Malaysia

HOLD *(no change)*

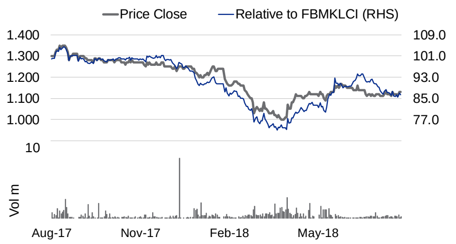
Consensus ratings*: Buy 4 Hold 4 Sell 0

Current price:	RM1.13
Target price:	RM1.14
Previous target:	RM1.14
Up/downside:	1.2%
CGS-CIMB / Consensus:	-8.2%
Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US$297.1m
	RM1,211m
Average daily turnover:	US$0.07m
	RM0.29m
Current shares o/s:	1,068m
Free float:	27.7%

*Source: Bloomberg

Key changes in this note

- No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.8	0.9	-13.8
Relative (%)	-5.8	2.9	-14.5

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

MRCB-Quill REIT

High dividend yields mitigate tenancy renewal risks

- MQREIT 1H18 core net profit was in line, constituting 47-48% of our and consensus full-year forecasts. Overall core net profit slipped 5.3% yoy but was largely expected.
- 1H18 NPI contracted 4% yoy due to higher operating cost; NPI margin stood at 77%.
- MQREIT booked in a 70% lease renewal in 1H18 and is in final negotiations for a replacement tenant at Platinum Sentral under a new leasing period of up to 9 years.
- We expect the likely sustained overhang on share price from tenancy renewal risks to be compensated for by high FY18-20F dividend yields of 7.4-7.5%.
- Hold call retained with unchanged DDM-based TP of RM1.14 (COE: 8.8%, TG: 1%).

1HFY18 results broadly in line

MQREIT's 1HFY18 core net profit (after stripping out RM46k loss in remeasurement in financial derivatives) is deemed in line, as it made up 48% of our full-year forecast and 47% of consensus. Realised gross revenue recorded a sequential -3.1% qoq decline in 2Q18 (1Q18: -0.8% qoq) on account of lower revenue from Platinum Sentral and Menara Shell as well as the disposal of Quill Building 8 which was completed on 12 Apr. 1H18 core net profit declined 5.3% yoy to RM42m, as EBITDA margin slipped 3% pts to 69%.

1H18 NPI down 4%, operating cost up 7.2%, DPU in line

The 4% contraction in 1H18 net property income to RM68m was largely expected, as property operating expenses crept up 7.2% yoy in 1H18, mostly due to higher routine expenses at selected assets. The resultant 1H18 NPI margin of 77% was slightly lower than 1H17's 78% but broadly in line with our full-year estimate. MQREIT declared a 4.23 sen DPU in 2Q18 (1Q19: none), and if annualised, is broadly in line with our full-year DPU forecast of 8.4 sen.

60% average portfolio renewal rate in 2Q18 (1Q18: 81%)

MQREIT booked in a 60% lease renewal rate in 2Q18 (1Q18: 82%, 1H18: 70%). For Platinum Sentral, the group is in final negotiations with a potential new multinational company (MNC) tenant to lock in a longer leasing period of up to nine years, potentially replacing the existing tenancy of the Land Public Transport Commission (SPAD) if it does not renew its 3-year leasing period by end-2018. SPAD occupies 64k sq ft of NLA at Platinum Sentral. Another tenant, My High Speed Rail (MyHSR), may extend its lease period to end-2018. MyHSR occupies 28k sq ft of NLA at Platinum Sentral.

Lease expiry profile: 28% of total NLA due in 2018F

Portfolio lease profile remains well spread out (28%, 15% and 17% of its net lettable area (NLA) is due for renewal in 2018F, 2019F and 2020F, respectively). The bulk of the remaining leases expiring in 2018F will occur in 3Q18 and 4Q18 and active negotiations are underway. We understand that negotiations for renewals were tough in 1Q18, with management having to sacrifice reversionary rates or offer incentives, i.e. rebates or rent-free periods. This could spill over into 2H18, in our view.

