

MRCB-Quill REIT (MQREIT MK)

Share Price: MYR1.06

Target Price: MYR1.17 (+10%)

MCap (USD): 165M

ADTV (USD): 0.0M

Malaysia

REITs

BUY

(Upgrade)

Turning attractive; U/G to BUY

- Recent unit price decline reveals value; 7.3% net yield (306bps >MGS) provides buffer against volatile bond yields.
- A well-managed office REIT with a weighted average lease expiry (WALE) of 7.6 years.
- Maintain earnings forecasts but upgrade the call to BUY (from HOLD) with an unchanged MYR1.17 DCF-based TP.

What's New

With the expected completion of Quill Building (QB) 10 sale to Aldwych Capital Sdn Bhd soon, MQREIT's overall occupancy rate will improve to 97% from 93%. Apart from paring down its debts, proceeds from the sale (MYR27m) will be used to build an additional 500+ parking bays at QB2-HSBC. These parking bays would start contributing from 2017 onwards, we were told.

Elsewhere, BMW would likely sign another ten years lease at QB3, we understand. The building's occupancy rate has been improved to 80% (from 73%) since July 2015 as BMW takes up more space.

What's Our View

We are turning positive on MQREIT's hands-on management and its ability to retain tenants. In our view, strong tenant management is paramount to ensure income stability especially when the office market outlook remains challenging. Most of MQREIT's office assets are backed by long leases. Despite KL CBD's office market being in an oversupply situation, Platinum Sentral (PS) and Wisma Technip are 100%-occupied as at Sep 2015. PS' tenants are largely GLCs (63% of total NLA) with long lease agreement of >5 years. As for its retail assets, Plaza Mont Kiara is on a 3-year lease term but enjoys almost full tenancy at 97%.

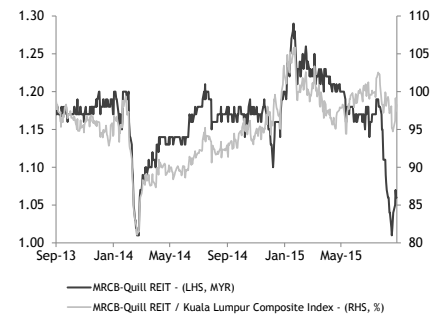
MQREIT's unit price has declined by -5.5% YTD and it now offers an attractive net yield of 7.3% (versus 10-year MGS' 4.24%), providing some buffer if there is a sudden surge in bond yield. Oversupply in the office market should have been fully reflected in MQREIT's unit price. Our DCF-TP is based on 6.1% WACC and 7% terminal yield.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	68.9	70.2	113.9	124.4	126.5
Net property income	53.2	53.3	91.9	103.0	104.7
Distributable income	34.5	34.2	57.9	59.9	61.7
DPU (sen)	7.5	7.5	7.5	7.7	8.0
DPU growth (%)	0.0	0.0	(0.8)	3.5	2.9
Price/DPU(x)	14.1	14.1	14.2	13.7	13.3
P/BV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.1	7.1	7.1	7.3	7.5
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Debt/Assets (x)	0.4	0.4	0.4	0.4	0.4

Key Data

52w high/low (MYR)	1.29/1.01
3m avg turnover (USDm)	0.0
Free float (%)	57.8
Issued shares (m)	661
Market capitalization	MYR701.1M
Major shareholders:	
-CapitaLand Commercial Trust	17.7%
-Quill Land Sdn. Bhd.	7.4%
-Quill Properties Sdn. Bhd.	7.0%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(7.8)	(9.4)	(9.4)
Relative to index (%)	(0.0)	(0.7)	6.6

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	3	0
	Maybank Consensus		% +/-
Target Price (MYR)	1.17	1.27	(8.0)
2015 DPU (sen)	8.3	8.4	(0.4)
2016 DPU (sen)	8.6	8.7	(1.0)

Source: FactSet; Maybank

Kevin Wong
 (603) 2082 6824
 kevin.wong@maybank-ib.com

Wong Wei Sum, CFA
 (603) 2297 8679
 weisum@maybank-ib.com

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	14.1	14.1	14.2	13.7	13.3
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	7.9	7.9	7.8	8.1	8.4
FCF yield (%)	11.3	9.7	10.6	10.1	0.0

INCOME STATEMENT (MYR m)

