



Malaysia

ADD (previously HOLD)

Consensus ratings*: Buy 6 Hold 2 Sell 0

Current price: RM0.78
Target price: RM0.852
Previous target: RM0.777
Up/downside: 9.3%
CGS-CIMB / Consensus: -4.7%

Reuters: MQRE.KL
Bloomberg: MQREIT MK
Market cap: US\$202.9m
RM836.0m
Average daily turnover: US\$0.09m
RM0.36m
Current shares o/s: 1,072m
Free float: 49.1%

*Source: Bloomberg

Key changes in this note

- We raise FY20-22F EPS/DPS by 13-20% as we impute 1) stronger rental income in 2H20 to capture the impact of diminishing rental assistance/rebates, 2) +1% average rental reversion for FY20F (vs. 0% previously), and 3) higher net property income (NPI) margin of 76-77% for forecast years (73-74% previously) and 4) lower finance cost.
- DDM-based TP raised from RM0.78 to RM0.85 on the back of higher DPS forecasts and rolling over to end-CY21.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.3	9.9	-22
Relative (%)	-4.2	9.7	-19.8

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

Analyst(s)



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MRCB-Quill REIT

Solid 9M20 results; attractive dividend yields

- 9M20 results were above expectations, driven by stronger NPI margins.
- Recovery risks from CMCO likely minimal, backed by 91% occupancy rate.
- Upgrade from Hold to Add on attractive 7.9-8.3% revised dividend yields.

9M20 above expectations; core net profit rose 12% yoy

Core net profit in 9M20 was overall driven by: 1) minimal rental assistance in 3Q20, 2) stable portfolio occupancy rates of 91% at end-3Q20, 3) lower property operating cost, and 4) a healthy 90% tenancy renewal rate at end-3Q20. 9M20 core net profit, which rose 12% yoy, made up 80-95% of our and consensus full-year estimates and beat expectations. Key deviations came from: 1) 9M20's NPI margin of 78% being higher than our full-year forecast of 73%, and 2) lower interest expense, which fell 8.7% yoy in 9M20 and 14.6% yoy in 3Q20; lower average cost of debt on account of the OPR cuts. The improvement in 3Q20 revenue and net profit was driven by minimal impact of rental assistance during the Recovery Movement Control Order (RMCO) period. 9M20 DPU of 3.4 sen was flattish yoy but above our full-year forecast of 5.1 sen.

Manageable rental reversion backed by 90% renewal rate

We expect risks of a negative portfolio rental reversion to be minimal for MQREIT. At end-3Q20, lease negotiations for about 241k sq ft of leases were concluded with 216k sq ft renewed while 25k sq ft did not renew. This translates into a 90% renewal rate for its office portfolio, which we consider relatively healthy compared to the retail assets of other selected M-REITs in Klang Valley. We gathered that at end-3Q20, rental reversion should be manageable and could stabilise at the positive lower single-digits in FY20F.

Retail NLA makes up a minimal 4% of total portfolio NLA

While the reinstatement and extension of the Conditional Movement Control Order (CMCO) has raised concerns over the recovery prospects of overall M-REITs, we believe risks of further revenue loss in 4Q20F for MQREIT from potential rental assistance is minimal. Only 4% of MQREIT's total portfolio NLA comprises retail tenants – which are likely to be granted rental assistance albeit at a smaller quantum compared to 2Q20.

Attractive dividend yields of 7.9-8.3%; upgrade to Add

We raise FY20-22F EPS/DPS by 13-20% as we impute 1) stronger rental income in 2H20 to capture the impact of diminishing rental assistance/rebates, 2) +1% average rental reversion for FY20F (vs. 0% previously), 3) higher net property income (NPI) margin of 76-77% for forecast years (73-74% previously), and 4) lower finance cost to reflect the refinancing of commercial papers (CP) and term loan (TL) due in 2020. Our revised DPS of 6.2/6.4/6.4 sen for FY20/21/22F assumes 90% payout ratio and translates into attractive dividend yields of 7.9-8.3%. This and the 9M20 results outperformance drive our upgrade of MQREIT from Hold to Add. Our DDM-based TP rises to RM0.85 due to the higher DPS forecasts and rollover to end-CY21 (COE: 8.5%, TG: 1%). Potential re-rating catalyst: 9M20's outperformance. Downside risks: greater-than-expected negative impact from the extended CMCO, falling occupancy rates and weaker rental reversions.

