

COMPANY RESULTS

MRCB-Quill Reit (MQREIT MK)

4Q19: On The Comeback Trail

MQREIT's 2019 core earnings were largely within expectations, accounting for 98% of our full-year forecast, not withstanding a non-cash asset impairment which had not been guided for. Core net earnings improved 5.4% qoq on the back of rental commencement from new tenants and higher occupancy at Wisma Technip. Earnings are set to improve as occupancy at Platinum Sentral and Menara Shell further recover. **Maintain BUY and target price of RM1.13.**

4Q19 RESULTS

Year to 31 Dec (RMm)	4Q19	3Q19	qoq % chg	yoy % chg	2019	yoy % chg
Gross revenue	42.0	39.9	5.2	(1.6)	162.1	(6.5)
Operating expenses	(10.5)	(9.7)	7.7	4.8	(39.2)	(1.2)
Net property income	31.5	30.2	4.3	(3.6)	122.8	(8.1)
Finance cost	(10.3)	(9.7)	5.4	(5.7)	(39.6)	(2.5)
Core Net Profit	18.6	17.6	5.4	(5.2)	72.1	(12.6)
EPU (sen)	1.7	1.6	5.4	(5.2)	6.7	(12.9)
DPU (sen)	3.4	0.0	n.a.	(12.5)	6.8	(15.8)

Source: MRCB-Quill Reit, UOB Kay Hian

RESULTS

- Largely within expectations.** MRCB-Quill REIT (MQREIT) reported 4Q19 revenue of RM42.0m (+5.2% qoq, -1.6% yoy) and core net profit of RM18.6m (+5.4% qoq, -5.2% yoy). Core numbers exclude unrealised revaluation loss of RM37m (with the bulk of it from Platinum Sentral). Full-year 2019 core net profit of RM72.1m (-12.6 yoy) accounts for 98% and 99% of our and consensus' full-year forecasts respectively.
- 3.37 sen dividend declared during the quarter.** This brings full-year dividend to 6.80 sen (-15.8% yoy), representing a payout ratio of 101% and an annual yield of 6.8%, in line with our expectations. Note that dividends were unaffected by the non-cash impairment.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	173	162	171	174	176
EBITDA	119	108	117	120	120
Operating profit	119	108	117	120	120
Net profit (rep./act.)	73	29	80	83	85
Net profit (adj.)	83	72	80	83	85
EPS (sen)	7.7	6.7	7.5	7.7	8.0
PE (x)	13.0	14.9	13.4	13.0	12.6
P/B (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	15.5	17.0	15.7	15.4	15.3
Dividend yield (%)	8.1	6.8	7.3	7.6	7.8
Net margin (core) (%)	42.2	18.0	46.6	47.4	48.5
Net debt/(cash) to equity (%)	56.0	58.4	57.9	57.4	55.9
Interest cover (x)	3.3	3.0	3.1	3.2	3.5
ROE (%)	5.3	2.2	6.0	6.2	6.4
Consensus net profit	-	-	76	77	-
UOBKH/Consensus (x)	-	-	1.05	1.07	-

Source: MRCB-Quill Reit, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.00
Target Price	RM1.13
Upside	+13.0%

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):	1,071.8
Market cap (RMm):	1,071.8
Market cap (US\$m):	264.3
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

52-week high/low RM1.12/RM0.990

1mth	3mth	6mth	1yr	YTD
0.5	0.0	(6.5)	(10.7)	0.0

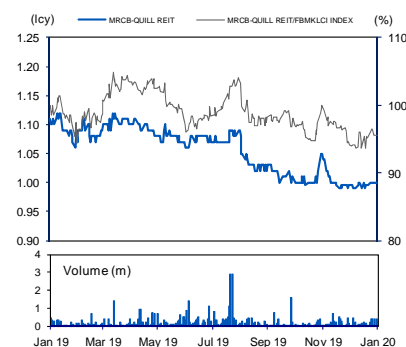
Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
Capitaland Ltd	10.9

FY20 NAV/Share (RM) 1.24

FY20 Net Debt/Share (RM) 0.72

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Net profit improved 5.4% qoq**, mainly due to commencement of rent from new tenants at Platinum Sentral and higher occupancy at Wisma Technip (currently 90% vs 75% in 3Q19). 2019 net profit declined 12.6% yoy, due to: a) lower revenue from Platinum Sentral, QB5 and Wisma Technip, and b) absence of income from QB8-DHL XPJ which was sold in Apr 18. We expect earnings to continue to improve on the back of higher occupancy at Menara Shell and Platinum Sentral.
- **Occupancy rate to continue to improve.** On a portfolio basis, occupancy rate inched up to 90% (3Q19: 89%, 4Q18: 93%), well above the average of 78% in 2018 for office buildings in the Kuala Lumpur. MQREIT's WALE is 4.9 years. Total lease for renewal for 2019 and 2020 are 19% and 18% of total NLA respectively. MQREIT successfully renewed 92% of leases due in 2019. We forecast occupancy for Platinum Sentral and Menara Shell to rise to 90% and 96% respectively for 2020 (currently 84% and 95% respectively). Wisma Technip is currently at 90% and we expect this level to be maintained for 2020.
- **Gearing at 37.7%.** MQREIT's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions.

