

## Company Note

## I Malaysia

**HOLD** (no change)

Consensus ratings\*: Buy 5 Hold 3 Sell 0

Current price: RM1.32  
 Target price: RM1.35  
 Previous target: RM1.35  
 Up/downside: 2.2%  
 CIMB / Consensus: -0.4%

Reuters: MQRE.KL  
 Bloomberg: MQREIT MK  
 Market cap: US\$326.3m

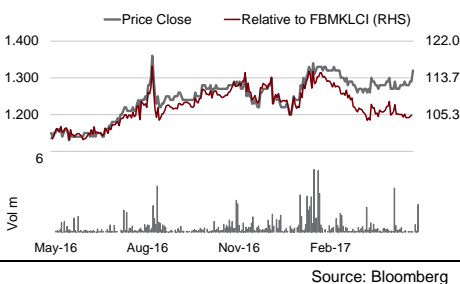
RM1,410m  
 Average daily turnover: US\$0.10m  
 RM0.48m

Current shares o/s: 661.4m  
 Free float: 27.7%

\*Source: Bloomberg

## Key changes in this note

None.



Price performance	1M	3M	12M
Absolute (%)	3.1	-0.8	14.8
Relative (%)	1.7	-6	7.9

Major shareholders	% held
MRCB	27.8
Capitaland Limited	11.0
Quill Land	11.0

**MRCB-Quill REIT****“Shell”tered by its newly-added asset**

- MQREIT's 1Q17 core net profit of RM23.2m (+52% yoy) met our and Bloomberg consensus expectations.
- No DPU was declared for the quarter, as expected.
- 1Q17's earnings growth was mainly boosted by the additional contribution from Menara Shell, as well as positive rental reversions at its other properties.
- We are expecting low single-digit portfolio rental reversions as management's focus is on tenant retention.
- We maintain our Hold rating and DDM-based target price of RM1.35 as we think the stock is fully-valued at current levels.

**1Q17's earnings met expectations**

MRCB-Quill REIT's (MQREIT) 1Q17 core net profit of RM23.2m (+52% yoy) was in line with expectations at 25% and 26% of our and Bloomberg consensus' full-year forecasts, respectively. As expected, no dividend was declared for the quarter as the group typically announces dividends semi-annually.

**Revenue and core net profit growth lifted by Menara Shell**

MQREIT's 1Q17 realised revenue rose 39.5% yoy to RM45.6m, buoyed by additional income contributions from its newly-added asset, Menara Shell. (completed Dec 16), coupled with positive rental reversions at Quill Building 3 in Cyberjaya, Wisma Technip on Jalan Tun Razak and Quill Building 2 in Cyberjaya. Despite a 30.9% yoy increase in the group's property expenses (due to the newly-added asset), MQREIT chalked up a healthy 1Q17 realised net property income (NPI) growth of 42% yoy to RM36.1m.

**Expiring leases in the next three years to peak in FY18**

The group will see c.26% of the group's net lettable area (NLA) due for renewal in FY18, which we gather includes Wisma Technip, AmGeneral Insurance in Menara Shell, and SPAD in Platinum Sentral. As for FY17, 14% of MQREIT's NLA is up for renewal, representing c.315,672 sq ft. Only c.6,313 sq ft has been renewed so far but management has guided that it is now in advanced negotiations with tenants with leases expiring in 2Q17 and 3Q17, to lock in tenancy ahead of expiry.

**Low single-digit rental reversions guidance for FY17**

We gather that 1Q17's portfolio rental reversion was in the low single-digits. In line with management's guidance, we expect low single-digit portfolio rental reversions in FY17. The group will focus on tenant retention by trying to lock in longer tenancy periods and maintain occupancy rates, but this could come at the expense of reversions, in our view. Jones Lang Wootton is guiding for 0% to -5% rental reversions for offices in KL Sentral and Cyberjaya in FY17.

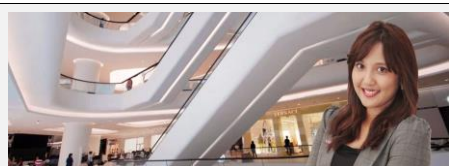
**Limited near-term inorganic growth**

According to media reports, the group is open to new acquisitions and may look at the potential injection of Menara Celcom in Petaling Jaya by Malaysian Resources Corp Bhd, one of its sponsors. The building is targeted for completion by end-FY17 or early-FY18 and MQREIT will only look at the asset upon completion. While MQREIT has indicated that it prefers central areas for expansion, it may consider acquisitions in less central areas, provided they meet the group's criteria, the news reports say.

