

Company Note

Malaysia

HOLD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 0

Current price:	RM1.27
Target price:	RM1.35
Previous target:	RM1.35
Up/downside:	6.7%
CIMB / Consensus:	-2.0%
Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US\$326.0m
	RM1,356m
Average daily turnover:	US\$0.09m
	RM0.40m
Current shares o/s:	683.6m
Free float:	27.7%
*Source: Bloomberg	

Key changes in this note

- FY17-19F EPS decreased by 6-8%.
- FY17-19F DPS decreased by 1.6-2.5%.

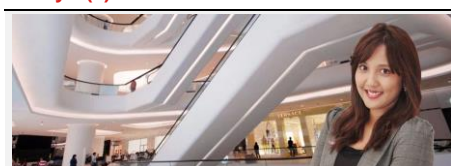


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.8	-5.2	1.6
Relative (%)	0.8	-2.1	-4.2

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

Analyst(s)



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MRCB-Quill REIT

Compensated by appealing dividend yields

- 9M17 core net profit of RM67m missed our and Bloomberg consensus expectations.
- 9M17 revenue (+39% yoy) and earnings (+45% yoy) growth was boosted by contribution from newly acquired Menara Shell since Dec 2016.
- Cut FY17-19F EPS by 6-8% as we lower rental reversion assumptions and account for non-renewals.
- Our TP remains intact at RM1.35 despite rolling forward our valuation to end 2019.
- Maintain Hold rating as concern over its exposure to office supply glut is offset by its high est. dividend yields of 6.6-6.7%.

9M17 below expectations

MRCB-Quill REIT's (MQREIT) 9M17 core net profit of RM66.6m (+45% yoy) was below expectations, at 72% of our and 73% of Bloomberg consensus full-year forecasts. The earnings missed our forecast due to lower-than-expected rental reversion rates for expiring leases as well as higher-than-expected finance costs.

Earnings growth mainly came from inclusion of Menara Shell

9M17 realised revenue growth of 38.6% yoy came from the new contribution from Menara Shell since Dec 16 and positive rental reversions at Quill Buildings 2, 3 and 5 in Cyberjaya as well as Wisma Technip in KL. However, property expenses rose 43.2% yoy partly due to newly-added assets, which translated to a 1%-pt decline in MQREIT's NPI margins to 77.8% in 9M17. 9M17 NPI grew 36.7% yoy to RM104.9m.

Lease renewals at low single-digit reversionary rates

14% of MQREIT's NLA (c.316k sq ft) is up for renewal in FY17, and c.25k sq ft has been renewed at low single-digit rental reversion rates. It is negotiating for lease renewals with SBM Offshore in Platinum Sentral (NLA: c.67k sq ft) and three tenants in Menara Shell (cum. NLA: c.48k sq ft). We gather SBM and two of the three tenants in Menara Shell are likely to renew their leases; however, we think rental reversions may be flat or weaker, in line with Jones Lang Wootton's rental reversion guidance of -5% to 0% for KL offices.

FY18 expiring leases will mainly come from KL assets

Meanwhile, 26% of MQREIT's NLA will be up for renewal in FY18, with most of the NLA coming from tenants in Platinum Sentral. While we understand some tenants have indicated interest in renewing their leases, a tenant in Platinum Sentral has indicated the possibility of downsizing. We gather that negotiations for renewals have been tough, especially for its KL offices given that it is a tenant's market. The group continues to focus on tenant retention but we think this is at the expense of reversionary rates.

Cut earnings by 6% to 8% to reflect softer KL office market

While we expect flat to low single digit rental reversions for its KL assets; its Cyberjaya assets should still be able to fetch positive reversions, given most are built-to-suit. We lower our rental reversion assumptions for FY17-19F and account for non-renewals in FY17. We have imputed higher finance costs and adjusted our payout ratio assumption.

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

Although we roll forward our valuation period to FY19F, our target price remains at RM1.35 following our earnings revision. MQREIT is exposed to the office oversupply issue, especially for its KL assets but we think the group's built-to-suit Cyberjaya assets should still be able to support earnings. Our Hold call is maintained and we think est. dividend yields of 6.6-6.7% (highest in CIMB's REIT universe) should compensate for the stock's exposure to the office oversupply issue.

Key risks

Key upside risk is better rental reversion rates, especially for its KL-located offices; non-renewal of its expiring leases is a key downside risk.

