

Malaysia

HOLD (no change)

Consensus ratings*: Buy 2 Hold 6 Sell 0

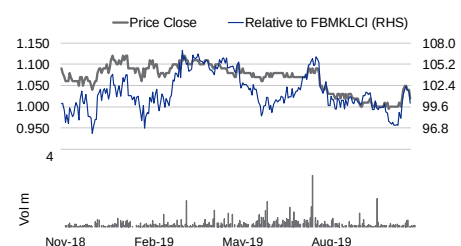
Current price: RM1.02
Target price: RM1.04
Previous target: RM1.10
Up/downside: 1.5%
CGS-CIMB / Consensus: 1.9%

Reuters: MQRE.KL
Bloomberg: MQREIT MK
Market cap: US\$262.1m
RM1,093m
Average daily turnover: US\$0.03m
RM0.14m
Current shares o/s: 1,072m
Free float: 49.1%

*Source: Bloomberg

Key changes in this note

- FY19-21F EPU and DPU cut by 7-11% to account for lower average portfolio occupancy rates and rental downtime due to vacant rental space.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2	-2.9	-5.6
Relative (%)	0.6	-1.8	0.6

Major shareholders	% held
MRCB	27.8
Employees Provident Fund	12.1
CapitalCommercial Trust	11.0

Analyst(s)



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MRCB-Quill REIT

Still dragged by low occupancy rates

- 9M19 core net profit was below expectations due to weaker revenue and lower average occupancy rates. Core net profit declined 15% yoy.
- The 93% renewal rate for leases expiring in 3Q19 mainly came from a new tenant in Platinum Sentral. 9M19 portfolio occupancy rate stood at 89%.
- We retain our Hold call with a lower TP of RM1.04. The revised 6.5-6.9% FY19-21F dividend yield remains attractive.

9MFY19 results below expectations; 9M19 DPU: 5.1 sen

MQ REIT's 9MFY19 core net profit was below expectations, constituting 66% of our full-year forecast and 72% of consensus. 9M19 revenue also fell short, at 68% of our full-year estimates and was down 8.5% yoy. This was on the back of lower revenue from Platinum Sentral, Wisma Technip, QB5 and loss of revenue from the disposal of Quill Building 8 (QB8). 9M19 core net profit contracted 15% yoy, also due to lower interest income which declined 20% yoy. Total 9M19 DPU amounts to 5.1 sen; 21% lower than 9M18's DPU of 6.4 sen and is unlikely to meet our full-year estimate of 7.2 sen.

NPI slipped 10% yoy with a slight contraction in NPI margin

9M19 net property income (NPI) declined 10.1% to RM62m, in line with lower revenue and higher electricity tariff due to Tenaga's Imbalanced Cost Pass Through (ICPT). 9M19 NPI margin slipped 1.3% pts to 76.1% in 1H19 vs. 77.4% in 1H18.

93% renewal rate for leases due in 3Q19

The group achieved a 93% renewal rate for leases expiring in 3Q19. The new leases in Platinum Sentral replace part of the space previously tenanted by the Land Public Transport Commission (SPAD, 67k sq ft NLA) and My High Speed Rail (MyHSR, 28k sq ft NLA). Spaces Platinum Sentral, a co-working space owned by IWG Plc which began operations in Jul 2019. We estimate that it occupies c.15% of Platinum Sentral's net lettable area (NLA) or c.75% of the total NLA occupied by SPAD and MyHSR. At end-Sep 19, MQ REIT's overall average portfolio occupancy rate was 89% (FY18: 93%).

Cutting FY19-21F EPS and DPU by 7-11%

We cut our FY19-21F EPS and DPU by 7-11% to factor in a lower average portfolio rental reversion, and a more conservative average portfolio occupancy rate of 90-92% (95-97% previously) which reflects the lower occupancy at Platinum Sentral and the reduced occupancy at Wisma TechnipFMC. Hence, our FY19-21F DPU forecasts are also revised downwards accordingly from 7.6-7.7 sen to 6.8-7.2 sen.

