

COMPANY RESULTS

MRCB-Quill Reit (MQREIT MK)

4Q19: On The Comeback Trail

MQREIT's 2019 core earnings were largely within expectations, accounting for 98% of our full-year forecast, not withstanding a non-cash asset impairment which had not been guided for. Core net earnings improved 5.4% qoq on the back of rental commencement from new tenants and higher occupancy at Wisma Technip. Earnings are set to improve as occupancy at Platinum Sentral and Menara Shell further recover. Maintain BUY and target price of RM1.13.

4Q19 RESULTS

Year to 31 Dec (RMm)	4Q19	3Q19	qoq % chg	yoy % chg	2019	yoy % chg
Gross revenue	42.0	39.9	5.2	(1.6)	162.1	(6.5)
Operating expenses	(10.5)	(9.7)	7.7	4.8	(39.2)	(1.2)
Net property income	31.5	30.2	4.3	(3.6)	122.8	(8.1)
Finance cost	(10.3)	(9.7)	5.4	(5.7)	(39.6)	(2.5)
Core Net Profit	18.6	17.6	5.4	(5.2)	72.1	(12.6)
EPU (sen)	1.7	1.6	5.4	(5.2)	6.7	(12.9)
DPU (sen)	3.4	0.0	n.a.	(12.5)	6.8	(15.8)

Source: MRCB-Quill Reit, UOB Kay Hian

RESULTS

- Largely within expectations.** MRCB-Quill REIT (MQREIT) reported 4Q19 revenue of RM42.0m (+5.2% qoq, -1.6% yoy) and core net profit of RM18.6m (+5.4% qoq, -5.2% yoy). Core numbers exclude unrealised revaluation loss of RM37m (with the bulk of it from Platinum Sentral). Full-year 2019 core net profit of RM72.1m (-12.6 yoy) accounts for 98% and 99% of our and consensus' full-year forecasts respectively.
- 3.37 sen dividend declared during the quarter.** This brings full-year dividend to 6.80 sen (-15.8% yoy), representing a payout ratio of 101% and an annual yield of 6.8%, in line with our expectations. Note that dividends were unaffected by the non-cash impairment.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	173	162	171	174	176
EBITDA	119	108	117	120	120
Operating profit	119	108	117	120	120
Net profit (rep./act.)	73	29	80	83	85
Net profit (adj.)	83	72	80	83	85
EPS (sen)	7.7	6.7	7.5	7.7	8.0
PE (x)	13.0	14.9	13.4	13.0	12.6
P/B (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	15.5	17.0	15.7	15.4	15.3
Dividend yield (%)	8.1	6.8	7.3	7.6	7.8
Net margin (core) (%)	42.2	18.0	46.6	47.4	48.5
Net debt/(cash) to equity (%)	56.0	58.4	57.9	57.4	55.9
Interest cover (x)	3.3	3.0	3.1	3.2	3.5
ROE (%)	5.3	2.2	6.0	6.2	6.4
Consensus net profit	-	-	76	77	-
UOBKH/Consensus (x)	-	-	1.05	1.07	-

Source: MRCB-Quill Reit, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.00
Target Price	RM1.13
Upside	+13.0%

COMPANY DESCRIPTION

MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MQREIT MK
Shares issued (m):	1,071.8
Market cap (RMm):	1,071.8
Market cap (US\$m):	264.3
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

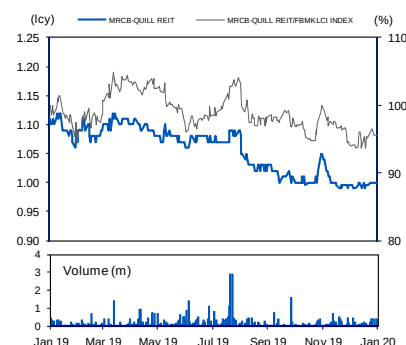
52-week high/low		RM1.12/RM0.990		
1mth	3mth	6mth	1yr	YTD
0.5	0.0	(6.5)	(10.7)	0.0

Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
Capitaland Ltd	10.9

FY20 NAV/Share (RM)	1.24
FY20 Net Debt/Share (RM)	0.72

PRICE CHART



Source: Bloomberg

ANALYST(S)

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com

STOCK IMPACT

- **Net profit improved 5.4% qoq**, mainly due to commencement of rent from new tenants at Platinum Sentral and higher occupancy at Wisma Technip (currently 90% vs 75% in 3Q19). 2019 net profit declined 12.6% yoy, due to: a) lower revenue from Platinum Sentral, QB5 and Wisma Technip, and b) absence of income from QB8-DHL XPJ which was sold in Apr 18. We expect earnings to continue to improve on the back of higher occupancy at Menara Shell and Platinum Sentral.
- **Occupancy rate to continue to improve.** On a portfolio basis, occupancy rate inched up to 90% (3Q19: 89%, 4Q18: 93%), well above the average of 78% in 2018 for office buildings in the Kuala Lumpur. MQREIT's WALE is 4.9 years. Total lease for renewal for 2019 and 2020 are 19% and 18% of total NLA respectively. MQREIT successfully renewed 92% of leases due in 2019. We forecast occupancy for Platinum Sentral and Menara Shell to rise to 90% and 96% respectively for 2020 (currently 84% and 95% respectively). Wisma Technip is currently at 90% and we expect this level to be maintained for 2020.
- **Gearing at 37.7%.** MQREIT's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions.

