

Malaysia

HOLD (no change)

Consensus ratings*: Buy 5 Hold 3 Sell 0

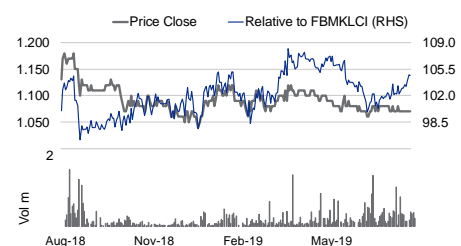
Current price: RM1.07
Target price: RM1.10
Previous target: RM1.11
Up/downside: 2.9%
CGS-CIMB / Consensus: -4.6%

Reuters: MQRE.KL
Bloomberg: MQREIT MK
Market cap: US\$273.6m
RM1,147m
Average daily turnover: US\$0.07m
RM0.30m
Current shares o/s: 1,072m
Free float: 49.1%

*Source: Bloomberg

Key changes in this note

► FY19-21F EPS / DPU cut by 6-7%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.9	-2.7	-5.3
Relative (%)	3.3	-1.4	4.1

Major shareholders	% held
MRCB	27.8
Employees Provident Fund	12.1
CapitalCommercial Trust	11.0

MRCB-Quill REIT

7% dividend yield masks a subdued 1H19

- 1H19 results were below expectations; core net profit fell 15% yoy.
- 88% of expiring leases were renewed in 2Q19 but rental downtime at Platinum Sentral could weigh on 2H19F earnings.
- Hold maintained with a lower DDM-based TP. 7.2% revised dividend yield remains the main appeal.

1HFY19 results below expectations; 1H19 DPU: 3.4 sen

MQ REIT's 1H19 core net profit was below expectations, constituting 41-43% of our and consensus full-year estimates. The main deviation came from 2Q19's 10.3% yoy drop in revenue due to the departure of a tenant at Quill Building 5 (QB5) and a reduction in tenanted space at Wisma TechnipFMC. Overall 1H19 revenue declined 8% yoy, still dragged by the lower contribution from Platinum Sentral and Menara Shell, and the loss of revenue from the disposal of Quill Building 8 (QB8). Excluding the RM2.2m gain from asset sale in 2Q18, 1H19 core net profit contracted 15.2% yoy, also due to lower interest income and higher operating costs. The 3.4 sen DPU in 1H19 was 19% lower yoy.

NPI slipped 9.3% yoy; higher electricity cost

1H19 net property income (NPI) declined 9.3% yoy to RM62m, in line with lower revenue and higher property expenses; higher electricity tariff was due to Tenaga's Imbalanced Cost Pass Through (ICPT). NPI margin slipped 1.1% pt to 76.5% in 1H19 vs. 78% in 1H18 but was below our full-year forecast of 77.5%.

88% renewal rate for leases due in 2Q19

The positive is that the group renewed 88% of the lease expiring in 2Q19. The new leases in Platinum Sentral predominantly occupy part of the space previously tenanted by the Land Public Transport Commission (SPAD). SPAD, which previously occupied 67k sq ft of NLA, has taken up only one of the three levels (17k sq ft) while the remaining NLA has been taken up by a new tenant. Separately, 60% of the 28k sq ft of NLA previously occupied by My High Speed Rail (MyHSR) has been taken up by a multinational tenant.

Weak revenue could weigh on earnings in 2H19

MQ REIT's 1H19 portfolio rental reversion of positive low-single digit remains manageable with an average occupancy rate of 89% (end-FY18: 93%). However, the expected rental downtime at Platinum Sentral's vacant space previously occupied by My High Speed Rail (MyHSR) and the Land Public Transport Commission (SPAD), and the reduced occupancy at Wisma TechnipFMC, could weigh on earnings in 2H19F.

Hold maintained with lower TP; 7.2% revised dividend yields

We cut FY19-21F EPS and DPU by 6-7% to reflect weaker rental income and lower NPI margin. This lowers our DDM-based TP slightly to RM1.10 (lower COE: 8.5% due to a lower adjusted beta, TGR: 1%). Maintain Hold in view of the limited share price upside but supported by attractive FY19-21F revised dividend yields of 7.2%. Better rental reversion and improved occupancy rates are potential upside risks to our call. Non-renewal of expiring leases remains a key downside risk.

Analyst(s)



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Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Gross Property Revenue (RMm)	180.1	172.5	177.0	178.8	180.6
Net Property Income (RMm)	140.0	132.8	134.1	135.2	135.9
Net Profit (RMm)	68.45	73.13	82.11	83.15	83.58
Distributable Profit (RMm)	89.61	73.13	82.19	83.23	83.65
DPS (RM)	0.084	0.081	0.077	0.077	0.077
Dividend Yield	7.84%	7.55%	7.17%	7.18%	7.22%
Asset Leverage	37.3%	37.6%	37.6%	37.5%	37.5%
BVPS (RM)	1.30	1.28	1.28	1.28	1.28
P/BV (x)	0.83	0.84	0.84	0.84	0.83
Recurring ROE	6.41%	5.46%	5.98%	6.06%	6.08%
% Change In DPS Estimates			(6.83%)	(7.03%)	(7.00%)
CGS-CIMB/Consensus DPS (x)			1.02	1.04	1.03