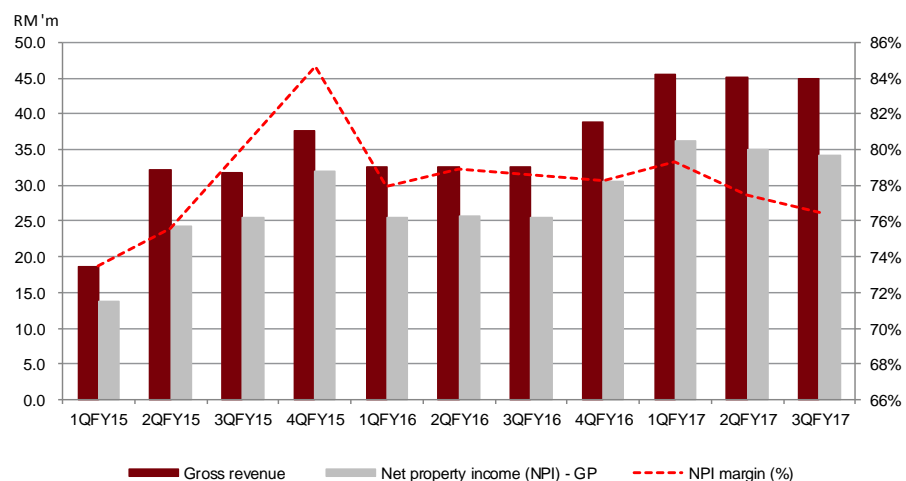
Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Property Revenue (RMm)	115.2	131.8	180.1	181.5	184.3
Net Property Income (RMm)	90.3	102.3	141.1	141.7	143.4
Net Profit (RMm)	60.68	62.71	88.39	88.82	90.34
Distributable Profit (RMm)	50.92	55.42	93.75	94.16	95.70
DPS (RM)	0.085	0.084	0.084	0.084	0.086
Dividend Yield	6.67%	6.60%	6.60%	6.63%	6.74%
Asset Leverage	42.4%	37.1%	39.8%	39.6%	39.5%
BVPS (RM)	1.37	1.99	1.28	1.28	1.29
P/BV (x)	0.93	0.64	0.99	0.99	0.99
Recurring ROE	7.39%	5.23%	6.49%	6.50%	6.59%
% Change In DPS Estimates			(1.58%)	(1.68%)	(2.51%)
CIMB/consensus DPS (x)			1.03	1.03	1.02

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	3QFY17	3QFY16	yoy % chg	qoq % chg	3QFY17 cum	3QFY16 cum	yoy % chg	Prev FY17F	Comments
Revenue	44.8	32.5	37.9	-0.6	135.4	97.7	38.6	193.1	Revenue improved mainly due to the addition of Menara
Operating costs	(14.2)	(9.6)	47.4	2.9	(41.1)	(29.1)	41.2	(65.2)	Shell and positive rental reversions at several other properties
EBITDA	30.6	22.9	33.9	-2.1	94.3	68.6	37.5	127.9	
EBITDA margin (%)	68.3	70.3			69.6	70.2		66.2	
Depn & amort.	(0.0)	(0.0)	2,788	0.0	(0.1)	(0.0)	24.8	(0.1)	
EBIT	30.6	22.9	33.8	-2.1	94.3	68.5	37.5	127.9	
Interest expense	(10.0)	(8.1)	22.8	1.1	(29.5)	(23.9)	23.3	(37.5)	Total debt of RM854m as at end-3Q17
Interest & invt inc	0.7	0.5	57.3	15.1	1.8	1.2	48.6	2.4	Total cash of RM4.1m as at end-3Q17
Associates' contrib	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Exceptionals & revaln	0.0	0.0	nm	nm	0.0	0.0	0.0	0.0	-
Pretax profit	21.4	15.2	40.4	-3.0	66.6	45.9	45.2	92.8	
Tax	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	
Tax rate (%)	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	No tax due to REIT structure, ie: more than 90% payout
Minority interests	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Net profit	21.4	15.2	40.4	-3.0	66.6	45.9	45.2	92.8	
Distr profit	23.2	28.9	-19.7	nm	68.4	45.9	49.2	91.0	
Core net profit	21.4	15.2	40.4	-3.0	66.6	45.9	45.2	92.8	Below expectations
DPU (sen)	0.0	0.0	nm	nm	4.2	4.2	0.0	8.5	

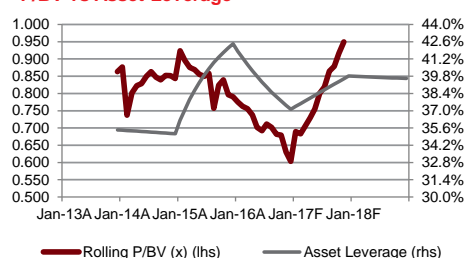
SOURCES: CIMB, COMPANY REPORTS

Figure 2: Quarterly revenue and net property income

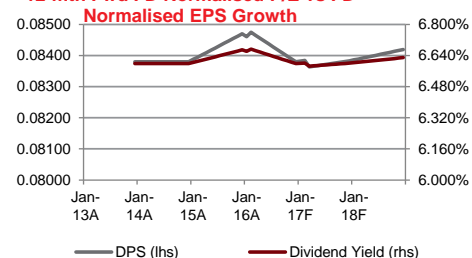
SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



