

COMPANY RESULTS

MRCB-Quill REIT (MQREIT MK)

2017: Results Within Expectations

MQREIT's 2017 results came in within our expectations with distributable income accounting for 98.8% of our full-year estimate. Despite the challenging office rental outlook, MQREIT maintained occupancy rate at 97%, thanks to the built-to-suit strategy which allows it to lock in rentals for a longer period. Going forward, we think MQREIT will continue to be shielded from the office oversupply. Maintain HOLD. Target price: RM1.38. Entry price: RM1.20.

2017 RESULTS

Year to 31 Dec	3Q17 (RMm)	4Q17 (RMm)	yoy % chg	qoq % chg	2017 (RMm)	yoy % chg
Gross revenue	44.8	44.7	31.1	(0.3)	180.1	36.7
Operating expenses	(10.5)	(10.0)	18.6	(4.8)	(40.2)	36.2
Net property income	34.3	34.6	35.2	1.0	140.0	36.8
Finance cost	(10.0)	(11.0)	20.8	10.4	(40.5)	22.6
Normalised Net Profit	21.4	21.5	63.0	0.6	88.1	49.2
EPU (sen)	2.0	2.0	(18.8)	0.6	8.2	1.0
DPU (sen)	0.0	4.2	0.2	n.m.	8.4	0.1

Source: MQREIT, UOB Kay Hian

RESULTS

- **Within expectations.** MRCB-Quill REIT (MQREIT) reported revenue of RM44.7m (+31.1% yoy, -0.3% qoq) and normalised net profit of RM21.5m (+63.0% yoy, +0.6% qoq) in 4Q17. This brings 2017 revenue to RM180.1m (+36.7% yoy) and normalised net profit to RM88.1m (+49.2% yoy). Distributable income for 2017 accounts for 98.8% and 102.8% of our and consensus full-year forecasts respectively.
- **4.16-sen dividend.** MQREIT declared a second interim dividend of 4.16 sen in 4Q17, bringing full-year dividend to 8.39 sen (+0.1% yoy), or a 6.9% dividend yield.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	132	180	190	198	206
EBITDA	90	127	126	131	137
Operating profit	90	127	126	131	137
Net profit (rep./act.)	63	92	99	104	110
Net profit (adj.)	59	92	99	104	110
EPS (sen)	9.0	8.8	9.3	9.8	10.4
PE (x)	13.5	13.7	13.0	12.4	11.7
P/B (x)	0.6	0.7	0.7	0.7	0.7
EV/EBITDA (x)	18.5	13.1	13.1	12.6	12.1
Dividend yield (%)	6.9	7.0	7.4	7.8	8.2
Net margin (%)	47.6	51.1	52.1	52.5	53.3
Net debt/(cash) to equity (%)	58.7	20.7	20.5	20.2	20.0
Interest cover (x)	2.9	3.8	4.6	4.8	5.1
ROE (%)	5.5	5.9	5.5	5.8	6.1
Consensus net profit	-	-	89	93	96
UOBKH/Consensus (x)	-	-	1.11	1.12	1.15

Source: MQREIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.22
Target Price	RM1.38
Upside	+13.1%

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):	1,356.4
Market cap (US\$m):	324.9
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

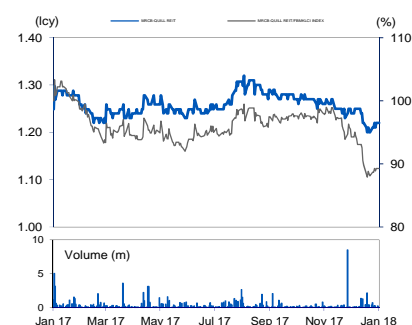
52-week high/low	RM1.35/RM1.20			
1mth	3mth	6mth	1yr	YTD
(0.8)	(4.5)	(3.8)	2.5	5.8

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(S)

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STOCK IMPACT

- Core net profit grew yoy.** For 2017, normalised net profit grew 49.2% yoy, largely due to contributions from newly-acquired Menara Shell. To recap, the acquisition of Menara Shell was completed on 22 Dec 16 and increased MQREIT's asset portfolio size by 40% from RM1.6b to RM2.3b. The improved performance in 2017 was also attributed to higher rental rates at Quill Building 3, Wisma Technip and Quill Building 2.
- Occupancy remained solid at 97% in 2017.** Despite the challenging office rental outlook, MQREIT maintained its occupancy rate at 97%, similar to 2016's. We like MQREIT's portfolio, which consists mostly purpose-built office buildings with tenants in long-term contracts. MQREIT's WALE is still the highest among peers under our coverage, at 5.5 years (peers: 3.6 years).
- Gearing at 37%.** Post-acquisition of Menara Shell, MQREIT's gearing fell to 37% (vs 43% during the acquisition) as a result of an enlarged asset base. We think MQREIT's current gearing ratio is healthy (on a par with peers'), allowing it to tap into the debt and equity markets for future acquisitions.

