

Company Note

Malaysia

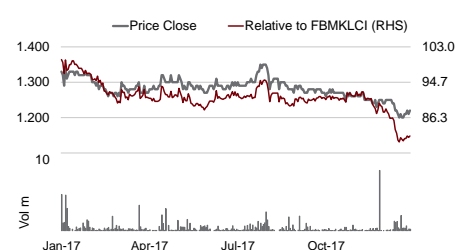
HOLD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 0

Current price:	RM1.22
Target price:	RM1.35
Previous target:	RM1.35
Up/downside:	10.8%
CIMB / Consensus:	-1.6%
Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US\$329.4m
	RM1,303m
Average daily turnover:	US\$0.11m
	RM0.44m
Current shares o/s:	683.6m
Free float:	27.7%
*Source: Bloomberg	

Key changes in this note

No change.

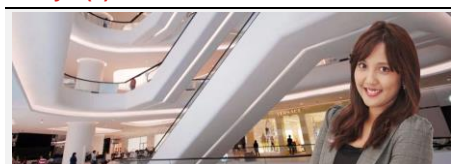


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.4	-3.9	-8.3
Relative (%)	-7.7	-8.8	-18

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

Analyst(s)



Liyana FUAD

T (60) 3 2261 9080

E norliyanaalia.ahmadfuad@cimb.com

MRCB-Quill REIT

Menara Shell oils FY17 earnings

- MRCB-Quill REIT's (MQREIT) FY17 core net profit of RM89.1m met our and Bloomberg consensus expectations.
- FY17 earnings were lifted by additional income from Menara Shell, positive rental reversions at some properties and higher interest income.
- The REIT aims to focus on tenant retention moving forward, especially for its KL assets, and we think this may be at the expense of reversionary rates.
- Maintain a Hold rating and DDM-based TP of RM1.35 as concern over its exposure to office supply glut is offset by its high estimated dividend yields of 6.9-7.1%.

FY17 results met expectations; 4Q17 DPU of 4.16 sen declared

MQREIT recorded 4Q17 revenue/core net profit growth of 18%/26% yoy to RM46m/RM23m. This translated to a cumulative core net profit of RM89m (+40% yoy), forming 100% of both our and Bloomberg consensus full-year expectations. FY17 core net profit excludes a change in fair value of investment properties amounting to RM19m, which mainly came from revaluation losses of Platinum Sentral. FY17 DPU amounted to 8.39 sen (+0.1% yoy), in line with expectations.

FY17 revenue and NPI growth lifted by Menara Shell

FY17 revenue/NPI growth of 33%/32% yoy arose from new contribution from Menara Shell since Dec 16 and positive rental reversions at Quill Buildings 2 and 3 in Cyberjaya as well as Wisma Technip in KL. The new asset led to higher property expenses (+32% yoy), but NPI margins only saw a 0.5%-pt decline to 77.9%. Coupled with higher interest income (+51% yoy) which offset higher interest expense, manager's fee and trustee's fee, MQREIT's FY17 core earnings managed to chalk up a 40% yoy increase.

Focusing on tenant retention, especially for its KL assets

MQREIT chalked up a renewal rate of 80% for the 316k sq ft of net lettable area that was up for renewal in FY17. Rental reversions ranged from flat to low single-digits, in line with our expectation. MQREIT will continue to focus on retaining the current tenants, especially for its KL assets, but we think this could be at the expense of reversionary rates. The REIT's strategy for tenant retention is to offer incentives, i.e.: rent-free periods. The group will also focus on locking in longer tenancy periods, whenever possible.

FY18 expiring leases will mainly come from KL assets

The REIT's lease profile is well spread out (28%, 15% and 17% of its net lettable area due for renewal in 2018F, 2019F and 2020F, respectively). The bulk of leases expiring in 2018F will come from Platinum Sentral. Active negotiations for renewal of certain leases due in FY18 have commenced, with renewals from most tenants that are due in 1Q18. We gather that negotiations for renewals have been tough, especially for its KL offices.

Inorganic growth could be a re-rating catalyst

A potential asset for acquisition is Menara Celcom, Petaling Jaya (from its sponsor, MRCB). We gather from media reports that construction of the building is slated for completion in early-2018. Based on our understanding, MRCB has already inked a build-to-lease agreement of 15 years with Celcom for the property upon completion. Typically, due diligence and feasibility studies prior to an acquisition proposal can take c.9 months; hence, we do not expect it to happen any time before FY19F.

