

12 November 2020

# MRCB-Quill REIT

## 9MFY20 Above Expectations

By Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my)

9MFY20 realised net income (RNI) of RM60.3m came in above our (83%), and consensus (81%), expectations as we were more conservative, expecting higher rental rebates for tenants. No dividends, as expected. Increase FY20-21E CNP by 7% each to RM78-82m on lower rebates and slightly better occupancy. Maintain **OUTPERFORM** with a higher TP of RM0.825 on attractive FY21E gross yield of 9.0% vs. large cap MREIT peers' average of 5.4% despite earnings being more resilient than retail players which are struggling amidst the pandemic.

9MFY20 realised net income (RNI) of RM60.3m came in above our and consensus expectations at 83% and 81%, respectively, as 9MFY20 rental rebates were not as high as previously anticipated. No dividends, as expected.

**Results' highlights.** YoY-Ytd, top-line was up by 3% on higher revenue generated from Menara Shell, Wisma Technip, and Tesco, Penang. Efficient portfolio management led to lower property operating expense (-3%) coupled with lower finance cost (-9%) which allowed RNI to increase by 13%. QoQ, top-line was up by 4.9% as 3Q saw less rental rebates required. As a result, RNI was up by 13%. Gearing remained stable at 0.38x which is below MREITs' gearing limit of 0.60x currently.

**Outlook.** FY20-21 will see minimal lease expiries of 19-21% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. Positively, the group has renewed 11% of the 19% of leases up for renewal in FY20 while asset occupancy remains stable at 90.5% (vs. 90.4% in 2QFY20). The group remains cautious of the Covid-19 situation which will place pressure on the office market and will continue to focus on tenant retention and cost optimisation for now.

**Increase FY20-21E CNP by 7% each to RM78-81m (from RM73-76m)** on slightly improved occupancy to 91-93% (from 90-91%) in FY20-21) and lower-than-expected rental rebates in 2HFY20. As a result, we increase FY20-21E GDP/NDPU to 6.9-7.1 sen / 6.2-6.4 sen (from GDP/NDPU 6.4-6.7 sen / 5.8-6.0 sen) implying attractive gross yield of 8.7-9.0% (net yield of 7.8-8.1%).

**Maintain OUTPERFORM on a higher Target Price of RM0.825 (from RM0.800)** based on a higher FY21E GDP of 7.1 sen (from 6.7 sen) and an unchanged spread of +5.8ppt @ +1.5SD (highest spread among MREITs under coverage of +1.5 to 5.4ppt) to the 10-year MGS target of 2.80%. Our target yield spread is in line with the sector at +1.0 to +2.0SD to historical levels as we remain cautious under this Covid-19 pandemic, but we believe MQREIT warrants slightly better spreads than retail peers as its results and tenant retention have been stable thus far. Gross yields are attractive at 9.0% well above MREITs under our coverage (large cap retail and office MREITs) with an average of 5.4%, while MQREIT has proven to be more stable than its peers given that it operates within the formidable office segment.

**Risks to our call include** bond yield expansions and weaker-than-expected rental reversions.

## OUTPERFORM ↔

Price: **RM0.795**  
Target Price: **RM0.825** ↑

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,570.08 |
| YTD KLCI chg        | -1.2%    |
| YTD stock price chg | -20.5%   |

### Stock Information

|                      |                  |
|----------------------|------------------|
| Shariah Compliant    | No               |
| Bloomberg Ticker     | MQREIT MK Equity |
| Market Cap (RM m)    | 852.1            |
| Shares Outstanding   | 1,071.8          |
| 52-week range (H)    | 1.08             |
| 52-week range (L)    | 0.50             |
| 3-mth avg daily vol: | 495,035          |
| Free Float           | 32%              |
| Beta                 | 0.9              |

### Major Shareholders

|  |       |
|--|-------|
| Malaysian Resources Corporation Berhad | 27.8% |
| Employees Provident Fund Board         | 12.1% |
| CapitaLand Limited                     | 10.9% |