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

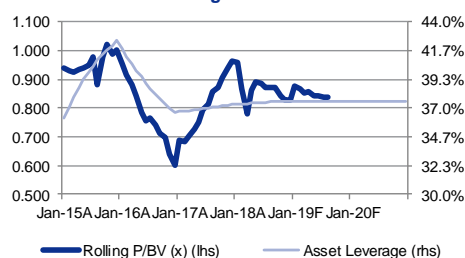
Figure 1: Results Comparison

FYE Dec (RM m)	2QFY19	2QFY18	yoy % chg	1QFY19	qoq % chg	2QFY19 cum	2QFY18 cum	yoy % chg	Prev FY19F	Comments
Revenue	39.2	43.7	-10.3	41.7	-6.1	80.9	88.0	-8.0	180.9	Lower revenue from Platinum Sentral and Menara Shell
Operating costs	(13.5)	(13.3)	1.6	(13.2)	2.2	(26.8)	(27.6)	-3.1	(55.1)	Also loss of revenue from the disposal of QB8-DHL XPJ
EBITDA	25.7	30.4	-15.5	28.5	-9.9	54.1	60.4	-10.3	125.8	in April
EBITDA margin (%)	65.5	69.5		68.2		66.9	68.6		69.5	
Depn & amort.	(0.0)	(0.0)	123	(0.0)	0.0	(0.1)	(0.0)	119	(0.1)	
EBIT	25.6	30.3	-15.6	28.4	-9.9	54.1	60.3	-10.4	125.7	
Interest expense	(9.7)	(9.9)	-2.1	(9.9)	-1.3	(19.6)	(19.6)	-0.2	(40.6)	Total debt of RM835m as at end-2Q19
Interest & invt inc	0.6	0.9	-35.5	0.8	-31.7	1.4	1.6	-13.2	3.0	Total cash and deposits with FIs of RM67m as at end-2Q19
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Exceptionals & revaln	0.0	2.2	-100.0	0.0	nm	0.0	2.2	nm	-	
Pretax profit	16.5	23.5	-29.9	19.4	-15.2	35.9	44.5	-19.4	88.1	
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	16.5	23.5	-29.9	19.4	-15.2	35.9	44.5	-19.4	88.1	
Core net profit	16.5	21.3	-22.7	19.4	-15.2	35.9	42.3	-15.2	88.1	1H19 core net profit made up 41-43% of ours and
Distr profit	16.5	23.5	-29.9	19.4	-15.2	35.9	45.9	-21.8	88.2	consensus full-year forecasts
DPU (sen)	3.4	4.2	-18.9	0.0	nm	3.4	4.2	-18.9	8.2	

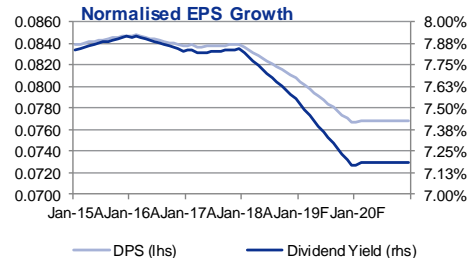
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



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



Profit & Loss

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Rental Revenues	162.1	155.1	158.9	159.9	160.8
Other Revenues	18.0	17.4	18.1	18.9	19.8
Gross Property Revenue	180.1	172.5	177.0	178.8	180.6
Total Property Expenses	(40.2)	(39.7)	(42.9)	(43.7)	(44.7)
Net Property Income	140.0	132.8	134.1	135.2	135.9
General And Admin. Expenses	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Management Fees	(13.5)	(13.3)	(12.7)	(12.8)	(12.8)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
EBITDA	125.0	117.9	119.7	120.7	121.4
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	124.9	117.8	119.7	120.6	121.3
Net Interest Income	(36.9)	(36.3)	(37.5)	(37.5)	(37.7)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	(19.6)	(2.3)	0.0	0.0	0.0
Pre-tax Profit	68.5	79.3	82.1	83.2	83.6
Taxation	0.0	(6.1)	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Net Profit	68.5	73.1	82.1	83.2	83.6
Distributable Profit	89.6	73.1	82.2	83.2	83.7

