Malaysia

HOLD *(no change)*

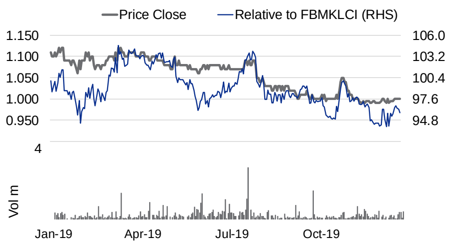
Consensus ratings*:	Buy 2	Hold 6	Sell 0

Current price:	RM1.00
Target price:	RM1.02
Previous target:	RM1.04
Up/downside:	1.9%
CGS-CIMB / Consensus:	-4.3%
Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US$264.3m
	RM1,072m
Average daily turnover:	US$0.04m
	RM0.15m
Current shares o/s:	1,072m
Free float:	49.1%

Source: Bloomberg

Key changes in this note

- FY20-21F EPS/DPS cut by 1.8-1.9% due to housekeeping



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.5	0	-10.7
Relative (%)	-0.7	-1.4	-5.5

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

MRCB-Quill REIT

FY19's miss offset by high dividend yields

- FY19's results were below expectations due to weak rental income; core net profit declined 14% yoy.
- MQREIT achieved 90% average occupancy rate in FY19 while Platinum Sentral's performance still lagged behind that of other assets.
- Maintain Hold with lower TP; FY20-22F dividend yields remain attractive.

FY19 results below expectations; full-year DPU: 6.8 sen

MQREIT's FY19 core net profit was below expectations, constituting 91% of our full-year forecast and 89% of consensus. FY19 revenue also fell short, at 97% of our full-year estimate, and was down 7.2% yoy due to lower revenue from Platinum Sentral, Wisma Technip and Quill Building (QB) 5 as well as loss of revenue from the disposal of QB8. FY19's core net profit (ex-RM36.7m negative revaluation of assets) slid 14% yoy to RM66m due to lower interest income, which fell 26% yoy. Total FY19 DPU amounted to 6.8 sen, 16% lower than FY18's DPU of 8.1 sen and in line with expectations.

Net loss of RM24.4m in 4Q19 impacted by asset revaluation

The group recognised a deficit on revaluation of assets in 4Q19 amounting to RM36.7m, leading to the quarter's reported net loss of RM24.4m. Stripping out the impact of asset revaluation, 4Q19 core net profit of RM12.4m translated into an 8.4% yoy decline, the result of weaker rental revenue and a 34% yoy drop in interest income.

90% portfolio occupancy rate at end-FY19 (FY18: 93%)

For the full year, MQREIT achieved an overall portfolio occupancy rate of 90%, a nudge lower than the 93% achieved in FY18. The main drag to overall average occupancy rate was Platinum Sentral. It achieved 84% occupancy rate at end-FY19, ending the year with 50k sq ft of untenanted space that was left vacant by the Land Public Transport Agency (APAD) and My High Speed Rail (MyHSR). Separately, Menara Shell achieved 95% occupancy rate at end-FY19 (finalising tenancy for the remaining 5%).

Overall prospects in 2020

For 2020, the group believes that the Klang Valley office market will remain challenging. It will therefore continue to focus on asset management/enhancement and more effective leasing strategies (particularly for Platinum Sentral) targeting tenant retention.

Hold retained with lower TP; dividend yield remains attractive

We cut FY20-21F EPS/DPU by 1-8-1.9% due to housekeeping and introduce FY22F numbers. We forecast a 90% average occupancy rate in FY20F, reflecting a gradual improvement in tenancy at Platinum Sentral and reduced occupancy at Wisma Technip FMC. We lower our DDM-based TP to RM1, pegged to an unchanged COE of 8.5% and TG of 1%. We keep our Hold call, supported by still-attractive revised FY20-22F dividend yields of 6.8-7.3% (the highest in our REIT sector coverage). Upside risks: better rental reversion and improved occupancy rates. Downside risks: non-renewal of expiring leases and lower occupancy rates.