### Summary Earnings Table

| FY Dec (RM m)       | 2019A       | 2020E       | 2021E       |
|---------------------|-------------|-------------|-------------|
| Turnover            | 162.1       | 166.2       | 170.6       |
| EBIT                | 122.8       | 117.1       | 121.5       |
| PBT                 | 35.4        | 78.4        | 81.8        |
| <b>Net Profit</b>   | <b>35.4</b> | <b>78.4</b> | <b>81.8</b> |
| <b>Core NP*</b>     | <b>72.1</b> | <b>78.4</b> | <b>81.8</b> |
| Consensus (CNP)     | n.a.        | 74.8        | 75.5        |
| Earnings Revision   | n.a.        | +7%         | +7%         |
| Core EPS (sen)      | 6.7         | 7.2         | 7.5         |
| Core EPS growth (%) | -13         | 8           | 4           |
| NDPS (sen)          | 6.1         | 6.2         | 6.4         |
| BVPS (RM)           | 1.23        | 1.26        | 1.27        |
| Core PER (x)        | 11.8        | 11.0        | 10.6        |
| Price/BV (x)        | 0.6         | 0.6         | 0.6         |
| Gearing (x)         | 0.38        | 0.39        | 0.38        |
| Net Div. Yield (%)  | 7.7         | 7.8         | 8.1         |

\*Core NP refers to RNI

12 November 2020

**OTHER POINTS**

| <b>Result Highlight</b>                  |             |             |              |             |              |               |               |                |
|--|-------------|-------------|--------------|-------------|--------------|---------------|---------------|----------------|
| <b>FYE 31 Dec (RM m)</b>                 | <b>3Q20</b> | <b>2Q20</b> | <b>QoQ</b>   | <b>3Q19</b> | <b>YoY</b>   | <b>9MFY19</b> | <b>9MFY20</b> | <b>YoY-Ytd</b> |
| Gross revenue                            | 42.1        | 40.1        | 4.9%         | 39.9        | 5.4%         | 120.1         | 123.9         | 3%             |
| Prop Opex                                | -9.3        | -9.1        | 1.8%         | -9.7        | -4.3%        | -28.8         | -27.9         | -3%            |
| <b>NPI excl unrealised rental income</b> | <b>32.7</b> | <b>31.0</b> | <b>5.8%</b>  | <b>30.2</b> | <b>8.5%</b>  | <b>91.3</b>   | <b>96.0</b>   | <b>5%</b>      |
| Interest Income                          | 0.6         | 0.5         | 16.3%        | 0.7         | -10.1%       | 2.1           | 1.8           | -16%           |
| Gain on divestment prop                  | 0.0         | 0.0         | n.a.         | 0.0         | n.a.         | 0.0           | 0.0           | n.a.           |
| Surplus on revaluation                   | 0.0         | 0.0         | n.a.         | 0.0         | n.a.         | 0.0           | 0.0           | n.a.           |
| <b>Total Trust Income</b>                | <b>33.4</b> | <b>31.5</b> | <b>5.9%</b>  | <b>30.9</b> | <b>8.0%</b>  | <b>93.4</b>   | <b>97.8</b>   | <b>5%</b>      |
| Expenditure                              | -3.6        | -3.5        | 1.9%         | -3.5        | 1.8%         | -10.6         | -10.6         | 0%             |
| Finance Cost                             | -8.3        | -8.9        | -6.6%        | -9.7        | -14.6%       | -29.3         | -26.8         | -9%            |
| <b>Income Before Tax</b>                 | <b>21.5</b> | <b>19.1</b> | <b>12.6%</b> | <b>17.6</b> | <b>21.8%</b> | <b>53.5</b>   | <b>60.3</b>   | <b>13%</b>     |
| Tax                                      | 0.0         | 0.0         | n.a.         | 0.0         | n.a.         | 0.0           | 0.0           | n.a.           |
| Net Income                               | 21.5        | 19.1        | 12.6%        | 17.6        | 21.8%        | 53.5          | 60.3          | 13%            |
| <b>Realised Net income (RNI)</b>         | <b>21.5</b> | <b>19.1</b> | <b>12.6%</b> | <b>17.6</b> | <b>21.8%</b> | <b>53.5</b>   | <b>60.3</b>   | <b>13%</b>     |
| Core EPU (sen)                           | 2.00        | 1.78        | 12.6%        | 1.65        | 21.8%        | 4.99          | 5.63          | 13%            |
| DPU (sen)                                | 0.00        | 3.43        |              | 0.00        |              | 3.43          | 3.43          |                |
| NAV/unit (RM)                            | 1.22        | 1.24        |              | 1.26        |              | 1.26          | 1.22          |                |
| Gearing (x)                              | 0.38        | 0.38        |              | 0.37        |              | 0.37          | 0.38          |                |
| NPI Margins                              | 77.9%       | 77.2%       |              | 75.6%       |              | 76.0%         | 77.5%         |                |
| RNI Margins                              | 51.1%       | 47.6%       |              | 44.2%       |              | 44.6%         | 48.7%         |                |

