

22 Jan 2018

Buy

Price
 RM1.22

Target Price
 RM1.50

MRCB-Quill REIT

4Q17 within expectations

We maintain a Buy recommendation on MRCB-Quill REIT (MQREIT) with a fair value of RM1.50 based on our DDM valuation. We are expecting 2018 and 2019 to be marginally weaker as a result of the disposal of Quill Building 8 – DHL XPJ, which represents a loss in revenue of c.2%.

Market Data

	MQREIT MK
Bloomberg Code	MQREIT MK
No. of shares (m)	1,068.0
Market cap (RMm)	1,303.0
52-week high/low (RM)	1.36 / 1.19
Avg daily turnover (RMm)	0.5
KLCI (pts)	1,828.8

Source: Bloomberg, KAF

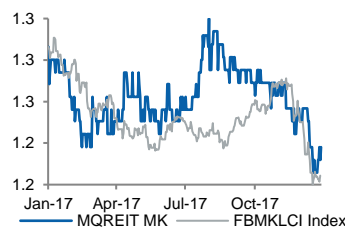
Major Shareholder (%)

MRCB	(27.9%)
Capitaland Ltd	(11.0%)
EPF	(7.2%)
Free Float	349.1

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(3.9)	(6.2)	(7.6)
Rel Market (%)	(8.6)	(9.7)	(15.9)



Source: Bloomberg, KAF

Financial Highlights

FYE Dec	2015	2016	2017	2018F	2019F
Revenue (RM mil)	115.2	127.6	181.0	184.5	188.1
Net Property Income	90.3	100.0	141.8	144.6	147.5
Realised Net profit (RM mil)	53.4	60.1	87.4	90.5	93.6
EPU (sen)	8.1	9.1	8.2	8.5	8.8
EPU Growth (%)	(7.8)	12.5	(9.9)	3.5	3.4
DPU (sen)	8.5	8.7	7.8	8.1	8.4
PE (x)	15.1	13.4	14.9	14.4	13.9
Div yield (%)	7.0	7.2	6.4	6.7	6.9
ROE (%)	8.4	6.6	7.8	7.0	6.9
Gearing (%)	42.4	42.3	40.0	39.8	39.7

Source: Company, KAF

Full year results in line

Revenue was up 31% yoy but remained flat qoq due to rental income from Menara Shell and higher step up rent adjustments from Quill Building 3, Quill Building 2 and Wisma Technip. MQREIT recorded net property income (NPI) of RM35m in 4Q17, up 35% yoy. This is in line with our FY17 estimates, making up 103% of our NPI forecast. The improvement in NPI was mainly due to the acquisition of Menara Shell in 4Q16. MQREIT reported a normalised net profit of RM22m in 4Q17, +61% yoy. This is due to improvements in NPI from the acquisition of Menara Shell. However, net profit declined by 80% yoy as a result of a revaluation loss of RM18m on Platinum Sentral which was recognised in the quarter. The lower valuation was a result of a change in revaluation method, lower recoverables and rebates that were offered to tenants.

MQREIT declared a DPS of 4.16 sen for the quarter (4Q16: 4.15 sen), a total of 8.36 sen for the year. This was 7% higher than our estimated 7.8 sen DPS '17.

Tweak earnings for 18 and 19 to incorporate disposal of DHL XPJ

We tweak our forecasts to include the disposal of Quill Building 8 – DHL XPJ which was announced on Jan 8. The warehouse and 3-storey office facility was proposed to be disposed for RM28m to Transmark Corporation Sdn Bhd. The property was valued at RM25m in Oct '17, which translate for a one-off gain on disposal of RM3m. The impact from the divestment is neutral as rental income from this property accounts for 2% of its total revenue and <1% of group net profit. Net gearing is maintained at the same level after the disposal at 0.39x.

No foreseeable acquisitions in 2018, earliest acquisition in 2019

MQREIT has no near-term acquisition plans for FY18F. The potential injection of Menara Celcom in PJ Sentral into the REIT will only be probable in early 2019. Management expects the potential acquisition to be available for evaluation in 4Q18.

We reiterate our Buy recommendation with a higher target price of RM1.50

We maintain our Buy recommendation on MQREIT with a slightly higher target price of RM1.50 (from RM1.45) based on our DDM valuation. At the current price, MQREIT offers a yield of 6.7%, which translates to a yield spread of 277bps over the 10-year MGS of 3.93%.

