

MRCB-Quill REIT (MQREIT MK)

2Q20 in-line; 1H20 DPU yield at 4.5%

Maintain BUY on strong yield

2Q20 results were within our expectations with 1H20 net profit at 49%/56% of our/consensus' estimates. MQREIT also declared 1H20 gross DPU of 3.43sen (95% DPR) - translating into gross DPU yield of 4.5%. We raise our FY20-22 DPU estimates by 1-6% and nudge up our DDM-TP by 1sen to MYR1.20 (Ke: 7.2%). Maintain BUY on strong FY20-21E net DPU yields of 8.7-9.0% and resilient earnings from selected long-term tenants.

Earnings growth from higher rental income

2Q20 net profit was MYR19.1m (+16 YoY, -4% QoQ), bringing 1H20 earnings to MYR38.9m (+8% YoY). 2Q20 earnings growth (YoY) was mainly driven by higher rental income (i.e. higher average rental rate, positive rental reversion/rental step-up) at Menara Shell, Platinum Sentral, Wisma Technip and Tesco Penang. This, however, was partly eased by some rental rebates provided to its SME retail tenants at Plaza Mont Kiara. Overall, 2Q20 portfolio occupancy improved by 1ppt YoY to 90%, with Menara Shell and Platinum Sentral at 99% (+3ppt YoY) and 82% (-6ppt YoY) respectively.

Tweaking DPU estimates

We raise our FY20/21/22E gross DPU by 1%/2%/6% after mainly adjusting for: (i) opex assumptions, (ii) lower F20-22E DPR of 95% (from 96-98% p.a.) - in anticipation of prudent cash management), and (iii) lower interest costs due to the lower interest rate environment. Currently, 54% of MQREIT's debt is based on floating rate.

Earnings and DPU outlook intact

We continue to like MQREIT for its strong forward net DPU yields of 8.7-9.1%. Assuming a further drop in DPR to 90%, projected yields are still favourable at 8.3-8.6%. Meanwhile, earnings continued to be supported by its assets with long-term tenants, i.e. Platinum Sentral, Menara Shell, QB1, QB4, QB2 and Tesco Building. These assets contribute c.51% to our FY20-22E revenue.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	173	162	166	169	173
Net property income	134	123	131	132	133
Core net profit	85	72	83	85	86
Core EPU (sen)	7.9	6.7	7.7	8.0	8.0
Core EPU growth (%)	(4.1)	(14.8)	14.8	3.0	0.7
Net DPU (sen)	7.3	6.1	6.6	6.8	6.8
Net DPU growth (%)	(3.7)	(15.8)	7.9	3.0	0.7
P/NTA (x)	0.8	0.8	0.6	0.6	0.6
Net DPU yield (%)	6.9	6.1	8.7	9.0	9.1
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	5.5	5.8	5.9
MKE vs. Consensus (%)	-	-	20.2	18.0	17.0

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BUY

Share Price MYR 0.76
 12m Price Target MYR 1.20 (+67%)
 Previous Price Target MYR 1.19

Company Description

MRCB-Quill REIT engages in the investment in commercial properties which are mainly located in the Klang Valley.