Source: Company, Kenanga Research

*This section is intentionally left blank*

12 November 2020

## Peer Comparison

| Name                           | Last Price | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth |              | Core Earnings Growth |              | PER (x) - Core Earnings |             |             | PBV (x)    |            | ROE (%)     |             | Net Div. Yld. (%) | Target Price (RM) | Rating |  |
|--------------------------------|------------|-------------------|-------------------|-------------|----------------|--------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|-------------|-------------|-------------------|-------------------|--------|--|
|                                | (RM)       |                   |                   |             | 1-Yr. Fwd.     | 2-Yr. Fwd.   | 1-Yr. Fwd.           | 2-Yr. Fwd.   | Hist.                   | 1-Yr. Fwd.  | 2-Yr. Fwd.  | Hist.      | 1-Yr. Fwd. | 1-Yr. Fwd.  | 1-Yr. Fwd.  |                   |                   |        |  |
| <b>MREITs UNDER COVERAGE</b>   |            |                   |                   |             |                |              |                      |              |                         |             |             |            |            |             |             |                   |                   |        |  |
| AXIS REIT                      | 2.11       | 3,043.3           | Y                 | 12/2020     | 1.8%           | 6.1%         | 12.2%                | 8.7%         | 26.3                    | 23.5        | 21.7        | 1.5        | 1.5        | 6.2%        | 3.8%        | 2.15              | MP                |        |  |
| CAPITALAND MALAYSIA MALL TRUST | 0.590      | 1,216.1           | N                 | 12/2020     | -21.3%         | 17.1%        | -54.7%               | 65.0%        | 9.5                     | 21.0        | 12.8        | 0.5        | 0.5        | 2.6%        | 5.1%        | 0.565             | MP                |        |  |
| IGB REIT                       | 1.72       | 6,124.2           | N                 | 12/2020     | -25.1%         | 26.7%        | -31.7%               | 33.7%        | 19.3                    | 28.5        | 21.4        | 1.6        | 1.7        | 6.2%        | 4.1%        | 1.60              | MP                |        |  |
| KLCCP STAPLED GROUP            | 7.73       | 13,955.2          | Y                 | 12/2020     | -10.2%         | 8.4%         | -17.1%               | 10.6%        | 19.3                    | 23.1        | 20.9        | 1.1        | 1.1        | 5.4%        | 3.9%        | 8.20              | OP                |        |  |
| MRCB-QUILL REIT                | 0.795      | 852.1             | N                 | 12/2020     | -4.1%          | 2.6%         | -5.0%                | 4.3%         | 11.8                    | 11.0        | 10.6        | 0.6        | 0.6        | 5.3%        | 7.8%        | 0.825             | OP                |        |  |
| PAVILION REIT                  | 1.43       | 4,354.8           | N                 | 12/2020     | -28.7%         | 37.8%        | -60.2%               | 131.7%       | 17.6                    | 44.3        | 19.1        | 1.1        | 1.1        | 2.5%        | 2.8%        | 1.40              | MP                |        |  |
| SUNWAY REIT                    | 1.46       | 5,000.2           | N                 | 12/2021     | 1.5%           | 12.2%        | -10.5%               | 24.4%        | 15.2                    | 17.0        | 14.5        | 1.0        | 0.9        | 5.4%        | 4.8%        | 1.45              | MP                |        |  |
| <b>Simple Average</b>          |            |                   |                   |             | <b>-12.3%</b>  | <b>15.8%</b> | <b>-23.9%</b>        | <b>39.8%</b> | <b>16.8</b>             | <b>24.1</b> | <b>17.3</b> | <b>1.0</b> | <b>1.0</b> | <b>4.8%</b> | <b>4.6%</b> |                   |                   |        |  |

\* Core NP and Core PER

Source: Bloomberg, Kenanga Research

12 November 2020

**Stock Ratings are defined as follows:****Stock Recommendations**

|                |  |
|----------------|--|
| OUTPERFORM     | : A particular stock's Expected Total Return is MORE than 10%                  |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM   | : A particular stock's Expected Total Return is LESS than -5%                  |

**Sector Recommendations\*\*\***

|             |   |
|-------------|---|
| OVERWEIGHT  | : A particular sector's Expected Total Return is MORE than 10%                  |
| NEUTRAL     | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5%                  |

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

