

## INITIATE COVERAGE

### MRCB-Quill REIT (MQREIT MK)

Reaping The Benefits From Strategic Partnership

We initiate coverage on MQREIT with a **BUY** and target price of **RM1.35**, underpinned by its position as the leading office REIT as well as the only REIT with a dual-sponsor structure. Key attraction lies in its ongoing acquisition of Menara Shell which will result in total asset value growing by 40% and market cap surpassing the RM1b mark, and hence improve its trading liquidity. Our DDM-derived target price offers a 6.8% 2016F dividend yield.

- Superior assets in prime location.** MRCB-Quill REIT (MQREIT) is one of the few office REITs listed on Bursa Malaysia which has a set of high-quality buildings, comprising a combination of young and mature office buildings. Tenancy mix is also well diversified, which reduces its dependency or exposure to any specific sector. MQREIT has a wide presence in KL Sentral and Cyberjaya – two highly sought-after locations for their excellent connectivity as a transportation hub and as a Multimedia Super Corridor (MSC) hub respectively. The ongoing acquisition of Menara Shell is expected to further enhance MQREIT's position in KL Sentral and contribute positively to MQREIT's earnings.
- Dual-sponsor structure.** We like MQREIT's uniqueness as the only listed REIT to have dual sponsors – Quill Group, and Malaysia Resources Corporation Bhd (MRCB). This structure enables them to have a long list of properties for future acquisition exercises. We also do not discount the possibility of asset injections from the Employees Provident Fund (EPF), as it is the single largest shareholder of MRCB, given MRCB, Quill Group and EPF are no strangers.
- Unperturbed by office oversupply.** Because of its sponsors' built-to-suit strategy, MQREIT has consistently been able to maintain high occupancy rates in the past six years at an average of 95.8% compared with 80.1% for offices in Kuala Lumpur. In addition MQREIT has the highest weighted average lease expiry (WALE) of 5.9 years compared with peers' average of 2.8 years.
- Favourable macro environment.** The recent overnight policy rate (OPR) cut may have a positive impact on the REIT sector as it is expected to result in a wider spread between the REIT sector and Malaysian Government Securities (MGS). We also welcome Securities Commission Malaysia's initiative to allow REITs to undertake property developments not exceeding 15% of the REIT's enlarged total asset value.
- Initiate coverage with a BUY; 15.0% total upside.** We initiate coverage with a dividend discount model-derived target price of RM1.35 (required rate of return: 7.3%; terminal growth: 1.0%). The stock also offers a decent dividend yield of 6.8%. With the confluence of an OPR cut and lack of compelling alternative ideas, we think that the stock could emerge as the top performer within the REIT universe and continue to outperform FBMKLCI.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net Turnover	70	115	119	179	186
EBITDA	47	80	84	126	129
Operating Profit	47	80	84	126	129
Net Profit (Reported/Actual)	40	61	58	90	94
Net Profit (Adjusted)	34	53	58	90	94
EPS (sen)	8.8	9.1	8.7	8.5	8.9
PE (x)	14.3	13.8	14.4	14.7	14.1
P/B (x)	0.9	0.9	0.9	1.0	1.0
EV/EBITDA (x)	31.0	18.3	17.5	11.7	11.4
Dividend Yield (%)	6.7	6.8	6.8	6.8	7.1
Net Margin (%)	48.6	46.4	48.2	50.5	50.6
Net Debt/(Cash) to Equity (%)	50.4	71.2	71.3	64.5	64.6
Interest Cover (x)	3.6	3.0	3.2	3.5	3.7
ROE (%)	n.a.	7.4	6.4	8.1	7.1
Consensus net profit	-	-	58	81	84
UOBKH/Consensus (x)	-	-	0.99	1.12	1.12

Source: MQREIT, Bloomberg, UOB Kay Hian

## BUY

(Initiate Coverage)

Share Price	RM1.25
Target Price	RM1.35
Upside	+8.2%

#### COMPANY DESCRIPTION

MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker	MQREIT MK
Shares issued (m)	661.4
Market cap (RMm)	826.7
Market cap (US\$m)	204.0
3-mth avg daily turnover (US\$m)	0.1

#### Price Performance (%)

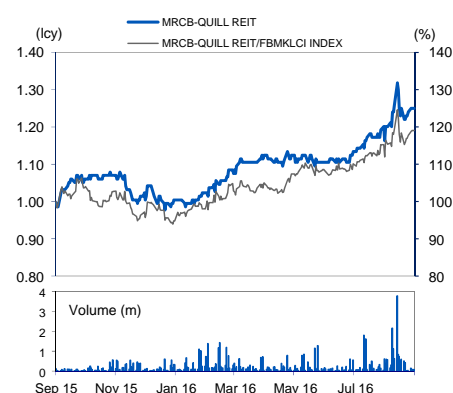
52-week high/low			RM1.36/RM1.05	
1mth	3mth	6mth	1yr	YTD
1.6	9.6	11.6	20.2	15.7

#### Major Shareholders

	%
MRCB	31.8
Capitaland Ltd	17.7

FY16 NAV/Share (RM)	1.37
FY16 CAR Tier 1 (%)	0.98

#### PRICE CHART



Source: Bloomberg

#### ANALYST

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## Investment Highlights

**Superior assets at prime locations.** MQREIT is one of the few office REITs in Malaysia with a list of high-quality assets that are located in prime locations. It has wide presence in Cyberjaya – most notably known as hub for multi-national companies (MNC) as well as in KL Sentral – Malaysia's best transportation hub which gives excellent connectivity and is surrounded by corporate office towers, hotels, residence and a shopping mall. Most of the office buildings under the portfolio (save for Part of Plaza Mont' Kiara and Platinum Sentral) are based on a customised built-to-suit basis and occupied by a single tenant. The tenants are also well diversified and are from various industries (ie logistics banking, automotive, oil & gas, IT/electronics, retails, etc) and no single industry accounts for more than 25% of NLA, which reduces the risk of dependency on a specific industry.

**Dual-sponsor structure.** Ever since it was first listed on Bursa (formerly known as Quill Capita Trust), MQREIT is the only REIT player with a dual-sponsor structure which gives them a competitive advantage against its peers in terms having clear visibility for acquisition exercises. After the acquisition of Platinum Sentral in Mar 15, MRCB is now the single largest shareholder of MQREIT, and is also a co-sponsor of MQREIT together with Quill Group. We think having MRCB on board is a great platform for MQREIT to expand its asset base given MRCB's commitment to inject plenty of its assets into MQREIT. We are of the view that future asset injections also could come from EPF, which is the single largest shareholder of MRCB. Currently, MQREIT is in the midst of finalising the acquisition of Menara Shell from MRCB at a purchase consideration of RM640m. We expect the acquisition to be completed by end-16, and result in asset base and core net earnings growing by 40% and 57% respectively.

**Occupancy remains solid.** Contrary to the industry's bleak outlook on massive office oversupply, MQREIT has consistently recorded high occupancy rates of more than 90% since its inception compared with the industry average which is hovering at around 80%. We opine that the higher-than-industry occupancy rate achieved by MQREIT is predominantly due to its built-to-suit strategy which allows MQREIT to lock in its tenants for a longer-than-typical leasing cycle. The sustainability of MQREIT's tenancy profile is also evidenced by its commendable WALE (by NLA), which stood at 5.9 years vs its peers' 2.8 years. With the inclusion of Menara Shell post acquisition, MQREIT's WALE will improve further to 6.1 years as the anchor tenant (Shell), which occupies 55% of the total NLA, will see its lease expire only in 2028.

**Favourable macro environment.** We think subdued growth in both domestic and global economies coupled with recent overnight policy rate (OPR) cut will act as further rerating catalysts for the sector. We expect the spread between the REITs and MGS to widen; there was a similar trend seen prior to the OPR hike in Jul 14. Industry players have also applauded Securities Commission Malaysia's move to increase the threshold of permissible property development activities undertaken by a REIT from 10% to 15% as well as allowing the REIT to acquire vacant land for development purposes. Ytd, the REIT sector is the second best performer within UOBKH's universe as the sector recorded a gain of 15.5% while MQREIT has advanced by 25.0% ytd.

**Initiate coverage with a BUY; 15.0% total upside.** We initiate coverage with a DDM-derived target price of RM1.35 (required rate of return: 7.3%; terminal growth: 1.0%). The stock also offers a decent dividend yield of 6.8%. With the confluence of an OPR cut and lack of compelling alternative ideas, the stock could emerge as the top performer within the REIT universe and continue to outperform the FBMKLCI.

## Valuation

**Initiate with a BUY; 15% total upside.** We initiate coverage with a DDM-derived target price of RM1.35 (required rate of return: 7.3%; terminal growth: 1.0%), implying 2016F dividend yield of 6.8%. Among the REITs under our coverage, MQREIT appears to be the most appealing stock as it commands the widest spread of 458bp compared with the industry's spread of 225bp.

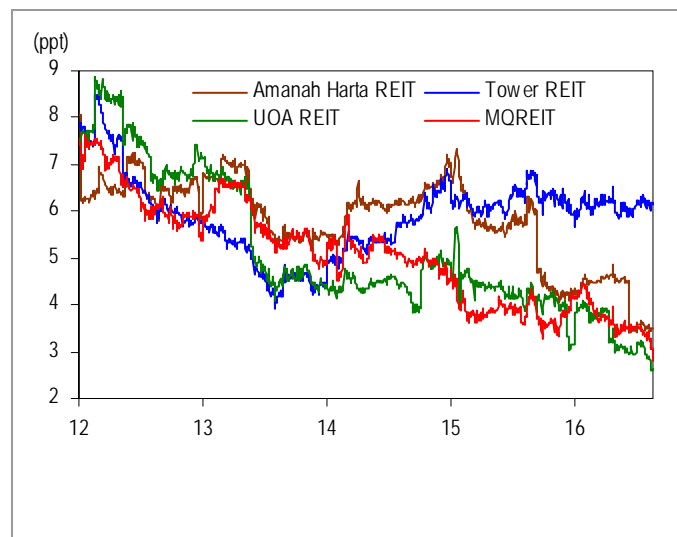
FIGURE 1: DIVIDEND DISCOUNT MODEL VALUATION

	2017F
Market Risk (%)	5.5
Risk Fee (%)	3.5
Growth (%)	1.0
Required Rate of Return (%)	7.3
Target Price (RM)	1.35
Current Price (RM)	1.25
Upside (%)	8.2
Dividend Yield (%)	6.8
Total Upside (%)	15.0

Source: UOB Kay Hian

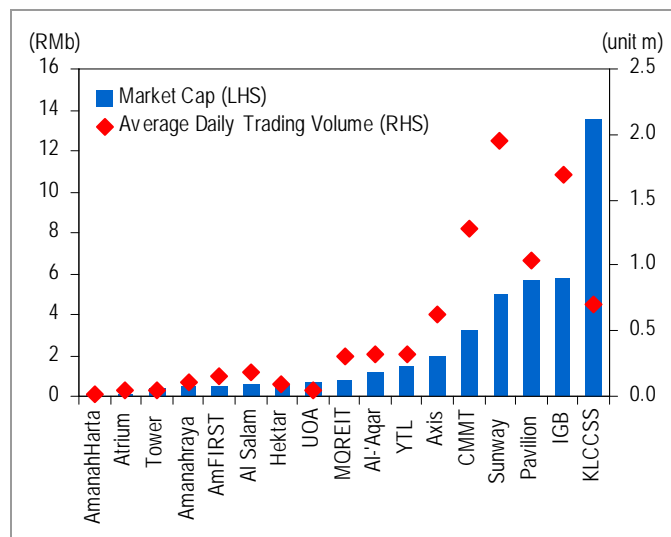
**Leading office REIT with an exciting growth story.** MQREIT's value proposition lies in: a) high-quality assets which are located in prime and strategic locations, b) dual-sponsor structure, c) it being shielded from office oversupply, and d) a favourable macro environment.