EARNINGS REVISION/RISK

- None.

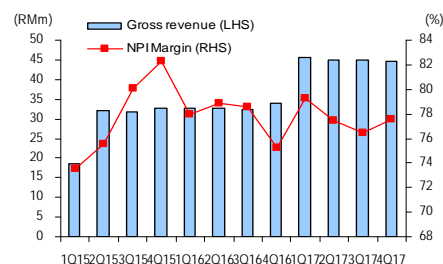
VALUATION/RECOMMENDATION

- Maintain HOLD and target price to RM1.38**, 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%. We forecast an attractive dividend yield of 6.8% in 2018. Entry price is RM1.20.

SHARE PRICE CATALYST

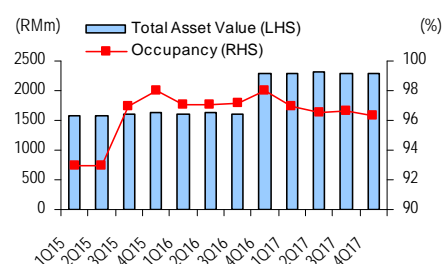
- Inorganic growth arising from acquisitions.** We believe MQREIT's next acquisition will be Menara Celcom in PJ Sentral, which has a gross development value of over RM500m. We understand that telecommunication company Celcom has signed a 21-year lease contract with MRCB. Based on our back-of-the-envelope calculations, Menara Celcom could grow MQREIT's total asset value by 24% and raise core earnings by 23%, assuming 500,000sf of NLA and a conservative rental rate of RM5.50psf per month. We think contribution from Menara Celcom would come in earliest in 2019, judging from previous acquisition exercises which took slightly more than a year for completion.

REVENUE AND NET PROPERTY INCOME MARGIN



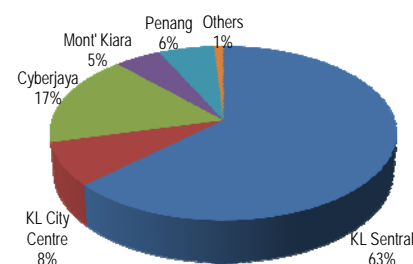
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



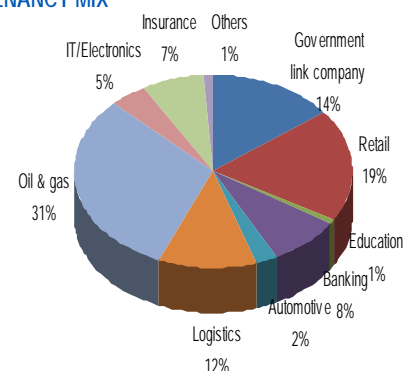
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	180	190	198	206
EBITDA	127	126	131	137
Deprec. & amort.	0	0	0	0
EBIT	127	126	131	137
Net interest income/(expense)	(34)	(27)	(27)	(27)
Pre-tax profit	92	99	104	110
Tax	0	0	0	0
Net profit	92	99	104	110
Net profit (adj.)	92	99	104	110

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	2,224	2,226	2,228	2,230
Other LT assets	3	3	3	3
Cash/ST investment	466	455	458	446
Other current assets	8	8	9	9
Total assets	2,701	2,692	2,697	2,688
ST debt	189	189	189	189
Other current liabilities	51	53	54	56
LT debt	647	632	632	617
Other LT liabilities	23	23	23	23
Shareholders' equity	1,790	1,794	1,799	1,803
Total liabilities & equity	2,701	2,692	2,697	2,688

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	93	99	104	110
Pre-tax profit	93	99	104	110
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Investing	(2)	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	322	(110)	(100)	(121)
Distribution to unitholders	(90)	(95)	(100)	(106)
Issue of shares	427	0	0	0
Proceeds from borrowings	0	0	15	0
Loan repayment	(15)	(15)	(15)	(15)
Net cash inflow (outflow)	414	(13)	2	(13)
Beginning cash & cash equivalent	48	466	455	458
Changes due to forex impact	4	2	1	1
Ending cash & cash equivalent	466	455	458	446

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	69.4	66.4	66.3	66.3
Pre-tax margin	51.1	52.1	52.5	53.3
Net margin	51.1	52.1	52.5	53.3
ROA	3.7	3.7	3.9	4.1
ROE	5.9	5.5	5.8	6.1
Growth				
Turnover	38.9	4.0	4.0	4.0
EBITDA	41.4	(0.6)	4.0	4.0
Pre-tax profit	48.9	6.0	4.8	5.8
Net profit	48.9	6.0	4.8	5.8
Net profit (adj.)	57.8	6.0	4.8	5.8
EPU	(1.7)	6.0	4.8	5.8
Leverage				
Debt to total capital	31.8	31.4	31.4	30.9
Debt to equity	46.7	45.8	45.7	44.7
Net debt/(cash) to equity	20.7	20.5	20.2	20.0
Interest cover (x)	3.8	4.6	4.8	5.1

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