional borrowings taken up to fund the acquisition, and normalised net profit increased 40%. Overall, the result was ahead of our forecasts at 56%, as we have factored in lower contribution from Platinum Sentral in FY16.
- Management also declared a DPU of 4.23 sen, which is 3% higher than the payout during the same period last year.
- MQREIT has a huge pipeline of injections backed by MRCB, Quill Group and EPF. Its next growth catalyst will be the acquisition of Menara Shell for RM640m, which is set to conclude in 1Q17. Based on an earlier announcement, the acquisition is expected to be funded via placements and borrowings, with a ratio of roughly 60:40. MRCB will take up about 23% of the enlarged share base, while EPF has expressed interest to take up 7%.
- Meanwhile, its existing assets of mainly quality office buildings have long leases of 5-10 years, thus we believe the REIT will not be significantly impacted by the slowdown in the office market.
- We currently have a Buy on MQREIT with a TP of RM1.40, pending a review to our forecasts to factor in higher contribution from Platinum Sentral, as well as to impute the inclusion of Menara Shell into the portfolio in FY17.

**Table 1 : Quarterly trends**

(RM m)	Quarterly						Change		Cumulative			KAF	
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	% qoq	% yoy	6MFY15	6MFY16	% chg	2016F	6M/F
<b>FYE 31 Dec</b>													
Revenue	18.6	32.2	31.8	32.6	32.7	32.6	(0)	1	50.8	65.2	28	120.5	54
Property operating expenses	(4.9)	(7.9)	(6.3)	(5.8)	(7.2)	(6.9)	(5)	(13)	(12.8)	(14.1)	10	(26.1)	54
<b>Net property income</b>	<b>13.7</b>	<b>24.3</b>	<b>25.5</b>	<b>26.8</b>	<b>25.4</b>	<b>25.7</b>	<b>1</b>	<b>6</b>	<b>38.0</b>	<b>51.1</b>	<b>35</b>	<b>94.5</b>	<b>54</b>
Interest income	0.1	0.1	0.4	0.3	0.4	0.4	(2)	165	0.3	0.8	186	1.3	61
Trust expenses	(2.0)	(2.6)	(2.4)	(2.8)	(2.7)	(2.7)	(1)	3	(4.6)	(5.5)	18	(10.2)	53
Borrowing costs	(3.5)	(8.2)	(8.3)	(7.9)	(7.9)	(8.0)	2	(3)	(11.7)	(15.8)	35	(30.3)	52
Exceptional items	-	-	0.6	6.7	-	-	-	-	-	-	-	-	-
<b>Profit before tax</b>	<b>8.3</b>	<b>13.6</b>	<b>15.7</b>	<b>23.1</b>	<b>15.2</b>	<b>15.4</b>	<b>1</b>	<b>13</b>	<b>21.9</b>	<b>30.6</b>	<b>40</b>	<b>55.1</b>	<b>56</b>
Tax	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>8.3</b>	<b>13.6</b>	<b>15.7</b>	<b>23.1</b>	<b>15.2</b>	<b>15.4</b>	<b>1</b>	<b>13</b>	<b>21.9</b>	<b>30.6</b>	<b>40</b>	<b>55.1</b>	<b>56</b>
<b>Normalized net profit</b>	<b>8.3</b>	<b>13.6</b>	<b>15.1</b>	<b>16.4</b>	<b>15.2</b>	<b>15.4</b>	<b>1</b>	<b>13</b>	<b>21.9</b>	<b>30.6</b>	<b>40</b>	<b>55.1</b>	<b>56</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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