2H18's outlook for office assets

For 2H18, we expect the office segment to remain a tenant's market, where building owners will have to be more competitive in negotiating tenancy terms, i.e. offer rent-free periods, discounted rents or more asset enhancements initiatives (AEIs), in order to safely retain and secure quality tenants and attract new tenants. For MQREIT, it expects its portfolio in Cyberjaya to remain stable, and sees positive pockets of demand from MNCs at KL Sentral. Our FY18-20F EPS forecasts are intact.

Maintain Hold and DDM-based TP

Retain Hold with a DDM-based TP of RM1.14 (COE: 8.8%, TG: 1%). We expect the likely sustained overhang on share price from tenancy renewal risks to be compensated for by high FY18-20F dividend yields of 7.4-7.5%. Key upside risk is better rental reversion rates, especially for its KL assets; non-renewal of expiring leases is a key downside risk.

Analyst(s)

Sharizan ROSELY
T (60) 3 2261 9077
E sharizan.rosely@cimb.com

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Property Revenue (RMm)	136.6	180.1	177.7	180.9	182.7
Net Property Income (RMm)	107.2	140.0	138.3	140.3	141.7
Net Profit (RMm)	67.57	68.45	88.21	89.99	91.30
Distributable Profit (RMm)	62.18	89.61	88.27	90.06	91.37
DPS (RM)	0.084	0.084	0.084	0.084	0.085
Dividend Yield	7.42%	7.42%	7.42%	7.46%	7.50%
Asset Leverage	36.6%	37.3%	35.3%	35.2%	35.1%
BVPS (RM)	1.99	1.30	1.30	1.30	1.30
P/BV (x)	0.57	0.87	0.87	0.87	0.87
Recurring ROE	6.18%	6.41%	6.37%	6.51%	6.60%
CIMB/consensus DPS (x)			1.05	1.05	1.02

