

COMPANY RESULTS

MRCB-Quill REIT (MQREIT MK)

1Q17: Reaping The Benefits of Acquisition

MQREIT's 1Q17 results were within our expectation but slightly above consensus. Core earnings were bolstered by the contribution from newly-acquired Menara Shell, which was completed in Dec 16. Moving forward, we expect MQREIT to continue delivering decent results, largely driven by long-term secured tenancies. Maintain BUY. Target price: RM1.38.

1Q17 RESULTS

Year to 31 Dec (RMm)	4Q16	1Q17	yoy % chg	qoq % chg
Gross revenue	32.7	45.6	33.7	39.5
Operating expenses	(7.2)	(9.4)	11.7	30.9
Net property income	25.4	36.1	41.0	42.0
Finance cost	(7.9)	(9.7)	6.9	23.8
Normalised Net Profit	15.2	23.2	75.6	52.0
EPU (sen)	2.3	2.2	n.m.	n.m.
DPU (sen)	0.0	0.0	n.m.	n.m.

Source: MQREIT, UOB Kay Hian

RESULTS

- In line.** MRCB-Quill REIT (MQREIT) reported a 1Q17 revenue of RM45.6m (+33.7% yoy; 39.5% qoq) which translates into a core net profit of RM23.2m (+75.6% yoy; +52.0% qoq) and accounts for 24.8 % and 26.1% of our and consensus full-year forecasts respectively.
- No dividend was declared** during the quarter as MQREIT typically declares dividend during second and final quarters.

STOCK IMPACT

- Core net profit grew yoy.** Core net profit saw growth of 75.6% yoy, up 52.0% qoq, largely driven by contribution from newly-acquired property Menara Shell. To recap, the acquisition of Menara Shell was completed on 22 Dec 16, and resulted in MQREIT's total asset size growing by 43%. Management also attributed the improved performance during the quarter to higher rental reversion at Quill Building 2, Quill Building 3 and Wisma Technip.

KEY FINANCIALS

Year to 31 Dec (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	115	132	183	190	198
EBITDA	81	90	127	126	131
Operating profit	81	90	127	126	131
Net profit (rep./act.)	61	63	93	99	104
Net profit (adj.)	54	59	93	99	104
EPS (sen)	8.1	9.0	8.8	9.3	9.8
PE (x)	16.2	14.6	14.9	14.0	13.4
P/B (x)	1.0	0.6	0.8	0.8	0.8
EV/EBITDA (x)	22.0	19.7	13.9	14.0	13.5
Dividend yield (%)	6.4	6.4	6.4	6.8	7.1
Net margin (%)	52.8	47.6	51.1	52.1	52.5
Net debt/(cash) to equity (%)	71.2	58.7	20.7	20.5	20.2
Interest cover (x)	3.0	2.9	3.8	4.6	4.8
ROE (%)	8.4	5.5	5.9	5.5	5.8
Consensus net profit	-	-	89	93	-
UOBKH/Consensus (x)	-	-	1.05	1.06	-

Source: MQREIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.32
Target Price	RM1.38
Upside	+4.5%

COMPANY DESCRIPTION

MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MQREIT MK
Shares issued (m):	1,068.0
Market cap (RMm):	1,399.1
Market cap (US\$m):	315.2
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low	RM1.36/RM1.06			
1mth	3mth	6mth	1yr	YTD
7.4	6.6	11.8	25.3	9.2

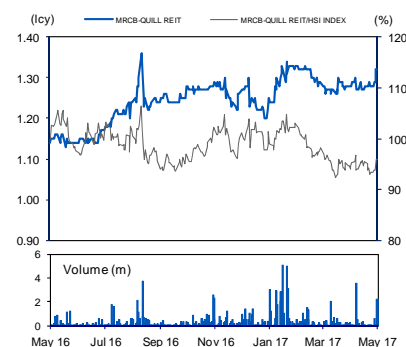
Major Shareholders

	%
MRCB	27.9
Capitaland Ltd	11.0
Quill Group	11.0
EPF	7.3

FY16 NAV/Share (RM) 1.69

FY16 Net Debt/Share (RM) 0.35

PRICE CHART



Source: Bloomberg

ANALYST

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- NPI margin expansion.** Net property income (NPI) margin in 1Q17 expanded to 79% from 75% in 4Q16 on the account of full-quarter recognition of revenue from Menara Shell. In addition, the margin expansion was also on the back of lower repair and maintenance during the quarter, which partially mitigated the higher operating expense in 1Q17 (in relation to acquisition exercise).
- Occupancy remained solid.** Occupancy rate in 1Q17 remained solid at 97%. We continue to like MQREIT's assets, which consist mostly of purpose-built office buildings, and its tenants are based on long-term contracts. MQREIT's WALE is still the highest among its peers (under coverage) at 5.8 years (peers: 3.6 years).
- Gearing at 37%.** Post-acquisition of Menara Shell, MQREIT's gearing has come down to 37% (vs 43% during execution of acquisition exercise) as a result of enlarged asset base. We think MQREIT's current gearing ratio is in a healthy position (on par with peers), thereby allowing MQREIT to tap into debt and equity market for future acquisition exercise.