Analyst(s)

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Financial Summary	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Property Revenue (RMm)	172.5	161.1	167.7	172.2	176.8
Net Property Income (RMm)	132.8	121.8	126.7	129.9	133.2
Net Profit (RMm)	73.13	29.12	73.29	76.14	79.11
Distributable Profit (RMm)	69.89	29.12	73.37	76.21	79.19
DPS (RM)	0.081	0.068	0.068	0.070	0.073
Dividend Yield	8.08%	6.81%	6.78%	7.04%	7.31%
Asset Leverage	37.6%	37.8%	37.7%	37.7%	37.7%
BVPS (RM)	1.28	1.23	1.24	1.24	1.24
P/BV (x)	0.78	0.81	0.81	0.81	0.81
Recurring ROE	5.46%	4.34%	5.54%	5.75%	5.97%
% Change In DPS Estimates			(1.92%)	(1.85%)	
CGS-CIMB/Consensus DPS (x)			1.03	1.05	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Other highlights:

Tenancy renewal and overall prospects in 2020

In 2019, 19% of MQREIT's total net lettable area (NLA) or 369k sq ft were due for renewal. As at end-FY19, 71% or 260k sq ft of these leases were renewed by existing tenants while 21% (77k sq ft) were not renewed by existing tenants but secured new leases. The balance 8% or 32k sq ft were not renewed and are currently vacant (largely located in Platinum Sentral). Going into 2020, the group believes that the Klang Valley office market will remain challenging. It will therefore continue to focus on asset management/enhancement and more effective leasing strategies (particularly for Platinum Sentral) targeting tenant retention. Several new initiatives to improve the overall look and surroundings of Platinum Sentral will be put in place. This asset enhancement is likely to take place in 2020 and will incur minimal capex.

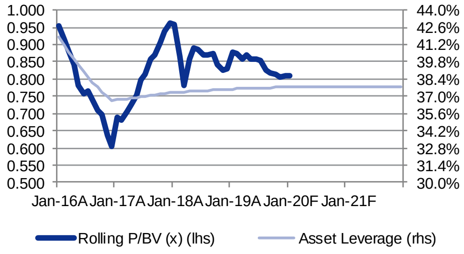
Figure 1: Results comparison

FYE Dec (RM m)	4QFY19	4QFY18	yoy % chg	3QFY19	qoq % chg	4QFY19 cum	4QFY18 cum	yoy % chg	Prev FY19F	Comments
Revenue	40.6	41.8	*-2.8*	39.5	*2.9*	161.0	173.4	*-7.2*	164.8	Lower revenue from Platinum Sentral and Menara Shell
Operating costs	(12.8)	(13.0)	*-1.1*	(12.7)	*0.8*	(52.4)	(54.6)	*-4.0*	(54.3)	Also loss of revenue from the disposal of QB8-DHL XPJ
EBITDA	27.8	28.8	*-3.7*	26.7	*4.0*	108.6	118.8	*-8.6*	110.5	in April 2018
EBITDA margin (%)	***68.4***	***69.0***		***67.7***		***67.5***	***68.5***		***67.1***	
Depn & amort.	(0.0)	(0.0)	*72.8*	(0.0)	*8.8*	(0.2)	(0.1)	*104*	(0.1)	
EBIT	27.7	28.8	*-3.7*	26.7	*4.0*	108.5	118.8	*-8.7*	110.5	
Interest expense	(10.3)	(10.9)	*-5.7*	(9.7)	*5.4*	(39.6)	(40.6)	*-2.5*	(40.6)	Total debt of RM836m as at end-4Q19
Interest & invt inc	1.1	1.7	*-33.7*	0.7	*60.3*	3.2	4.3	*-25.5*	2.9	Total cash and deposits of RM63.3m as at end-4Q19
Associates' contrib	0.0	0.0	*nm*	0.0	*nm*	0.0	0.0	*nm*	-	None as expected
Exceptionals & revaln	(36.7)	(5.4)	*576*	0.0	*nm*	(36.7)	(3.2)	*nm*	-	
Pretax profit	**(18.1)**	**14.2**	***-227.9***	**17.6**	***-202.9***	**35.4**	**79.3**	***-55.4***	**72.8**	
Tax	(6.2)	(6.1)	*nm*	0.0	*nm*	(6.2)	(6.1)	*nm*	-	
Tax rate (%)	(34.4)	43.2	*nm*	0.0	*nm*	17.6	7.7	*nm*	-	
Minority interests	0.0	0.0	*nm*	0.0	*nm*	0.0	0.0	*nm*	-	None as expected
Net profit	**(24.4)**	**8.0**	***-403.0***	**17.6**	***-238.2***	**29.1**	**73.1**	***-60.2***	**72.8**	
Core net profit	12.4	13.5	*-8.4*	17.6	*-30.0*	65.9	76.4	*-13.8*	72.8	FY19 core net profit made up 91% of our full-year
Distr profit	(24.4)	9.4	*-358.4*	17.6	*-238.2*	30.0	75.9	*-60.4*	72.9	forecast and 89% of consensus
DPU (sen)	**3.4**	**3.9**	***-12.5***	**0.0**	***nm***	**6.8**	**8.1**	***(15.9)***	**6.8**	