FIGURE 2: YIELD SPREAD AMONG OFFICE REIT



Source: Bloomberg, UOB Kay Hian

FIGURE 3: MALAYSIA REITS AVERAGE DAILY VOLUME TRADED

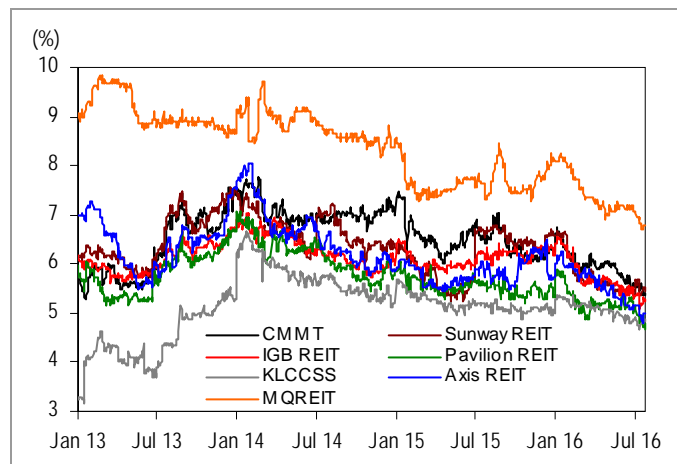


CMMT = Capitaland Malaysia Mall Trust  
Source: Bloomberg, UOB Kay Hian

**Lowest spread among office REITs.** We think the lowest spread attached to MQREIT (signalling expensive valuations) compared with other office REITs (Figure 2) is justified given it is backed by strong assets in the portfolio (prime locations, young assets and almost full occupancy) as well as its exciting growth story moving forward.

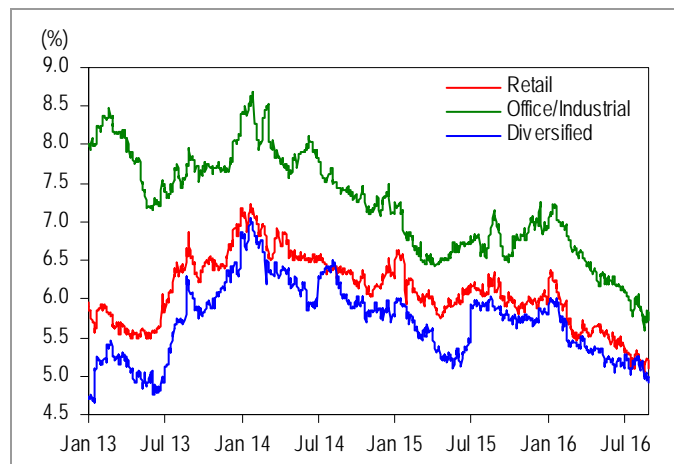
**Trading liquidity likely to improve.** We expect MQREIT's trading liquidity to improve post acquisition of Menara Shell which will result in its market cap surpassing the RM1b mark. Our stance is well-supported by Figure 3, which shows that REITs with more than a RM1b market cap have seen higher average daily volume traded over the past six trading months, according to Bloomberg.

FIGURE 4: DIVIDEND YIELD BY COMPANY



Source: Bloomberg, UOB Kay Hian

FIGURE 5: DIVIDEND YIELD BY ASSET CLASS

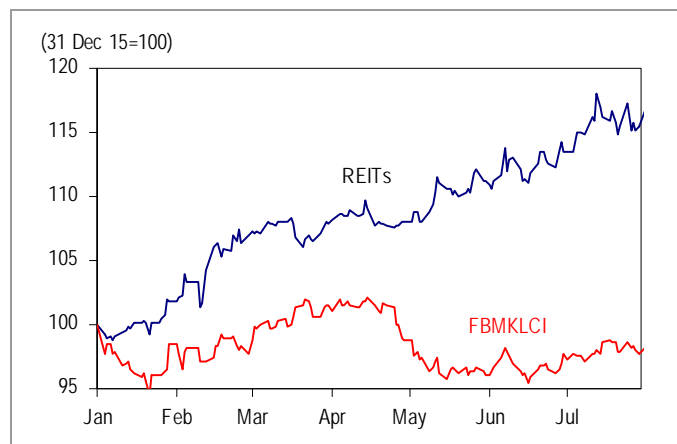


Source: Bloomberg, UOB Kay Hian

**Renewed interest on OPR cut.** We opine that the recent Bank Negara Malaysia (BNM) decision to make a 25bp cut in OPR will lead to a wider spread between the yield of REIT and MGS. While a 25bp rate cut may not be sufficient to stimulate significant growth recovery given structurally high household debt, a series of further cuts could have some positive impact in stimulating growth, or on a base-case scenario, may help to stabilise consumption trends.

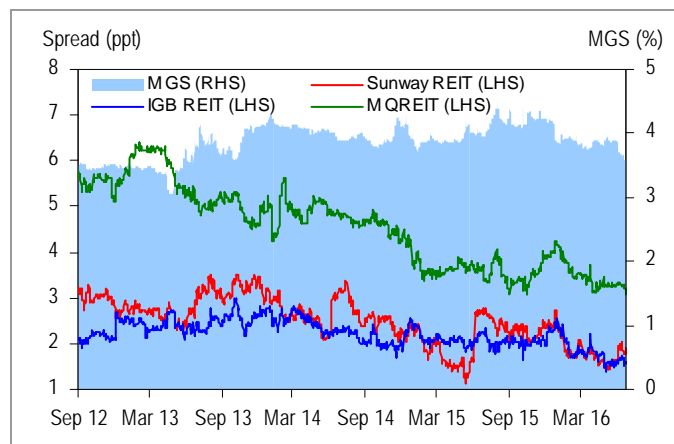
**MGS yield took a dive.** The last time BNM cut OPR in Feb 09, MGS yield took a dive from a peak of 4.1% to a low of 3.7%. Recently, MGS yield also experienced another round of collapse from 4.2% at the beginning of the year to 3.6% post-Brexit and OPR cut. We opine that a decline in MGS yield would provide a higher spread between REIT and MGS yield, hence making REIT more appealing. Historically, the yield spread has been narrowing at an average of 2.90ppt and 2.03ppt for 2014 and 2015 respectively. Although the ytd spread has narrowed further to 1.63ppt, we believe this trend could reverse post the OPR cut. When OPR was below 3% (prior to 10 Jul 14), the spread between our promoted REITs and MGS was wider and eventually narrowed after an OPR hike, signalling further yield compression after OPR was hiked to 3.25% (Figure 7).

FIGURE 6: REITS INDEX OUTPERFORMED FBMKLCI



Source: UOB Kay Hian

FIGURE 7: WIDER SPREAD DURING OPR 3%



Source: UOB Kay Hian

## Positive Catalysts

### PORTFOLIO OF QUALITY ASSETS

**10 properties and counting.** MQREIT listed with only four assets on hand and has subsequently grown its asset base to 10 properties. At the time of listing, MQREIT's total asset value was worth only RM280m. Now, it is ranked the 8th largest REIT in the country with total assets worth over RM1.57b and total NLA of 1.7m sf (excluding car park area).

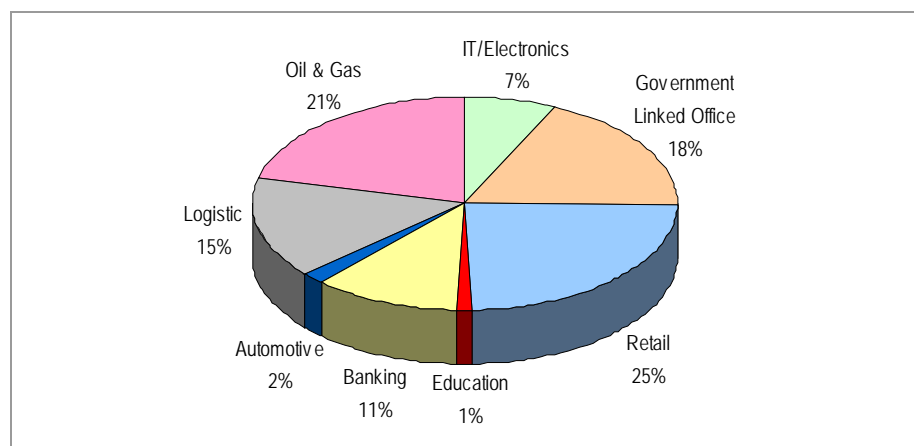
FIGURE 8: ASSETS IN THE PORTFOLIO

Building	Age (years)	Industry	Tenant
Quill Building 1 - DHL 1	10	Logistics	Single-user
Quill Building 4 - DHL 2	10	Logistics	Single-user
Quill Building 2 - HSBC	12	Banking	Single-user
Quill Building 3 - BMW	11	Automotive	Single-user
Wisma Technip	22	Oil & gas	Single-user
Part of Plaza Mont' Kiara	16	Retail	Multi-tenanted
Quill Building 5 - IBM	8	IT/Electronics	Single-user
Quill Building 8 - DHL XPJ	9	Logistics	Single-user
Tesco Building - Penang	11	Retail	Single-user
Platinum Sentral	5	Various	Multi-tenanted

Source: MQREIT

**Young assets in prime areas.** We like MQREIT's assets which comprise a combination of young and matured office buildings. This in turn gives MQREIT a competitive advantage over its peers which have relatively old office buildings which contrasts against tenants' preference for newer office buildings with dual-compliance certification (green and grade A). In addition, MQREIT also has a well-balanced tenancy mix which allows them to reduce dependency on any specific sector.

