

17 November 2017

**Buy**

Price  
RM1.26  
Target price  
RM1.45

Equity | Malaysia | Real Estate Investment Trust

**Flashnote**

# MRCB-Quill REIT

## 3Q17 results in line

### Financial Highlights

Year to Dec (RMm)	2014	2015	2016	2017F	2018F
Revenue	70.2	115.2	127.6	181.0	186.3
Reported net profit	40.3	60.7	60.1	87.4	91.3
Normalised net profit	34.2	53.4	60.1	87.4	91.3
EPS (sen)	10.3	9.2	9.1	8.2	8.5
DPU (sen)	8.4	8.5	8.7	7.8	8.1
P/E (x)	14.4	15.6	13.9	15.4	14.7
Dividend yield (%)	6.7	6.7	6.9	6.2	6.5
Net gearing (%)	35.1	42.4	42.3	40.0	39.9
PBV (x)	0.9	0.9	0.9	1.0	1.0

Source: Company, KAF

\*price as of 16 Nov 2017

- We maintain our Buy recommendation on MRCB-Quill REIT (MQREIT) with an unchanged target price of RM1.45 based on our DDM valuation.
- MQREIT recorded a net property income (NPI) of RM34m in 3Q17, up 34% yoy. This is in-line with our FY17 estimates, making up 74% of our NPI forecast. The improvement in NPI was mainly due to the acquisition of Menara Shell in 4Q16, higher rental income, and rental reversions for several properties. We maintain our forecasts for FY17F and FYF18F NPI of RM142m and RM146m, respectively.
- MQREIT recorded a normalised net profit of RM21m in 3Q17, +41% yoy. This is due to the same reason as the improvement in NPI i.e. the acquisition of Menara Shell. We maintain our forecasts for FY17F and FYF18F normalised net profit of RM87m and RM91m, respectively. Overall, the results were in-line with our FY17 estimates, making up 76% of our normalised net profit forecast.
- Finance costs were higher by 23% in 3Q17 as a result of higher borrowing from the drawdown of RM164m CP/MTN to part finance the acquisition of Menara Shell and to refinance an existing RM190m CP/MTN programme.
- No dividend was declared for the quarter. We estimate dividend payout at 95% for FY17F, translating into a DPS of 7.8 sen. As at 9M17, DPS made up c.53% of our FY17F DPS estimate.
- MQREIT has no near-term acquisition plans in FY17F. The potential injection of Menara Celcom in PJ Sentral into the REIT is still in a preliminary stage. Management expects more information on the potential acquisition will only be available for evaluation in 2018. Thus, we maintain our FY17F revenue forecast of RM181m.
- MQREIT reported a gearing of 0.37x in 3Q17, an improvement from 0.43x in 3Q16. This is due to the acquisition of Menara Shell in 4Q16, which increased its total assets by RM640m. The acquisition was funded by share placement (c.75%) and borrowings (c.25%), which led to an improvement in MQREIT's overall gearing level.
- At the current price, MRCB-Quill REIT trades at 1.0x FY17F PB and offers a yield of 6.2%, which translates to a yield spread of 225bps over the 10-yr MGS of 3.95%.

### Analyst

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Important disclosures can be found in the Disclosure Appendix

**Table 1 : Quarterly trends**

(RM m)	Quarterly						Change		Cumulative			KAF	
	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	% qoq	% yoy	9M16	9M17	% chg	2017F	12M/F
<b>FYE 31 Dec</b>													
Revenue	32.6	32.5	34.1	45.6	45.1	44.8	(1)	38	97.7	135.5	39	181.0	75
Property operating expenses	(6.9)	(7.0)	(8.5)	(9.4)	(10.2)	(10.5)	4	51	(14.1)	(30.1)	114	(39.1)	77
<b>Net property income</b>	25.7	25.5	25.6	36.1	34.9	34.3	(2)	34	76.6	105.3	37	141.8	74
Interest income	0.4	0.5	1.1	0.5	0.6	0.7	15	50	1.3	1.8	46	1.4	132
Trust expenses	(2.7)	(2.7)	(4.3)	(3.7)	(3.7)	(3.7)	1	37	(8.2)	(11.1)	35	(15.4)	72
Borrowing costs	(8.0)	(8.1)	(9.1)	(9.7)	(9.8)	(10.0)	1	23	(23.9)	(29.5)	23	(40.4)	73
Exceptional items	-	-	3.5	-	-	-	nm	nm	-	-	nm	-	-
<b>Profit before tax</b>	15.4	15.2	16.9	23.2	22.0	21.4	(3)	41	45.8	66.6	45	87.4	76
Tax	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net profit</b>	15.4	15.2	16.9	23.2	22.0	21.4	(3)	41	45.8	66.6	45	87.4	76
<b>Normalised net profit</b>	15.4	15.2	13.4	23.2	22.0	21.4	(3)	41	45.8	66.6	45	87.4	76

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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