**Maintain Hold and DDM-based TP of RM1.35**

We retain our Hold call and DDM-based target price of RM1.35. We think that the stock is fully-valued at current levels. Key upside risk is better rental reversions, especially for its offices located in Cyberjaya, while downside risk is non-renewals of its expiring leases.

## Analyst(s)

**Liyana FUAD**

T (60) 3 2261 9080

E norliyanaalia.ahmadfuad@cimb.com

**Financial Summary**

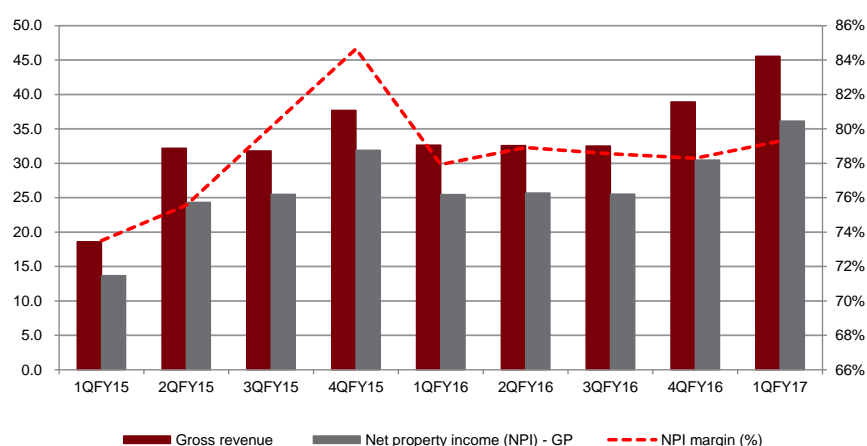
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Property Revenue (RMm)	115.2	136.6	193.1	198.4	201.8
Net Property Income (RMm)	90.3	107.2	144.6	148.1	150.6
Net Profit (RMm)	60.68	62.77	92.77	96.22	98.63
Distributable Profit (RMm)	50.92	56.27	90.98	91.46	93.75
DPS (RM)	0.084	0.084	0.085	0.086	0.088
Dividend Yield	6.35%	6.35%	6.45%	6.49%	6.65%
Asset Leverage	42.4%	37.1%	37.3%	37.1%	36.9%
BVPS (RM)	1.37	2.06	1.27	1.28	1.28
P/BV (x)	0.97	0.64	1.04	1.03	1.03
Recurring ROE	7.39%	5.66%	6.82%	7.05%	7.21%
CIMB/consensus DPS (x)			1.05	1.03	1.06

SOURCE: COMPANY DATA, CIMB FORECASTS

**Figure 1: Results Comparison**

FYE Dec (RM m)	1QFY17	1QFY16	yoy % chg	qoq % chg	1QFY17 cum	1QFY16 cum	yoy % chg	Prev FY17F	Comments
Revenue	45.6	32.7	39.5	17.0	45.6	32.7	39.5	193	Revenue improved mainly due to the addition of Menara
Operating costs	(13.1)	(9.9)	31.9	-25.4	(13.1)	(9.9)	31.9	(65)	Shell and positive rental reversions
EBITDA	32.5	22.7	42.9	52.0	32.5	22.7	42.9	128	
EBITDA margin (%)	71.2	69.6			71.2	69.6		66	
Depn & amort.	(0.0)	(0.0)	23.2	0.0	(0.0)	(0.0)	23.2	(0)	
EBIT	32.4	22.7	42.9	52.0	32.4	22.7	42.9	128	
Interest expense	(9.7)	(7.9)	23.8	6.9	(9.7)	(7.9)	23.8	(37)	Total debt of RM853.9m as at end-1Q17
Interest & invt inc	0.5	0.4	16.1	-60.3	0.5	0.4	16.1	2	Total cash of RM6.3m as at end-1Q17
Associates' contrib	0.0	0.0	nm	nm	0.0	0.0	nm	0	None as expected
Exceptionals & revaln	-	-	nm	nm	-	-	0.0	0	
Pretax profit	23.2	15.2	52.0	36.9	23.2	15.2	52.0	93	
Tax	-	-	nm	nm	-	-	nm	0	
Tax rate (%)	0.0	0.0	nm	nm	0.0	0.0	nm	0	No tax due to REIT structure
Minority interests	-	-	nm	nm	-	-	nm	0	None as expected
Net profit	23.2	15.2	52.0	36.9	23.2	15.2	52.0	93	
Distr profit	23.2	28.9	-19.9	nm	23.2	15.2	52.0	91	
Core net profit	23.2	15.2	52.0	73.2	23.2	15.2	52.0	93	In line with estimates
DPU (sen)	0.00	0.00	nm	nm	0.00	0.00	nm	9	