EARNINGS REVISION/RISK

- **No changes.** We have forecasted 10% growth for 2020 on the back of improvement in occupancy for Wisma Technip, Platinum Sentral and Menara Shell. We introduce 2022 net profit forecast of RM85m.

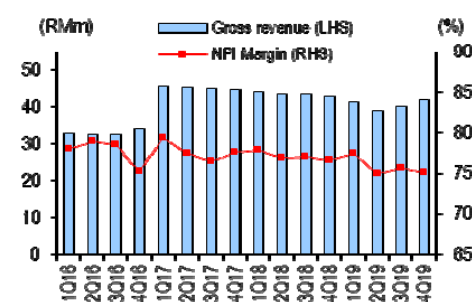
VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.13**, based on a dividend discount model (required rate of return: 6.6%, terminal growth: 1.3%) and represents an implied dividend yield of 6.6%. We expect MQREIT to claw back its 4.8% share price decline in 2019 (it sorely underperformed the REIT sector which rose about 11% in 2019) as valuations re-rate to reflect its sustainable high dividend yields of >7% for 2020-22, backed by its property portfolio's improving occupancy.

SHARE PRICE CATALYST

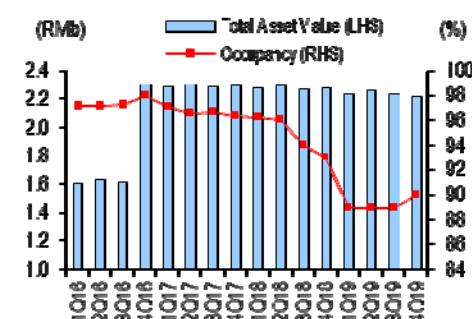
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



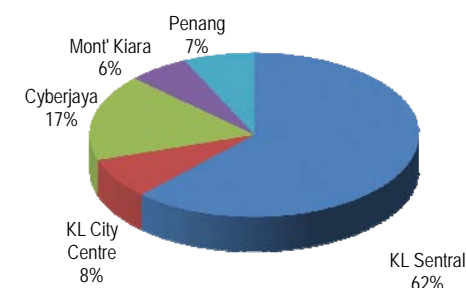
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



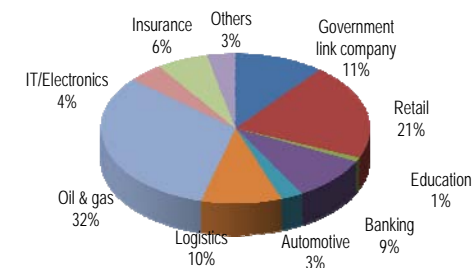
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

FORECAST ASSUMPTIONS – OCCUPANCY

Property	2020	2021	2022
Platinum Sentral	90%	90%	90%
Menara Shell	96%	98%	98%
Wisma Technip	90%	90%	90%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	162	171	174	176
EBITDA	108	117	120	120
Deprec. & amort.	0	0	0	0
EBIT	108	117	120	120
Net interest income/(expense)	(36)	(37)	(37)	(35)
Pre-tax profit	35	80	83	85
Tax	(6)	0	0	0
Net profit	29	80	83	85
Net profit (adj.)	72	80	83	85

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	113	120	124	125
Pre-tax profit	35	80	83	85
Deprec. & amort.	0	0	0	0
Other operating cashflows	77	40	41	40
Investing	0	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	3	0	0	0
Financing	(136)	(93)	(96)	(134)
Distribution to unitholders	(78)	(78)	(81)	(84)
Issue of shares	0	0	0	0
Proceeds from borrowings	35	50	50	30
Loan repayment	(54)	(15)	(15)	(30)
Others/interest paid	(38)	(50)	(50)	(50)
Net cash inflow (outflow)	(23)	25	26	(10)
Beginning cash & cash equivalent	86	63	88	114
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	63	88	114	104

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,143	2,145	2,147	2,149
Other LT assets	1	1	1	1
Cash/ST investment	63	88	114	104
Other current assets	6	7	7	7
Total assets	2,214	2,241	2,269	2,261
ST debt	333	318	303	273
Other current liabilities	21	27	33	53
LT debt	503	538	573	573
Other LT liabilities	33	33	33	33
Shareholders' equity	1,323	1,325	1,327	1,328
Total liabilities & equity	2,214	2,241	2,269	2,261

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	66.9	68.4	68.9	68.3
Pre-tax margin	21.8	46.6	47.4	48.5
Net margin	18.0	46.6	47.4	48.5
ROA	1.3	3.6	3.7	3.8
ROE	2.2	6.0	6.2	6.4
Growth				
Turnover	(6.5)	5.6	1.7	1.0
EBITDA	(8.7)	7.9	2.4	0.2
Pre-tax profit	(55.4)	125.6	3.4	3.3
Net profit	(60.2)	174.0	3.4	3.3
Net profit (adj.)	(12.6)	10.7	3.4	3.3
EPU	(12.6)	10.7	3.4	3.3
Leverage				
Debt to total capital	38.7	39.2	39.8	38.9
Debt to equity	63.1	64.6	66.0	63.7
Net debt/(cash) to equity	58.4	57.9	57.4	55.9
Interest cover (x)	3.0	3.1	3.2	3.5

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