MRCB-Quill REIT

Upside from new leases at Platinum Sentral

- 1Q19 results were broadly in line; core net profit and NPI declined 6.2-7.6% yoy in line with lower revenue and higher finance cost.
- NPI margin was relatively flattish yoy at 78% due to lower property expenses.
- Portfolio occupancy rates stood at 89%, which could see upside from new leases for Platinum Sentral.
- Maintain Hold call with unchanged TP (COE: 8.8%, TGR: 1%). FY19-20F dividend yield of 7.5% should lend support to share price.

Malaysia

HOLD *(no change)*

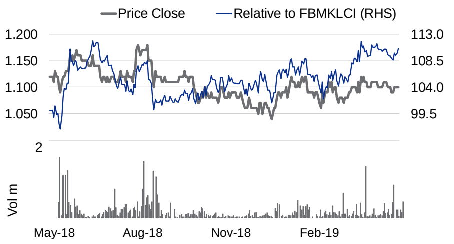
Consensus ratings*:	Buy 3	Hold 5	Sell 0

Current price:	RM1.10
Target price:	RM1.11
Previous target:	RM1.11
Up/downside:	1.4%
CGS-CIMB / Consensus:	-4.0%
Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US$283.9m
	RM1,179m
Average daily turnover:	US$0.05m
	RM0.19m
Current shares o/s:	1,068m
Free float:	27.7%

Source: Bloomberg

Key changes in this note

- No changes



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	0.9	-1.8
Relative (%)	1.4	4.9	10.6

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

1QFY19 results broadly in line

MQ REIT's 1Q19 core net profit was broadly in line, constituting 23-24% of our and consensus' full-year estimates. Revenue contracted 6% yoy, which was not surprising given the lower contribution from Platinum Sentral and Menara Shell, and loss of revenue from the disposal of Quill Building 8 (QB8). Overall EBITDA margin improved slightly to 68.2% in 1Q19 from 67.7% in 1Q18. Core net profit declined 7.6% yoy, weighed down by a 1.7% yoy increase in finance cost. The absence of dividends was not surprise as dividends are typically declared in 2Q and 4Q.

NPI margin flattish at 78%; lower property expenses in 1Q19

1Q19 net property income (NPI) declined 6.2% yoy to RM32.4m, in line with lower revenue. Nevertheless, NPI margin was relatively flattish yoy at 78%, underpinned by lower property expenses (-4% yoy). NPI margin was higher qoq (4Q18 NPI margin: 76%).

Portfolio performance in 1Q19

As at end-1Q19, total market value of all ten property assets stood at RM2.2bn, based on the revaluation as at end-FY18, with total combined net lettable area (NLA) of 2.2m sq ft and a weighted average lease expire (WALE) of 4.84 years. As at end-1Q19, portfolio occupancy rate stood at a lower 89%, compared to 93% as at end-FY18.

New leases at Platinum Sentral

The group has secured new leases for 83% of the non-renewed space in 1Q19. The new leases in Platinum Sentral predominantly occupy part of the space previously tenanted by the Land Public Transport Commission (SPAD). We gathered that SPAD, which previously occupied 64k sq ft of NLA, will eventually take up only one of the three levels. Separately, the group has identified a potential new tenant to replace My High Speed Rail (MyHSR) and will disclose more details post-2Q19 results. MyHSR currently occupies 28k sq ft of space at Platinum Sentral.

Hold maintained with unchanged TP

We make no changes to our FY19-21F EPS and DDM-based TP of RM1.11 (COE: 8.8%, TGR: 1%). Maintain Hold recommendation in view of the limited share price upside but supported by attractive FY19-20F dividend yield of 7.5%. Better rental reversion rates, especially for its KL assets, are a key upside risk to our call. Non-renewal of expiring leases remain a key downside risk.

Analyst(s)

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Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Gross Property Revenue (RMm)	180.1	172.5	180.9	182.7	184.5
Net Property Income (RMm)	140.0	132.8	140.3	141.7	142.4
Net Profit (RMm)	68.45	73.13	88.14	89.45	89.87
Distributable Profit (RMm)	89.61	73.13	88.22	89.52	89.95
DPS (RM)	0.084	0.081	0.082	0.083	0.083
Dividend Yield	7.63%	7.35%	7.48%	7.52%	7.55%
Asset Leverage	37.3%	37.6%	37.6%	37.5%	37.5%
BVPS (RM)	1.30	1.28	1.28	1.28	1.28
P/BV (x)	0.85	0.86	0.86	0.86	0.86
Recurring ROE	6.41%	5.46%	6.42%	6.52%	6.54%
CIMB/consensus DPS (x)			1.06	1.05	1.06