FIGURE 9: TENANCY MIX



Source: MQREIT

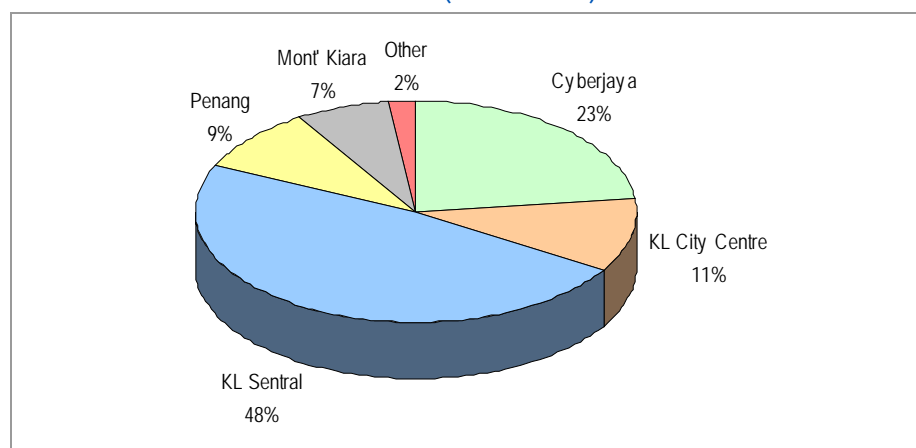
**Quality tenants.** Most of the tenants are subsidiaries of MNCs and usually occupy the entire premise. We are of the view that having quality tenants would provide some advantage to MQREIT as it reduces the risk of default rental payment by tenants. We were also guided that most of tenants are good paymasters.

**Minimal impact on oil price slump.** The only exposure to the O&G sector that MQREIT has is through Wisma Technip, which is occupied by Technip Geoproduction (M) Sdn Bhd. We understand that this tenant at Wisma Technip has successfully renewed its tenancy which expired before the sharp decline in oil prices. The lease runs until 2019 plus an option to extend for another two years.

**Expanding presence in KL Sentral.** MQREIT's crown jewel – Platinum Sentral – is located in the heart of Kuala Lumpur Sentral (KL Sentral). We think that other apart from the city centre, KL Sentral is the next best location preferred by tenants as it provides superior connectivity via an integrated transit hub. KL Sentral also hosts few corporate office towers and business suites, five-star international hotels, condominiums and residences as well as a shopping mall. MQREIT is in the midst of acquiring Menara Shell which will further enhance its position in KL Sentral.

**Cyberjaya – Malaysia's Silicon Valley.** MQREIT has a wide presence in Cyberjaya, a prime location which forms a key part of the Multimedia Super Corridor (MSC) in Malaysia. Its assets in Cyberjaya include Quill Building 2 – HSBC (the largest business process outsourcing centre in the world for HSBC), Quill Building 1 and Quill Building 4 – (DHL 1 and DHL 2) which is one of three such DHL Centres in the world. Other assets in Cyberjaya also include Quill Building 3 – BMW (hi-tech BMW Headquarters), as well as Quill Building 5 – IBM.

FIGURE 10: GEOGRAPHICAL DIVERSIFICATION (BY VALUATION)



Source: MQREIT

## DUAL-SPONSOR STRUCTURE

**The only REIT with dual-sponsor structure.** We like MQREIT's uniqueness as the only listed REIT with a dual-sponsor structure. Initially at the time of listing, MQREIT (formerly known as Quill Capita Trust) was granted with first right of refusal (ROFR) by Quill Group and CapitaLand RECM Pte Ltd. Upon completion of Platinum Sentral's acquisition on 30 Mar 15, MRCB emerged as the single largest shareholder with a 31.2% stake in MQREIT, which also saw MRCB replace CapitaLand RECM Pte Ltd as co-sponsor.

**Long list of potential assets.** Having two sponsors definitely puts MQREIT at an advantage as it allows MQREIT to have more access to properties for future acquisition exercises. In *The Star* dated 11 Apr 14, MRCB Group managing director, Tan Sri Mohamad Salim mentioned that MRCB intends to inject at least RM1b worth of assets into MQREIT every year. More details on assets held by MRCB are listed in the "Sponsor" section in Figure 36.

**Value accretion from previous acquisition.** When Platinum Sentral was acquired, total asset value for MQREIT grew up by 87% while core net profit jumped by 56% despite only nine months of contribution recorded from Platinum Sentral. The acquisition also resulted in earnings per unit (EPU) for 2015 improving by 3.4% following the impact of huge earnings jump coupled with enlarged share base (ie from placement and units consideration to finance the acquisition).

**MRCB, Quill Group and EPF are no strangers.** We also do not discount the possibility that there could be an asset injection coming from EPF, which is MRCB's single largest shareholder with 37.4% stake. Quill Group and EPF are also no strangers, with the latter having purchased Quill Building 7 (also known as Menara Axiata) as well as Quill City Mall from Quill Group with a price tag of RM428m and RM1.2b respectively.

FIGURE 11: POTENTIAL ASSETS FOR ACQUISITION

	Location	Estimated Market Value (RMm)
<b>From Quill Group</b>		
Quill Building 6 – HSBC Headquarter	Lebuh Ampang, Kuala Lumpur	250
Quill Building 9 – Quill Headquarter	Petaling Jaya	300
Quill Building 18	Cyberjaya	450
<b>From MRCB</b>		
Menara Shell*	KL Sentral	640
Menara Celcom	PJ Sentral	535
<b>From EPF</b>		
Quill Building 7 – Menara Axiata	KL Sentral	428
Quill City Mall	Jalan Sultan Ismail, Kuala Lumpur	1,200

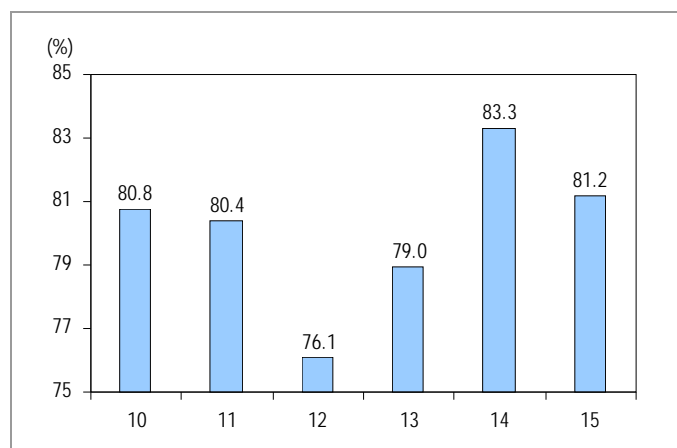
\* Currently under due diligence for acquisition exercise  
Source: UOB Kay Hian



## SHIELDED FROM OFFICE OVERSUPPLY

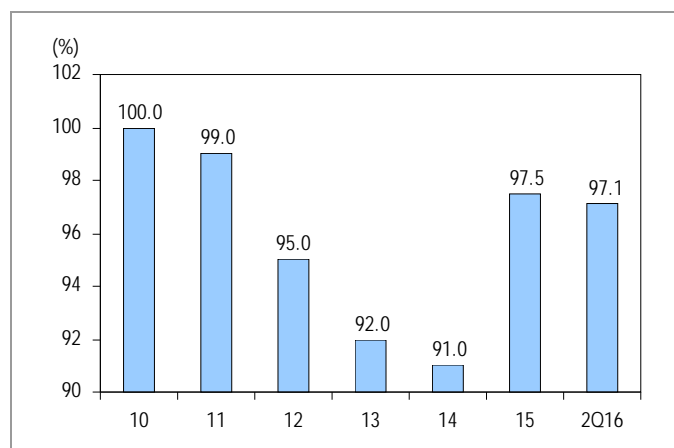
**Built-to-suit basis.** Quill Group adopts a built-to-suit strategy where it finds potential tenants before building an office building. The building is then built according to tenants' specification which in turn enables the tenants to be locked into a longer leasing period. This strategy has helped to keep MQREIT's occupancy rate consistently high for the past six years at an average of 95.8% compared with 80.1% for offices in Kuala Lumpur according to data from National Property Information Centre (NAPIC).

FIGURE 12: OFFICE OCCUPANCY IN KUALA LUMPUR



Source: NAPIC

FIGURE 13: MQREIT PORTFOLIO OCCUPANCY



Source: MQREIT, UOB Kay Hian

**Highest WALE among peers.** We also assess the sustainability of MQREIT's tenants by using WALE – a method of measuring the average period in which all leases in a portfolio will expire. Following the implementation of the built-to-suit strategy, MQREIT is also able to record the highest WALE compared with its peers.

FIGURE 14: WALE COMPARISON (BY NLA)

Company	WALE (year)
Axis REIT	4.3
MQREIT	5.9
Pavilion REIT	1.2
Sunway REIT	2.8*

\* By rental

Source: Respective companies, UOB Kay Hian



## The Proposed Acquisition

**Asset portfolio size to grow by 40%.** The proposed acquisition of Menara Shell will expand MQREIT's asset portfolio size by 40% from RM1.6b currently to RM2.3b. This acquisition marks another significant milestone for MQREIT, and comes after they acquired Platinum Sentral last year which saw total asset value and net profit grow by 87% and 56% respectively. The acquisition of Menara Shell is also important to MQREIT as it will result in market cap surpassing RM1b, thereby improving its trading liquidity. Post-acquisition, MQREIT will also have a stronger position in KL Sentral as its geographical diversification from KL Sentral will increase from 48% to 60%.

**5.3% net rental yield for Menara Shell is fair.** In our opinion, the 5.3% net rental yield (initial net yield before financing cost) for Menara Shell is fair given its prime location. We think other offices fetched higher yields at the point of acquisition (Figure 15), primarily because they are in locations where land scarcity is not an issue and they are a distance away from the city centre. In addition, the 5.3% net yield comes with a decent return on equity of 6.6% (similar to the current ROE), assuming its RM229m debt taken is based on 4.5% interest cost p.a.

**Shell takes up 55% of NLA, lease expiry in 2028.** We do not foresee any issue arising from the depressed oil prices given that Shell is an anchor tenant and is taking up 55% of total NLA on a long-term lease with MQREIT that expires in 2028. AmGeneral Insurance is its second anchor tenant occupying 25% of NLA, and the lease will expire in 2018 with an option to renew it for another 3+3+3+3 years. The remaining 20% of NLA is multi-tenanted with varying lease expiry dates.