EARNINGS REVISION/RISK

- **No changes.** We have forecasted 10% growth for 2020 on the back of improvement in occupancy for Wisma Technip, Platinum Sentral and Menara Shell. We introduce 2022 net profit forecast of RM85m.

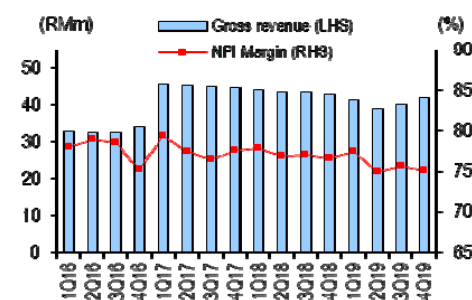
VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.13**, based on a dividend discount model (required rate of return: 6.6%, terminal growth: 1.3%) and represents an implied dividend yield of 6.6%. We expect MQREIT to claw back its 4.8% share price decline in 2019 (it sorely underperformed the REIT sector which rose about 11% in 2019) as valuations re-rate to reflect its sustainable high dividend yields of >7% for 2020-22, backed by its property portfolio's improving occupancy.

SHARE PRICE CATALYST

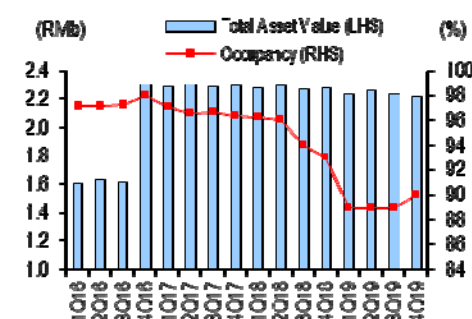
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



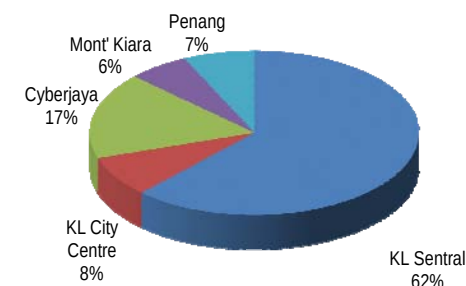
Source: MQREIT, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



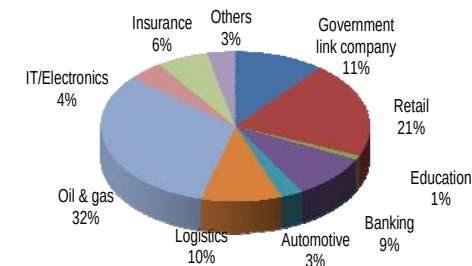
Source: MQREIT, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION



Source: MQREIT, UOB Kay Hian

TENANCY MIX



Source: MQREIT, UOB Kay Hian

FORECAST ASSUMPTIONS – OCCUPANCY

Property	2020	2021	2022
Platinum Sentral	90%	90%	90%
Menara Shell	96%	98%	98%
Wisma Technip	90%	90%	90%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	162	171	174	176
EBITDA	108	117	120	120
Deprec. & amort.	0	0	0	0
EBIT	108	117	120	120
Net interest income/(expense)	(36)	(37)	(37)	(35)
Pre-tax profit	35	80	83	85
Tax	(6)	0	0	0
Net profit	29	80	83	85
Net profit (adj.)	72	80	83	85

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,143	2,145	2,147	2,149
Other LT assets	1	1	1	1
Cash/ST investment	63	88	114	104
Other current assets	6	7	7	7
Total assets	2,214	2,241	2,269	2,261
ST debt	333	318	303	273
Other current liabilities	21	27	33	53
LT debt	503	538	573	573
Other LT liabilities	33	33	33	33
Shareholders' equity	1,323	1,325	1,327	1,328
Total liabilities & equity	2,214	2,241	2,269	2,261

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	113	120	124	125
Pre-tax profit	35	80	83	85
Deprec. & amort.	0	0	0	0
Other operating cashflows	77	40	41	40
Investing	0	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	3	0	0	0
Financing	(136)	(93)	(96)	(134)
Distribution to unitholders	(78)	(78)	(81)	(84)
Issue of shares	0	0	0	0
Proceeds from borrowings	35	50	50	30
Loan repayment	(54)	(15)	(15)	(30)
Others/interest paid	(38)	(50)	(50)	(50)
Net cash inflow (outflow)	(23)	25	26	(10)
Beginning cash & cash equivalent	86	63	88	114
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	63	88	114	104

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	66.9	68.4	68.9	68.3
Pre-tax margin	21.8	46.6	47.4	48.5
Net margin	18.0	46.6	47.4	48.5
ROA	1.3	3.6	3.7	3.8
ROE	2.2	6.0	6.2	6.4
Growth				
Turnover	(6.5)	5.6	1.7	1.0
EBITDA	(8.7)	7.9	2.4	0.2
Pre-tax profit	(55.4)	125.6	3.4	3.3
Net profit	(60.2)	174.0	3.4	3.3
Net profit (adj.)	(12.6)	10.7	3.4	3.3
EPU	(12.6)	10.7	3.4	3.3
Leverage				
Debt to total capital	38.7	39.2	39.8	38.9
Debt to equity	63.1	64.6	66.0	63.7
Net debt/(cash) to equity	58.4	57.9	57.4	55.9
Interest cover (x)	3.0	3.1	3.2	3.5

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2020, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W