

Malaysia

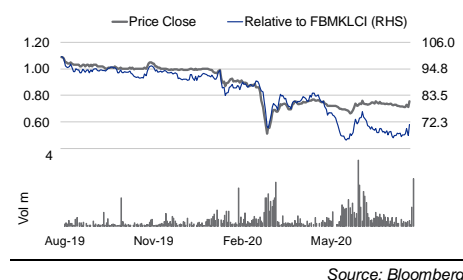
HOLD (no change)

Consensus ratings*: Buy 5 Hold 3 Sell 0

Current price:	RM0.755
Target price:	RM0.777
Previous target:	RM0.709
Up/downside:	3.0%
CGS-CIMB / Consensus:	-10.6%
Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US\$193.0m
	RM809.2m
Average daily turnover:	US\$0.11m
	RM0.45m
Current shares o/s:	1,072m
Free float:	49.1%
*Source: Bloomberg	

Key changes in this note

- FY20-22F EPS/DPS raised by 2.2-3.8% as we assume 1) stronger rental income in 2H20 to capture the impact of diminishing rental assistance/rebates, 2) flattish average rental reversion for FY20F (vs. -1% previously), and 3) a higher net property income (MPI) margin of 73-74% for forecast years.
- TP is raised from RM0.71 to RM0.78 (+7 sen) for the upward revision in DPS and lower 5-year adjusted beta of 0.75 (0.83 previously); now pegged to COE of 8.5% from 9% previously, with unchanged terminal growth (TG) assumption of +1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2	0.7	-30.7
Relative (%)	4.1	-11.3	-28.5

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

Analyst(s)



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MRCB-Quill REIT

Reduced impact of rental assistance in 2H

- 1H20 results were above expectations; core net profit declined 5.3% yoy.
- Raising EPS/DPS forecasts in spite of a challenging post-MCO outlook in 2H.
- Hold retained with higher TP, backed by attractive 6.8-7.5% dividend yields.

1HFY20 above expectations; 2Q20 impacted by rental rebates

The full impact of rental assistance for selected tenants at its office assets was reflected in 2Q20's numbers, with a 3.8% qoq contraction in revenue and 2% qoq decline in core net profit. In terms of yoy performance, 2Q20's revenue (in spite of the rental assistance) grew 3.7% as it was mitigated by new rental income from Google (occupying 30k sq ft at Menara Shell since Jan). This, in addition to the 6.2% yoy drop in property operating expenses, lifted 2Q20's core net profit by 16% yoy. Overall, 1H20 core net profit (-5.3% yoy) made up 58% of our full-year forecast and 50% of consensus. The performance was above our full-year estimate (but broadly in line with consensus) as 2H20F should be mildly stronger due to the diminishing impact of rental assistance and stabilising NPI margins. 1H20 DPS of 3.43 sen was flattish yoy but was above expectations at 69% of our full-year estimate of 4.9 sen.

Minor impact from selected rental assistance in 2H20F

We expect the group's rental assistance plan for its small medium enterprise (SME) and non-essential tenants (including retail tenants) initiated in Apr to have a milder negative impact on rental income in 2H20 and believe it is likely to taper off towards end-FY20F as the post-Movement Control Order (MCO) recovery phase gains more traction in 2H20F. We expect any extension of rental assistance to be on a case-by-case basis, with potential tail-end rebates that are substantially lower than the industry-wide estimate of 30-40% during the peak of the MCO phases. Separately, we gathered that the group projects an 80-90% renewal rate for the 19% of total net lettable area (NLA) that will be expiring in FY20F. This may be weighed down by likely early lease termination of smaller F&B tenants negatively impacted by the MCO. Overall portfolio occupancy rate at end-2Q20 stood at 90.4%, dragged by Platinum Sentral.

Raising FY20-22F EPS/DPS by 2.2-3.8%

We raise FY20-22F EPS/DPS by 2.2-3.8% as we assume 1) stronger rental income in 2H20 to capture the impact of diminishing rental assistance/rebates, 2) flattish average rental reversion for FY20F (vs. -1% previously), and 3) higher net property income (NPI) margin of 73-74% for forecast years (72-73% previously). Our revised DPS of 5.1/5.7/5.7 sen for FY20/21/22F assumes an unchanged 90-92% payout ratio.

