## 1 Q15 Results

Results

## Dividends

Highlights

## Risks

## Forecasts

Rating

## Valuation

- In-line. assets.
- 1QFY15 gross revenue of RM18.6m (+8.3\% yoy, 2.3\% qoq) was translated into normalised net profit of RM8.3m (+1.4\% yoy), accounting for $16.0 \%$ and $16.5 \%$ of HLIB and consensus FY forecasts, respectively.
- We deemed this as in-line as we expect full contribution from newly-acquired Platinum Sentral to kick in from second quarter onwards.
- None (1Q14 : None).
- Dividends normally declared semi-annually - during second and fourth quarter.
- During the quarter, gross revenue increase by $+8.3 \%$ yoy on the back of higher rental rates and recoveries. Operating expenses also increase by $+18.2 \%$ yoy due to higher repair and maintenance cost and also recognition of property expenses for Plaza Mont' Kiara upon its expiry of master lease agreement in Sept 2014.
- Both NPI margin and occupancy level remain healthy (Figure \#4 and Figure \#5 respectively).
- Acquisition of Platinum Sentral has been completed on 30 March and two days revenue contribution has been recognised during the quarter. Post-acquisition, 47\% of properties are now concentrated in KL Sentral area (Figure \#6) and GLCs have emerged as a substantial tenant of the portfolio (Figure \#7).
- As at 31 March 2015, fixed and floating borrowing was at 62:38. However, on 21 April 2015, management has entered into interest rate swap to convert its floating interest rate to become fully fixed interest rate.
- We understand that there are few assets held by sponsors which are ready to be evaluated for injection purpose, such as Shell Tower \& Ascott Residence, Quill Building 6, Quill Building 9 and Quill Building 18.
- Management continuity following the entry of MRCB.
- Slow rental reversion rate.
- Unchanged.


## BUY $\leftrightarrow$, TP: RM1.34 $\leftrightarrow$

- Positives: (1) higher possibility of asset injections from MRCB and EPF, following the injection of Platinum Sentral, resulting in MRCB taking control of QCM and major unitholder of QCT; (2) Resilient earnings growth with undemanding valuations - 8.6\% DY (FY15E).
- Negatives: (1) Small asset base; (2) illiquid; (3) lack of retail
- Maintain BUY recommendation on the equity and unchanged TP of RM1.34.
- Our valuation was pegged to targeted yield of $6.9 \%$ based on 2SD below historical average yield spread of MRCB-Quill REIT and 7 -year government bond in view of high potential for yield accretive injection(s).


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| KLCI | 1810.1 |
| :--- | ---: |
| Expected share price return | $15.5 \%$ |
| Expected dividend return | $7.4 \%$ |
| Expected total return | $22.9 \%$ |

## Share price



## Information

| Bloomberg Ticker |  | QUIL MK |
| :--- | ---: | ---: |
| Bursa Code | 5123 |  |
| Issued Shares (m) |  | 661 |
| Market cap (RM m) |  | 767 |
| 3-mth avg. volume ('000) |  | 159 |
| SC Shariah-compliant |  |  |
|  | No |  |
| Price Performance | 1 M | 3 M |
| Absolute | 12 M |  |
| Relative | -3.3 | -5.7 |

## Major Shareholders

| MRCB | $31.2 \%$ |
| :--- | :--- |
| Quill Group | $17.7 \%$ |

## Summary Earnings Table

| FYE Dec (RMm) | 2014A | 2015E | 2016E | 2017E |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Revenue | 70.2 | 128.3 | 133.0 | 137.9 |
| NPI | 53.2 | 100.4 | 104.1 | 107.9 |
| Net invest income | 56.1 | 101.0 | 105.6 | 109.3 |
| PAT | 36.6 | 56.9 | 61.2 | 64.5 |
| EPU (sen) | 10.3 | 8.6 | 9.2 | 9.8 |
| Norm. PER (x) | 11.2 | 13.5 | 12.5 | 11.9 |
| FD PER (x) | 11.2 | 13.5 | 12.5 | 11.9 |
| EV/ EBITDA (x) | 28.0 | 63.5 | 53.5 | 47.6 |
| Net DPU (sen) | 8.4 | 8.6 | 9.2 | 9.8 |
| Distb. yield (\%) | 7.2 | 7.4 | 8.0 | 8.4 |
| BVPS (RM) | 1.4 | 1.3 | 1.3 | 1.3 |
| P/B (x) | 0.8 | 0.9 | 0.9 | 0.9 |
| HLIB |  |  |  |  |