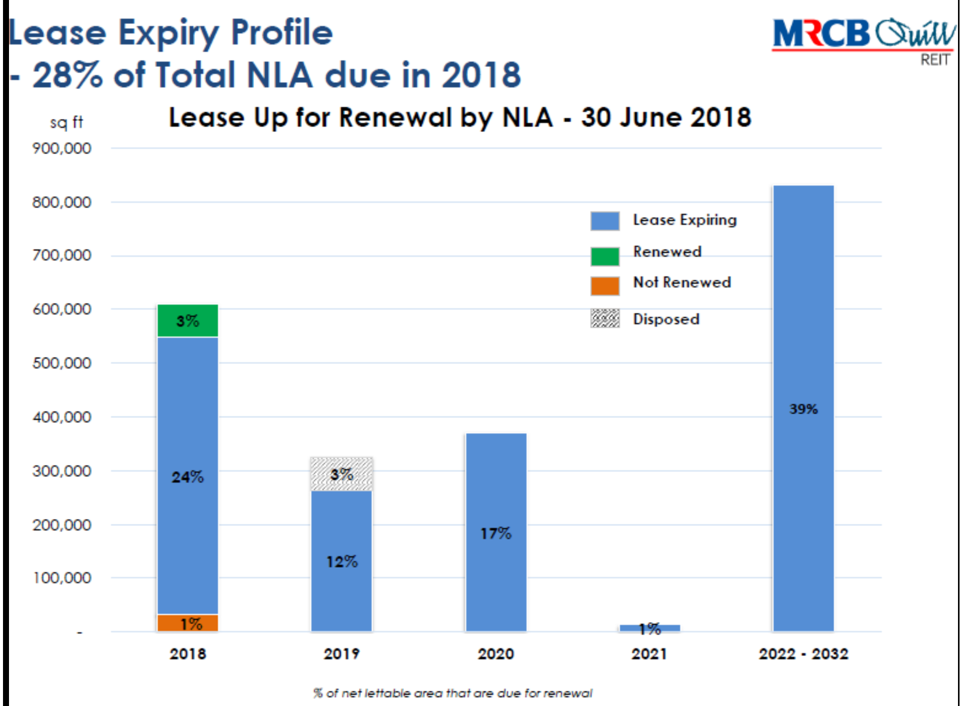
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY18	2QFY17	yoy % chg	1QFY18	qoq % chg	2QFY18 cum	2QFY17 cum	yoy % chg	Prev FY18F	Comments
Revenue	43.7	45.1	*-3.1*	44.0	*-0.8*	87.7	90.6	*-3.2*	177.7	Lower revenue from Platinum Sentral and Menara Shell
Operating costs	(13.6)	(12.7)	*7.2*	(14.1)	*-3.2*	(27.7)	(25.8)	*7.2*	(53.7)	Also loss of revenue from the disposal of QB8-DHL XPJ
EBITDA	30.1	32.4	*-7.1*	30.0	*0.3*	60.1	64.8	*-7.3*	124.0	in April
EBITDA margin (%)	***68.9***	***71.8***		***68.1***		***68.5***	***71.5***		***69.8***	
Depn & amort.	(0.0)	(0.0)	*-5.5*	(0.0)	*-4.0*	(0.0)	(0.0)	*-0.7*	(0.1)	
EBIT	30.1	32.4	*-7.1*	30.0	*0.3*	60.0	64.8	*-7.3*	123.9	
Interest expense	(9.9)	(9.8)	*1.0*	(9.7)	*2.5*	(19.6)	(19.6)	*0.3*	(37.4)	Total debt of RM853.4m as at end-2Q18
Interest & invt inc	0.9	0.6	*35.0*	0.7	*20.2*	1.6	1.1	*45.8*	1.7	Total cash and deposits with FIs of RM99m as at end-1Q18
Associates' contrib	0.0	0.0	*nm*	0.0	*nm*	0.0	0.0	*nm*	-	None as expected
Exceptionals & revaln	2.5	(1.1)	*321*	0.0	*nm*	2.5	(1.1)	*nm*	-	
Pretax profit	**23.5**	**22.0**	***6.5***	**21.0**	***11.8***	**44.5**	**45.2**	***-1.6***	**88.2**	
Tax	0.0	0.0	*nm*	0.0	*nm*	0.0	0.0	*nm*	-	No tax due to REIT structure, ie: more than 90% payout
Tax rate (%)	0.0	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	**23.5**	**22.0**	***6.5***	**21.0**	***11.8***	**44.5**	**45.2**	***-1.6***	**88.2**	
Core net profit	21.0	23.2	*-9.3*	21.0	*0.0*	42.0	46.3	*-9.3*	88.2	1H18 core net profit made up 48% our full-year forecast
Distr profit	23.5	28.9	*-18.7*	22.4	*4.9*	45.9	48.5	*-5.3*	88.3	and 47% of consensus
DPU (sen)	4.2	4.2	*0.0*	0.0	*nm*	4.2	4.2	*0.0*	8.4	

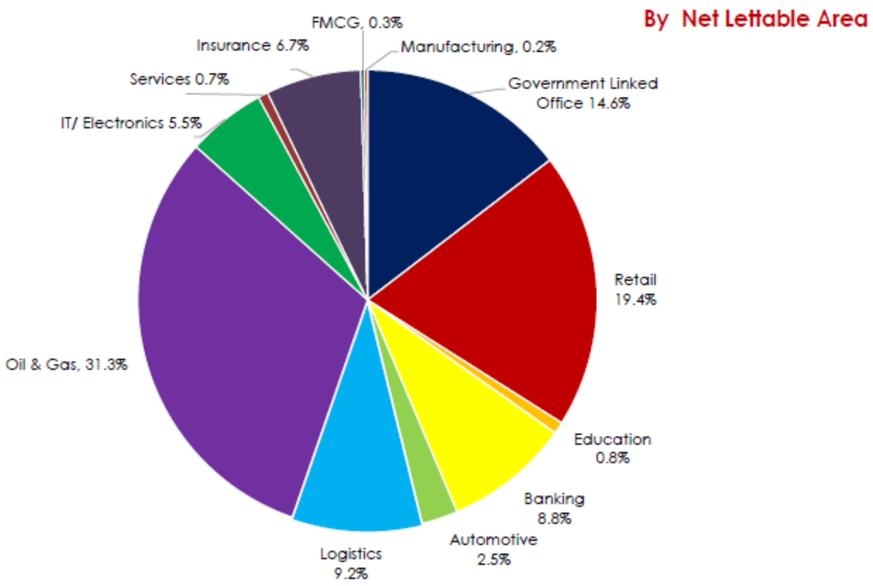
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 2: Lease expiry profile