Financial Summary	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Property Revenue (RMm)	172.5	161.1	162.5	166.3	167.2
Net Property Income (RMm)	132.8	121.8	124.3	127.1	128.1
Net Profit (RMm)	73.13	29.12	73.25	75.94	76.63
Distributable Profit (RMm)	69.89	29.12	65.99	68.42	69.04
DPS (RM)	0.081	0.068	0.062	0.064	0.064
Dividend Yield	10.4%	8.7%	7.9%	8.2%	8.3%
Asset Leverage	37.6%	37.8%	37.6%	37.5%	37.5%
BVPS (RM)	1.28	1.23	1.24	1.25	1.25
P/BV (x)	0.61	0.63	0.63	0.62	0.62
Recurring ROE	5.46%	4.34%	5.52%	5.69%	5.73%
% Change In DPS Estimates			19.9%	12.7%	13.1%
CGS-CIMB/Consensus DPS (x)			0.99	0.97	1.22

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

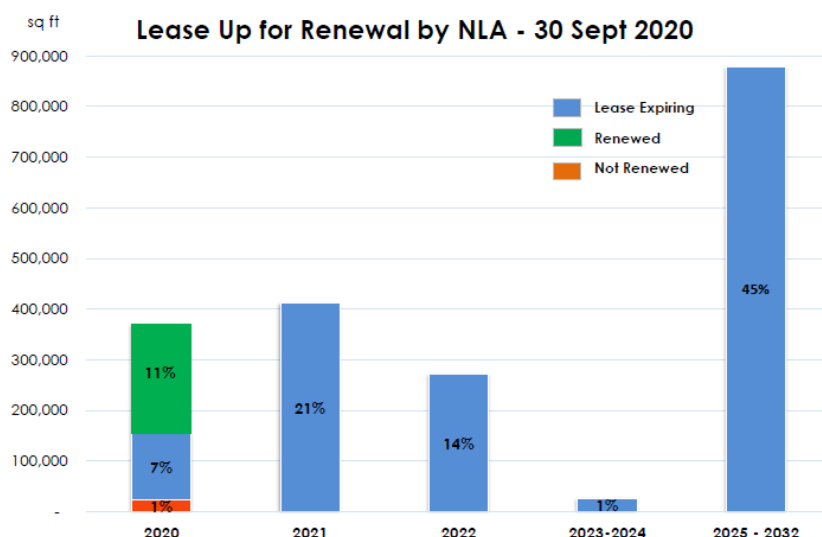
FYE Dec (RM m)	3QFY20	3QFY19	yoy % chg	2QFY20	qoq % chg	3QFY20 cum	3QFY19 cum	yoy % chg	Prev FY20F	Comments
Revenue	41.7	39.5	5.7	40.6	2.7	124.6	120.4	3.5	154.8	Minimal rental assistance impacted 3Q20
Operating costs	(12.5)	(13.0)	-4.0	(13.1)	-4.8	(39.3)	(39.3)	0.1	(54.7)	NPI margin of 78% in 9M20 was above our forecast of
EBITDA	29.2	26.5	10.4	27.5	6.2	85.2	81.1	5.1	100.1	74% for FY20F
EBITDA margin (%)	70.1	67.0		67.7		68.4	67.4		64.7	
Depn & amort.	(0.1)	(0.0)	35.3	(0.1)	-0.6	(0.2)	(0.1)	41.8	(0.1)	
EBIT	29.2	26.4	10.4	27.5	6.3	85.0	81.0	5.1	100.0	
Interest expense	(8.3)	(9.7)	-14.6	(8.9)	-6.6	(26.8)	(29.3)	-8.7	(39.6)	Total debt of RM845.3m as at end-Sep
Interest & invt inc	0.6	0.7	-10.1	0.5	16.3	1.8	2.1	-16.3	0.7	Total cash and deposits of RM59m as at end-Sep
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Exceptionals & revaln	0.0	0.3	-100.0	0.0	nm	0.3	(0.2)	nm	-	
Pretax profit	21.5	17.6	21.8	19.1	12.6	60.3	53.5	12.8	61.1	
Tax	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
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	21.5	17.6	21.8	19.1	12.6	60.3	53.5	12.8	61.1	
Core net profit	21.5	17.4	23.6	19.1	12.6	60.0	53.7	11.7	61.1	9M20 core net profit made up 95% of our full-year
Distr profit	21.5	17.6	21.8	19.1	12.6	60.3	54.4	10.9	55.1	forecast and 80% of consensus
DPU (sen)	0.0	0.0	nm	3.4	nm	3.4	3.4	0.0	5.1	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Changes in assumptions post-3Q20 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	154.8	161.4	162.2	162.5	166.3	167.2	5%	3%	3%
NPI	113.8	118.9	120.0	124.3	127.1	128.1	9%	7%	7%
Net profit	61.1	65.9	66.3	73.2	75.9	76.6	20%	15%	16%
DPS	5.1	5.7	5.7	6.2	6.4	6.4	20%	13%	13%
Dividend yield	6.5%	7.2%	7.2%	7.8%	8.1%	8.2%	1.3%	0.9%	0.9%
NPI margin	73.5%	73.7%	74.0%	76.5%	76.4%	76.6%	3%	3%	3%

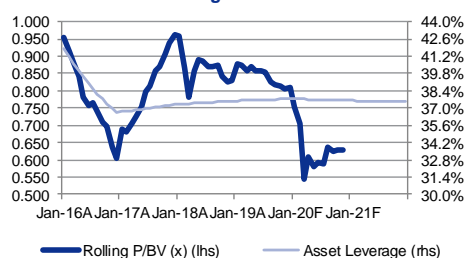
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Lease expiry profile


