

Company Note

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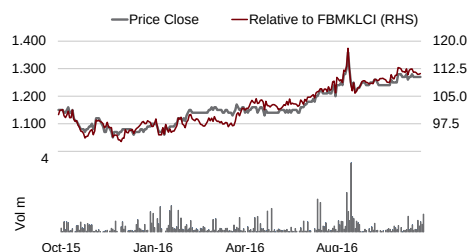
ADD (no change)

Consensus ratings*: Buy 6 Hold 2 Sell 0

Current price: RM1.27
 Target price:  RM1.40
 Previous target: RM1.40
 Up/downside: 10.2%
 CIMB / Consensus: 3.7%

Reuters: MQRE.KL
 Bloomberg: MQREIT MK
 Market cap: US\$202.0m
 RM840.0m
 Average daily turnover: US\$0.11m
 RM0.44m
 Current shares o/s: 661.4m
 Free float: 27.7%
 *Source: Bloomberg

Key changes in this note

 No change.


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.4	4.1	10.4
Relative (%)	2.1	3.3	12.3

Major shareholders	% held
MRCB	31.2
Capitaland Limited	17.7
Quill Land	7.4

MRCB-Quill REIT

“Sentral”ly-driven

- MQREIT's reported 9M16 core net profit of RM45.9m was in line with our full-year estimate but above the market's expectations.
- The group's revenue and bottomline growth continue to be fuelled by the additional contribution of Platinum Sentral as well as higher rental reversions for its assets.
- No dividend was declared during the quarter, as expected.
- Maintain Add with an unchanged DDM-based target price of RM1.40.
- Share price re-rating catalysts could include further yield accretive acquisitions from its co-sponsors and higher rental revisions from AEIs for its KL Sentral asset.

9M16: earnings on track

MQREIT registered 3Q16 positive revenue growth of 2.2% yoy to RM32.5m while net profit declined 3.2% yoy to RM15.2m. This brought cumulative net profit to RM45.9m (+21.8% yoy), meeting our full-year expectation at 75.5% but slightly above the market at 78%. As expected, no dividend was announced during the quarter.

Revenue and net profit supported by new asset

MQREIT's 9M16 revenue growth of 18.3% yoy to RM97.7m was mainly propelled by the additional income contribution from Platinum Sentral (in Mar 2015) as well as positive rental reversions from its existing properties. In spite of a 10.1% yoy increase in its overall operating expenses, the group managed to register positive net property income (NPI) growth of 20.8% yoy to RM76.7m.

Sequentially weaker on the back of higher costs

Compared to 3Q15, revenue grew 2.2% yoy but core net profit fell 3.2% yoy. MQREIT's earnings were impacted as a result of higher repair and maintenance costs on its existing properties, which increased 10.2% yoy. As a result, this clipped the group's NPI growth, which remained flat yoy at RM25.5m. Meanwhile, we understand that the group has managed to successfully renew c.64% of the leases due in 2016, while the remaining 28% leases up for renewal in 4Q are already in advanced negotiation stages.

Potentially higher rental reversions from AEIs

Moving forward, we believe that the group could see further DPU upside from asset enhancement initiatives (AEIs) following the completion of the property's link bridges by end-2016. The group could look into mixing up the tenancy portfolio and turn otherwise-vacant spaces into rental-yielding ones by adding F&B kiosks and cafes to improve the property's traffic flow. Thus, we believe that rental rates may increase due to a better tenant mix and optimised floor space reconfiguration.

Maintain Add

We retain our Add call with an unchanged DDM-based target price of RM1.40, which translates into total return of c.17%. We continue to like the long-term earnings prospects of the group as it leverages its two major sponsors to support its future acquisition pipeline to grow asset value. MQREIT could also stand to benefit from higher rental reversions as a result of AEIs. The group is trading at appealing implied FY16-17F dividend yields of 6.7-6.9% (higher than peer average of 5.5-5.8%).

Key risks

Key downside risks to our call include: i) a significant hike in interest rates, ii) a worse-than-expected office oversupply situation, iii) any significant negative change in REIT guidelines, and iv) a sharper-than-expected global economic downturn.

Analyst(s)



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Financial Summary

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Gross Property Revenue (RMm)	70.2	115.2	133.3	198.6	213.2
Net Property Income (RMm)	53.3	90.3	99.3	145.3	151.9
Net Profit (RMm)	40.27	60.68	60.04	92.38	98.70
Distributable Profit (RMm)	32.69	50.92	57.05	92.39	93.78
DPS (RM)	0.084	0.085	0.086	0.087	0.088
Dividend Yield	6.60%	6.67%	6.79%	6.81%	6.91%
Asset Leverage	35.1%	42.4%	42.5%	38.9%	38.7%
BVPS (RM)	1.39	1.37	1.37	1.28	1.28
P/BV (x)	0.92	0.93	0.93	0.99	0.99
Recurring ROE	6.36%	7.39%	6.63%	8.13%	7.21%
CIMB/consensus DPS (x)			1.01	1.07	1.06