HLIB

Figure \#1 Quarterly Results Comparison

| FYE Dec (RMm) | 1Q14 | 4Q14 | 1Q15 | YoY (\%) | Q0Q (\%) | Comments |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Gross revenue | 17.18 | 18.18 | 18.61 | 8.29 | 2.34 | Higher revenue from: (i) higher rental rates; (ii) higher revenue from <br> Plaza Mont' Kiara; and (iii) higher recoveries of some properties. |
| Property operating | $(4.17)$ | $(4.77)$ | $(4.93)$ | 18.16 | 3.36 | Higher repair and maintenance cost and expenses related to Plaza <br> Mont' Kiara. <br> expenses |
| Net property income | 13.01 | 13.41 | 13.68 | 5.12 | 1.98 |  |
| Interest income | 0.11 | 0.10 | 0.13 | 10.94 | 28.28 | Higher cash balance in the current quarter. |
| Net investment income | 13.13 | 19.63 | 13.81 | 5.17 | $(29.68)$ |  |
| Finance costs | $(3.43)$ | $(3.45)$ | $(3.54)$ | 3.12 | 2.45 | Additional borrowings drawdown during the quarter. |
| Valuation fees | $(0.05)$ | $(0.05)$ | $(0.05)$ | $(0.00)$ | $(0.01)$ |  |
| Administrative expenses | $(0.14)$ | $(0.08)$ | $(0.19)$ | 37.56 | 155.22 | AGM conducted in the current quarter. |
| Total Expenses | $(4.96)$ | $(5.01)$ | $(5.53)$ | 11.33 | 10.22 |  |
| Normalised PBT | 8.16 | 8.50 | 8.28 | 1.43 | $(2.58)$ |  |
| Normalised PAT | 8.16 | 8.50 | 8.28 | 1.43 | $(2.58)$ |  |
| EPU after mgmt fee | 2.09 | 2.18 | 2.09 | 0.00 | $(4.13)$ |  |
| DPU (sen) | 0.00 | 4.28 | 0.00 | NM | NM |  |
| Company Data |  |  |  |  |  |  |

Figure \#2 1Q15 Results vs. HLIB's Estimates and Consensus

|  | Actual 1Q15 | HLIB FY15 | Actual vs. HLIB (\%) | Consensus FY15 | Actual vs. Consensus (\%) | Comments |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenue | 18.6 | 116.1 | 16.0 | 113.0 | 16.5 | In-line |
| Normalised PAT | 8.3 | 56.9 | 14.5 | 53.1 | 15.6 | In-line |
| EPU (sen) | 2.1 | 8.6 | 24.3 | 8.7 | 24.0 | In-line |
| DPU (sen) | 0.0 | 8.6 | 0.0 | 8.5 | 0.0 | NM |

Company Data, HLIB, Bloomberg
Figure \#3 HLIB Forecasts vs. Consensus

| RMm | FY16E |  | FY17E |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | HLIB | Consensus | $\%$ | HLIB | Consensus | $\%$ |
| Normalised PAT | 61.2 | 57.6 | 6.2 | 64.5 | 59.3 | 8.9 |
| DPU (sen) | 9.2 | 8.8 | 5.1 | 9.8 | 9.0 | 8.4 |
| HIB, Bloomberg |  |  |  |  |  |  |