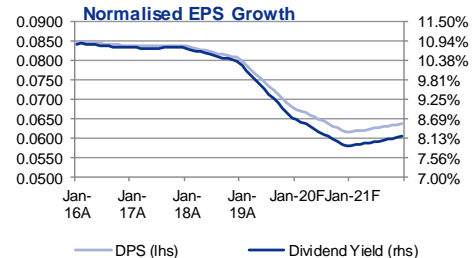
SOURCES: MQREIT 3Q20 RESULTS SLIDES

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	145.1	148.6	149.1
Other Revenues	17.6	2.1	17.4	17.7	18.1
Gross Property Revenue	172.5	161.1	162.5	166.3	167.2
Total Property Expenses	(39.7)	(39.2)	(38.2)	(39.3)	(39.1)
Net Property Income	132.8	121.8	124.3	127.1	128.1
General And Admin. Expenses	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Management Fees	(13.3)	(12.8)	(12.4)	(12.5)	(12.6)
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	110.2	112.9	113.8
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	117.8	107.4	110.1	112.8	113.8
Net Interest Income	(36.3)	(36.4)	(36.9)	(36.8)	(37.1)
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	73.2	75.9	76.6
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	73.2	75.9	76.6
Distributable Profit	69.9	29.1	66.0	68.4	69.0

Cash Flow

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Pre-tax Profit	79.3	35.4	73.2	75.9	76.6
Depreciation And Non-cash Adj.	36.3	36.4	37.0	36.9	37.2
Change In Working Capital	(11.7)	(0.2)	0.7	(0.3)	(0.2)
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	110.9	112.5	113.6
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	0.8	0.0
Cash Flow From Investing	32.6	3.2	0.7	(0.2)	(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)	(66.0)	(68.4)	0.0
Cash Interest And Others	(36.3)	(36.4)	(36.9)	(36.8)	(37.1)
Cash Flow From Financing	(122.1)	(127.4)	(102.9)	(105.3)	(37.1)
Total Cash Generated	17.7	(52.5)	8.8	7.1	75.5
Free Cashflow To Firm	144.1	78.1	112.4	113.1	113.1
Free Cashflow To Equity	103.5	20.5	74.8	75.5	75.5

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	16	17	11
Inventories	0	0	0	0	0
Trade Debtors	6	6	6	6	6
Other Current Assets	1	1	7	7	7
Total Current Assets	92	70	28	30	23
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	1,331	1,338	1,338
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	1,372	1,323	1,331	1,338	1,338

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Property Revenue Growth	(4.21%)	(6.64%)	0.87%	2.37%	0.55%
NPI Growth	(5.11%)	(8.27%)	2.01%	2.25%	0.85%
Net Property Income Margin	77.0%	75.6%	76.5%	76.4%	76.6%
DPS Growth	(3.7%)	(15.7%)	(9.6%)	3.7%	0.9%
Gross Interest Cover	2.90	2.71	2.93	3.00	3.02
Effective Tax Rate	7.7%	17.6%	0.0%	0.0%	0.0%
Net Dividend Payout Ratio	96%	100%	90%	90%	90%
Current Ratio	3.53	0.20	0.08	0.08	0.07
Quick Ratio	3.53	0.20	0.08	0.08	0.07
Cash Ratio	3.28	0.18	0.04	0.05	0.03
Return On Average Assets	3.21%	1.30%	3.30%	3.41%	3.44%

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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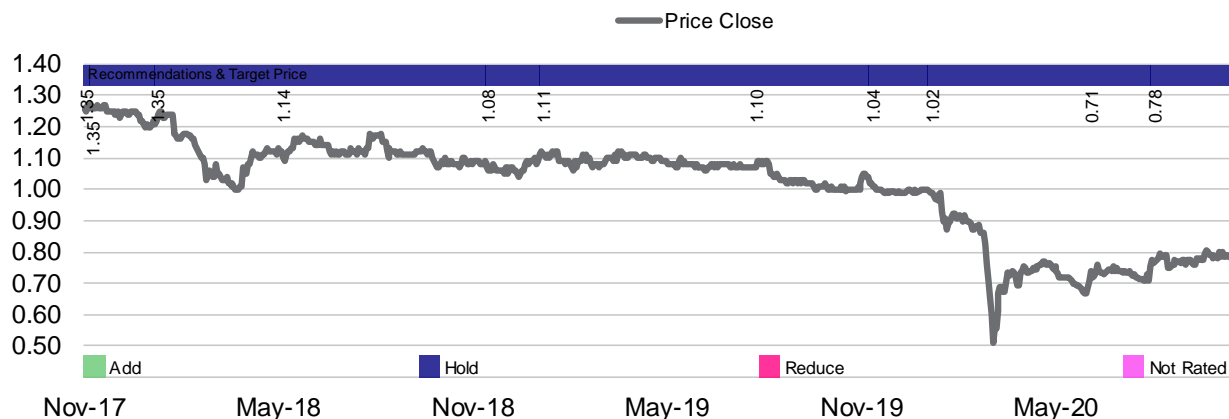
Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2020

795 companies under coverage for quarter ended on 30 September 2020

	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

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 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, **KTB** – 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.

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:

- 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.
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