Hold retained on attractive yields; TP raised to RM0.78

We expect the revised FY20-22F dividend of 6.8-7.5% to support the share price. Our TP is raised from RM0.71 to RM0.78 (+7 sen) on account of the upward revision in DPS and lower 5-year adjusted beta of 0.75 (0.83 previously). We now peg our TP to COE of 8.5% from 9% before, with an unchanged terminal growth (TG) assumption of +1%. We keep to our Hold call. Upside risk: strong rental income recovery in 2H20F. Downside risk: rental reversion slipping into negative territory post the MCO.

Financial Summary	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Property Revenue (RMm)	172.5	161.1	154.8	161.4	162.2
Net Property Income (RMm)	132.8	121.8	113.8	118.9	120.0
Net Profit (RMm)	73.13	29.12	61.09	65.92	66.27
Distributable Profit (RMm)	69.89	29.12	55.05	60.71	61.04
DPS (RM)	0.081	0.068	0.051	0.057	0.057
Dividend Yield	10.7%	9.0%	6.8%	7.5%	7.5%
Asset Leverage	37.6%	37.8%	37.6%	37.6%	37.5%
BVPS (RM)	1.28	1.23	1.24	1.25	1.25
P/BV (x)	0.59	0.61	0.61	0.61	0.61
Recurring ROE	5.46%	4.34%	4.61%	4.95%	4.96%
% Change In DPS Estimates			3.78%	3.57%	2.20%
CGS-CIMB/Consensus DPS (x)			0.87	0.90	0.89

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY20	2QFY19	yoy % chg	1QFY20	qoq % chg	2QFY20 cum	2QFY19 cum	yoy % chg	Prev FY20F	Comments
Revenue	40.6	39.2	3.7	42.2	-3.8	82.8	80.9	2.4	153.9	Rental assistance/rebates impacted 2Q20 revenue
Operating costs	(13.1)	(13.5)	-3.1	(13.7)	-4.5	(26.9)	(26.4)	1.6	(56.0)	
EBITDA	27.5	25.7	7.2	28.5	-3.4	56.0	54.5	2.8	97.9	Above expectations
EBITDA margin (%)	67.7	65.5		67.5		67.6	67.3		63.6	1H20 EBITDA margin likely to stabilise in 2H20 due to
Depn & amort.	(0.1)	(0.0)	45.3	(0.1)	-0.1	(0.1)	(0.1)	45.3	(0.1)	the diminishing impact of rental rebates
EBIT	27.5	25.6	7.2	28.4	-3.4	55.9	54.4	2.7	97.8	
Interest expense	(8.9)	(9.7)	-8.3	(9.5)	-6.6	(18.5)	(19.6)	-5.7	(39.6)	Total debt of RM844m as at end-June
Interest & invt inc	0.5	0.6	-3.9	0.6	-6.2	1.1	1.4	-19.4	0.7	Total cash and deposits of RM76m as at end-June
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Exceptionals & revaln	0.0	0.0	nm	0.3	nm	0.3	(0.3)	nm	-	
Pretax profit	19.1	16.5	16.0	19.8	-3.6	38.9	35.9	8.4	58.9	
Tax	0.0	0.0	nm	0.0	nm	(4.2)	0.0	nm	-	
Tax rate (%)	0.0	0.0	nm	0.0	nm	10.9	0.0	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Net profit	19.1	16.5	16.0	19.8	-3.6	34.6	35.9	-3.4	58.9	
Core net profit	19.1	16.5	16.0	19.5	-2.0	34.3	36.2	-5.3	58.9	1H20 core net profit made up 58% of our full-year
Distr profit	19.1	16.5	16.0	19.8	-3.6	38.9	36.8	5.7	53.0	forecast and 50% of consensus
DPU (sen)	3.4	1.6	112	0.0	nm	3.4	3.4	0.0	4.9	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

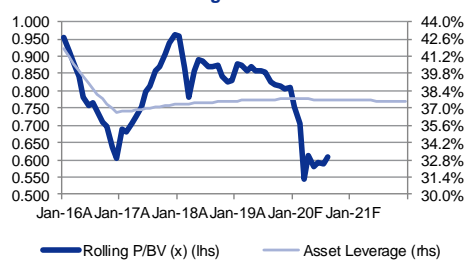
Figure 2: Changes in assumptions post-2Q20 results