Maintain Hold with a lower TP; 6.5-6.9% revised dividend yields

We rollover our valuation to end-CY20 and trim our DDM-based TP from RM1.10 to RM1.04, pegged to a lower COE of 8.2% due to a lower adjusted beta (8.5% COE previously). We keep our Hold call, supported by still attractive revised FY19-21F dividend yields of 6.5-6.9%. Upside risks: better rental reversion, improved occupancy rates. Downside risks: non-renewal of expiring leases, lower occupancy rates.

Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Gross Property Revenue (RMm)	180.1	172.5	164.8	167.7	172.2
Net Property Income (RMm)	140.0	132.8	124.6	126.7	129.9
Net Profit (RMm)	68.45	73.13	72.78	74.73	77.57
Distributable Profit (RMm)	89.61	69.89	72.85	74.81	77.65
DPS (RM)	0.084	0.081	0.068	0.069	0.072
Dividend Yield	8.23%	7.92%	6.66%	6.77%	7.03%
Asset Leverage	37.3%	37.6%	37.6%	37.6%	37.6%
BVPS (RM)	1.30	1.28	1.28	1.28	1.28
P/BV (x)	0.79	0.80	0.80	0.80	0.80
Recurring ROE	6.41%	5.46%	5.30%	5.44%	5.65%
% Change In DPS Estimates			(11.4%)	(10.1%)	(7.2%)
CGS-CIMB/Consensus DPS (x)			0.98	1.02	1.04

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	3QFY19	3QFY18	yoy % chg	2QFY19	qoq % chg	3QFY19 cum	3QFY18 cum	yoy % chg	Prev FY19F	Comments
Revenue	39.5	43.6	-9.5	39.2	0.7	120.4	131.6	-8.5	177.0	Lower revenue from Platinum Sentral and Menara Shell
Operating costs	(12.7)	(13.9)	-8.6	(13.5)	-5.8	(39.5)	(41.6)	-4.9	(57.3)	Also loss of revenue from the disposal of QB8-DHL XPJ
EBITDA	26.7	29.7	-9.9	25.7	4.1	80.8	90.0	-10.2	119.7	in April 2018
EBITDA margin (%)	67.7	68.0		65.5		67.2	68.4		67.6	
Depn & amort.	(0.0)	(0.0)	120	(0.0)	6.8	(0.1)	(0.1)	119	(0.1)	
EBIT	26.7	29.6	-10.0	25.6	4.1	80.7	90.0	-10.3	119.7	
Interest expense	(9.7)	(10.1)	-3.3	(9.7)	0.2	(29.3)	(29.7)	-1.3	(40.6)	Total debt of RM836m as at end-3Q19
Interest & invt inc	0.7	1.0	-31.2	0.6	24.2	2.1	2.6	-20.2	3.0	Total cash and deposits of RM45.4m as at end-3Q19
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Exceptionals & revaln	0.0	0.0	nm	0.0	nm	0.0	2.2	nm	-	
Pretax profit	17.6	20.6	-14.3	16.5	7.2	53.5	65.1	-17.8	82.1	
Tax	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	No tax due to REIT structure, ie: more than 90% payout
Tax rate (%)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Net profit	17.6	20.6	-14.3	16.5	7.2	53.5	65.1	-17.8	82.1	
Core net profit	17.6	20.6	-14.3	16.5	7.2	53.5	62.9	-14.9	82.1	9M19 core net profit made up 66% of our full-year
Distr profit	17.6	20.6	-14.3	16.5	7.2	54.4	66.5	-18.2	88.2	forecast and 72% of consensus
DPU (sen)	1.7	2.1	-19.5	1.6	nm	5.1	6.4	(21.0)	7.7	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