Cash Flow

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Pre-tax Profit	68.5	79.3	82.1	83.2	83.6
Depreciation And Non-cash Adj.	37.0	36.3	37.6	37.6	37.8
Change In Working Capital	4.0	(11.7)	(0.4)	5.3	(0.3)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	19.7	3.2	0.0	0.0	0.0
Cashflow From Operations	129.1	107.2	119.4	126.1	121.1
Capex	(0.4)	(3.8)	(5.0)	(5.0)	(6.0)
Net Investments And Sale Of FA	(0.0)	32.8	5.0	5.0	5.0
Other Investing Cashflow	2.2	3.7	3.0	3.1	2.9
Cash Flow From Investing	1.7	32.6	3.0	3.1	1.9
Debt Raised/(repaid)	(0.3)	0.0	0.0	0.0	0.0
Equity Raised/(Repaid)	(0.0)	4.0	0.0	0.0	0.0
Dividends Paid	(72.6)	(89.8)	(82.2)	(82.4)	(82.8)
Cash Interest And Others	(32.4)	(36.3)	(37.5)	(37.5)	(37.7)
Cash Flow From Financing	(105.3)	(122.1)	(119.7)	(119.9)	(120.5)
Total Cash Generated	25.6	17.7	2.7	9.3	2.4
Free Cashflow To Firm	134.5	144.1	125.5	132.3	125.8
Free Cashflow To Equity	97.0	103.5	84.9	91.7	85.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Investments	2,179	2,159	2,169	2,174	2,180
Intangible Assets	0	0	0	0	0
Other Long-term Assets	2	21	21	21	21
Total Non-current Assets	2,181	2,179	2,190	2,195	2,201
Total Cash And Equivalents	76	86	68	69	64
Inventories	0	0	0	0	0
Trade Debtors	5	6	5	5	5
Other Current Assets	26	1	8	8	8
Total Current Assets	107	92	81	82	77
Trade Creditors	20	16	15	20	20
Short-term Debt	117	0	0	0	0
Other Current Liabilities	13	16	16	16	16
Total Current Liabilities	150	32	31	36	36
Long-term Borrowings	737	854	854	854	854
Other Long-term Liabilities	17	13	13	13	13
Total Non-current Liabilities	754	867	867	867	867
Shareholders' Equity	1,385	1,372	1,372	1,373	1,374
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	1,385	1,372	1,372	1,373	1,374

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Gross Property Revenue Growth	31.8%	(4.2%)	2.6%	1.0%	1.0%
NPI Growth	30.6%	(5.1%)	1.0%	0.8%	0.6%
Net Property Income Margin	77.7%	77.0%	75.7%	75.6%	75.3%
DPS Growth	0.12%	(3.69%)	(5.11%)	0.25%	0.51%
Gross Interest Cover	3.08	2.90	2.95	2.97	2.99
Effective Tax Rate	0.00%	7.74%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	131%	100%	100%	100%	100%
Current Ratio	0.71	2.88	2.59	2.25	2.11
Quick Ratio	0.71	2.88	2.59	2.25	2.11
Cash Ratio	0.51	2.68	2.18	1.89	1.75
Return On Average Assets	2.97%	3.21%	3.62%	3.66%	3.67%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Rental Rate Psf Pm (RM)	N/A	N/A	N/A	N/A	N/A
Acq. (less development) (US\$m)	N/A	N/A	N/A	N/A	N/A
RevPAR (RM)	N/A	N/A	N/A	N/A	N/A
Net Lettable Area (NLA) ('000 Sf)	2,255	2,190	2,190	2,190	2,190
Occupancy (%)	96.3%	97.3%	95.8%	95.8%	95.8%
Assets Under Management (m) (RM)	2,222.0	2,158.7	2,169.5	2,174.5	2,180.5
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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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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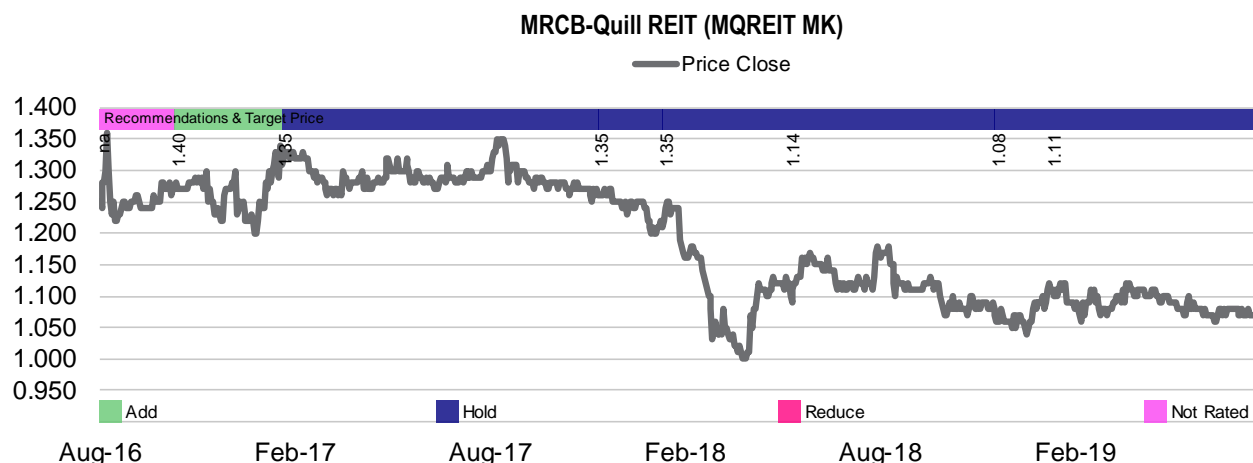
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2019		
791 companies under coverage for quarter ended on 30 June 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.9%	4.2%
Hold	26.5%	1.8%
Reduce	15.5%	0.4%

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 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **JWD** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **S** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

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Definition:

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

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

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Definition:

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- 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.

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Definition:

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