HLIB, Bloomberg

Figure \#4 Gross Revenue \& NPI Margin


HLIB, Bloomberg

Figure \#5 Total Asset Value \& Oc cupancy


HLIB, Bloomberg
Figure \#6 Geographical Diversification

## Before acquisition



Post acquisition


Company Data, HLIB
Figure \#7 Tenancy Mix


Figure \#8 Peers Comparison

| Company | FYE | $\begin{gathered} \text { Price @ } 20 \text { May } \\ 2015 \end{gathered}$ | Market Cap (m) | P/E (x) |  | P/B (x) |  | $\begin{gathered} \text { Gross DY (\%) } \\ 2014 \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | 2014 | 2015 | 2014 | 2015 |  |
| Amanah Harta Tanah PNB | Dec | MYR 1.07 | 107.0 | NA | NA | NA | NA | NA |
| Al-'Aqar Healthcare REIT | Dec | MYR 1.33 | 926.0 | 14.9 | 14.8 | 1.1 | 1.1 | 6.3 |
| AmFIRST Real Estate Investment Trust | Mar | MYR 0.95 | 648.6 | 11.8 | 10.5 | 0.8 | 0.8 | 7.4 |
| Amanahraya Real Estate Investment Trust | Dec | MYR 0.93 | 530.2 | 11.6 | 11.6 | 0.9 | 0.9 | 8.6 |
| Atrium Real Estate Investment Trust | Dec | MYR 1.16 | 141.3 | 11.6 | 11.6 | 0.9 | 0.9 | 8.6 |
| Axis Real Estate Investment Trust | Dec | MYR 3.51 | 1,922.6 | 17.5 | 17.0 | 1.5 | 1.5 | 5.5 |
| CapitaMalls Malaysia Trust | Dec | MYR 1.46 | 2,597.3 | 16.4 | 15.2 | 1.1 | 1.1 | 6.0 |
| Hektar Real Estate Investment Trust | Dec | MYR 1.54 | 617.0 | 12.8 | 12.8 | 1.0 | 1.0 | 7.1 |
| IGB Real Estate Investment Trust | Dec | MYR 1.35 | 4,670.1 | 19.0 | 18.2 | 1.3 | 1.2 | 5.7 |
| KLCCP Stapled Group | Dec | MYR 7.28 | 13,142.8 | 18.8 | 18.1 | 1.4 | 1.4 | 4.8 |
| Pavilion Real Estate Investment Trust | Dec | MYR 1.55 | 4,674.7 | 19.6 | 18.9 | 1.3 | 1.3 | 5.2 |
| MRCB-Quill REIT | Dec | MYR 1.16 | 767.2 | 13.3 | 12.2 | 0.8 | 0.9 | 7.3 |
| YTL Hospitality REIT | Jun | MYR 1.05 | 1,390.6 | 11.7 | 11.7 | 0.8 | 0.7 | 8.6 |
| Sunway Real Estate Investment Trust | Jun | MYR 1.69 | 4,961.1 | 19.9 | 17.2 | 1.3 | 1.3 | 5.0 |
| Tower Real Estate Investment Trust | Dec | MYR 1.27 | 356.2 | 10.6 | 10.6 | 0.7 | 0.7 | 9.4 |
| UOA Real Estate Investment Trust | Dec | MYR 1.60 | 676.6 | 13.3 | 13.3 | 1.1 | 1.1 | 7.5 |
| Average |  |  |  | 14.9 | 14.9 | 1.1 | 1.1 | 6.9 |

HLIB, Bloomberg
Figure \#9 MRCB - Quill yield vs. 7 year MGS yield


[^0]MRCB - Quill REIT (BUY, TP: RM1.34, CP: RM1.16)

Income Statement

| FYE Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Gross rental income | 57.4 | 59.3 | 116.1 | 120.4 | 124.9 |
| Car park income | 3.5 | 5.2 | 3.7 | 3.9 | 4.0 |
| Other revenue | 8.0 | 5.7 | 8.5 | 8.8 | 9.0 |
| Total Revenue | 68.9 | 70.2 | 128.3 | 133.0 | 137.9 |
| Assessment \& quit rent | $(2.8)$ | $(2.8)$ | $(5.8)$ | $(6.0)$ | $(6.3)$ |
| Depreciation | $(0.0)$ | 0.0 | $(0.0)$ | $(0.0)$ | $(0.0)$ |
| Insurance | $(0.4)$ | $(0.4)$ | $(0.8)$ | $(0.8)$ | $(0.9)$ |
| Property management fees | $(2.0)$ | $(2.0)$ | $(3.9)$ | $(4.0)$ | $(4.1)$ |
| Service contracs | $(4.1)$ | $(4.7)$ | $(7.0)$ | $(7.2)$ | $(7.5)$ |
| Utilities | $(6.5)$ | $(7.0)$ | $(10.4)$ | $(10.8)$ | $(11.2)$ |
| Total Opex | $(15.7)$ | $(16.9)$ | $(27.9)$ | $(28.9)$ | $(30.0)$ |
| Net property income | 53.2 | 53.3 | 100.4 | 104.1 | 107.9 |
| Net investment income | 56.1 | 60.2 | 101.0 | 105.6 | 109.3 |
| Pretax profit | 36.6 | 34.2 | 56.9 | 61.2 | 64.5 |
| Taxation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 36.6 | 34.2 | 56.9 | 61.2 | 64.5 |
| No of units (m) | 390.1 | 390.1 | 661.4 | 661.4 | 661.4 |
| EPU (sen) | 9.4 | 8.8 | 8.6 | 9.2 | 9.8 |