SOURCE: COMPANY DATA, CIMB FORECASTS

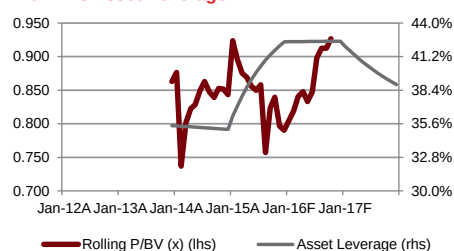
Figure 1: Results Comparison

FYE Dec (RM m)	3Q FY16	3Q FY15	yoy % chg	qoq % chg	3QFY16 cum	3QFY15 cum	yoy % chg	Prev FY16F	Comments
Revenue	32.5	31.8	2.2	-0.2	97.7	82.6	18.3	133.3	Revenue improved on the back of the addition of Platinum
Operating costs	(9.6)	(8.1)	18.7	0.5	(29.1)	(25.5)	14.2	(41.4)	Sentral and higher rental reversions at its existing assets
EBITDA	22.9	23.7	-3.5	-0.5	68.6	57.1	20.2	91.9	
EBITDA margin (%)	70.4	74.5			70.2	69.1		69.0	
Depn & amort.	(0.0)	(0.0)	657	0.0	(0.0)	(0.0)	411	-2.5	
EBIT	22.9	23.7	-3.6	-0.6	68.5	57.1	20.1	89.4	
Interest expense	(8.1)	(8.3)	-2.6	1.6	(23.9)	(20.0)	19.4	(29.7)	Total debt of RM689.3m as at end-3Q16
Interest & invt inc	0.5	0.4	35.2	25.2	1.2	0.6	101	0.9	Total cash of RM5.6m as at end-3Q16
Associates' contrib	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Exceptionals & revaln	0.0	0.0	nm	nm	0.0	0.0	0.0	0.0	No exceptionals in 3Q16
Pretax profit	15.2	15.7	-3.2	-1.0	45.9	37.6	21.8	60.7	
Tax	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	
Tax rate (%)	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	No tax due to REIT structure
Minority interests	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Net profit	15.2	15.7	-3.2	-1.0	45.9	37.6	21.8	60.7	
Distr profit	0.0	0.0	0.0	-100.0	28.0	22.0	27.1	57.0	-
Core net profit	15.2	15.7	-3.2	-1.0	45.9	37.6	21.8	60.7	In line with estimates
DPU (sen)	0.00	0.00	0.0	-100.0	4.23	4.10	3.2	8.6	

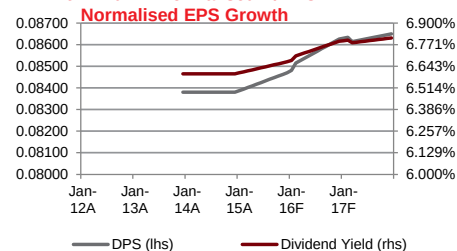
SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



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



Profit & Loss

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Rental Revenues	59.16	99.48	117.53	182.79	197.35
Other Revenues	11.09	15.69	15.75	15.80	15.86
Gross Property Revenue	70.25	115.17	133.28	198.59	213.21
Total Property Expenses	(16.92)	(24.90)	(33.95)	(53.27)	(61.36)
Net Property Income	53.33	90.27	99.32	145.32	151.86
General And Admin. Expenses	0.05	(0.38)	(0.38)	(0.50)	(0.50)
Management Fees	(5.39)	(8.55)	(9.27)	(13.28)	(13.49)
Trustee's Fees	(0.26)	(0.44)	(0.47)	(0.67)	(0.67)
Other Operating Expenses	(0.23)	(0.42)	(0.42)	(0.42)	(0.42)
EBITDA	47.49	80.48	88.78	130.46	136.78
Depreciation And Amortisation	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
EBIT	47.48	80.47	88.77	130.44	136.77
Net Interest Income	(13.33)	(27.06)	(28.73)	(38.07)	(38.07)
Associates' Profit	0.00	0.00	0.00	0.00	0.00
Other Income/(Expenses)	0.00	0.00	0.00	0.00	0.00
Exceptional Items	6.12	7.27	0.00	0.00	0.00
Pre-tax Profit	40.27	60.68	60.04	92.38	98.70
Taxation	0.00	0.00	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00	0.00
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Net Profit	40.27	60.68	60.04	92.38	98.70
Distributable Profit	32.69	50.92	57.05	92.39	93.78

Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Pre-tax Profit	40.27	60.68	60.04	92.38	98.70
Depreciation And Non-cash Adj.	13.34	27.07	28.74	38.08	38.08
Change In Working Capital	(3.15)	6.43	(5.88)	(2.56)	3.63
Tax Paid	0.00	0.00	0.00	0.00	0.00
Others	(6.12)	(7.20)	0.00	0.00	0.00
Cashflow From Operations	44.35	86.98	82.90	127.90	140.42
Capex	(6.02)	(751.92)	(3.00)	(658.00)	(2.00)
Net Investments And Sale Of FA	0.98	29.07	3.00	4.00	5.00
Other Investing Cashflow	0.73	(1.52)	0.93	0.93	0.93
Cash Flow From Investing	(4.30)	(724.38)	0.93	(653.07)	3.93
Debt Raised/(repaid)	0.00	389.00	0.00	196.50	0.00
Equity Raised/(Repaid)	0.00	342.00	0.00	459.53	0.00
Dividends Paid	(32.69)	(38.71)	(57.05)	(92.39)	(93.78)
Cash Interest And Others	(13.33)	(27.06)	(28.73)	(38.07)	(38.07)
Cash Flow From Financing	(46.02)	665.23	(85.78)	525.58	(131.85)
Total Cash Generated	(5.98)	27.83	(1.95)	0.40	12.50
Free Cashflow To Firm	40.77	(636.47)	84.76	(524.25)	145.27
Free Cashflow To Equity	26.71	(275.46)	55.10	(366.74)	106.28

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Investments	837.7	1,569.8	1,572.8	2,230.8	2,232.8
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other Long-term Assets	1.2	3.8	3.8	3.8	3.8
Total Non-current Assets	838.9	1,573.6	1,576.6	2,234.6	2,236.6
Total Cash And Equivalents	23.3	44.9	39.0	34.5	41.1
Inventories	0.0	0.0	0.0	0.0	0.0
Trade Debtors	6.1	5.6	6.5	9.7	10.5
Other Current Assets	0.0	1.1	1.1	1.1	1.1
Total Current Assets	29.4	51.6	46.6	45.3	52.6
Trade Creditors	12.2	13.6	8.6	9.2	13.6
Short-term Debt	0.0	188.9	188.9	188.9	188.9
Other Current Liabilities	2.3	2.5	2.5	2.5	2.5
Total Current Liabilities	14.5	205.0	200.0	200.7	205.0
Long-term Borrowings	305.1	500.8	500.8	697.3	697.3
Other Long-term Liabilities	7.5	15.6	15.6	15.6	15.6
Total Non-current Liabilities	312.6	516.4	516.4	712.9	712.9
Shareholders' Equity	541.3	903.9	906.9	1,366.4	1,371.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Shareholders Funds	0.0	0.0	0.0	0.0	0.0
Total Equity	541.3	903.9	906.9	1,366.4	1,371.3

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Gross Property Revenue Growth	1.9%	64.0%	15.7%	49.0%	7.4%
NPI Growth	0.2%	69.3%	10.0%	46.3%	4.5%
Net Property Income Margin	75.9%	78.4%	74.5%	73.2%	71.2%
DPS Growth	0.00%	1.07%	1.84%	0.28%	1.51%
Gross Interest Cover	3.38	2.88	2.99	3.35	3.51
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	81%	84%	95%	100%	95%
Current Ratio	2.03	0.25	0.23	0.23	0.26
Quick Ratio	2.03	0.25	0.23	0.23	0.26
Cash Ratio	1.61	0.22	0.19	0.17	0.20
Return On Average Assets	4.66%	4.87%	3.70%	4.73%	4.32%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
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)	1,290	2,256	1,699	1,699	1,699
Occupancy (%)	94.5%	95.9%	97.2%	97.2%	97.2%
Assets Under Management (m) (RM)	837.7	1,569.8	1,572.8	2,230.8	2,232.8
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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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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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2016

1598 companies under coverage for quarter ended on 30 September 2016

	Rating Distribution (%)	Investment Banking clients (%)
Add	57.7%	7.5%
Hold	31.7%	2.8%
Reduce	9.8%	0.6%

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 2015, Anti-Corruption Progress Indicator 2015.

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP – Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP – Excellent, 5, BEM – not available, no progress, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC – Good, 3B, BH – Good, 2, BIGC – Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, 1, BTS – Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN – Excellent, 5, DELTA – Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO – Excellent, 4, EPG – not available, 3B, GFPT – Very Good, 3A, GLOBAL – Very Good, 2, GLOW – Good, 3A, GPSC – not available, 3B, GRAMMY – Excellent, 3B, GUNKUL – Very Good, 1, HANA – Excellent, 4, HMPRO – Excellent, 3A, ICHI – Very Good, 3A, INTUCH – Excellent, 4, ITD – Good, 1, IVL – Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK – Excellent, 4, KCE – Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB – Excellent, 4, KTC – Very Good, 3A, LH – Very Good, 3B, LPN – Excellent, 3A, M – Good, 2, MAJOR – Good, 1, MAKRO – Good, 3A, MALEE – not available, 2, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT – Excellent, 3A, MTLS – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL – Excellent, 4, PTT – Excellent, 5, PTTEP – Excellent, 4, PTTGC – Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART – Excellent, 3B, SAPPE – Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB – Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC – Good, 3A, SIM – Excellent, 3B, SIRI – Good, 1, SPALI – Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO – Excellent, 4, TK – Very Good, 3B, TKN – not available, no progress, TMB – Excellent, 4, TPCH – Good, 3B, TOP – Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, UNIQ – not available, 2, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

Comprises level 1 to 5 as follows:

Level 1: Committed

Level 2: Declared

Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)

Level 4: Certified

Level 5: Extended.

CIMB Recommendation Framework

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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.