FIGURE 15: RECENT INDUSTRY ACQUISITION EXERCISES OF OFFICE BUILDINGS

Date	Company	Building	Location	Gross Yield (%)	Net Yield (%)
29 Jan 14	MQREIT	Platinum Sentral	KL Sentral	7.6	n.a.
23 Apr 14	Amanahraya REIT	Wisma Comcorp	Shah Alam	8.0	n.a.
8 Dec 14	Sunway REIT	Wisma Sunway	Shah Alam	10.4	6.8
26 Jan 15	CMMT	Tropicana City Property	Petaling Jaya	7.2*	n.a.
3 Dec 15	MQREIT	Menara Shell	KL Sentral	7.2	5.3^
16 Jun 16	Amanahraya REIT	Office building	Cyberjaya	9.0	7.2

\* Consist of Tropicana City Mall and Office Tower

^ Initial net yield before financing cost

Source: Respective companies, UOB Kay Hian

**Organic growth to drive earnings.** We think new acquisitions are crucial for MQREIT in order to grow its earnings organically. Prior to the Platinum Sentral acquisition, earnings for MQREIT were relatively flat given slow rental reversion in the office segment. After a 56% jump in net profit upon acquisition, we expect core earnings to grow by 8% yoy driven by stronger rental reversion at Platinum Sentral given its prime location. Similarly, as we have factored in 57% growth in net profit upon acquisition of Menara Shell in 2017, we expect 2018 earnings to grow by 4% yoy.

**Next acquisition could be Menara Celcom.** We believe after Menara Shell, MQREIT's next acquisition will be Menara Celcom in PJ Sentral which is still under construction and scheduled for completion in 2017. With GDV of over RM500m, we understand that telecommunications company Celcom has already signed a lease contract with MRCB for a 21-year leasing period. Based on our back-of-envelope calculations, acquisition of Menara Celcom could grow MQREIT's total asset value by 24% while core earnings are expected to increase by 23% assuming it will have 500,000 sf of NLA and conservative rental rate of RM5.50psf per month. We think the contribution from Menara Celcom would come in 2019 at the earliest, judging from previous acquisition exercises which took slightly more than a year for completion.

FIGURE 16: MENARA SHELL



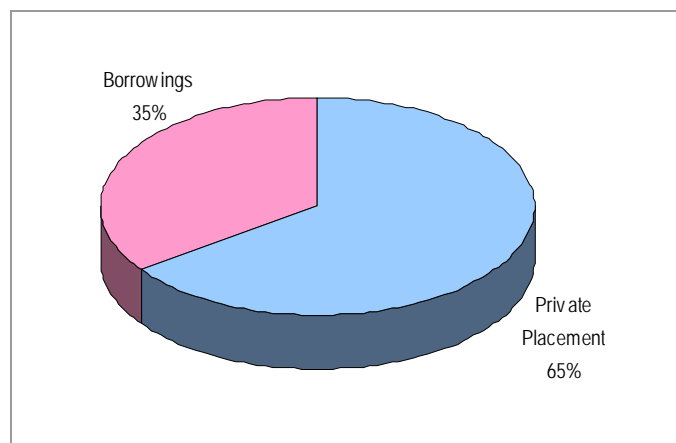
Source: MREIT

FIGURE 17: MENARA SHELL DETAILS

Description	33-storey stratified office tower erected on 5-storey podium and 4-storey basement carpark
Address	Menara Shell, 211, Lot 348, Section 72, Kuala Lumpur
Type	Commercial building
Age	2 years
Number of Bays	915 car park lots and 110 motorcycle lots
Gross Build-up Area	820,917 sf (comprising Menara Shell and a shared podium)
Market Value	RM640.0m
Net Lettable Area	557,053 sf
Occupancy Rate	100%
Gross Rental Income	RM46.4m (based on FY15)
Gross Yield	7.3%
Net Yield	5.3% (initial net yield before financing cost)

Source: MREIT

FIGURE 18: SOURCE OF FUNDS



Source: MREIT

FIGURE 19: DETAILS ON THE PROPOSED PLACEMENT

Purchase Consideration	RM640m
Estimated Expenses for the Proposal	RM16m
<b>Total Funds Required</b>	<b>RM656m</b>
Illustrative Issue Price	RM1.05
Placement Units Issued	406.7m units
Size of Proposed Placement	RM427m
Borrowings Raised	RM229m
<b>Total Funds Raised</b>	<b>RM656m</b>

Source: MREIT

## Industry Outlook

**Office oversupply likely persist.** The outlook on general office space in Kuala Lumpur remains clouded by massive oversupply, evidenced by consistently low occupancy rate seen during the past six years. Data from National Property Information Centre (NAPIC) shows average occupancy for office space in Kuala Lumpur of 80% for the past six years (Figure 12), hitting a peak of 83% in 2014. We opine the oversupply issue is far from over, judging from plenty of office supply coming on stream every year. In the pipeline, mega projects which will bring in massive office supply include Tun Razak Exchange, Menara PNB 118 and Bukit Bintang City Centre.

**More supply coming in.** According to DTZ Consulting & Research, there will be another 2m sf of office ready in Kuala Lumpur, on top of existing 76m sf of NLA. The consulting firm also expects that in the next two years, there will be about 9m sf of office space coming on stream, arising from KL Eco City and The Vertical with an estimated 2.3m sf from each project.

FIGURE 20: NEW OFFICES COMPLETED IN KUALA LUMPUR IN 2015

Buildings	Location	NLA (sf)
Q Sentral	KL Sentral	1,400,000
The Vertical Business Suites I & II	Jalan Kerinchi	808,000
Naza Tower	Jalan Binjai	580,000
Ilham Tower	Jalan Binjai	426,000
Centara Tower	Jalan Tuanku Abdul Rahman	200,000
<b>Total</b>		<b>3,414,200</b>

Source: DTZ Consulting & Research, MQREIT

**Tepid growth in rental reversion.** In view of the challenging macro-economic outlook coupled with high impending supply, rental reversion for office buildings is unlikely to be vibrant. We also do not discount the possibility of some offices needing to cut rental rates in order to protect occupancy. However we believe this is not the case for REITs which have quality assets and/or prime locations.

**SC revised guidelines.** Currently under Paragraph 8.44(b) and (c) of the REIT Guidelines, a fund is not permitted to conduct property development activities and acquire any vacant land. On 14 Jul 16, Securities Commission Malaysia (SC) came up with a Public Consultation Paper which among others, proposes REITs be allowed to undertake property development (including acquiring vacant land), subject to the values of properties and vacant land earmarked for property development not exceeding 15% of the REIT's enlarged total asset value in aggregate. We are positive on this development as it will allows the REIT to have control over development or redevelopment of its own assets.

**FIGURE 21: REITS WITH OFFICE EXPOSURE (UNDER COVERAGE)**

Company	% of Total Revenue	Building	Occupancy (%)	Comment
Axis REIT	8	Menara Axis	94	Lease expiry profile (% of NLA): 1.4% in 2016; 0.3% in 2017
		Crystal Plaza	81	Lease expiry profile (% of NLA): 1.6% in 2016; 0.2% in 2017
		Axis Eureka	59	Lease expiry profile (% of NLA): 0.2% in 2016; 0.7% in 2017
		Quattro West	84	Lease expiry profile (% of NLA): 0.8% in 2016; 0.2% in 2017
CMMT	2	Tropicana Tower	100	
KLCCSS	42	PETRONAS Twin Towers	100	Triple net lease to expire in Sep 27
		Menara ExxonMobil	100	Lease expire in Jan 17, extension for 9+3+3+3 years
		Menara 3 Petronas	100	Triple net lease expire in Nov 26
		Menara Dayabumi	100	Triple net lease expire in 2019
MQREIT	92	Quill Building 1 - DHL 1	100	7+3+3+2 years from Apr 02 5+5 years from Jan 16
		Quill Building 4 - DHL 2	100	7+3+2 years from Apr 06 5+5 years from Jan 16
		Quill Building 2 - HSBC	100	6+3+2+5+3 years from Nov 03
		Quill Building 3 - BMW	80	10 years from Jul 15
		Wisma Technip	100	5+2+5+2 years from Jan 07
		Part of Plaza Mont' Kiara	92	Averaging 1-3 years
		Quill Building 5 - IBM	91	3+2+1.4+3+3 years from Jan 08 3+3+3 years from Jun 11
		Quill Building 8 - DHL XPJ	92	5+5 years from Jul 06
		Tesco Building - Penang	100	Oct 04 to Aug 32
		Platinum Sentral	100	Varies
Pavilion REIT	3	Pavilion Tower	98	Major renewal in FY16 (48% of NLA)
Sunway REIT	5	Menara Sunway	90	Major renewal in FY19 (69% of NLA)
		Sunway Tower	19	Progressive drop since Jan 15 due to non-renewal by anchor tenant (115,494 sf)
		Sunway Putra Tower	27	Progressive drop since Apr 15 due to non-renewal by anchor tenant (143,000 sf)
		Wisma Sunway	91	Lease expiry evenly spread out in FY16-18

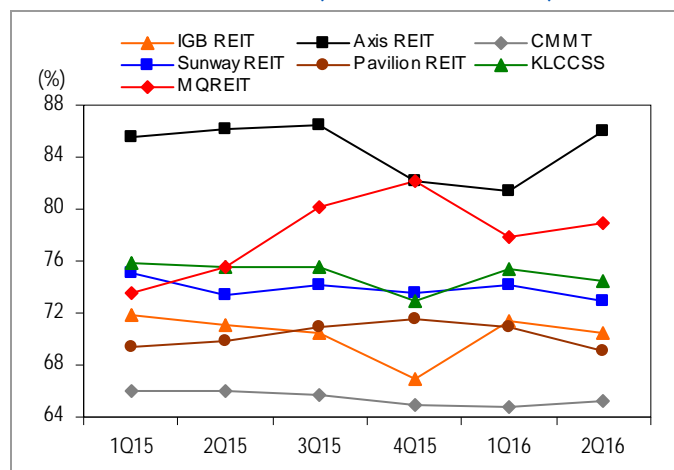
KLCCSS = KLCC Stapled Security  
Source: Respective companies, UOB Kay Hian