Cash Flows

| FYE Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
| :--- | ---: | ---: | ---: | ---: | ---: |
| PBT | 40.1 | 40.3 | 56.9 | 61.2 | 64.5 |
| Finance costs | 13.9 | $(14.1)$ | 0.0 | 0.0 | 0.0 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value gain of assets | $(5.6)$ | $(6.1)$ | 0.0 | 0.0 | 0.0 |
| Interest income | $(0.7)$ | $(0.7)$ | 0.0 | 0.0 | 0.0 |
| Others | $(20.2)$ | 11.7 | 9.9 | 0.6 | 0.6 |
| Operating cashflow | 27.5 | 31.1 | 66.8 | 61.8 | 65.2 |
|  |  |  |  |  |  |
| Capex | $(0.0)$ | $(6.0)$ | $(740.0)$ | $(2.0)$ | $(2.0)$ |
| Disposal / (purchase) | $(0.0)$ | $(16.7)$ | $(0.0)$ | $(0.0)$ | $(0.0)$ |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cashflow | $(0.0)$ | $(5.3)$ | $(740.0)$ | $(2.0)$ | $(2.0)$ |
|  |  |  |  |  |  |
| Distribution paid | $(32.8)$ | $(32.7)$ | $(56.9)$ | $(61.2)$ | $(64.5)$ |
| Proceeds from borrowings | 0.0 | 15.0 | 430.0 | 0.0 | 0.0 |
| Repayment of borrowings | 0.0 | $(15.0)$ | 0.0 | 0.0 | 0.0 |
| Financing cashflow | 0.0 | 0.0 | 342.0 | 0.0 | 0.0 |
| Net cash flow | $(32.8)$ | $(46.7)$ | 715.1 | $(61.2)$ | $(64.5)$ |

## Balance Sheet

| FYE Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
| :--- | ---: | ---: | ---: | ---: | ---: |
| PPE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment properties | 820.5 | 837.7 | $1,577.7$ | $1,579.7$ | $1,581.7$ |
| Derivatives | 0.0 | 1.2 | 1.2 | 1.2 | 1.2 |
| Non-current assets | 820.5 | 838.9 | $1,579.0$ | $1,581.0$ | $1,583.0$ |
| Trade receivables | 8.9 | 6.1 | 5.1 | 5.3 | 5.5 |
| Cash | 30.5 | 8.4 | 65.2 | 63.8 | 62.4 |
| Total Current Assets | 39.7 | 29.4 | 70.3 | 69.1 | 67.9 |
| Total assets | 860.2 | 868.4 | $1,649.3$ | $1,650.0$ | $1,650.9$ |
| Unitholders' capital | 411.7 | 411.7 | 753.7 | 753.7 | 753.7 |
| Undistributed profit | 117.1 | 129.5 | 129.5 | 129.5 | 129.5 |
| Total Equity | 528.8 | 541.3 | 883.3 | 883.3 | 883.3 |
| Borrowings | 305.5 | 305.1 | 735.1 | 735.1 | 735.1 |
| Security Deposits | 14.5 | 7.5 | 9.8 | 9.8 | 9.8 |
| Derivatives | 0.0 | 305.1 | 0.0 | 0.0 | 0.0 |
| Trade payables | 11.3 | 12.2 | 21.1 | 21.9 | 22.7 |
| Total liabilities | 331.4 | 327.1 | 766.0 | 766.8 | 767.6 |
| Total liabilities \& equity | 860.2 | 868.4 | $\mathbf{1 , 6 4 9 . 3}$ | $1,650.0$ | $1,650.9$ |

Valuation Ratios

| FYE Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
| :--- | ---: | ---: | ---: | ---: | ---: |
| EPU before mgr's fee | 10.8 | 11.7 | 10.0 | 10.7 | 11.2 |
| EPU after mgr's fee | 9.4 | 10.3 | 8.6 | 9.2 | 9.8 |
| PER (x) | 12.3 | 11.2 | 13.5 | 12.5 | 11.9 |
| No of units | 390.1 | 390.1 | 661.4 | 661.4 | 661.4 |
| Net DPU | 8.4 | 8.4 | 8.6 | 9.2 | 9.8 |
| Net DY (\%) | 7.2 | 7.2 | 7.4 | 8.0 | 8.4 |
| NTA/ share (sen) | 136.0 | 137.7 | 132.8 | 132.6 | 132.5 |
| P/NTA (x) | 0.9 | 0.8 | 0.9 | 0.9 | 0.9 |
| FCF/ share (sen) | 18.4 | 17.9 | 13.9 | 18.9 | 19.9 |
| FCF yield (\%) | 15.9 | 15.4 | 12.0 | 16.3 | 17.2 |
| Enterprise value | 726.5 | 734.4 | $1,437.1$ | $1,438.6$ | $1,439.9$ |
| EV/ EBITDA (x) | 31.6 | 28.0 | 63.5 | 53.5 | 47.6 |
| ROE (\%) | 6.9 | 7.4 | 6.4 | 6.9 | 7.3 |
| Net gearing (x) | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Total gearing (x) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| BVPS (RM) | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| P/B (x) | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |