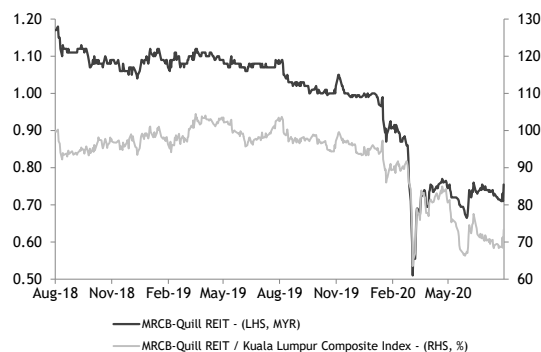
Statistics

52w high/low (MYR)	1.09/0.51
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR806.3M USD192M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	1	(31)
Relative to index (%)	4	(10)	(29)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly			Cumulative				
	2QFY20	2QFY19	%YoY	1QFY20	%QoQ	1HFY20	1HFY19	%YoY
Gross revenue	40.1	38.8	3.4	41.7	(3.8)	81.8	80.2	2.1
Net property income	31.0	29.1	6.5	32.3	(4.1)	63.3	61.1	3.5
Interest income	0.5	0.6	(3.9)	0.6	(6.2)	1.1	1.4	(19.4)
Fair value gains/(loss)	-	-	NM	-	NM	-	-	NM
Finance costs	(8.9)	(9.7)	(8.3)	(9.5)	(6.6)	(18.5)	(19.6)	(5.7)
Other expenses/gains	(3.5)	(3.5)	1.4	(3.5)	(0.6)	(7.1)	(7.1)	(0.3)
Pretax profit	19.1	16.5	16.0	19.8	(3.6)	38.9	35.9	8.4
Tax	-	-	NM	-	NM	-	-	NM
Net profit	19.1	16.5	16.0	19.8	(3.6)	38.9	35.9	8.4
Net profit ex-EI	19.1	16.5	16.0	19.8	(3.6)	38.9	35.9	8.4
EPU ex-EI (sen)	1.8	1.5	16.0	1.8	(3.6)	3.6	3.3	8.4
Gross DPU (sen)	3.4	3.4	0.0	-	NM	3.4	3.4	0.0
	2QFY20	2QFY19	+/- ppt	1QFY20	+/- ppt	1HFY20	1HFY19	+/- ppt
Net property margin (%)	77.2	75.0	2.2	77.4	(0.2)	77.3	76.2	1.1
Net income ex-EI margin (%)	47.6	42.4	5.1	47.4	0.1	47.5	44.7	2.8

Sources: Trust

Risk statement

There are several risk factors for our earnings estimates, target price and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for MQREIT. 19% of MQREIT's total NLA is due for lease renewal in 2020 while 54% of MQREIT's total debt is based on floating rates. Another earnings risk would be if the impact from COVID-19 becomes prolonged.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	14.6	16.3	11.4	11.1	11.0
P/BV (x)	0.8	0.8	0.6	0.6	0.6
P/NTA (x)	0.8	0.8	0.6	0.6	0.6
DPU yield (%)	7.6	6.8	9.7	10.0	10.1
FCF yield (%)	10.0	11.1	14.2	14.6	14.8
INCOME STATEMENT (MYR m)					
Revenue	173.4	162.1	166.5	169.1	172.7
Net property income	133.7	122.8	130.8	132.5	133.0
Management and trustee fees	(14.9)	(14.4)	(14.5)	(14.5)	(14.6)
Net financing costs	(36.3)	(36.4)	(33.6)	(32.7)	(32.6)
Exceptionals	(3.2)	(36.7)	0.0	0.0	0.0
Pretax profit	79.3	35.4	82.7	85.2	85.8
Income tax	(6.1)	(6.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	73.1	29.1	82.7	85.2	85.8
Core net profit	84.7	72.1	82.7	85.2	85.8
Distributable inc to unitholders	87.1	73.0	82.7	85.2	85.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	85.8	63.3	64.2	67.2	71.0
Accounts receivable	5.6	5.8	5.9	6.0	6.1
Property, Plant & Equip (net)	0.3	0.4	2.0	3.6	5.1
Investment properties	2,158.7	2,125.2	2,125.2	2,125.2	2,125.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	20.9	19.1	19.1	19.1	19.1
Total assets	2,271.4	2,213.7	2,216.4	2,221.1	2,226.6
ST interest bearing debt	0.0	332.7	332.7	332.7	332.7
Accounts payable	15.8	15.7	14.3	14.7	15.9
LT interest bearing debt	853.7	503.0	503.0	503.0	503.0
Other liabilities	29.6	38.8	38.8	38.8	38.8
Total Liabilities	899.1	890.2	888.8	889.2	890.4
Shareholders Equity	1,372.3	1,323.5	1,327.6	1,331.9	1,336.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,372.3	1,323.5	1,327.6	1,331.9	1,336.2
Total liabilities and equity	2,271.4	2,213.7	2,216.4	2,221.1	2,226.6
CASH FLOW (MYR m)					
Cash flow from operations	113.3	118.8	114.8	118.4	119.7
Acquisitions & investments	(4.1)	(2.3)	(1.7)	(1.7)	(1.7)
Disposal of FA & investments	28.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	3.7	2.7	3.2	3.2	3.4
CF from investing activities	27.6	0.4	1.5	1.5	1.6
Dividends paid	(89.8)	(78.0)	(78.6)	(81.0)	(81.5)
Interest expense	(39.2)	(38.5)	(36.8)	(35.9)	(35.9)
Change in debt	0.0	(19.0)	0.0	0.0	0.0
Equity raised / (purchased)	4.0	0.0	0.0	0.0	0.0
Other financial activities	(0.0)	0.0	0.0	0.0	0.0
CF from financing activities	(125.0)	(135.5)	(115.4)	(116.9)	(117.5)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	15.9	(16.3)	0.9	3.0	3.9