SOURCE: CIMB RESEARCH, COMPANY

**Figure 2: Quarterly revenue and net property income**

SOURCE: COMPANY DATA, CIMB RESEARCH

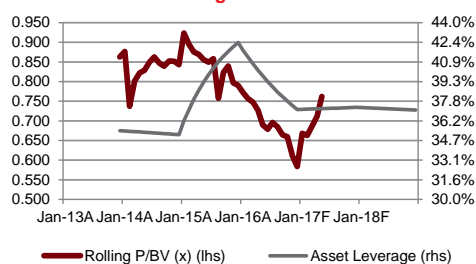
**Figure 3: Portfolio Net Lettable Area**

sq. ft.	as-at 1Q17	% NLA contribution
Quill Building 1 - DHL1	92,284	4%
Quill Building 4 - DHL 2	99,183	4%
Quill Building 2 - HSBC	184,453	8%
Quill Building 3 - BMW	117,198	5%
Wisma Technip	233,021	10%
Part of Plaza Mont Kiara (retail)	73,408	3%
Quill Building 5 - IBM	81,602	4%
Quill Building 8 - DHL XPJ	65,205	3%
Tesco Building, Penang	275,020	12%
Platinum Sentral	476,370	21%
Menara Shell	557,053	25%
<b>Portfolio</b>	<b>2,254,797</b>	<b>100%</b>

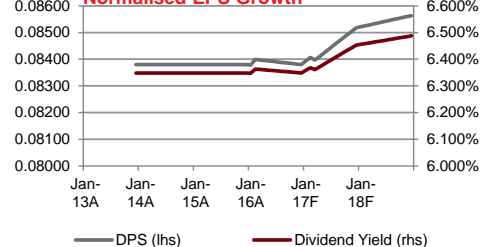
SOURCE: COMPANY DATA, CIMB RESEARCH

## BY THE NUMBERS

### P/BV vs Asset Leverage



### 12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth



### Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Rental Revenues	99.5	136.6	182.8	182.9	186.2
Other Revenues	15.7	0.0	10.3	15.5	15.5
<b>Gross Property Revenue</b>	<b>115.2</b>	<b>136.6</b>	<b>193.1</b>	<b>198.4</b>	<b>201.8</b>
Total Property Expenses	(24.9)	(29.5)	(48.5)	(50.2)	(51.1)
<b>Net Property Income</b>	<b>90.3</b>	<b>107.2</b>	<b>144.6</b>	<b>148.1</b>	<b>150.6</b>
General And Admin. Expenses	(0.4)	(1.7)	(2.2)	(2.2)	(2.2)
Management Fees	(8.6)	(9.7)	(13.2)	(13.3)	(13.4)
Trustee's Fees	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
<b>EBITDA</b>	<b>80.5</b>	<b>94.7</b>	<b>127.9</b>	<b>131.4</b>	<b>133.8</b>
Depreciation And Amortisation	(0.0)	0.0	(0.1)	(0.1)	(0.1)
<b>EBIT</b>	<b>80.5</b>	<b>94.7</b>	<b>127.9</b>	<b>131.3</b>	<b>133.7</b>
Net Interest Income	(27.1)	(30.7)	(35.1)	(35.1)	(35.1)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	7.3	(1.3)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>60.7</b>	<b>62.8</b>	<b>92.8</b>	<b>96.2</b>	<b>98.6</b>
Taxation	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>60.7</b>	<b>62.8</b>	<b>92.8</b>	<b>96.2</b>	<b>98.6</b>
<b>Distributable Profit</b>	<b>50.9</b>	<b>56.3</b>	<b>91.0</b>	<b>91.5</b>	<b>93.8</b>

### Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Pre-tax Profit</b>	<b>60.7</b>	<b>62.8</b>	<b>92.8</b>	<b>96.2</b>	<b>98.6</b>
Depreciation And Non-cash Adj.	27.1	30.7	35.1	35.1	35.1
Change In Working Capital	6.4	15.1	(19.4)	7.0	4.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	(7.2)	(3.5)	0.0	0.0	0.0
<b>Cashflow From Operations</b>	<b>87.0</b>	<b>105.0</b>	<b>108.6</b>	<b>138.3</b>	<b>137.7</b>
Capex	(751.9)	(647.4)	(1.5)	(1.5)	(1.5)
Net Investments And Sale Of FA	29.1	1.5	4.0	5.0	5.0
Other Investing Cashflow	(1.5)	1.6	2.4	2.4	2.4
<b>Cash Flow From Investing</b>	<b>(724.4)</b>	<b>(644.2)</b>	<b>4.9</b>	<b>5.9</b>	<b>5.9</b>
Debt Raised/(repaid)	389.0	164.0	0.0	0.0	0.0
Equity Raised/(Repaid)	342.0	487.9	0.0	0.0	0.0
Dividends Paid	(38.7)	(56.9)	(91.0)	(91.5)	(93.8)
Cash Interest And Others	(27.1)	(30.7)	(35.1)	(35.1)	(35.1)
<b>Cash Flow From Financing</b>	<b>665.2</b>	<b>564.4</b>	<b>(126.1)</b>	<b>(126.5)</b>	<b>(128.8)</b>
Total Cash Generated	27.8	25.1	(12.6)	17.7	14.8
Free Cashflow To Firm	(636.5)	(536.9)	115.8	146.6	146.0
Free Cashflow To Equity	(275.5)	(405.9)	78.4	109.1	108.5

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Investments	1,570	2,222	2,223	2,225	2,226
Intangible Assets	0	0	0	0	0
Other Long-term Assets	4	0	0	0	0
Total Non-current Assets	1,574	2,222	2,224	2,225	2,227
Total Cash And Equivalents	45	54	35	45	53
Inventories	0	0	0	0	0
Trade Debtors	6	18	25	26	26
Other Current Assets	1	0	0	0	0
<b>Total Current Assets</b>	<b>52</b>	<b>72</b>	<b>60</b>	<b>71</b>	<b>79</b>
Trade Creditors	14	28	16	24	28
Short-term Debt	189	189	189	189	189
Other Current Liabilities	3	35	35	35	35
<b>Total Current Liabilities</b>	<b>205</b>	<b>252</b>	<b>240</b>	<b>248</b>	<b>252</b>
Long-term Borrowings	501	662	662	662	662
Other Long-term Liabilities	16	20	20	20	20
Total Non-current Liabilities	516	682	682	682	682
Shareholders' Equity	904	1,360	1,362	1,366	1,371
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
<b>Total Equity</b>	<b>904</b>	<b>1,360</b>	<b>1,362</b>	<b>1,366</b>	<b>1,371</b>

### Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Property Revenue Growth	64.0%	18.6%	41.3%	2.7%	1.7%
NPI Growth	69.3%	18.7%	34.9%	2.5%	1.7%
Net Property Income Margin	78.4%	78.4%	74.9%	74.7%	74.7%
DPS Growth	0.00%	0.00%	1.65%	0.53%	2.50%
Gross Interest Cover	2.88	2.87	3.41	3.50	3.57
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	83.9%	89.6%	98.1%	95.1%	95.1%
Current Ratio	0.25	0.28	0.25	0.29	0.31
Quick Ratio	0.25	0.28	0.25	0.29	0.31
Cash Ratio	0.22	0.21	0.15	0.18	0.21
Return On Average Assets	4.87%	3.20%	4.05%	4.20%	4.29%

### Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Rental Rate Psf Pm (RM)	N/A	N/A	N/A	N/A	N/A
Acq. (less development) (US\$m)	N/A	N/A	N/A	N/A	N/A
RevPAR (RM)	N/A	N/A	N/A	N/A	N/A
Net Lettable Area (NLA) ('000 Sf)	1,699	1,699	2,256	1,699	1,699
Occupancy (%)	95.9%	97.2%	97.2%	97.2%	97.2%
Assets Under Management (m) (RM)	1,569.8	2,222.0	2,223.4	2,224.9	2,226.4
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2017		
1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

#### Spitzer Chart for stock being researched ( 2 year data )

##### MRCB-Quill REIT (MQREIT MK)



#### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.