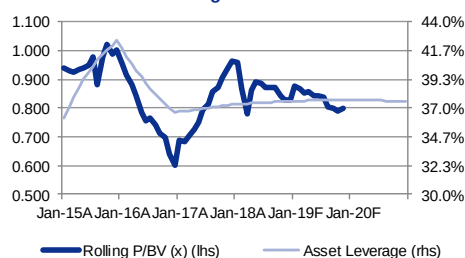
Figure 2: Earnings revision

RM m	2018A	2019F			2020F			2021F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	173	177	165	-7%	179	168	-6%	181	172	-5%
EBITDA	118	120	111	-8%	121	112	-7%	121	116	-5%
Core pretax profit	82	82	73	-11%	83	75	-10%	84	78	-7%
Core net profit	75	82	73	-11%	83	75	-10%	84	78	-7%

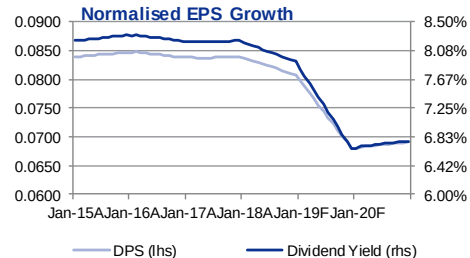
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



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



Profit & Loss

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Rental Revenues	162.1	155.0	147.7	149.8	153.5
Other Revenues	18.0	17.6	17.1	17.9	18.7
Gross Property Revenue	180.1	172.5	164.8	167.7	172.2
Total Property Expenses	(40.2)	(39.7)	(40.2)	(41.0)	(42.3)
Net Property Income	140.0	132.8	124.6	126.7	129.9
General And Admin. Expenses	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Management Fees	(13.5)	(13.3)	(12.4)	(12.5)	(12.6)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
EBITDA	125.0	117.9	110.5	112.5	115.6
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	124.9	117.8	110.5	112.4	115.5
Net Interest Income	(36.9)	(36.3)	(37.7)	(37.7)	(37.9)
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	(19.6)	(2.3)	0.0	0.0	0.0
Pre-tax Profit	68.5	79.3	72.8	74.7	77.6
Taxation	0.0	(6.1)	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
Net Profit	68.5	73.1	72.8	74.7	77.6
Distributable Profit	89.6	69.9	72.9	74.8	77.7

Cash Flow

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Pre-tax Profit	68.5	79.3	72.8	74.7	77.6
Depreciation And Non-cash Adj.	37.0	36.3	37.8	37.8	38.0
Change In Working Capital	4.0	(11.7)	(3.9)	4.2	(0.3)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	19.7	3.2	0.0	0.0	0.0
Cashflow From Operations	129.1	107.2	106.7	116.7	115.3
Capex	(0.4)	(3.8)	(5.0)	(5.0)	(6.0)
Net Investments And Sale Of FA	(0.0)	32.8	5.0	5.0	5.0
Other Investing Cashflow	2.2	3.7	2.9	2.9	2.7
Cash Flow From Investing	1.7	32.6	2.9	2.9	1.7
Debt Raised/(repaid)	(0.3)	0.0	0.0	0.0	0.0
Equity Raised/(Repaid)	(0.0)	4.0	0.0	0.0	0.0
Dividends Paid	(72.6)	(89.8)	(72.9)	(74.1)	(76.9)
Cash Interest And Others	(32.4)	(36.3)	(37.7)	(37.7)	(37.9)
Cash Flow From Financing	(105.3)	(122.1)	(110.5)	(111.7)	(114.8)
Total Cash Generated	25.6	17.7	(1.0)	7.9	2.1
Free Cashflow To Firm	134.5	144.1	112.5	122.5	119.6
Free Cashflow To Equity	97.0	103.5	71.9	81.9	79.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Investments	2,179	2,159	2,169	2,174	2,180
Intangible Assets	0	0	0	0	0
Other Long-term Assets	2	21	21	21	21
Total Non-current Assets	2,181	2,179	2,190	2,195	2,201
Total Cash And Equivalents	76	86	65	65	59
Inventories	0	0	0	0	0
Trade Debtors	5	6	6	6	6
Other Current Assets	26	1	7	7	7
Total Current Assets	107	92	78	78	72
Trade Creditors	20	16	12	16	16
Short-term Debt	117	0	0	0	0
Other Current Liabilities	13	10	10	10	10
Total Current Liabilities	150	26	22	26	26
Long-term Borrowings	737	854	854	854	854
Other Long-term Liabilities	17	20	20	20	20
Total Non-current Liabilities	754	873	873	873	873
Shareholders' Equity	1,385	1,372	1,372	1,373	1,374
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	1,385	1,372	1,372	1,373	1,374