	Previous			Revised			% chg		
	FY20F	FY21F	FY22	FY20F	FY21F	FY22	FY20F	FY21F	FY22F
	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(%)	(%)	(%)
Revenue	153.9	160.5	161.3	154.8	161.4	162.2	1%	1%	1%
NPI	111.5	116.6	118.5	113.8	118.9	120.0	2%	2%	1%
Net profit	58.9	63.6	64.8	61.1	65.9	66.3	4%	4%	2%
DPS	4.9	5.5	5.6	5.1	5.7	5.7	4%	4%	2%
Dividend yield	7.2%	7.9%	8.1%	6.8%	7.5%	7.5%	-0.4%	-0.4%	-0.5%
NPI margin	72.5%	72.6%	73.5%	73.5%	73.7%	74.0%	1%	1%	0%

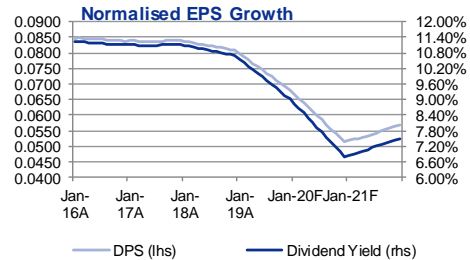
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



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



Profit & Loss

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Rental Revenues	155.0	159.0	137.5	143.9	144.3
Other Revenues	17.6	2.1	17.3	17.6	18.0
Gross Property Revenue	172.5	161.1	154.8	161.4	162.2
Total Property Expenses	(39.7)	(39.2)	(41.0)	(42.5)	(42.2)
Net Property Income	132.8	121.8	113.8	118.9	120.0
General And Admin. Expenses	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Management Fees	(13.3)	(12.8)	(12.1)	(12.3)	(12.3)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
EBITDA	117.9	107.5	100.1	105.0	105.9
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	117.8	107.4	100.0	104.9	105.9
Net Interest Income	(36.3)	(36.4)	(38.9)	(39.0)	(39.6)
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	(2.3)	(35.7)	0.0	0.0	0.0
Pre-tax Profit	79.3	35.4	61.1	65.9	66.3
Taxation	(6.1)	(6.2)	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	73.1	29.1	61.1	65.9	66.3
Distributable Profit	69.9	29.1	55.1	60.7	61.0

Cash Flow

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Pre-tax Profit	79.3	35.4	61.1	65.9	66.3
Depreciation And Non-cash Adj.	36.3	36.4	39.0	39.0	39.7
Change In Working Capital	(11.7)	(0.2)	1.0	(0.4)	5.4
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	3.2	0.0	0.0	0.0	0.0
Cashflow From Operations	107.2	71.6	101.1	104.6	111.3
Capex	(3.8)	(5.0)	(5.0)	(6.0)	(6.0)
Net Investments And Sale Of FA	32.8	5.0	5.0	5.0	5.0
Other Investing Cashflow	3.7	3.2	0.7	0.6	0.0
Cash Flow From Investing	32.6	3.2	0.7	(0.4)	(1.0)
Debt Raised/(repaid)	0.0	(18.0)	0.0	0.0	0.0
Equity Raised/(Repaid)	4.0	0.0	0.0	0.0	0.0
Dividends Paid	(89.8)	(73.0)	(55.1)	(60.7)	0.0
Cash Interest And Others	(36.3)	(36.4)	(38.9)	(39.0)	(39.6)
Cash Flow From Financing	(122.1)	(127.4)	(94.0)	(99.7)	(39.6)
Total Cash Generated	17.7	(52.5)	7.8	4.5	70.7
Free Cashflow To Firm	144.1	78.1	102.4	104.8	110.3
Free Cashflow To Equity	103.5	20.5	62.8	65.2	70.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Investments	2,159	2,125	2,174	2,180	2,186
Intangible Assets	0	0	0	0	0
Other Long-term Assets	21	19	19	19	19
Total Non-current Assets	2,179	2,144	2,193	2,199	2,205
Total Cash And Equivalents	86	63	15	14	1
Inventories	0	0	0	0	1
Trade Debtors	6	6	5	6	0
Other Current Assets	1	1	6	7	19
Total Current Assets	92	70	27	26	21
Trade Creditors	16	16	16	16	16
Short-term Debt	0	333	333	333	333
Other Current Liabilities	10	6	6	6	6
Total Current Liabilities	26	354	355	355	354
Long-term Borrowings	854	503	503	503	503
Other Long-term Liabilities	20	33	33	33	33
Total Non-current Liabilities	873	536	536	536	536
Shareholders' Equity	1,372	1,323	1,330	1,335	1,335
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	1,372	1,323	1,330	1,335	1,335