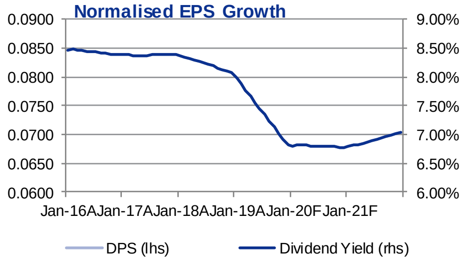
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



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



Profit & Loss

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Rental Revenues	155.0	159.0	149.8	153.5	157.2
Other Revenues	17.6	2.1	17.9	18.7	19.6
Gross Property Revenue	**172.5**	**161.1**	**167.7**	**172.2**	**176.8**
Total Property Expenses	(39.7)	(39.2)	(41.0)	(42.3)	(43.6)
Net Property Income	**132.8**	**121.8**	**126.7**	**129.9**	**133.2**
General And Admin. Expenses	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Management Fees	(13.3)	(12.8)	(12.5)	(12.6)	(12.7)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
EBITDA	**117.9**	**107.5**	**112.6**	**115.7**	**118.8**
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	**117.8**	**107.4**	**112.5**	**115.6**	**118.7**
Net Interest Income	(36.3)	(36.4)	(39.2)	(39.4)	(39.6)
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	(2.3)	(35.7)	0.0	0.0	0.0
Pre-tax Profit	**79.3**	**35.4**	**73.3**	**76.1**	**79.1**
Taxation	(6.1)	(6.2)	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	**73.1**	**29.1**	**73.3**	**76.1**	**79.1**
Distributable Profit	**69.9**	**29.1**	**73.4**	**76.2**	**79.2**

Cash Flow

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Pre-tax Profit	**79.3**	**35.4**	**73.3**	**76.1**	**79.1**
Depreciation And Non-cash Adj.	36.3	36.4	39.3	39.5	39.7
Change In Working Capital	(11.7)	(0.2)	0.5	(0.3)	5.8
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	3.2	0.0	0.0	0.0	0.0
Cashflow From Operations	**107.2**	**71.6**	**113.1**	**115.3**	**124.5**
Capex	(3.8)	(5.0)	(5.0)	(6.0)	(6.0)
Net Investments And Sale Of FA	32.8	5.0	5.0	5.0	5.0
Other Investing Cashflow	3.7	3.2	0.4	0.1	0.0
Cash Flow From Investing	**32.6**	**3.2**	**0.4**	**(0.9)**	**(1.0)**
Debt Raised/(repaid)	0.0	(18.0)	0.0	0.0	0.0
Equity Raised/(Repaid)	4.0	0.0	0.0	0.0	0.0
Dividends Paid	(89.8)	(73.0)	(72.6)	(75.5)	0.0
Cash Interest And Others	(36.3)	(36.4)	(39.2)	(39.4)	(39.6)
Cash Flow From Financing	**(122.1)**	**(127.4)**	**(111.8)**	**(114.9)**	**(39.6)**
Total Cash Generated	17.7	(52.5)	1.7	(0.4)	84.0
Free Cashflow To Firm	144.1	78.1	113.9	114.6	123.5
Free Cashflow To Equity	103.5	20.5	74.3	75.0	84.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Investments	2,159	2,125	2,174	2,180	2,186
Intangible Assets	0	0	0	0	0
Other Long-term Assets	21	19	19	19	19
Total Non-current Assets	2,179	2,144	2,193	2,199	2,205
Total Cash And Equivalents	86	63	9	3	1
Inventories	0	0	0	0	1
Trade Debtors	6	6	6	6	0
Other Current Assets	1	1	7	7	7
Total Current Assets	**92**	**70**	**22**	**16**	**9**
Trade Creditors	16	16	16	16	16
Short-term Debt	0	333	333	333	333
Other Current Liabilities	10	6	6	6	6
Total Current Liabilities	**26**	**354**	**355**	**355**	**354**
Long-term Borrowings	854	503	503	503	503
Other Long-term Liabilities	20	33	33	33	33
Total Non-current Liabilities	873	536	536	536	536
Shareholders' Equity	1,372	1,323	1,324	1,325	1,325
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	**1,372**	**1,323**	**1,324**	**1,325**	**1,325**

