

### UOBKH HIGHLIGHTS

## MRCB-Quill REIT (MQREIT MK/HOLD/RM1.08/Target: RM1.12)

3Q18: Slightly Below Expectations

Year to 31 Dec	2Q18 (RMm)	3Q18 (RMm)	yoy % chg	qoq % chg	9M18 (RMm)	yoy % chg	Year	EPU (sen)	PE (x)
Gross Revenue	43.4	43.3	(3.5)	(0.3)	130.7	(3.5)	2018F	7.9	13.7
Operating Expenses	(10.0)	(9.9)	(5.8)	(1.2)	(29.7)	(1.3)	2019F	8.1	13.4
Net Property Income	33.4	33.3	(2.8)	(0.1)	101.0	(4.1)	2020F	8.4	12.8
Finance Cost	(9.9)	(10.1)	1.2	1.4	(29.7)	0.6			
Normalised Net Profit	21.3	20.6	(3.7)	(3.3)	62.9	(5.6)			
EPU (sen)	2.0	1.9	(3.7)	(3.3)	5.9	(5.6)			
DPU (sen)	4.2	0.0	n.m.	n.m.	4.2	0.0			

Source: MQREIT, UOB Kay Hian

### RESULTS

- **Slightly below expectations.** MRCB-Quill REIT (MQREIT) reported revenue of RM43.3m (-3.5% yoy, -0.3% qoq) and core net profit of RM20.6m (-3.7% yoy, -3.3% qoq) in 3Q18. 9M18 core net profit of RM62.9m (-5.6% yoy) accounts for 72.0% and 71.5% of our and consensus full-year forecasts respectively. The variance to our forecast was due to lower occupancy at Platinum Sentral.
- **Core net profit declined yoy.** 9M18 core net profit declined 5.6% yoy due to: a) absence of income from QB8 – DHL XPJ which was sold in Apr 18, and b) lower revenue from Platinum Sentral and Menara Shell on lower occupancies. 3Q18 core net profit declined 3.3% qoq due to lower occupancy at Platinum Sentral and higher finance cost.
- **Slight decline in occupancy rate.** Occupancy rate declined to 94% in 3Q18 (2Q18: 96%, 3Q17: 97%) but still higher than the average of 80% in 2017 for offices in the Klang Valley. This is mainly due to MQREIT's purpose-built strategy which allows it to lock in long-term leases. MQREIT's WALE is among the highest among peers (under our coverage), at 4.95 years.
- **Gearing at 37.7%.** We think MQREIT's current gearing ratio is healthy (on a par with peers), which allows it to tap into the debt and equity markets for future acquisitions.
- **We trim our net profit forecasts by 3.5%, 3.5% and 3.1%** for 2018-20 respectively after lowering our occupancy rate assumptions.

### RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.12** (from RM1.15) on our earnings revision. Our target price is based on a dividend discount model (required rate of return: 7.6%, terminal growth: 1.1%) and represents an implied dividend yield of 6.9%. Entry price is RM1.00.

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