FIGURE 22: REITS LISTED ON BURSA MALAYSIA

Company	Type	Share Price 30 Aug16 (RM)	Market Cap (RMm)	PE		P/B		Dividend Yield (%)	Net Gearing (%)
				2016 (x)	2017 (x)	2016 (x)	2017 (x)		
Amanah Harta REIT	Retail, Office	1.03	103.0	n.a	n.a	n.a	n.a	n.a	24
Al-'Aqar REIT	Hospital, Nursing College, Hotel	1.70	1,238.0	17.8	17.6	1.3	1.3	5.5	37
Al-Salam REIT	Commercial Retail, Office, Industrial Purposes	0.99	609.0	18.0	15.2	n.a	n.a	4.9	36
AmFIRST REIT	Office, Retail, Hotel	0.78	535.4	19.4	19.4	0.6	0.6	5.2	44
Amanahraya REIT	Industrial, Office, Hotel, Institutions, Retail	0.95	544.6	13.6	13.4	0.8	0.8	7.4	21
Atrium REIT	Industrial, Warehouse, Office	1.08	131.5	10.8	9.8	0.8	0.8	9.3	19
Axis REIT	Office, Industrial	1.79	1,978.3	19.8	18.7	1.4	1.4	5.0	33
CMMT	Retail, Office	1.56	3,164.2	18.4	17.6	1.2	1.2	5.4	26
Hektar REIT	Retail	1.57	629.0	13.4	12.8	1.0	1.0	7.1	43
IGB REIT	Retail	1.66	5,790.5	20.8	20.0	1.5	1.6	5.2	19
KLCCSS	Retail, Office	7.67	13,846.9	18.3	17.7	1.1	1.0	4.8	8
Pavilion REIT	Retail, Office	1.80	5,440.5	21.4	20.0	1.5	1.5	4.7	16
MQREIT	Commercial, Carports, Office, Industrial	1.24	820.1	14.1	14.4	0.9	0.9	6.8	40
YTL Hospitality REIT	Commercial	1.14	1,509.8	13.6	15.6	0.7	0.9	5.5	42
Sunway REIT	Retail, Hotel, Office	1.69	4,972.7	19.1	18.3	1.3	1.3	5.2	32
Tower REIT	Office	1.21	339.4	10.3	10.3	0.7	0.7	9.8	Net cash
UOA REIT	Office	1.72	727.3	15.7	15.7	1.0	1.0	6.4	33
<b>Average</b>				<b>16.4</b>	<b>17.1</b>	<b>1.1</b>	<b>1.1</b>	<b>6.1</b>	

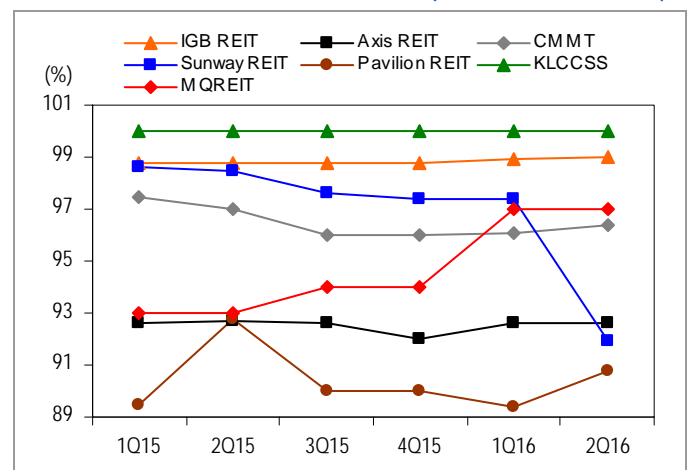
Source: Bloomberg, UOB Kay Hian

FIGURE 23: PEERS NPI MARGINS (UNDER OUR COVERAGE)



Note: Sunway REIT refers to calendar year  
Source: Respective companies, UOB Kay Hian

FIGURE 24: PEERS PORTFOLIO OCCUPANCY (UNDER OUR COVERAGE)



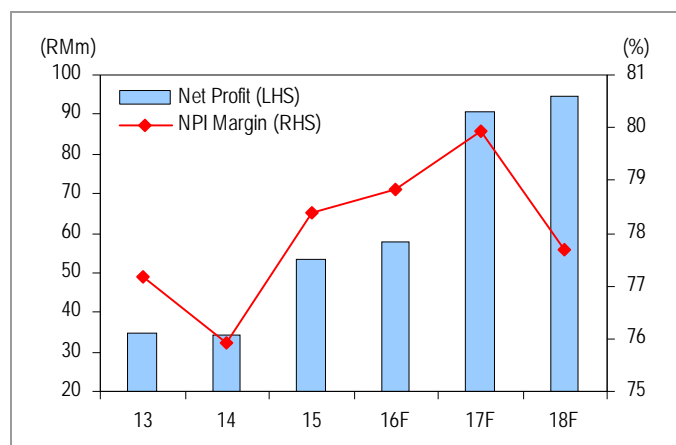
Notes: Sunway REIT refers to calendar year; occupancy exclude office and hotel properties  
KLCCSS figures excludes retail and hotel operations  
Source: Respective companies, UOB Kay Hian

## Financials

**2013-15 core net profit CAGR at 15.7%.** Excluding fair value gains, MQREIT's core net profit has been growing at 3-year CAGR of 15.7%, mainly thanks the acquisition of Platinum Sentral which raised 2015's core net profit at a commendable rate of 56.4% while EPU was up by 3.4%. We have pencilled in contribution from Menara Shell in 2017 assuming the acquisition exercise is completed by end-16. Based on our rental rate assumption of RM7.60 per sf per month and a 12-month contribution, Menara Shell will add circa 28% extra revenue to MQREIT in 2017 which will result in the portfolio's core earnings growing by 57%.

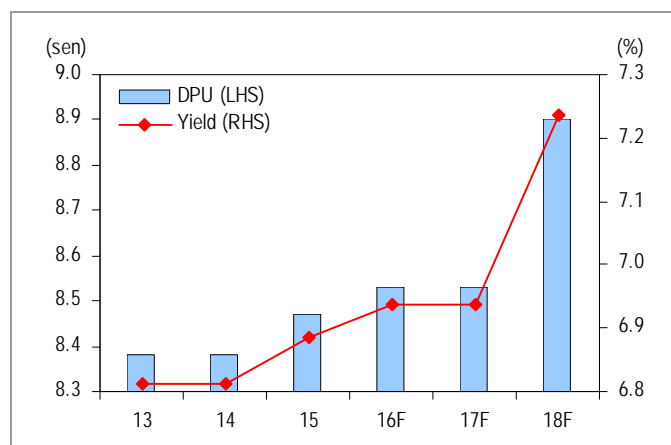
**Earnings outlook remain bright.** After a huge jump in earnings in 2015, we forecast 2016 core net profit to grow at 8% mainly driven by the full-year impact from Platinum Sentral (2015: 9 months' contribution). With contribution from Menara Shell coming in 2017, we estimate earnings will grow at 57% and sequentially normalise at 4% growth organically.

FIGURE 25: NET PROFIT AND NPI MARGIN



Source: MQREIT

FIGURE 26: DIVIDEND PER UNIT AND YIELD



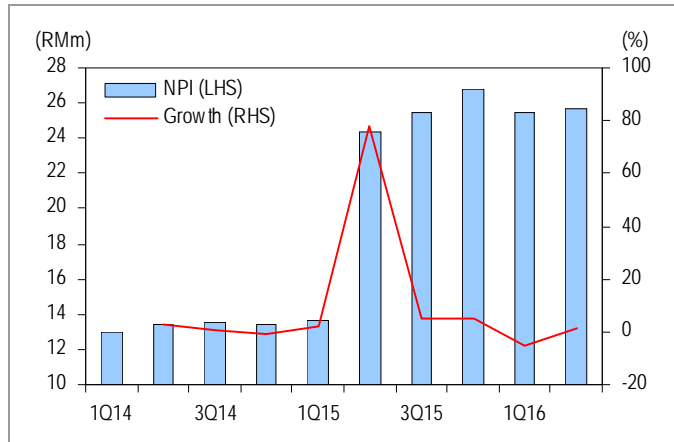
Source: MQREIT

**Stronger rental reversion post acquisition.** Prior to the acquisition of Platinum Sentral, rental reversion for MQREIT was at a low single-digit p.a. due to its long-term leases. We believe the rental reversion trend will change with the inclusion of Platinum Sentral and Menara Shell as both of the properties are located in prime areas, are multi-tenanted and governed by shorter lease expiry profiles which in turn enable rental reversion to be in the mid-teens range. Figures 27 and 28 show the impact from the Platinum Sentral acquisition which was clearly seen in 2Q15; net property income and core earnings jumping by 77% and 64% respectively.

**Yield neutral on acquisition in near term.** Although the acquisition exercise immediately enhances MQREIT's top- and bottom lines, the impact on DPU, however, is not significant due to the fact that it carries out private placement and units consideration in order to finance the acquisition, which results in an enlarged share base. Nevertheless, we are still positive on the acquisition as: a) it strengthens MQREIT's position as a leading office REIT in Malaysia, b) it will lead to MQREIT's market cap surpassing the RM1b mark, thereby improving its trading liquidity, and c) it results in improved trading liquidity which in turn allows future acquisitions to be acquired at higher yields.

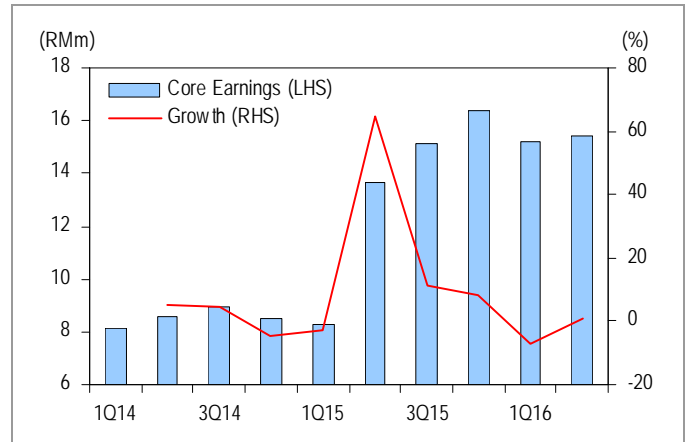
**Occupancy remains intact.** We do not foresee any significant changes to MQREIT's occupancy which could impact its earnings. Quarterly occupancy rates in 2014 and 2015 proved that MQREIT occupancy has been consistently improving at an average of 91% and 95% respectively. We are also positive that occupancy rate improved further in 1Q16 and 2Q16 to 97.1% and 97.2% respectively.

