

9 January 2018

Buy

Price
RM1.21
Target price
RM1.45

Flashnote

MRCB-Quill REIT

Disposal of Quill Building 8 – DHL XPJ

Financial Highlights

Year to Dec (RMm)	2014	2015	2016	2017F	2018F
Revenue	70.2	115.2	127.6	181.0	186.3
Reported net profit	40.3	60.7	60.1	87.4	91.3
Normalised net profit	34.2	53.4	60.1	87.4	91.3
EPS (sen)	10.3	9.2	9.1	8.2	8.5
DPU (sen)	8.4	8.5	8.7	7.8	8.1
P/E (x)	14.4	15.6	13.9	15.4	14.7
Dividend yield (%)	6.7	6.7	6.9	6.2	6.5
Net gearing (%)	35.1	42.4	42.3	40.0	39.9
PBV (x)	0.9	0.9	0.9	1.0	1.0

Source: Company, KAF

- We maintain our Buy recommendation on MRCB-Quill REIT (MQREIT) with an unchanged target price of RM1.45 based on our DDM valuation.
- MQREIT announced the disposal of its Quill Building 8 – DHL XPJ property comprising of a warehouse and 3-storey office facility for RM28m to Transmark Corporation Sdn Bhd. The disposal is expected to be completed by the second quarter of 2018. The property was valued at RM25m in Oct 2017, this translates to a one-off gain on disposal of RM3m.
- The proceeds from the disposal will be utilised to repay existing borrowings, for asset enhancement initiatives, working capital, and for investments into other yield accretive properties. Proceeds are expected to be utilised within 12 months from the completion of the disposal.
- We expect the impact from the divestment of Quill Building 8 to have minimal effect on MQREIT, as the rental income from Quill Building 8 only accounts for 2% of its total revenue. We estimate that the disposal will have a marginal impact on MQREIT's group net profit, <1% of our forecast.
- MQREIT's gearing as at 3Q17 was 0.39x and is maintained at the same level after the disposal.
- MQREIT has no near-term acquisition plans in FY18F. The potential injection of Menara Celcom in PJ Sentral into the REIT is still in a preliminary stage. Management expects more information on the potential acquisition will only be available for evaluation in 2018. Thus, we maintain our FY17F revenue forecast of RM181m.
- At the current price, MRCB-Quill REIT trades at 1.0x FY18F PB and offers a yield of 6.2%, which translates to a yield spread of 236bps over the 10-yr MGS of 3.84%.

Analyst

Syarina Hyzah Zakaria
+60 3 2171 0506
syarina@kaf.com.my

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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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)