Assumption metrics

| Gross Rental Income | 2015E | 2016E | 2017E |
| :--- | ---: | ---: | ---: |
| Quill Building 1 - DHL 1 | 4.7 | 4.8 | 4.9 |
| Quill Building 4 - DHL 2 | 5.0 | 5.1 | 5.3 |
| Quill Building 2 - HSBC | 9.3 | 9.5 | 9.8 |
| Quill Building 3 - BMW | 4.8 | 5.0 | 5.1 |
| Wisma Technip | 11.8 | 12.0 | 12.3 |
| Part of Plaza Mont' Kiara | 3.7 | 3.8 | 3.9 |
| Quill Building 5 - IBM | 3.7 | 3.8 | 3.9 |
| Quill Building 6 - DHL XPJ | 3.0 | 3.1 | 3.2 |
| Quill Building 10 - Section 13 | 0.0 | 0.0 | 0.0 |
| Tesco Building - Penang | 13.9 | 14.2 | 14.6 |
| Platinum Sentral | 56.2 | 59.0 | 62.0 |
|  |  |  |  |
| Total | 116.1 | 120.4 | 124.9 |

## Quarterly Financial Summary

| FYE Dec (RM m) | 1Q14 | 4Q14 | 1Q15 | YoY (\%) | QoQ (\%) |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Gross revenue | 17.18 | 18.18 | 18.61 | 8.29 | 2.34 |
| Property operating expenses | $(4.17)$ | $(4.77)$ | $(4.93)$ | 18.16 | 3.36 |
| Net property income | 13.01 | 13.41 | 13.68 | 5.12 | 1.98 |
| Interest income | 0.11 | 0.10 | 0.13 | 10.94 | 28.28 |
| Revaluation gains | 0.00 | 6.12 | 0.00 | NM | NM |
| Net investment income | 13.13 | 19.63 | 13.81 | 5.17 | $(29.68)$ |
| Finance costs | $(3.43)$ | $(3.45)$ | $(3.54)$ | 3.12 | 2.45 |
| Valuation fees | $(0.05)$ | $(0.05)$ | $(0.05)$ | $(0.00)$ | $(0.01)$ |
| Administrative expenses | $(0.14)$ | $(0.08)$ | $(0.19)$ | 37.56 | 155.22 |
| Total Expenses | $(4.96)$ | $(5.01)$ | $(5.53)$ | 11.33 | 10.22 |
| Normalised PBT | 8.16 | 8.50 | 8.28 | 1.43 | $(2.58)$ |
| Normalised PAT | 8.16 | 8.50 | 8.28 | 1.43 | $(2.58)$ |
| EPU after mgmt fee | 2.09 | 2.18 | 2.09 | 0.00 | $(4.13)$ |
| DPU (sen) | 0.00 | 4.28 | 0.00 | NM | NM |

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2. As of 21 May 2015, the analyst, Abdul Hadi Manaf who prepared this report, has interest in the following securities covered in this report:
(a) -

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## Equity rating definitions

TRAXING BUY
HOLD
TRADING SELL
SELL
NOT RATED

Positive recommendation of stock under coverage. Expected absolute return of more than $+10 \%$ over 12 -months, with low risk of sustained downside. Positive recommendation of stock not under coverage. Expected absolute return of more than $+10 \%$ over 6 -months. Situational or arbitrage trading opportunity. Neutral recommendation of stock under coverage. Expected absolute return between $-10 \%$ and $+10 \%$ over 12 -months, with low risk of sustained downside. Negative recommendation of stock not under coverage. Expected absolute return of less than -10\% over 6-months. Situational or arbitrage trading opportunity. Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10\% over 12-months. No research coverage, and report is intended purely for informational purposes.

## Industry rating definitions

| OVERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of more than $+5 \%$ over 12-months. |
| :--- | :--- |
| NEUTRAL | The sector, based on weighted market capitalization, is expected to have absolute return between $-5 \%$ and $+5 \%$ over 12 -months. |
| UNDERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of less than $-5 \%$ over 12 -months. |


[^0]:    HLIB, Bloomberg