FIGURE 27: QUARTERLY NET PROPERTY INCOME



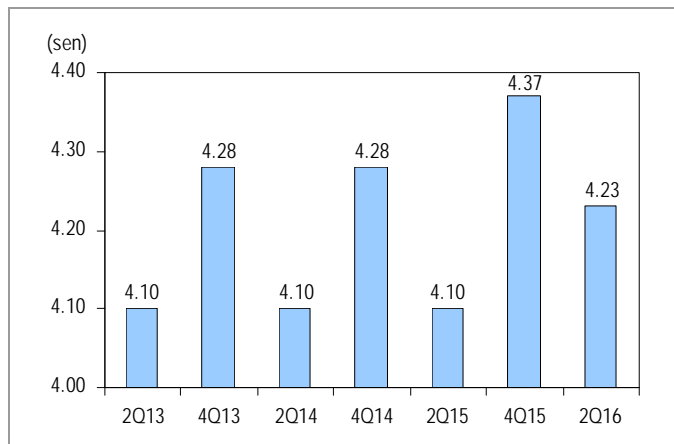
Source: MREIT

FIGURE 28: QUARTERLY CORE EARNINGS



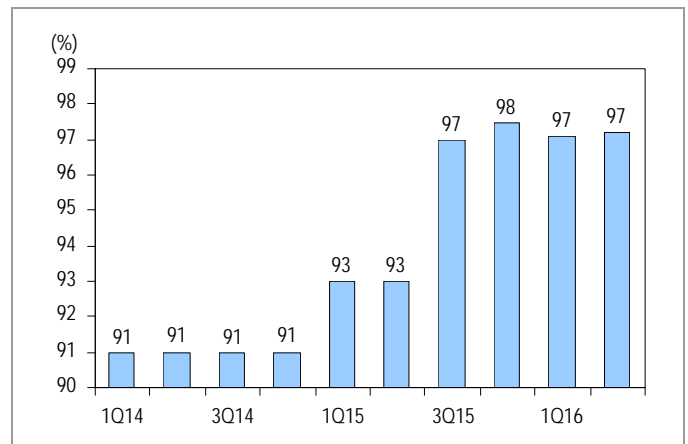
Source: MREIT

FIGURE 29: QUARTERLY DIVIDEND PER UNIT



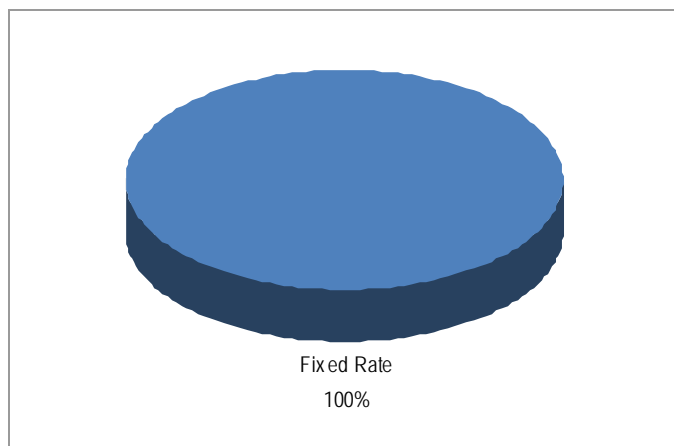
Source: MREIT

FIGURE 30: QUARTERLY OCCUPANCY



Source: MREIT

FIGURE 31: DEBT PROFILE



Source: MREIT

FIGURE 32: CAPITAL MANAGEMENT

Average Cost of Debt	4.4%
Gearing Ratio	43%
SC's Gearing Ratio Limit	50%
Next Refinancing Due	Sep 16
Average Debt to Maturity	2.84 years

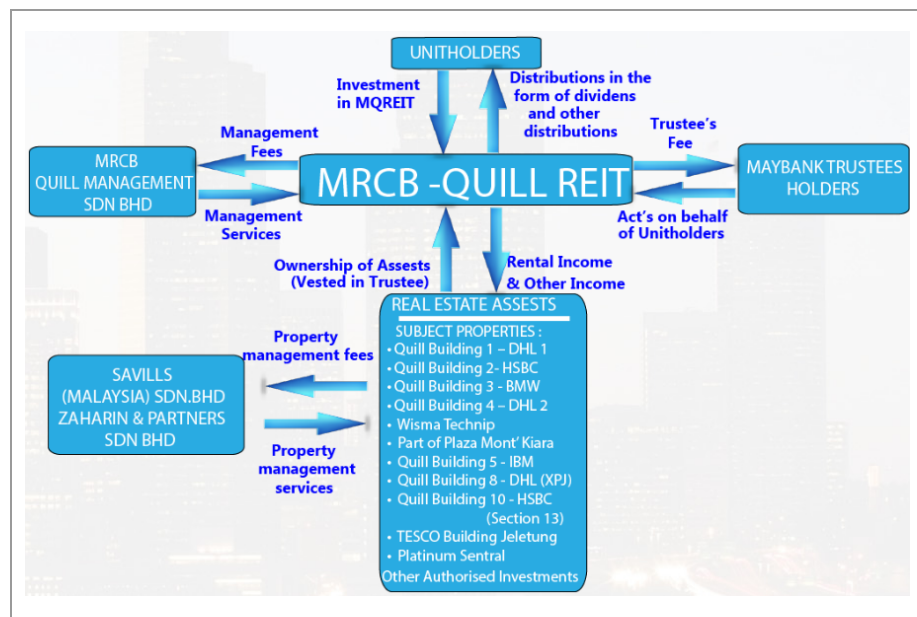
Source: MREIT



## Company Background

MQREIT was listed on Bursa Malaysia on 8 Jan 07 when it was formerly known as Quill Capita Trust. It started with only four properties and total asset value of RM280m. It has since grown to holding 10 properties worth over RM1.6b.

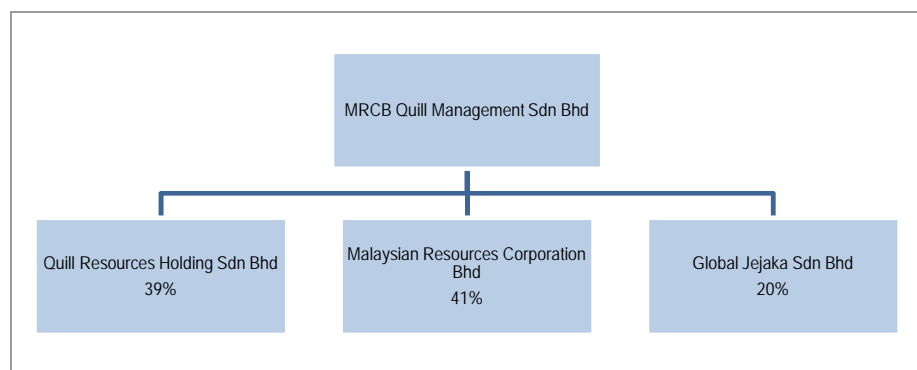
FIGURE 33: MQREIT STRUCTURE



Source: MQREIT

**REIT Manager.** MRCB Quill Management Sdn Bhd (MQM) is the manager for MQREIT where it provides management services and in return receives management fees for services provided. MQM has three shareholders, namely, Quill Resources Holding Sdn Bhd (QRH), MRCB and Global Jejaka Sdn Bhd.

FIGURE 34: MQM STRUCTURE



Source: MQREIT

**MRCB** engages in construction related activities, environmental engineering, property development and investment as well as provision of management services to its subsidiaries.

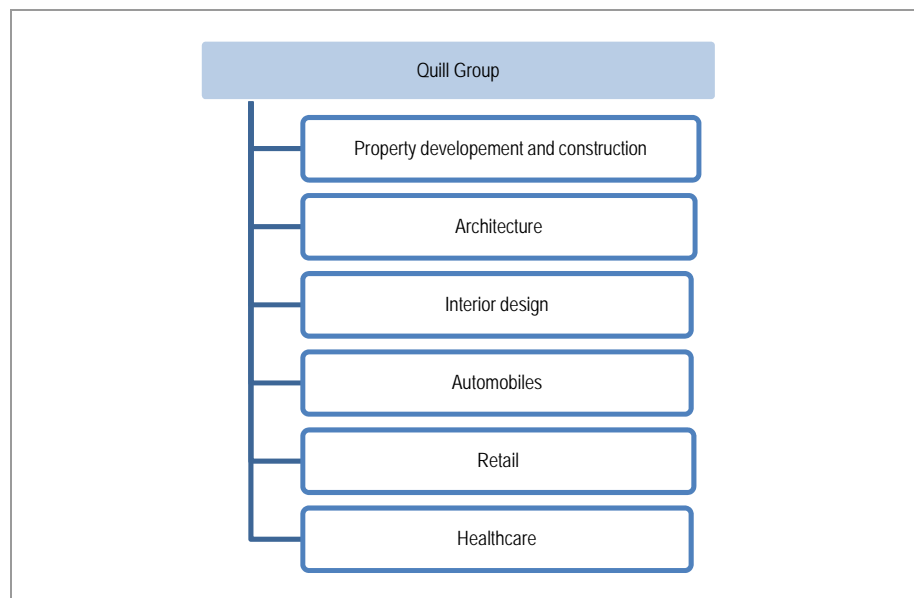
**QRH** is one of the companies within the Quill Group of Companies which has a proven track record of marketing, designing, and building built-to-suit business parks and commercial properties for MNCs in Cyberjaya and other parts of Kuala Lumpur. Quill Group of Companies is supported by an experienced in-house team of architects, engineers, space planners, builders and interior designers.

## Sponsors

**Dual-sponsor structure.** MQREIT has a unique structure as it is the only listed REIT in Malaysia with two sponsors, which are Quill Group and MRCB.

**Quill Group.** Established in 1987 with the vision to build a brand that represents the global standards in product quality & service delivery. Guided by this vision, it is today a well-known and respected brand. Quill is one of the leading fully-integrated multidisciplinary property groups in Malaysia with its in-house teams of architects, engineers, space planners, interior designers and builders.

FIGURE 35: SPONSOR – QUILL GROUP



Source: Quill Group

**Property development and construction.** Quill Construction is one of the pioneer developers that embarked on the journey of constructing high-tech buildings in line with the Multimedia Super Corridor programme launched in 1996. Its track record includes the international lobbying, ownership, design, construction and lease-back of high-tech buildings.

**Architecture.** Quill buildings are designed in-house by Michael Ong Chartered Architect (MOCA) of the Quill Group of Companies. MOCA is the leading architectural specialist in corporate and commercial building design, with involvement in the design of various corporate offices for international firms in Malaysia.