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.7)	(6.5)	2.7	1.6	2.1
Net property income growth	(4.5)	(8.1)	6.5	1.3	0.4
Core net profit growth	(3.8)	(14.8)	14.8	3.0	0.7
Distributable income growth	(5.8)	(16.1)	13.3	3.0	0.7
Profitability ratios (%)					
Net property income margin	77.1	75.8	78.6	78.3	77.0
Core net profit margin	48.8	44.5	49.7	50.4	49.7
Payout ratio	106.6	225.2	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	42.2	18.0	49.7	50.4	49.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.0	58.4	58.1	57.7	57.2
Net interest cover (x)	3.3	3.0	3.5	3.6	3.6
Debt/EBITDA (x)	7.2	7.7	7.2	7.1	7.0
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	767.9	772.5	771.6	768.6	764.7
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank

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Malaysia

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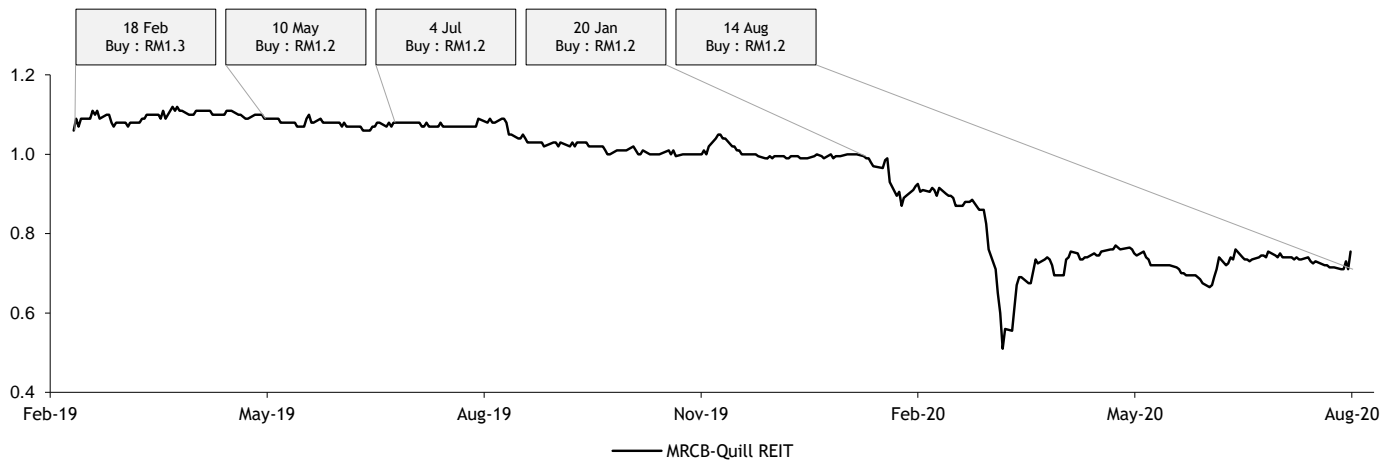
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