SOURCES: COMPANY REPORTS

Figure 3: Tenancy mix by NLA



SOURCES: COMPANY REPORTS

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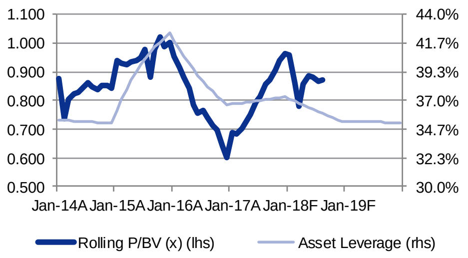

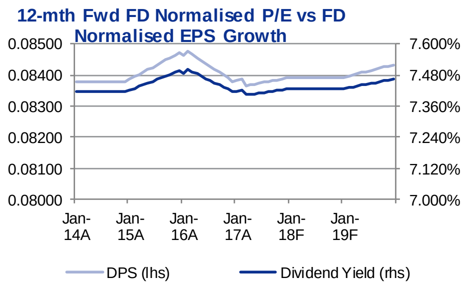

Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Rental Revenues	115.9	162.1	160.3	162.8	163.8
Other Revenues	20.7	18.0	17.4	18.1	18.9
Gross Property Revenue	**136.6**	**180.1**	**177.7**	**180.9**	**182.7**
Total Property Expenses	(29.5)	(40.2)	(39.4)	(40.6)	(41.0)
Net Property Income	**107.2**	**140.0**	**138.3**	**140.3**	**141.7**
General And Admin. Expenses	(1.7)	(0.3)	(0.4)	(0.4)	(0.5)
Management Fees	(9.7)	(13.5)	(12.8)	(12.9)	(12.9)
Trustee's Fees	(0.5)	(0.7)	(0.6)	(0.7)	(0.7)
Other Operating Expenses	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)
EBITDA	**94.7**	**125.0**	**124.0**	**125.9**	**127.1**
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	**94.7**	**124.9**	**123.9**	**125.8**	**127.1**
Net Interest Income	(30.7)	(36.9)	(35.7)	(35.8)	(35.8)
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**	**68.5**	**88.2**	**90.0**	**91.3**
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**	**68.5**	**88.2**	**90.0**	**91.3**
Distributable Profit	**62.2**	**89.6**	**88.3**	**90.1**	**91.4**

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Pre-tax Profit	**67.6**	**68.5**	**88.2**	**90.0**	**91.3**
Depreciation And Non-cash Adj.	30.7	37.0	35.8	35.9	35.8
Change In Working Capital	15.1	4.0	(7.6)	2.2	5.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	(3.5)	19.7	0.0	0.0	0.0
Cashflow From Operations	**109.8**	**129.1**	**116.3**	**128.1**	**132.5**
Capex	(648.7)	(0.4)	(5.0)	(5.0)	(5.0)
Net Investments And Sale Of FA	3.0	(0.0)	5.0	5.0	5.0
Other Investing Cashflow	0.8	2.2	1.7	1.6	1.6
Cash Flow From Investing	**(644.9)**	**1.7**	**1.7**	**1.6**	**1.6**
Debt Raised/(repaid)	164.0	(0.3)	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)	(89.6)	(90.1)	(90.5)
Cash Interest And Others	(30.7)	(32.4)	(35.7)	(35.8)	(35.8)
Cash Flow From Financing	**564.4**	**(105.3)**	**(125.3)**	**(125.9)**	**(126.2)**
Total Cash Generated	29.3	25.6	(7.3)	3.8	7.9
Free Cashflow To Firm	(532.7)	134.5	119.7	131.3	135.8
Free Cashflow To Equity	(401.8)	97.0	82.3	93.9	98.3