**Automobile.** Awarded the BMW dealership in Jan 09, Quill Automobiles is occupies a total built-up space in excess of 50,000 sf in the heart of Petaling Jaya. Quill has also been awarded the sole Roll-Royce importer and dealership in 2010; Rolls-Royce Motor Cars Kuala Lumpur.

**Retail.** Quill City comprises Quill Retail Mall (7-storey shopping mall, encompasses a net area of 770,000 sf), Quill Residences (coming soon with 36-storey residences) and Quill Business (the statuesque 40-storey Quill Business offers a panoramic view of the city).

**Healthcare.** Opened in Jan 12, Quill Orthopaedic Specialist Centre is a new advanced healthcare facility aimed at providing comprehensive and focused care for orthopaedic and musculoskeletal conditions.

**MRCB as co-sponsor.** Incorporated in Malaysia on 21 Aug 1968 under the Companies Act as a private limited company under the name Perak Carbide Corporation Sdn Bhd, it was converted to a public company on 28 Jun 1969 and listed on the then Main Board of Bursa Malaysia Securities Bhd on 22 Mar 1971. It subsequently changed its name to MRCB on 12 Oct 81.

**Prominent property player.** MRCB engages in construction related activities, environmental engineering, property development and investment as well as provision of management services to its subsidiaries.

FIGURE 36: SPONSOR – MRCB

	Land Size (acres)	GDV (RMm)	Start Date	Completion Date
<b><u>TRANSPORT ORIENTED DEVELOPMENT</u></b>				
<b>KL Sentral CBD:</b>				
Sentral Residences	2.35	1,432	2011	2017
Lot F	5.7	3,030	2018	2025
<b>PJ Sentral Garden City:</b>				
Celcom Tower	2.06	535	2013	2017
MBSB Tower	2.17	262	2014	2017
MyIPO Tower	2.35	274	2013	2017
Tower 1	2.27	819	2019	2022
Tower 5	1.49	507	2017	2019
PKNS Tower	1.57	183	TBD	TBD
F&B	-	38	TBD	TBD
<b>Penang Sentral:</b>				
Phase 1 to 3A	13.8	1,064	2015	2020
Phase 4 to 7	10.16	1,800	2018	2027
Cyberjaya City Centre	45.31	5,350	TBD	TBD
Kwasa Sentral	64.07	8,000	2016	2029
<b><u>COMMERCIAL DEVELOPMENTS</u></b>				
Putrajaya Office Tower	1.84	399	2015	2017
Suria Subang	3.2	402	2017	2019
Selbourne 2, Shah Alam	2.37	198	2017	2019
Pulai Land, Johor	67.52	1,100	TBD	TBD
KL Sports City	92.5	14,610	TBD	TBD
<b><u>RESIDENTIAL DEVELOPMENTS</u></b>				
<b>Nine Seputeh:</b>				
Parcel A	2.51	314	2016	2022
Parcel B	4.6	817	2016	2022
Parcel C ( Tower A, B, C & D)	7.96	1,139	2014	2018
Parcel D	2.56	409	TBD	TBD
The Grid	1.01	415	2015	2019
Lot 349, Sentral Suites	4.92	1,413	2016	2020
Burwood, Melbourne	1.2	190	2011	2017
3 Residences, Kajang	4.07	196	2015	2019
Semarak City	27.41	3,163	2015	2025
Bukit Rahman Putra	14.18	517	2016	2020
German Embassy Land	1.87	1,461	2018	2023
Batu Feringgi, Penang	3.34	322	2016	2019
<b>Bandar Sri Iskandar:</b>				
Begonia	4.6	13	2011	2016
Frisia	2.59	16	2011	2016
<b>TOTAL</b>	<b>407.89</b>	<b>50,402</b>		

TBD = To be disclosed  
Source: MRCB

## Directors And Management Team

FIGURE 37: DIRECTORS AND MANAGEMENT TEAM

Key Management	Background
Datuk Seri Saw Choo Boon Non-Independent Non-Executive Chairman	<ul style="list-style-type: none"> <li>Datuk Seri Saw Choo Boon joined Shell in 1970 as a Refinery Technologist in Shell Refining Company (FOM) Bhd. He then served in various capacities in manufacturing, supply, trading and planning in Malaysia, Singapore and Netherlands.</li> <li>He is also director for RHB Capital Bhd, Guinness Anchor Bhd, DiGi.Com Bhd, MRCB Quill Management Sdn Bhd, RHB Investment Bank Bhd, Phoenix Petroleum (M) Bhd, Integrated Petroleum Bhd and Ranhill Holdings Bhd.</li> </ul>
Dato' Dr. Low Moi Ing Non-Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Dato' Dr Low Moi Ing started her career with MAA Architect in 1981 and in 1986, set up Quill Design.</li> <li>She is in charge of the Group's strategic planning and jointly manages the finance, administration, legal, property development, building construction and renovation, procurement and project management of the Quill Group.</li> </ul>
Dato' Michael Ong Leng Chun Non-Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Dato' Michael Ong Leng Chun is one of the two founding partners of the Quill Group. The Quill Group was set up in 1988 and is involved in the investment of properties, which includes integrated property development, construction, interior design and architectural services.</li> <li>Dato' Michael Ong is responsible for and has extensive experience in the design, detailing and construction of properties within the Quill Group.</li> </ul>
Datuk Dr. Mohamed Arif Bin Nun Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Datuk Dr Mohamed Arif had been a lecturer, Assistant Professor and later, the Head of the Communications Engineering Department in the University of Technology, Malaysia.</li> <li>In 1996, he joined Multimedia Development Corporation (MDC), a one-stop agency to oversee the development of the MSC Malaysia, as the Senior Vice-President and from 2003 to 2005, held the position of CEO of MDC.</li> </ul>
Dato' Thanarajasingam Subramaniam Non-Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Dato' Thanarajasingam has extensive experience in both the public and private sectors. He has served as a Malaysian diplomat for more than 36 years including as Malaysian Ambassador to France and Portugal from 2006 to 2010 and Ambassador to Brazil, Venezuela, Suriname and Guyana from 1998 to 2001.</li> <li>Upon his retirement from the Malaysian Foreign Service in 2010, he became a director of OSK International Bank Bhd from 2010 to 2011 as well as served as the Malaysian Eminent Person for ASEAN-India Eminent Persons Group from 2010 to 2012.</li> </ul>
Dr Roslan A. Ghaffar Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Dr Roslan has over 28 years of experience in the areas of economics, finance and investment. He was the Head of Economics Department of Universiti Putra Malaysia ("UPM") from 1985 to 2001.</li> <li>In 1994, Dr Roslan was appointed as Director of Investment and Economic Research Department, Employees Provident Fund (EPF).</li> </ul>
Mr Foong Soo Hah Independent Non-Executive Director	<ul style="list-style-type: none"> <li>He started his career with American International Assurance Company in 1977 in the actuarial department. He later joined British American (Malaysia) Insurance Bhd (now known as Manulife Holdings Bhd) as Senior Vice President.</li> <li>He joined Great Eastern Life Assurance (Malaysia) Bhd in 1996 as Director and CEO until his retirement in 2009.</li> </ul>
Mr Ann Wan Tee Non-Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Ann Wan Tee has more than 17 years' experience spanning from project advisory, privatisation, private finance initiatives, financial feasibility studies, business valuations, mergers and acquisitions as well as corporate recovery.</li> <li>He joined MRCB as Chief Strategy Officer in May 13 and was appointed as the group's CFO in Nov 13.</li> </ul>
Mr Kwan Joon Hoe Non-Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Kwan Joon Hoe is currently COO of MRCB. He joined MRCB as Senior Vice President of the Groups' Property Division in Jan 14 before assuming his current position in MRCB.</li> <li>He joined Gapurna in 2008 as the group's Financial Controller, spearheading the RM1b Lot 348 development (Menara Shell) in Kuala Lumpur Sentral CBD.</li> </ul>
Ms Yong Su-Lin Chief Executive Officer	<ul style="list-style-type: none"> <li>Yong Su-Lin started her career in corporate banking, managing project financing and lending to property companies, small and medium enterprises, as well as large corporations.</li> <li>In Jun 06, Su-Lin joined CapitaLand and was part of the core team that spearheaded the listing of MOREIT. She has been involved in the day-to-day operations of MOREIT, and led the investment and investor relations functions as part of the core team since May 06.</li> </ul>
Mr Victor Wong Tze Meng Chief Financial Officer	<ul style="list-style-type: none"> <li>Victor Wong Tze Meng joined MRCB in 2002 with the KL Sentral Development Division and rose through the ranks until being appointed the Head of Finance for Property Division &amp; Building Services Division in 2009.</li> <li>In 2014, he had a short stint within the Special Projects Division of MRCB prior to joining MQM on 1 Apr 15 and his appointment as CFO on 20 May 15.</li> </ul>

Source: MOREIT

**Risk**

**Acquisition impact to be seen gradually in the long run.** Historically, acquisition exercises taken by MQREIT are always financed by a combination of cash consideration (ie from borrowings and/or private placement) together with units consideration. While private placement will result in an enlarged share base, we think any impact from the acquisition will not be immediate. Management had also re-iterated that any acquisition exercise is expected to be DPU yield-neutral.

**High gearing ratio.** MQREIT has the highest gearing ratio of 43% compared with that of its peers which average at 22%. Although its current gearing ratio is still below SC's limit of 50%, this could limit its ability to tap into the debt market for future acquisition exercises.

**Sharper-than-expected economic slowdown.** MQREIT could be adversely impacted by the global economic slowdown as its tenants are subsidiaries of MNCs. During an economic downcycle, MNCs tend to scale back on their overseas operations to cut costs.

**OPR hike.** The sector could be affected when BNM increase the OPR as investors interest will be shifted from REITs to MGS as the latter's looks more appealing.