SOURCES: CIMB RESEARCH, COMPANY REPORTS

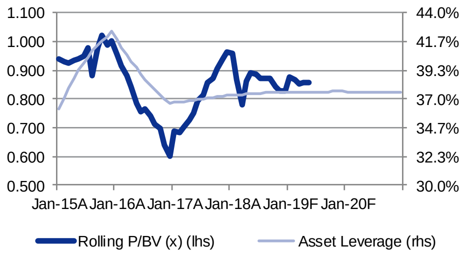
Figure 1: Results comparison

FYE Dec (RM m)	1QFY19	1QFY18	yoy % chg	4QFY19	qoq % chg	Prev FY19F	Comments
Revenue	41.7	44.3	*-5.8*	41.8	*-0.2*	180.9	Lower revenue from Platinum Sentral and Menara Shell
Operating costs	(13.2)	(14.3)	*-7.4*	(13.0)	*2.0*	(55.1)	Also loss of revenue from the disposal of QB8-DHL XPJ
EBITDA	28.5	30.0	*-5.1*	28.8	*-1.2*	125.8	in April
EBITDA margin (%)	***68.2***	***67.7***		***69.0***		***69.5***	
Depn & amort.	(0.0)	(0.0)	*114*	(0.0)	*48.7*	(0.1)	
EBIT	28.4	30.0	*-5.1*	28.8	*-1.3*	125.7	
Interest expense	(9.9)	(9.7)	*1.7*	(10.9)	*-9.5*	(40.6)	Total debt of RM836m as at end-1Q19
Interest & invt inc	0.8	0.7	*13.5*	1.7	*-51.3*	3.0	Total cash and deposits with FIs of RM40m as at end-1Q19
Associates' contrib	0.0	0.0	*nm*	0.0	*nm*	-	None as expected
Exceptionals & revaln	0.0	0.0	*nm*	(5.4)	*nm*	-	
Pretax profit	**19.4**	**21.0**	***-7.6***	**14.2**	***36.9***	**88.1**	
Tax	0.0	0.0	*nm*	(6.1)	*nm*	-	No tax due to REIT structure, ie: more than 90% payout
Tax rate (%)	0.0	0.0	*nm*	43.2	*nm*	-	
Minority interests	0.0	0.0	*nm*	0.0	*nm*	-	None as expected
Net profit	**19.4**	**21.0**	***-7.6***	**8.0**	***141***	**88.1**	
Core net profit	19.4	21.0	*-7.6*	13.5	*44.0*	88.1	1Q19 core net profit made up 23% of our full-year
Distr profit	19.4	22.4	*-13.3*	9.4	*106*	88.2	forecast and 24% of consensus
DPU (sen)	0.0	0.0	*mn*	3.9	*nm*	8.2	

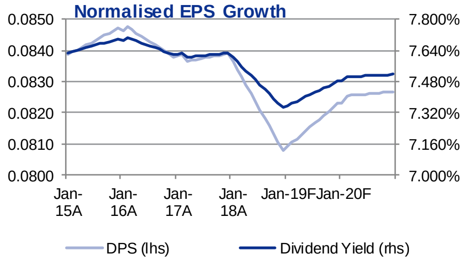
SOURCES: CIMB RESEARCH, COMPANY REPORTS

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	155.1	162.8	163.8	164.7
Other Revenues	18.0	17.4	18.1	18.9	19.8
Gross Property Revenue	**180.1**	**172.5**	**180.9**	**182.7**	**184.5**
Total Property Expenses	(40.2)	(39.7)	(40.6)	(41.0)	(42.0)
Net Property Income	**140.0**	**132.8**	**140.3**	**141.7**	**142.4**
General And Admin. Expenses	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Management Fees	(13.5)	(13.3)	(12.9)	(12.9)	(13.0)
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**	**125.8**	**127.0**	**127.7**
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	**124.9**	**117.8**	**125.7**	**126.9**	**127.6**
Net Interest Income	(36.9)	(36.3)	(37.6)	(37.5)	(37.7)
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**	**88.1**	**89.4**	**89.9**
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**	**88.1**	**89.4**	**89.9**
Distributable Profit	**89.6**	**73.1**	**88.2**	**89.5**	**90.0**