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Property Revenue Growth	(4.21%)	(6.64%)	(3.89%)	4.27%	0.51%
NPI Growth	(5.11%)	(8.27%)	(6.57%)	4.48%	0.91%
Net Property Income Margin	77.0%	75.6%	73.5%	73.7%	74.0%
DPS Growth	(3.7%)	(15.7%)	(24.6%)	10.3%	0.5%
Gross Interest Cover	2.90	2.71	2.53	2.65	2.67
Effective Tax Rate	7.7%	17.6%	0.0%	0.0%	0.0%
Net Dividend Payout Ratio	96%	100%	90%	92%	92%
Current Ratio	3.53	0.20	0.08	0.07	0.06
Quick Ratio	3.53	0.20	0.08	0.07	0.06
Cash Ratio	3.28	0.18	0.04	0.04	0.00
Return On Average Assets	3.21%	1.30%	2.76%	2.97%	2.98%

Key Drivers

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
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)	2,190	2,190	2,190	2,190	2,190
Occupancy (%)	97.3%	90.9%	90.9%	91.3%	91.3%
Assets Under Management (m) (RM)	2,158.7	2,125.2	2,174.5	2,180.5	2,186.5
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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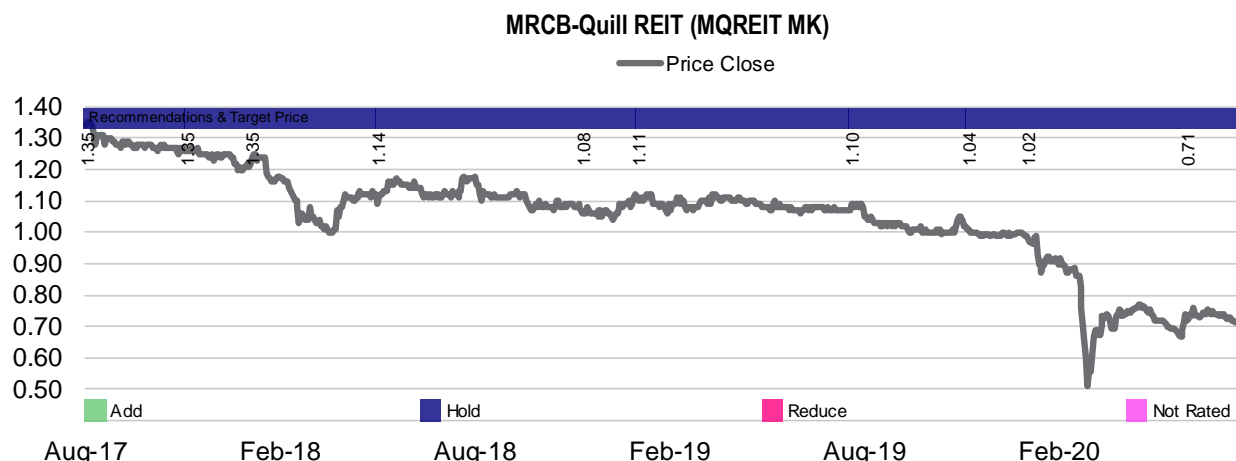
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800 companies under coverage for quarter ended on 30 June 2020

	Rating Distribution (%)	Investment Banking clients (%)
Add	60.1%	0.4%
Hold	25.9%	0.1%
Reduce	14.0%	0.3%

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 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **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, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **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, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTG** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, 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** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

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4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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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.

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- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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