Maintain Hold; DDM-based TP remains at RM1.35

MQREIT is exposed to the office oversupply issue, especially for its KL assets, but we think the group's built-to-suit Cyberjaya assets should still be able to support earnings. Our Hold call is retained and we think estimated dividend yields of 6.9-7.1% should compensate for the stock's exposure to the office oversupply issue. Key upside risk is better rental reversion rates, especially for its KL assets; non-renewal of its expiring leases is a key downside risk.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Property Revenue (RMm)	136.6	181.5	181.5	184.3	186.2
Net Property Income (RMm)	107.2	141.3	141.7	143.4	144.9
Net Profit (RMm)	67.57	69.84	88.82	90.34	91.92
Distributable Profit (RMm)	62.18	92.90	94.16	95.70	97.31
DPS (RM)	0.084	0.084	0.084	0.086	0.087
Dividend Yield	6.87%	6.88%	6.90%	7.01%	7.13%
Asset Leverage	36.6%	37.3%	39.6%	39.5%	39.2%
BVPS (RM)	1.99	1.30	1.28	1.29	1.29
P/BV (x)	0.61	0.94	0.95	0.95	0.95
Recurring ROE	6.18%	6.52%	6.45%	6.59%	6.69%
% Change In DPS Estimates			0%	0%	
CIMB/consensus DPS (x)			1.00	1.01	

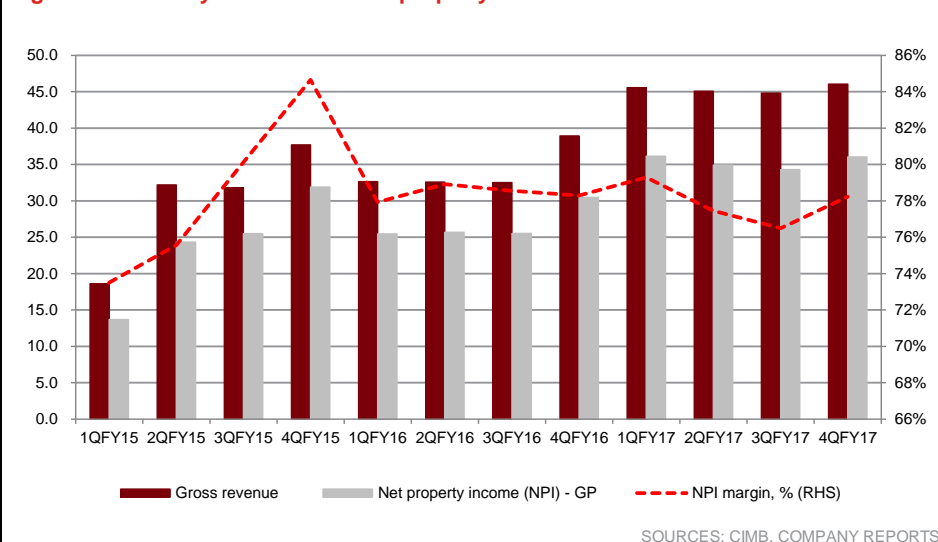
SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	4QFY17	4QFY16	yoy % chg	qoq % chg	4QFY17 cum	4QFY16 cum	yoy % chg	Prev FY17F	Comments
Revenue	46.1	38.9	18.3	2.8	181.5	136.6	32.8	180.1	Revenue improved mainly due to the addition of Menara
Operating costs	(13.9)	(12.7)	9.2	-1.9	(55.5)	(41.8)	32.7	(55.2)	Shell and positive rental reversions at several other properties
EBITDA	32.2	26.2	22.7	4.9	126.0	94.9	32.9	124.9	
EBITDA margin (%)	69.8	67.3			69.4	69.4		69.3	
Depn & amort.	(0.0)	(0.0)	5.9	0.0	(0.1)	(0.1)	19.4	(0.1)	
EBIT	32.1	26.2	22.7	4.9	126.0	94.8	32.9	124.8	
Interest expense	(11.0)	(9.1)	20.8	10.4	(40.5)	(33.0)	22.6	(41.4)	Total debt of RM854m as at end-4Q17
Interest & invt inc	1.7	1.1	52.9	133	3.6	2.4	50.6	5.0	Total cash and deposits with FIs of RM76m as at end-4Q17
Associates' contrib	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Exceptionals & revaln	(19.6)	(1.3)	1,385	nm	(19.1)	(1.4)	0.0	0.0	Increase in invmt. prop. & unbilled lease income receivable
Pretax profit	3.3	16.9	-80.4	-84.5	69.9	62.8	11.4	88.4	
Tax	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	No tax due to REIT structure, ie: more than 90% payout
Tax rate (%)	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	-
Minority interests	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Net profit	3.3	16.9	-80.4	-84.5	69.9	62.8	11.4	88.4	Refers to realised income after taxation
Core net profit	22.9	18.2	25.5	6.8	89.1	64.1	38.8	88.4	In line with estimates
Distr profit	23.7	28.9	-17.9	nm	93.9	67.1	39.9	93.8	After accounting for distribution adjustments
DPU (sen)	4.2	4.2	0.2	nm	8.4	8.4	0.1	8.4	In line with estimates