Cash Flow

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Pre-tax Profit	**68.5**	**79.3**	**88.1**	**89.4**	**89.9**
Depreciation And Non-cash Adj.	37.0	36.3	37.6	37.6	37.8
Change In Working Capital	4.0	(11.7)	(0.5)	5.3	(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**	**125.3**	**132.4**	**127.4**
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	3.0	3.1	2.9
Cash Flow From Investing	**1.7**	**32.6**	**3.0**	**3.1**	**1.9**
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)	(88.2)	(88.6)	(89.1)
Cash Interest And Others	(32.4)	(36.3)	(37.6)	(37.5)	(37.7)
Cash Flow From Financing	**(105.3)**	**(122.1)**	**(125.8)**	**(126.1)**	**(126.8)**
Total Cash Generated	25.6	17.7	2.5	9.3	2.5
Free Cashflow To Firm	134.5	144.1	131.4	138.5	132.1
Free Cashflow To Equity	97.0	103.5	90.8	98.0	91.5

SOURCES: 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	67	69	63
Inventories	0	0	0	0	0
Trade Debtors	5	6	5	5	5
Other Current Assets	26	1	8	8	8
Total Current Assets	**107**	**92**	**80**	**82**	**76**
Trade Creditors	20	16	15	20	20
Short-term Debt	117	0	0	0	0
Other Current Liabilities	13	16	16	16	16
Total Current Liabilities	**150**	**32**	**31**	**36**	**36**
Long-term Borrowings	737	854	854	854	854
Other Long-term Liabilities	17	13	13	13	13
Total Non-current Liabilities	754	867	867	867	867
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%)	4.9%	1.0%	1.0%
NPI Growth	30.6%	(5.1%)	5.6%	1.0%	0.5%
Net Property Income Margin	77.7%	77.0%	77.6%	77.5%	77.2%
DPS Growth	0.12%	(3.69%)	1.84%	0.47%	0.48%
Gross Interest Cover	3.08	2.90	3.10	3.13	3.14
Effective Tax Rate	0.00%	7.74%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	131%	100%	100%	100%	100%
Current Ratio	0.71	2.88	2.59	2.24	2.11
Quick Ratio	0.71	2.88	2.59	2.24	2.11
Cash Ratio	0.51	2.68	2.17	1.88	1.75
Return On Average Assets	2.97%	3.21%	3.88%	3.93%	3.95%

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 Sf)	2,255	2,190	2,190	2,190	2,190
Occupancy (%)	96.3%	97.3%	97.3%	97.3%	97.3%
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: CIMB RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

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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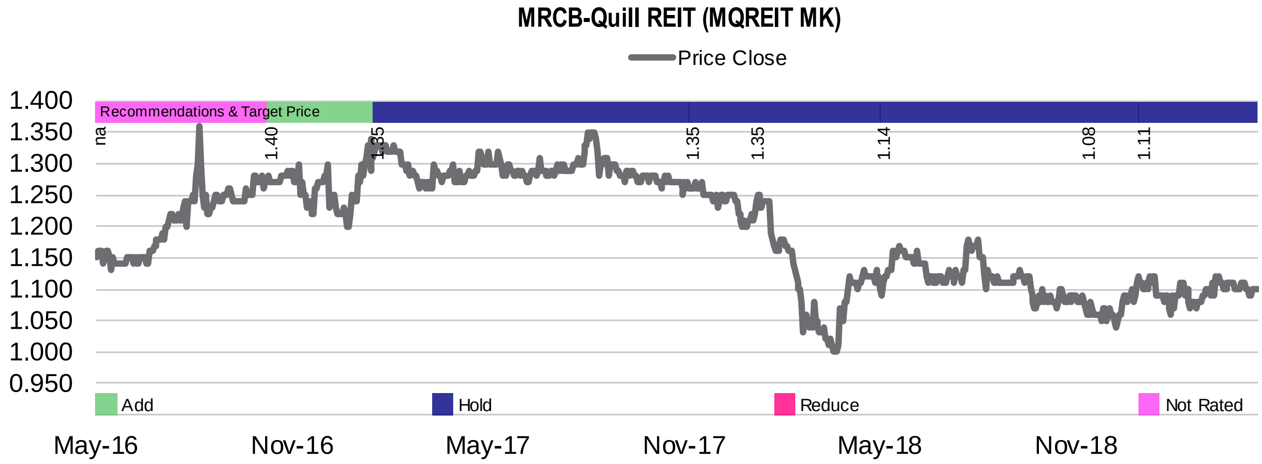
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.8%	4.0%
Hold	27.0%	2.1%
Reduce	15.2%	0.4%

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, **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, **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, **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, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **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, **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, **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, **WORK** – Good, n/a.

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

* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

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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.

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.

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