EARNINGS REVISION/RISK

- None.

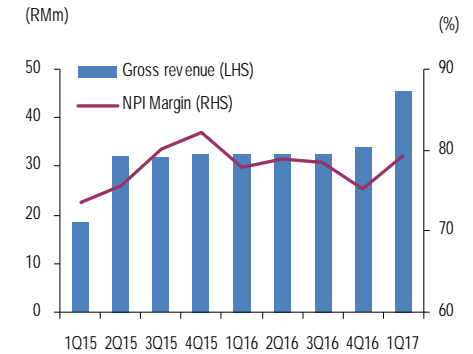
VALUATION/RECOMMENDATION

- Maintain BUY and target price to RM1.38.** Our target price is based on a dividend discount model (required rate of return: 7.6%, terminal growth: 1.1%) and supported by an implied dividend yield of 6.1%. Our target price provides an 11% total return to the current share price level. We are also forecasting MQREIT to offer an attractive dividend yield of 6.8% in 2018.

SHARE PRICE CATALYST

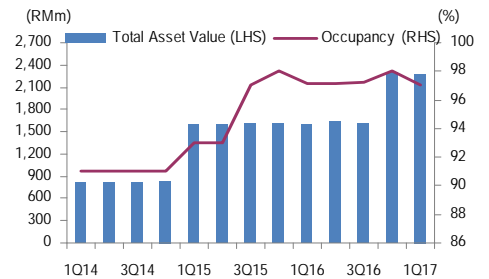
- Inorganic growth arising from acquisition exercise.** We believe after Menara Shell, MQREIT's next acquisition target will be Menara Celcom in PJ Sentral, which is still under construction and scheduled for completion by 2017.

REVENUE AND NET PROPERTY INCOME MARGIN



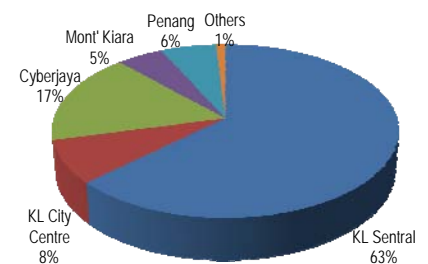
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



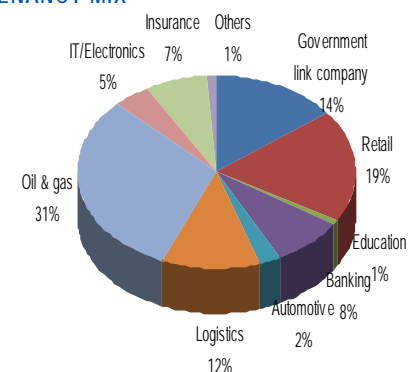
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Net turnover	132	183	190	198
EBITDA	90	127	126	131
Deprec. & amort.	0	0	0	0
EBIT	90	127	126	131
Net interest income/(expense)	(31)	(34)	(27)	(27)
Pre-tax profit	63	93	99	104
Tax	0	0	0	0
Net profit	63	93	99	104
Net profit (adj.)	59	93	99	104

BALANCE SHEET

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Fixed assets	2,222	2,224	2,226	2,228
Other LT assets	3	3	3	3
Cash/ST investment	54	467	457	461
Other current assets	18	8	8	9
Total assets	2,297	2,701	2,694	2,700
ST debt	189	189	189	189
Other current liabilities	63	50	53	54
LT debt	662	647	632	632
Other LT liabilities	23	23	23	23
Shareholders' equity	1,360	1,791	1,796	1,802
Total liabilities & equity	2,297	2,701	2,694	2,700

CASH FLOW

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Operating	63	95	100	105
Pre-tax profit	63	95	100	105
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Investing	(647)	(2)	(2)	(2)
Capex (growth)	(647)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	588	322	(110)	(100)
Distribution to unitholders	(57)	(90)	(95)	(100)
Issue of shares	481	427	0	0
Proceeds from borrowings	164	0	0	15
Loan repayment	0	(15)	(15)	(15)
Net cash inflow (outflow)	3	415	(12)	3
Beginning cash & cash equivalent	45	48	467	457
Ending cash & cash equivalent	6	4	2	1

KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	68.2	70.3	66.9	66.8
Pre-tax margin	47.6	51.9	52.6	53.0
Net margin	47.6	51.9	52.6	53.0
ROA	3.2	3.8	3.7	3.9
ROE	5.5	6.0	5.6	5.8
Growth				
Turnover	14.3	38.9	4.0	4.0
EBITDA	11.5	43.1	(1.1)	4.0
Pre-tax profit	3.2	51.4	5.3	4.9
Net profit	3.2	51.4	5.3	4.9
Net profit (adj.)	10.6	60.4	5.3	4.9
EPU	10.6	0.0	5.3	4.9
Leverage				
Debt to total capital	38.5	31.8	31.4	31.3
Debt to equity	62.6	46.7	45.7	45.6
Net debt/(cash) to equity	58.7	20.7	20.3	20.0
Interest cover (x)	2.9	3.8	4.7	4.8

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