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Gross Property Revenue Growth	31.8%	(4.2%)	(4.5%)	1.7%	2.7%
NPI Growth	30.6%	(5.1%)	(6.2%)	1.7%	2.6%
Net Property Income Margin	77.7%	77.0%	75.6%	75.5%	75.5%
DPS Growth	0.1%	(3.7%)	(15.9%)	1.7%	3.8%
Gross Interest Cover	3.08	2.90	2.72	2.77	2.85
Effective Tax Rate	0.00%	7.74%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	131%	96%	100%	100%	100%
Current Ratio	0.71	3.53	3.52	2.95	2.76
Quick Ratio	0.71	3.53	3.52	2.95	2.76
Cash Ratio	0.51	3.28	2.93	2.45	2.25
Return On Average Assets	2.97%	3.21%	3.21%	3.29%	3.41%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
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 Sft)	2,255	2,190	2,190	2,190	2,190
Occupancy (%)	96.3%	97.3%	90.9%	91.3%	92.4%
Assets Under Management (m) (RM)	2,222.0	2,158.7	2,169.5	2,174.5	2,180.5
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
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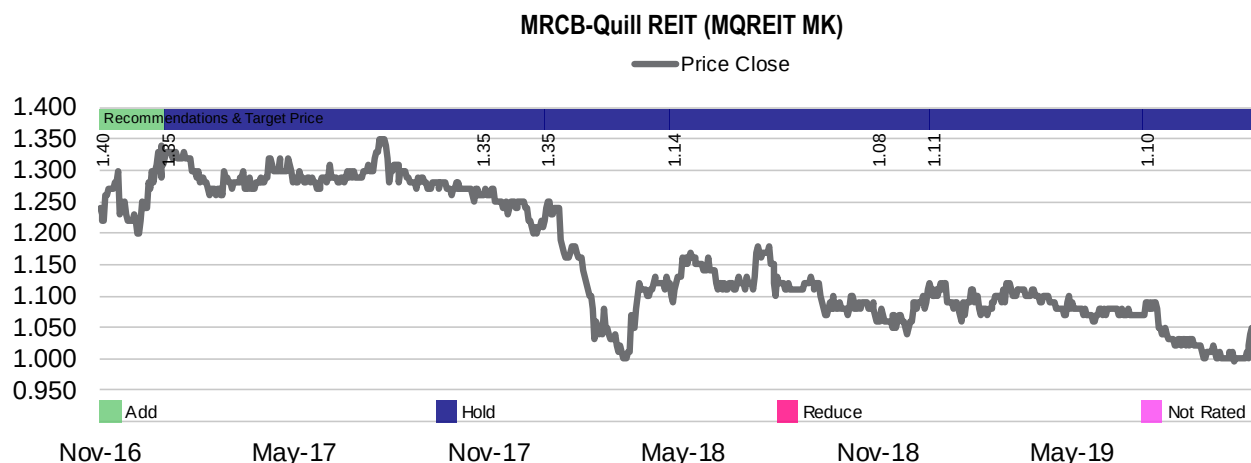
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777 companies under coverage for quarter ended on 30 September 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.8%	0.9%
Hold	26.3%	0.0%
Reduce	14.9%	0.1%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **JWD** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTb** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **S** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

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Stock Ratings

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.

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Definition:

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- 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.

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