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Investments	2,240	2,179	2,164	2,169	2,174
Intangible Assets	0	0	0	0	0
Other Long-term Assets	3	2	2	2	2
Total Non-current Assets	2,243	2,181	2,167	2,172	2,177
Total Cash And Equivalents	54	76	38	35	36
Inventories	0	0	0	0	0
Trade Debtors	18	5	5	5	5
Other Current Assets	1	26	1	1	1
Total Current Assets	**72**	**107**	**44**	**41**	**42**
Trade Creditors	7	20	13	15	20
Short-term Debt	186	117	117	117	117
Other Current Liabilities	77	13	13	13	13
Total Current Liabilities	**271**	**150**	**142**	**145**	**150**
Long-term Borrowings	662	737	662	662	662
Other Long-term Liabilities	23	17	22	22	22
Total Non-current Liabilities	685	754	685	685	685
Shareholders' Equity	1,360	1,385	1,383	1,383	1,384
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	**1,360**	**1,385**	**1,383**	**1,383**	**1,384**

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Property Revenue Growth	18.6%	31.8%	(1.4%)	1.8%	1.0%
NPI Growth	18.7%	30.6%	(1.2%)	1.5%	1.0%
Net Property Income Margin	78.4%	77.7%	77.8%	77.6%	77.5%
DPS Growth	(1.06%)	0.12%	(0.01%)	0.52%	0.44%
Gross Interest Cover	2.87	3.08	3.31	3.36	3.40
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	82%	131%	100%	100%	100%
Current Ratio	0.27	0.71	0.31	0.28	0.28
Quick Ratio	0.27	0.71	0.31	0.28	0.28
Cash Ratio	0.20	0.51	0.27	0.24	0.24
Return On Average Assets	3.43%	2.97%	3.92%	4.07%	4.12%

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	2,190	2,190	2,190
Occupancy (%)	97.7%	96.3%	97.3%	97.3%	97.3%
Assets Under Management (m) (RM)	2,222.0	2,222.0	2,164.5	2,169.5	2,174.5
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
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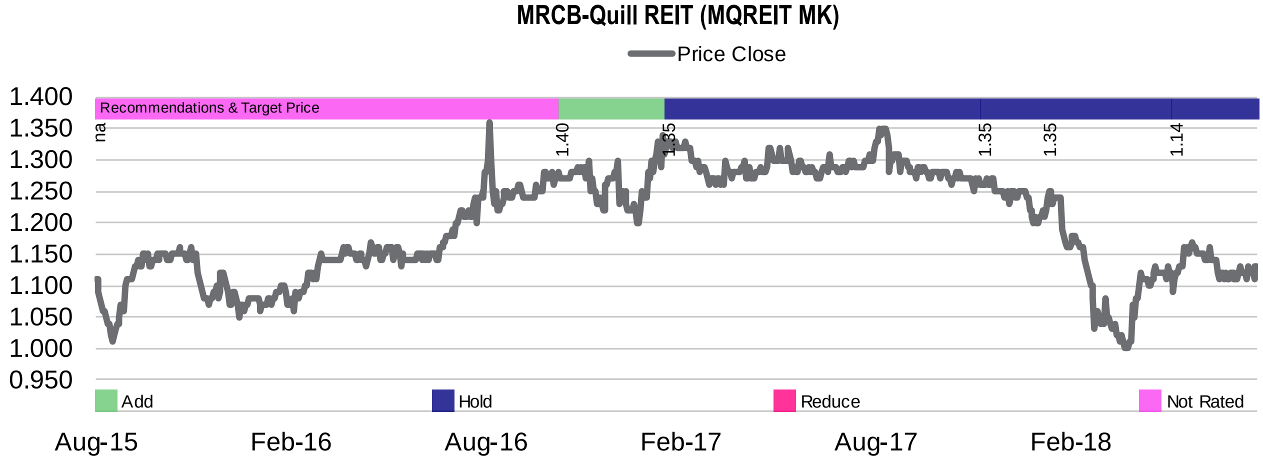
	Rating Distribution (%)	Investment Banking clients (%)
Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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