Analyst

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Table 1 : MQREIT Quarterly Trend

(RM m)	Quarterly					Change		Cumulative			KAF	
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	% qoq	% yoy	12M16	12M17	% chg		
FYE 31 Dec	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	% qoq	% yoy	12M16	12M17	% chg	2017F	12M/F
Revenue	34.1	45.6	45.1	44.8	44.7	(0)	31	131.8	180.1	37	181.0	100
Property operating expenses	(8.5)	(9.4)	(10.2)	(10.5)	(10.0)	(5)	19	(29.5)	(40.2)	36	(39.1)	103
Net property income	25.6	36.1	34.9	34.3	34.6	1	35	102.3	140.0	37	141.8	99
Interest income	1.1	0.5	0.6	0.7	1.7	133	53	2.4	3.6	49	1.4	256
Trust expenses	(4.3)	(3.7)	(3.7)	(3.7)	(3.9)	5	(9)	(12.4)	(14.9)	20	(15.4)	97
Borrowing costs	(9.1)	(9.7)	(9.8)	(10.0)	(11.0)	10	21	(33.0)	(40.5)	23	(40.4)	100
Exceptional items	3.5	-	-	-	(18.2)	nm	(613)	3.5	(18.2)	(613)	-	-
Profit before tax	16.9	23.2	22.0	21.4	3.3	(84)	(80)	62.7	69.9	11	87.4	80
Tax	-	-	-	-	-	nm	nm	-	-	-	-	-
Net profit	16.9	23.2	22.0	21.4	3.3	(84)	(80)	62.7	69.9	11	87.4	80
Normalized net profit	13.4	23.2	22.0	21.4	21.5	1	61	59.2	88.1	49	87.4	101

Source: KAF, Company

Exhibit 1: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 2: PE Band chart



Source: Company, KAF, Bloomberg

MRCB-Quill REIT

Income Statement

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Gross rental income	115.2	127.6	181.0	184.5	188.1
Property operating expenses	(24.9)	(27.6)	(39.1)	(39.9)	(40.7)
Net property income	90.3	100.0	141.8	144.6	147.5
Non-property expenses	(9.8)	(10.8)	(15.4)	(15.7)	(16.0)
PBITDA	80.5	89.2	126.5	128.9	131.5
PBIT	80.5	89.2	126.5	128.9	131.5
Interest expense	(28.0)	(30.3)	(40.4)	(40.4)	(40.4)
Exceptional item	7.3	-	-	3.0	-
PBT	60.7	60.1	87.4	93.5	93.6
Tax	-	-	-	-	-
Distributable Income	60.7	60.1	87.4	93.5	93.6
Core Net Profit	53.4	60.1	87.4	90.5	93.6

Balance Sheet

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Investment Properties	1,573.6	1,573.6	2,229.6	2,204.6	2,204.6
Trade and other receivables	6.7	7.5	10.6	10.8	11.0
Cash and cash equivalents	44.9	48.4	55.7	91.1	95.7
Inventories	-	-	-	-	-
Total Assets	1,625.2	1,629.5	2,295.9	2,306.6	2,311.4
Payables and accruals	16.1	17.6	23.8	24.3	24.7
Short-term Borrowings	188.9	188.9	188.9	188.9	188.9
Long-term Borrowings	500.8	500.8	729.8	729.8	729.8
Payables and accruals	15.6	15.6	15.6	15.6	15.6
Unit holder's capital	751.3	751.3	1,178.3	1,178.3	1,178.3
Undistributed income to Reserves	152.6	155.4	159.5	169.7	174.1
Total unit holder's fund	903.9	906.7	1,337.8	1,348.0	1,352.4
Total liabilities and shareholder's fund	1,625.2	1,629.5	2,295.9	2,306.6	2,311.4

Cash flow Statement

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Pretax profit	60.7	60.1	87.4	93.5	93.6
Working Capital	80.6	89.2	126.5	131.9	131.5
Others	nm	nm	nm	nm	nm
Operating cash flows	87.0	89.9	129.6	132.1	131.7
Acquisitions	(724.6)	-	(656.0)	-	-
Enhancement exp.	0.7	1.3	1.4	2.0	2.5
Others	(2.4)	-	-	-	-
Investing cash flows	(726.4)	1.3	(654.6)	2.0	2.5
Issue of shares	342.0	-	427.0	-	-
Dividend paid	(38.7)	(57.3)	(83.3)	(86.2)	(89.2)
Borrowings	389.0	-	229.0	-	-
Others	(31.3)	(30.3)	(40.4)	(40.4)	(40.4)
Financing cash flow	661.0	(87.6)	532.2	(126.7)	(129.6)
Net inflows/(outflows)	21.6	3.6	7.3	7.5	4.6
Change in receivables	-	(0.7)	(3.1)	(0.2)	(0.2)
Change in payables	6.4	1.5	6.3	0.4	0.4

Source: Bloomberg, 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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