

Malaysia

HOLD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 0

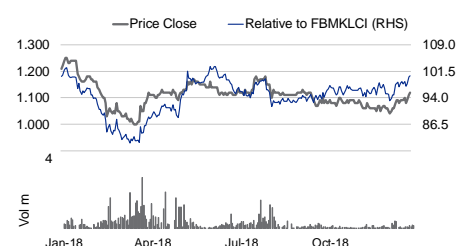
Current price:	RM1.12
Target price:	RM1.11
Previous target:	RM1.08
Up/downside:	-0.4%
CGS-CIMB / Consensus:	-7.3%

Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US\$291.8m
	RM1,200m
Average daily turnover:	US\$0.02m
	RM0.07m
Current shares o/s:	1,068m
Free float:	27.7%

*Source: Bloomberg

Key changes in this note

- FY18F DPU cut by 2.4%.
- FY19F DPU cut by 2.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.7	3.7	-8.2
Relative (%)	2.2	7	-0.2

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

MRCB-Quill REIT

Dividend yield of 7.4% is its main appeal

- FY18 results were broadly in line at 96-97% of our and consensus forecasts.
- Core net profit declined 5% yoy due to lower contribution from selected assets and revenue loss from asset disposal.
- Hold maintained with a higher TP, supported by 7.4% dividend yield.

FY18 results broadly in line

MQREIT's FY18 core net profit (excluding asset revaluation loss of RM5.4m and gain on asset disposal of RM2.2m) made up 96% of our full-year forecast and 97% of consensus. We deem the results as broadly in line. Revenue declined 4.6% yoy due to lower contribution from Platinum Sentral and Menara Shell, and loss of revenue from the disposal of Quill Building 8 (QB8). The overall FY18 EBITDA margin improved marginally to 69.9% due to lower property expenses. Overall core net profit contracted 5% yoy. In 4Q18, the group declared a final DPU of 1.7 sen (4Q17: 2 sen), bringing the total full-year DPU to 8.1 sen vs. our slightly higher full-year forecast of 8.4 sen.

Asset revaluation as at end-2018

For FY18, the group booked in a net revaluation loss of RM5.4m across 10 of its investment assets, mainly for Quill Building 3-BMW, Wisma Technip, Quill Building 5-IBM and Platinum Sentral. Total revalued investment properties stood at RM2.2bn (net of accrued rental income), representing a decline of 1.1%. FY18 total group NLA of 2.2m sq ft generated an average portfolio occupancy rate of 93%. As at end-FY18, 45% of MQREIT's tenant mix were government-linked companies (GLCs) and various oil and gas players.

FY18 NPI slipped 6%; NPI margin of 77%

There were no major surprises in FY18's overall operating indicators. Net property income (NPI) declined 6% yoy to RM133m but the NPI margin of 77% was slightly lower than FY17's 78%, supported by lower property expenses for FY18.

75% rental renewal rate for 2018

As at end-FY18, MQREIT booked in a 75% renewal rate (3Q18: 71%) for the 25% of total group NLA (c.600k sq ft) that was due for renewal in 2018. In terms of lease expiry profile, 19% of total NLA will be due for renewal in FY19F and 18% in FY20F. The bulk of the renewals hinges on negotiations with two key tenants at Platinum Sentral, i.e. MyHSR (extended lease with a two-month rolling review) and the Land Public Transport Commission (SPAD), which is due to hand over levels 3, 4 and 5 in Mar 2019.

Hold maintained with higher TP

We cut FY19-20F EPS and DPU by 2.4% due to housekeeping and introduce FY21F numbers. Our DDM-based TP is raised slightly to RM1.11, pegged to a lower COE of 8.8% (9.2% previously) due to a lower adjusted beta and TGR of 1%. Hold retained due to limited share price upside but supported by FY19-21F dividend yields of 7.4%. Better rental reversion rates, especially for its KL assets, are a key upside risk to our call. Non-renewal of expiring leases remains 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	7.49%	7.21%	7.35%	7.38%	7.42%
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)	0.86	0.87	0.87	0.87	0.87
Recurring ROE	6.41%	5.46%	6.42%	6.52%	6.54%
% Change In DPS Estimates			(2.42%)	(2.39%)	
CIMB/consensus DPS (x)			0.99	0.98	