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



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Rental Revenues	99.5	115.9	163.5	164.2	166.2
Other Revenues	15.7	15.9	16.6	17.3	18.1
Gross Property Revenue	115.2	131.8	180.1	181.5	184.3
Total Property Expenses	(24.9)	(29.5)	(39.0)	(39.7)	(40.9)
Net Property Income	90.3	102.3	141.1	141.7	143.4
General And Admin. Expenses	(0.4)	(1.7)	(1.9)	(2.0)	(2.2)
Management Fees	(8.6)	(9.7)	(13.1)	(13.2)	(13.3)
Trustee's Fees	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
EBITDA	80.5	89.9	124.9	125.3	126.6
Depreciation And Amortisation	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	80.5	89.8	124.8	125.2	126.6
Net Interest Income	(27.1)	(30.7)	(36.4)	(36.4)	(36.2)
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	7.3	3.5	0.0	0.0	0.0
Pre-tax Profit	60.7	62.7	88.4	88.8	90.3
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	60.7	62.7	88.4	88.8	90.3
Distributable Profit	50.9	55.4	93.8	94.2	95.7

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Pre-tax Profit	60.7	62.7	88.4	88.8	90.3
Depreciation And Non-cash Adj.	27.1	30.7	36.5	36.4	36.3
Change In Working Capital	6.4	15.1	(18.5)	7.5	4.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	(7.2)	(3.5)	0.0	0.0	0.0
Cashflow From Operations	87.0	105.0	106.3	132.7	130.7
Capex	(751.9)	(647.4)	(5.0)	(5.0)	(5.0)
Net Investments And Sale Of FA	29.1	1.5	4.0	5.0	5.0
Other Investing Cashflow	(1.5)	1.6	5.0	5.3	5.5
Cash Flow From Investing	(724.4)	(644.2)	4.0	5.3	5.5
Debt Raised/(repaid)	389.0	164.0	90.0	0.0	0.0
Equity Raised/(Repaid)	342.0	487.9	0.0	0.0	0.0
Dividends Paid	(38.7)	(56.9)	(89.5)	(89.9)	(91.4)
Cash Interest And Others	(27.1)	(30.7)	(36.4)	(36.4)	(36.2)
Cash Flow From Financing	665.2	564.4	(35.9)	(126.3)	(127.6)
Total Cash Generated	27.8	25.1	74.4	11.8	8.5
Free Cashflow To Firm	(636.5)	(536.9)	115.4	143.4	141.6
Free Cashflow To Equity	(275.5)	(405.9)	163.9	101.7	99.9

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Investments	1,570	2,222	2,229	2,234	2,239
Intangible Assets	0	0	0	0	0
Other Long-term Assets	4	0	0	0	0
Total Non-current Assets	1,574	2,222	2,229	2,234	2,239
Total Cash And Equivalents	45	54	112	118	122
Inventories	0	0	0	0	0
Trade Debtors	6	18	24	24	25
Other Current Assets	1	0	0	0	0
Total Current Assets	52	72	136	143	146
Trade Creditors	14	28	16	24	28
Short-term Debt	189	189	189	189	189
Other Current Liabilities	3	35	24	24	24
Total Current Liabilities	205	252	229	237	241
Long-term Borrowings	501	662	752	752	752
Other Long-term Liabilities	16	20	20	20	20
Total Non-current Liabilities	516	682	772	772	772
Shareholders' Equity	904	1,360	1,364	1,368	1,372
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	904	1,360	1,364	1,368	1,372

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Property Revenue Growth	64.0%	14.4%	36.6%	0.8%	1.6%
NPI Growth	69.3%	13.3%	37.9%	0.5%	1.2%
Net Property Income Margin	78.4%	77.6%	78.4%	78.1%	77.8%
DPS Growth	1.07%	(1.06%)	0.04%	0.43%	1.64%
Gross Interest Cover	2.88	2.72	3.01	3.00	3.03
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	84%	88%	106%	106%	106%
Current Ratio	0.25	0.28	0.59	0.60	0.61
Quick Ratio	0.25	0.28	0.59	0.60	0.61
Cash Ratio	0.22	0.21	0.49	0.50	0.50
Return On Average Assets	4.87%	3.20%	3.79%	3.75%	3.79%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
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	1,699	2,255	2,255	2,255
Occupancy (%)	97.5%	97.7%	97.9%	97.8%	97.6%
Assets Under Management (m) (RM)	1,569.8	2,222.0	2,228.9	2,233.9	2,238.9
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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1285 companies under coverage for quarter ended on 30 September 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

Spitzer Chart for stock being researched (2 year data)

MRCB-Quill REIT (MQREIT MK)



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

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, **ICI** – 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, **TIPIP** – 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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- Companies certified by CAC

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- 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.