

**HLIB Research**

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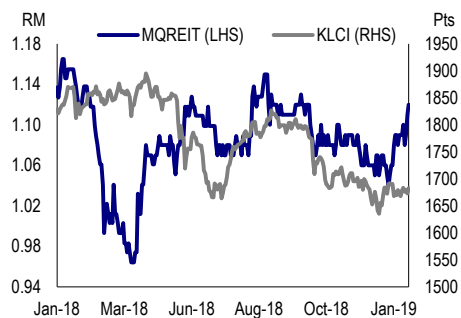
**BUY** (Maintain)

**Target Price: RM1.23**
**Previously: RM1.23**
**Current Price: RM1.12**

Capital upside	9.8%
Dividend yield	7.7%
Expected total return	17.5%

**Sector coverage:** REIT

**Company description:** MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

**Share price**


	1M	3M	12M
Absolute	4.7	3.7	-8.2
Relative	2.1	7.3	-0.3

**Stock information**

Bloomberg ticker	MCREIT MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	1,200
3-mth average volume ('000)	72
SC Shariah compliant	No

**Major shareholders**

MRCB	27.8%
Employees Provident Fund	11.9%
CapitalLand Ltd	10.9%

**Earnings summary**

FYE (Dec)	FY18	FY19f	FY20f
PAT – core (RM m)	82.5	86.3	86.9
EPU – core (sen)	7.7	8.0	8.0
P/E (x)	14.5	14.0	14.0

# MRCB-Quill REIT

## FY18 pulled back by revenue

**MQREIT FY18 core net profit RM82.5m (-6.3% YoY) was within our expectations but below consensus. The decline was mainly due to lower revenue contribution from the disposal of QB8 along with lower occupancy from Platinum Sentral and Menara Shell, paired with higher finance costs. Looking ahead, MQREIT will be focusing on cost management and tenant retention to ensure sustainability of yield. We maintain our forecast; reiterate BUY call with unchanged TP of RM1.23 based on targeted yield of 6.9%.**

**Within expectations.** FY18 revenue of RM173.4m (-3.7% YoY) translated into core net profit of RM82.5m (-6.3% YoY). The results were within our expectations but below consensus, accounting for 96% and 94%, respectively.

**Dividend.** Declared dividend of 3.85 sen, bringing FY18 dividend to 8.08 sen (FY17: 8.39 sen) per unit, marginally in line with our expectations.

**QoQ/YoY.** Revenue decreased to RM42.7m (QoQ: -1.4%; YoY: -4.5%) followed by a decline in core net profit to RM19.6m (QoQ: -4.7%, YoY: -8.8%). The reduction was mainly due to lower revenue contribution from Platinum Sentral and loss of revenue from QB8 – DHL XPJ (QB8) back in April 2018. However it was slightly mitigated by lower property operating expenses thanks to tighter control on costs.

**FY18.** Revenue for FY18 fell by 3.7% to RM173.4m. The lower revenue was due to (i) loss of revenue from QB8 after disposal in April 2018 and (ii) lower occupancy rate from Platinum Sentral and Menara Shell. Nevertheless, the fall was marginally mitigated by the reduction in property operating expense attributed to lower expenses incurred by some properties. Similarly, core net profit of RM82.5m showed a decrement of 6.3%. This was due to higher administrative expenses incurred which pertained to the disposal of QB8 and increase in finance costs due to higher interest post OPR hike in January 2018.

**Occupancy and gearing.** Overall occupancy rate fell but remained healthy at 93% (3Q18: 94%). Average debt to maturity decreased from 2.73 years to 2.47 years, while average cost of debt maintained at 4.5%. The gearing level also maintained at 37.7%, still comfortably below the 50% limit.

**Outlook.** Going forward, management will be focusing on cost management and tenant retention. Also in FY19, with the expectations of a challenging office market, some properties will be scheduled for enhancement works; namely, Wisma Technip, QB5, Platinum Sentral and Menara Shell.

**Forecast.** Maintain as the results were inline.

**Maintain BUY, TP: RM1.23.** We maintain our BUY call with TP of RM1.23 based on targeted yield of 6.9% which is derived from 2 years historical average yield spread of MQREIT and 10-year MGS. We continue to like MQREIT given its attractive dividend yield of 7.2% (highest among REITs in our universe), stable assets in prime location of KL Sentral with high occupancy rate.

**Figure #1 Financial forecast summary**

FYE Dec (RM m)	FY16	FY17	FY18	FY19f	FY20f
Revenue	136.6	180.1	173.4	182.2	183.6
Core PBT	62.8	88.1	82.5	86.3	86.9
Core PAT	59.2	88.1	82.5	86.3	86.9
Core EPU (sen)	5.9	8.8	7.7	8.0	8.0
P/E (x)	18.9	12.7	14.5	14.0	14.0
DPU (sen)	8.4	8.4	8.1	8.5	8.5
Dividend yield (%)	7.5	7.5	7.2	7.6	7.6
BVPS (RM/share)	1.3	1.3	1.3	1.3	1.3
P/B (x)	0.9	0.9	0.9	0.9	0.9
ROE (%)	4.6	6.5	7.6	6.2	6.3
Net Gearing (%)	34.7	34.0	37.7	34.0	33.8

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**Figure #2 Quarterly results comparison**

FYE Dec (RM m)	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	YoY
Gross revenue	44.7	43.3	42.7	-1.4%	-4.5%	180.1	173.4	-3.7%
Property operating expenses	-10.0	-9.9	-10.0	-0.7%	0.3%	-40.2	-39.7	-1.1%
<b>Net property income</b>	<b>36.0</b>	<b>33.3</b>	<b>32.7</b>	<b>-2.0%</b>	<b>-9.3%</b>	<b>141.3</b>	<b>133.7</b>	<b>-5.4%</b>
Interest income	1.7	1.0	1.7	66.4%	-2.4%	3.6	4.3	20.5%
Gain on divestment	0.0	0.0	0.0	NM	NM	0.0	2.2	NM
Net investment income	18.2	34.4	28.9	-15.8%	59.0%	125.4	134.7	7.5%
Finance costs	-11.0	-10.1	-10.9	-8.2%	0.9%	-40.5	-40.6	0.2%
Valuation fees	-0.1	-0.1	-0.1	-5.9%	-7.3%	-0.3	-0.4	19.6%
Administrative expenses	-0.3	-0.1	-0.3	>100%	1.1%	-0.3	-0.4	13.1%
Total expenses	-14.9	-13.8	-14.8	-7.2%	0.8%	-55.4	-55.5	0.1%
Core PBT	21.5	20.6	19.6	-4.7%	-8.8%	88.1	82.5	-6.3%
<b>Core PAT</b>	<b>21.5</b>	<b>20.6</b>	<b>19.6</b>	<b>-4.7%</b>	<b>-8.8%</b>	<b>88.1</b>	<b>82.5</b>	<b>-6.3%</b>
Distributable adjustments	0.0	1.4	-1.4	>100%	NM	0.0	2.4	NM
<b>Distributable income</b>	<b>21.5</b>	<b>22.0</b>	<b>18.2</b>	<b>-17.1%</b>	<b>-15.3%</b>	<b>88.1</b>	<b>84.9</b>	<b>-3.6%</b>
Core EPU (sen)	2.0	1.9	1.8	-4.7%	-9.3%	8.8	7.7	-12.3%
DPU (sen)	4.2	0.0	3.9	NM	-7.5%	8.4	8.1	-3.7%

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12-months.
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