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Quarterly revenue and net property income



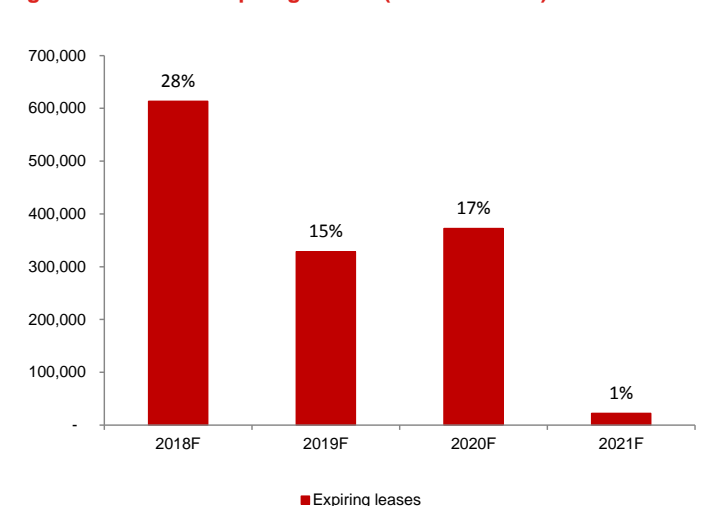
SOURCES: CIMB, COMPANY REPORTS

Figure 3: Portfolio Net Lettable Area contribution as at 4Q17

sq. ft.	as-at 4Q17	% NLA contribution
Quill Building 1 - DHL1	92,284	4%
Quill Building 4 - DHL 2	99,183	4%
Quill Building 2 - HSBC	184,453	8%
Quill Building 3 - BMW	117,198	5%
Wisma Technip	233,021	10%
Part of Plaza Mont Kiara (retail)	73,408	3%
Quill Building 5 - IBM	81,602	4%
Quill Building 8 - DHL XPJ	65,205	3%
Tesco Building, Penang	275,020	12%
Platinum Sentral	476,370	21%
Menara Shell	557,053	25%
Portfolio	2,254,797	100%

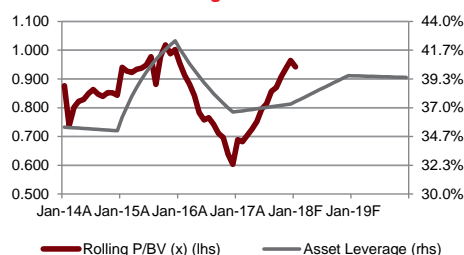
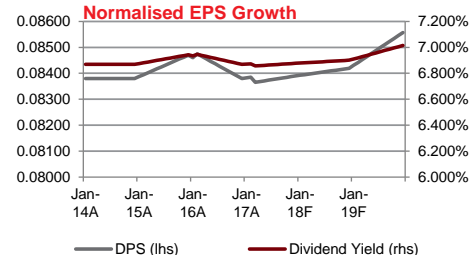
SOURCE: CIMB RESEARCH, COMPANY

Figure 4: Profile of expiring leases (as a % of NLA)



SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS

P/BV vs Asset Leverage

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


Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Rental Revenues	115.9	180.1	164.2	166.2	167.4
Other Revenues	20.7	1.4	17.3	18.1	18.9
Gross Property Revenue	136.6	181.5	181.5	184.3	186.2
Total Property Expenses	(29.5)	(40.2)	(39.7)	(40.9)	(41.4)
Net Property Income	107.2	141.3	141.7	143.4	144.9
General And Admin. Expenses	(1.7)	(0.3)	(2.0)	(2.2)	(2.5)
Management Fees	(9.7)	(13.5)	(13.2)	(13.3)	(13.3)
Trustee's Fees	(0.5)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.6)	(0.4)	(0.6)	(0.6)	(0.6)
EBITDA	94.7	126.4	125.3	126.6	127.8
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	94.7	126.3	125.2	126.6	127.8
Net Interest Income	(30.7)	(36.9)	(36.4)	(36.2)	(35.9)
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	3.5	(19.6)	0.0	0.0	0.0
Pre-tax Profit	67.6	69.8	88.8	90.3	91.9
Taxation	0.0	0.0	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	67.6	69.8	88.8	90.3	91.9
Distributable Profit	62.2	92.9	94.2	95.7	97.3

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Pre-tax Profit	67.6	69.8	88.8	90.3	91.9
Depreciation And Non-cash Adj.	30.7	37.0	36.4	36.3	35.9
Change In Working Capital	15.1	4.0	7.5	4.0	8.9
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	(3.5)	18.3	0.0	0.0	0.0
Cashflow From Operations	109.8	129.1	132.7	130.7	136.7
Capex	(647.4)	(0.4)	(5.0)	(5.0)	(5.0)
Net Investments And Sale Of FA	1.5	0.0	5.0	5.0	5.0
Other Investing Cashflow	1.6	2.2	5.3	5.5	5.8
Cash Flow From Investing	(644.2)	1.8	5.3	5.5	5.8
Debt Raised/(repaid)	164.0	90.0	0.0	0.0	0.0
Equity Raised/(Repaid)	487.9	0.0	0.0	0.0	0.0
Dividends Paid	(56.9)	(72.6)	(89.9)	(91.4)	(92.9)
Cash Interest And Others	(30.7)	(122.6)	(36.4)	(36.2)	(35.9)
Cash Flow From Financing	564.4	(105.3)	(126.3)	(127.6)	(128.8)
Total Cash Generated	30.0	25.6	11.8	8.5	13.7
Free Cashflow To Firm	(532.0)	134.5	143.4	141.6	148.4
Free Cashflow To Equity	(401.1)	187.3	101.7	99.9	106.7

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Investments	2,240	2,179	2,234	2,239	2,244
Intangible Assets	0	0	0	0	0
Other Long-term Assets	3	27	0	0	0
Total Non-current Assets	2,243	2,206	2,234	2,239	2,244
Total Cash And Equivalents	54	76	119	122	131
Inventories	0	0	0	0	0
Trade Debtors	18	5	24	25	25
Other Current Assets	1	1	0	0	0
Total Current Assets	72	82	143	147	156
Trade Creditors	7	5	7	7	7
Short-term Debt	186	117	189	189	189
Other Current Liabilities	77	20	38	43	52
Total Current Liabilities	271	143	235	239	248
Long-term Borrowings	662	737	752	752	752
Other Long-term Liabilities	23	24	22	22	22
Total Non-current Liabilities	685	761	774	774	774
Shareholders' Equity	1,360	1,385	1,368	1,372	1,377
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	1,360	1,385	1,368	1,372	1,377

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Property Revenue Growth	18.6%	32.8%	(0.0%)	1.6%	1.1%
NPI Growth	18.7%	31.9%	0.3%	1.2%	1.1%
Net Property Income Margin	78.4%	77.9%	78.1%	77.8%	77.8%
DPS Growth	(1.06%)	0.12%	0.35%	1.64%	1.68%
Gross Interest Cover	2.87	3.12	3.00	3.03	3.06
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	82%	128%	106%	106%	106%
Current Ratio	0.27	0.58	0.61	0.61	0.63
Quick Ratio	0.27	0.58	0.61	0.61	0.63
Cash Ratio	0.20	0.53	0.51	0.51	0.53
Return On Average Assets	3.43%	3.03%	3.81%	3.79%	3.84%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
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)	1,699	2,255	2,255	2,255	2,255
Occupancy (%)	97.7%	96.3%	97.8%	97.6%	97.6%
Assets Under Management (m) (RM)	2,222.0	2,222.0	2,233.9	2,238.9	2,243.9
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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1235 companies under coverage for quarter ended on 31 December 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

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 2017, Anti-Corruption 2017

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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:

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