SOURCES: CIMB RESEARCH, COMPANY REPORTS

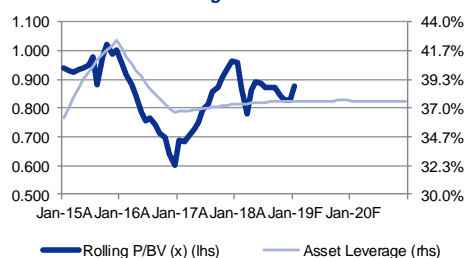
Figure 1: Results comparison

FYE Dec (RM m)	4QFY18	4QFY17	yoy % chg	3QFY18	qoq % chg	4QFY18 cum	4QFY17 cum	yoy % chg	Prev FY18F	Comments
Revenue	41.8	46.1	-9.2	43.6	-4.1	173.1	181.5	-4.6	177.7	Lower revenue from Platinum Sentral and Menara Shell
Operating costs	(13.0)	(15.4)	-15.5	(13.9)	-6.9	(52.1)	(55.4)	-5.9	(53.7)	Also loss of revenue from the disposal of QB8-DHL XPJ
EBITDA	28.8	30.7	-6.1	29.7	-2.8	121.0	126.1	-4.0	124.0	in April
EBITDA margin (%)	69.0	66.6		68.0		69.9	69.5		69.8	
Depn & amort.	(0.0)	(0.0)	42.5	(0.0)	38.5	(0.1)	(0.1)	10.5	(0.1)	
EBIT	28.8	30.7	-6.1	29.6	-2.8	121.0	126.0	-4.0	123.9	
Interest expense	(10.9)	(11.0)	-0.9	(10.1)	8.2	(40.6)	(40.5)	0.2	(37.4)	Total debt of RM854m as at end-4Q18
Interest & invt inc	1.7	1.7	-2.4	1.0	66.4	4.3	3.6	20.5	1.7	Total cash and deposits with FIs of RM85.7m as at end-3Q18
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Exceptionals & revaln	(5.4)	(18.1)	-70.0	0.0	nm	(5.4)	(19.2)	nm	-	
Pretax profit	14.2	3.3	327	20.6	-31.1	79.3	69.9	13.4	88.2	
Tax	(6.1)	0.0	nm	0.0	nm	0.0	0.0	nm	-	No tax due to REIT structure, ie: more than 90% payout
Tax rate (%)	43.2	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Net profit	8.0	3.3	142	20.6	-60.9	79.3	69.9	13.4	88.2	
Core net profit	13.5	21.4	-37.1	20.6	-34.5	84.7	89.1	-5.0	88.2	FY18 core net profit made up 96% of our full-year
Distr profit	9.4	28.9	-67.4	20.6	-54.2	75.9	94.0	-19.2	88.3	forecast and 97% of consensus
DPU (sen)	3.9	4.2	-7.5	0.0	nm	8.1	8.4	(3.7)	8.4	

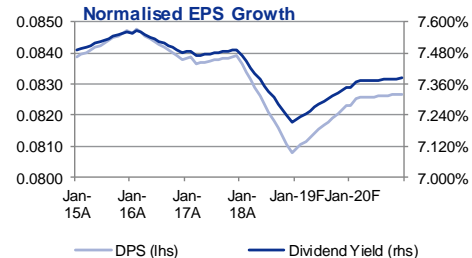
SOURCES: CIMB RESEARCH, COMPANY REPORTS

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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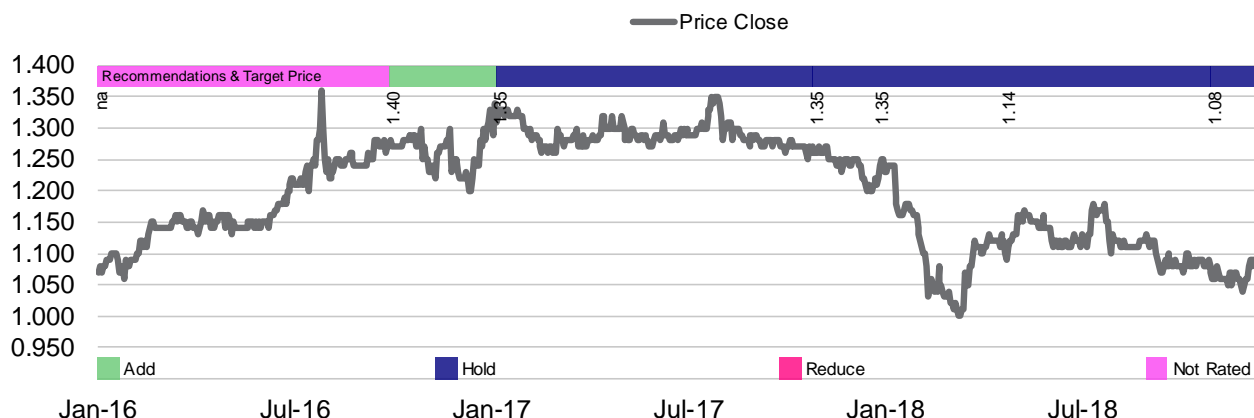
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2018		
758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

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 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, **KTG** – 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, **TIPIPP** – 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 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.

Recommendation Framework

Stock Ratings

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.

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