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Property Revenue Growth	(4.21%)	(6.64%)	4.12%	2.69%	2.67%
NPI Growth	(5.11%)	(8.27%)	3.99%	2.58%	2.54%
Net Property Income Margin	77.0%	75.6%	75.5%	75.5%	75.4%
DPS Growth	(3.7%)	(15.7%)	(0.5%)	3.9%	3.9%
Gross Interest Cover	2.90	2.71	2.84	2.92	3.00
Effective Tax Rate	7.7%	17.6%	0.0%	0.0%	0.0%
Net Dividend Payout Ratio	96%	100%	100%	100%	100%
Current Ratio	3.53	0.20	0.06	0.05	0.03
Quick Ratio	3.53	0.20	0.06	0.05	0.02
Cash Ratio	3.28	0.18	0.03	0.01	0.00
Return On Average Assets	3.21%	1.30%	3.31%	3.44%	3.57%

Key Drivers

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
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)	2,190	2,190	2,190	2,190	2,190
Occupancy (%)	97.3%	90.9%	91.3%	92.4%	93.5%
Assets Under Management (m) (RM)	2,158.7	2,125.2	2,174.5	2,180.5	2,186.5
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
Description:	Excellent	Very Good	Good	N/A	

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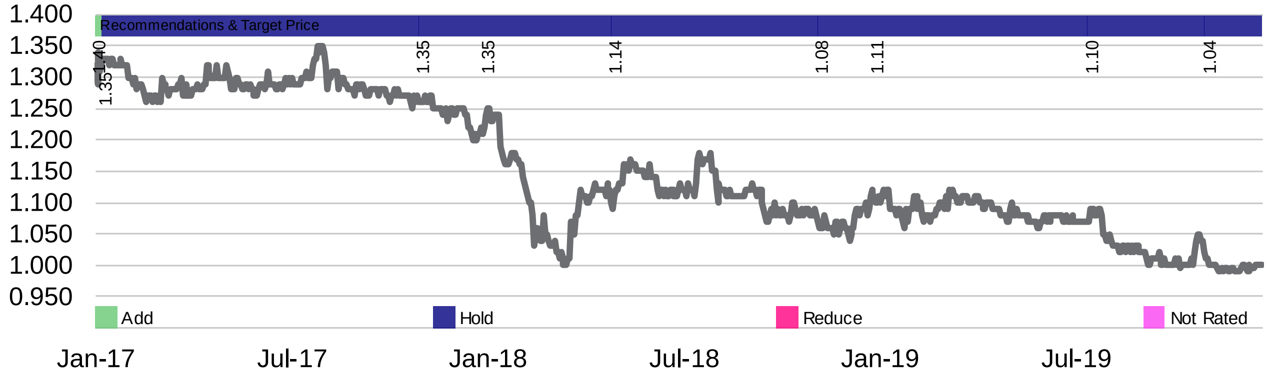
798 companies under coverage for quarter ended on 31 December 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.4%	0.0%
Hold	25.2%	0.0%
Reduce	13.4%	0.0%

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, **TPIPP** – 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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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

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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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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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