**Financial Statements**
**FIGURE 38: PROFIT & LOSS**

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net Turnover	70	115	119	179	186
EBITDA	53	90	94	143	145
Depreciation & Amortisation	(0)	(0)	(0)	(0)	(0)
EBIT	53	90	94	143	145
Total Other Non-operating Income	0	0	0	0	0
Associate Contributions	0	0	0	0	0
Net Interest Income/(Expense)	(27)	(26)	(35)	(35)	(27)
<b>Pre-tax Profit</b>	<b>40</b>	<b>61</b>	<b>58</b>	<b>90</b>	<b>94</b>
Tax	0	0	0	0	0
Minorities	(1)	0	1	2	3
<b>Net Profit</b>	<b>40</b>	<b>61</b>	<b>58</b>	<b>90</b>	<b>94</b>
Net Profit (Adjusted)	34	53	58	90	94

Source: MOREIT, UOB Kay Hian

**FIGURE 39: BALANCE SHEET**

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Fixed Assets	838	1,570	1,572	2,212	2,214
Other LT Assets	1	4	4	4	4
Cash/ST Investment	32	47	29	30	13
Other Current Assets	6	7	6	8	9
<b>Total Assets</b>	<b>878</b>	<b>1,627</b>	<b>1,610</b>	<b>2,254</b>	<b>2,239</b>
ST Debt	0	189	189	189	189
Other Current Liabilities	15	16	22	33	34
LT Debt	305	501	486	700	685
Other LT Liabilities	8	16	16	16	16
Shareholders' Equity	412	751	751	1,178	1,178
Minority Interest	0	0	0	0	0
<b>Total Liabilities &amp; Equity</b>	<b>868</b>	<b>1,625</b>	<b>1,617</b>	<b>2,269</b>	<b>2,256</b>

Source: MOREIT, UOB Kay Hian

FIGURE 40: OPERATING RATIOS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
<b>Operating</b>	<b>31</b>	<b>59</b>	<b>64</b>	<b>96</b>	<b>98</b>
Pre-tax Profit	40	61	58	90	94
Tax	0	0	0	0	0
Depreciation & Amortisation	0	0	0	0	0
Working Capital Changes	(16)	(22)	6	6	4
Other Operating Cashflows	7	20	0	0	0
<b>Investing</b>	<b>(6)</b>	<b>(727)</b>	<b>(2)</b>	<b>(640)</b>	<b>(2)</b>
Capex (Growth)	(6)	(752)	(2)	(640)	(2)
Investments					
Proceeds from Sale of Assets	(0)	27	(0)	(0)	(0)
Others	0	(2)	0	0	0
<b>Financing</b>	<b>(33)</b>	<b>690</b>	<b>(71)</b>	<b>551</b>	<b>(109)</b>
Dividend Payments	(33)	(39)	(56)	(90)	(94)
Issue of Shares	0	340	0	427	0
Proceeds from Borrowings	15	534	0	229	0
Loan Repayment	(15)	(145)	(15)	(15)	(15)
Others/Interest Paid	0	0	0	0	0
<b>Net Cash Inflow (Outflow)</b>	<b>(8)</b>	<b>22</b>	<b>(9)</b>	<b>7</b>	<b>(13)</b>
<b>Ending Cash &amp; Cash Equivalent</b>	<b>31</b>	<b>23</b>	<b>45</b>	<b>29</b>	<b>30</b>

Source: MREIT, UOB Kay Hian

FIGURE 41: KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
EBITDA Margin	69.9	70.3	70.3	69.3
Pre-tax Margin	52.7	48.2	50.5	50.6
Net Margin	46.4	48.2	50.5	50.6
ROA	4.3	3.6	4.7	4.2
ROE	7.4	6.4	8.1	7.1
<b>Growth</b>				
Turnover	64.0	3.6	50.0	4.0
EBITDA	69.3	4.2	52.1	1.1
Pre-tax Profit	50.7	(5.3)	57.1	4.2
Net Profit	50.7	(5.3)	57.1	4.2
Net Profit (Adjusted)	56.4	7.6	57.1	4.2
EPS	3.4	(4.0)	(2.1)	4.2
<b>Leverage</b>				
Debt to Total Capital	43.3	42.7	40.0	39.6
Debt to Equity	76.3	74.6	66.7	65.6
Net Debt/(Cash) to Equity	71.2	71.3	64.5	64.6
Interest Cover (x)	3.0	3.2	3.5	3.7

Source: MREIT, UOB Kay Hian



## Appendix: Property Profile

### QUILL BUILDING 1 – DHL 1



Source: MOREIT

### QUILL BUILDING 1 – DHL 1 DETAILS

Description	4-storey office building together with a sub-basement and a basement car park
Address	3509 & 3511 Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Type	Commercial building
Age	10 years
Date of Acquisition	20 Nov 2006
Encumbrances	Charged to Malaysian Trustees Bhd as security agent
Acquisition Price	RM52.1m
Market Value	RM126.0m
Net Lettable Area	92,284 sf
Occupancy Rate	100%
Tenant	DHL Information Services (Asia Pacific) Sdn Bhd
Tenancy Period	7+3+3+2 years from Apr 02 5+5 years from Jan 16

Source: MOREIT

#### QUILL BUILDING 4 – DHL 2



Source: MOREIT

#### QUILL BUILDING 4 – DHL 2 DETAILS

Description	4-storey office building together with a sub-basement and a basement car park
Address	3509 & 3511 Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Type	Commercial building
Age	10 years
Date of Acquisition	20 Nov 2006
Encumbrances	Charged to Malaysian Trustees Bhd as security agent
Acquisition Price	RM57.0Mm
Market Value	RM126.0m
Net Lettable Area	99,183 sf
Occupancy Rate	100%
Tenant	DHL Information Services (Asia Pacific) Sdn Bhd
Tenancy Period	7+3+2 years from Apr 06 5+5 years from Jan 16

Source: MOREIT

### QUILL BUILDING 2 – HSBC



Source: MREIT

### QUILL BUILDING 2 – HSBC DETAILS

Description	4-storey office building together with a sub-basement and a basement car park
Address	3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Type	Commercial building
Age	12 years
Date of Acquisition	20 Nov 2006
Encumbrances	Charged to Malaysian Trustees Bhd as security agent
Acquisition Price	RM107.5m
Market Value	RM120.7m
Net Lettable Area	184,453 sf
Occupancy Rate	100%
Tenant	HSBC Electronic Data Processing (M) Sdn Bhd
Tenancy Period	6+3+2+5+3 years from Nov 03

Source: MREIT

#### QUILL BUILDING 3 – BMW



Source: MOREIT

#### QUILL BUILDING 3 – BMW DETAILS

Description	4-storey office building together with a sub-basement and a basement car park
Address	3501, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Type	Commercial building
Age	11 years
Date of Acquisition	20 Nov 2006
Encumbrances	Nil
Acquisition Price	RM59.4m
Market Value	RM75.5m
Net Lettable Area	117,198 sf
Occupancy Rate	80%
Tenant	BMW Asia Technology Centre Sdn Bhd BMW Malaysia Sdn Bhd
Tenancy Period	10 years from Jul 15

Source: MOREIT



## WISMA TECHNIP



Source: MOREIT

## WISMA TECHNIP DETAILS

Description	12-storey office building with a mezzanine floor and three split-levels basement car park
Address	241, Jalan Tun Razak, 50400 Kuala Lumpur
Type	Office building
Age	22 years
Date of Acquisition	3 Sep 2007
Encumbrances	Charged to Hong Leong Investment Bank as security agent
Acquisition Price	RM125.0m
Market Value	RM172.0m
Net Lettable Area	233,021 sf
Occupancy Rate	100%
Tenant	Technip Geoproduction (M) Sdn Bhd
Tenancy Period	5+2+5+2 years from Jan 07

Source: MOREIT

#### PART OF PLAZA MONT' KIARA



Source: MOREIT

#### PART OF PLAZA MONT' KIARA DETAILS

Description	An integrated retail/office commercial units located in Plaza Mont' Kiara, within the ground floors of Block A & B, Block C & D and at the basement and ground floor of Block E. The car park lots are located in Blocks A, B, C, D and E.
Address	Plaza Mont' Kiara, 2, Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur
Type	Commercial lots and car parks
Age	16 years
Date of Acquisition	3 Sep 2007
Encumbrances	Charged to Hong Leong Investment Bank as security agent
Acquisition Price	RM90.0m
Market Value	RM114.0m
Net Lettable Area	73,408 sf (excluding 1,499 car park lots)
Occupancy Rate	92%
Tenant	Multi-tenanted retail tenants from various sectors (i.e. banking, F&B, beauty, fashion etc)
Tenancy Period	Ranging from 1 to 3 years

Source: MOREIT

### QUILL BUILDING 5 – IBM



Source: MOREIT

### QUILL BUILDING 5 – IBM DETAILS

Description	5-storey office building with one level of sub-basement and 1.5 levels of basement car park
Address	3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Type	Commercial building
Age	8 years
Date of Acquisition	14 Mar 2008
Encumbrances	Charged to Hong Leong Investment Bank as security agent
Acquisition Price	RM43.0m
Market Value	RM45.2m
Net Lettable Area	81,602 sf
Occupancy Rate	91%
Tenant	IBM Malaysia Sdn Bhd
Tenancy Period	3+2+1.4+3+3 years from Jan 08 3+3+3 years from Jun 11

Source: MOREIT



QUILL BUILDING 8 – DHL XPJ



Source: MQREIT

QUILL BUILDING 8 – DHL XPJ DETAILS

Description	3-storey office building with an annexed single storey detached warehouse
Address	8, Jalan Pemaju U1/15, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan
Type	Industrial building
Age	9 years
Date of Acquisition	25 Mar 2008
Encumbrances	Charged to Hong Leong Investment Bank as security agent
Acquisition Price	RM28.8m
Market Value	RM26.4m
Net Lettable Area	65,205 sf
Occupancy Rate	92%
Tenant	DHL Express (M) Sdn Bhd
Tenancy Period	5+5 years from Jul 06

Source: MQREIT

#### TESCO BUILDING, PENANG



Source: MOREIT

#### TESCO BUILDING, PENANG DETAILS

Description	3-storey building
Address	1, Lebuhraya Tunku Kudat 1, 11700 Penang
Type	Commercial building
Age	11 years
Date of Acquisition	7 Nov 2008
Encumbrances	Charged to Malaysian Trustees Bhd as security agent
Acquisition Price	RM132.0m
Market Value	RM140.0m
Net Lettable Area	275,020 sf
Occupancy Rate	100%
Tenant	TESCO Stores (M) Sdn Bhd
Tenancy Period	Oct 04 to Aug 32

Source: MOREIT

## PLATINUM SENTRAL



Source: MREIT

## PLATINUM SENTRAL DETAILS

Description	5 blocks of 4 to 7 storey commercial building comprising office-cum-retail space, a multi-purpose hall and 2 levels of car park
Address	Kuala Lumpur Sentral
Type	Commercial building
Age	5 years
Date of Acquisition	30 Mar 2015
Acquisition Price	RM740.0m
Market Value	RM750.0m
Net Lettable Area	476,370 sf
Occupancy Rate	100%
Tenants	Small and Medium Enterprise Corporation Malaysia (SME), SBM Malaysia Sdn Bhd, Suruhanjaya Pengangkutan Awam Darat (SPAD), The ICLIF Leadership and Governance Centre, Lynas Malaysia Sdn Bhd, etc
Tenancy Period	Various

Source: MREIT

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