Gross revenue	68.9	70.2	113.9	124.4	126.5
Net property income	53.2	53.3	91.9	103.0	104.7
Net financing costs	(12.9)	(13.3)	(21.7)	(30.1)	(29.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.1	6.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Total return before tax	36.6	40.3	57.9	59.9	61.7
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	36.6	40.3	57.9	59.9	61.7
Distributable inc to unitholders	34.5	34.2	57.9	59.9	61.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	30.9	23.3	20.5	29.7	28.7
Accounts receivable	2.6	6.1	6.1	6.1	6.1
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	825.6	837.7	1,582.7	1,587.7	1,592.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0
Total assets	859.1	867.1	1,609.4	1,623.5	1,627.6
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	11.7	12.2	12.2	12.2	12.2
LT interest bearing debt	304.9	305.1	665.1	665.1	665.1
Other liabilities	10.1	9.8	26.1	37.3	38.2
Total Liabilities	326.7	327.1	703.5	714.6	715.6
Shareholders Equity	533.5	541.3	905.9	908.9	912.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	533.5	541.3	905.9	908.9	912.0

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	(0.8)	1.9	62.1	9.3	1.6
Total return before tax growth	(8.7)	9.9	43.7	3.5	2.9
Total return growth	(8.7)	9.9	43.7	3.5	2.9
Distributable income growth	(8.7)	9.9	43.7	3.5	2.9
Profitability ratios (%)					
Total return before tax margin	53.2	57.3	50.8	48.2	48.8
Payout ratio	80.3	73.0	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	53.2	57.3	50.8	48.2	48.8
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.8	1.8	1.8
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Liquidity & Efficiency					
Days receivable outstanding	31.0	22.4	19.4	17.8	17.5
Days payables outstanding	262.9	254.1	200.9	205.8	202.3
Dividend cover (x)	1.2	1.4	1.2	1.2	1.2
Current ratio (x)	2.0	2.0	0.9	0.9	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.3	2.3	2.3
Net debt/equity (%)	51.4	52.1	71.2	69.9	69.8
Net interest cover (x)	3.7	3.6	3.7	3.0	3.1
Debt/EBITDA (x)	6.4	6.4	8.4	7.4	7.4
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	274.0	281.8	644.6	635.4	636.4

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836 sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839 ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849 sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Singapore | Malaysia
(603) 2297 8682 suhaimi_ilias@maybank-ib.com

Luz LORENZO
Philippines
(63) 2 849 8836 luz_lorenzo@maybank-atrke.com

Tim LEELAHAPHAN
Thailand
(66) 2658 6300 ext 1420 tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, Bill
Indonesia
(62) 21 29228888 ext 29682 Juniman@bankbii.com

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836 sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631 williechan@kimeng.com.hk

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680 desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services - Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

CHAI Li Shin, CFA
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

LEE Cheng Hooi *Regional Chartist*
(603) 2297 8694 chenghooi.lee@maybank-ib.com

Tee Sze Chiah *Head of Retail Research*
(603) 2297 6858 szechiah.t@maybank-ib.com

Cheah Chong Ling
(603) 2297 8767 chongling.c@maybank-ib.com

HONG KONG / CHINA

Howard WONG *Head of Research*
(852) 2268 0648 howardwong@kimeng.com.hk
• Oil & Gas - Regional

Benjamin HO
(852) 2268 0632 benjaminho@kimeng.com.hk
• Consumer & Auto

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 kll@kimeng.com.hk
• Consumer Discretionary & Auto

Mitchell KIM
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Osbert TANG, CFA
(86) 21 5096 8370 osberttang@kimeng.com.hk
• Transport & Industrials

Ricky WK NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Utilities & Renewable Energy

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials - Regional

Warren LAU
(852) 2268 0644 warrenlau@kimeng.com.hk
• Technology - Regional

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605 anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Abhijeet KUNDU
(91) 22 6623 2628 abhijeet@maybank-ke.co.in
• Consumer

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

SINGAPORE

Gregory YAP
(65) 6231 5848 gyap@maybank-ke.com.sg
• SMID Caps
• Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA
(65) 6231 5842 yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport • Property • REITs (Office)

Joshua TAN
(65) 6231 5850 joshuat@maybank-ke.com.sg
• REITs (Retail, Industrial)

WEI Bin
(65) 6231 5844 weibin@maybank-ke.com.sg
• Commodity • Logistics • S-chips

John CHEONG
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

TRUONG Thanh Hang
(65) 6231 5847 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

INDONESIA

Isnapura ISKANDAR *Head of Research*
(62) 21 2557 1129 isnapura.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 2557 1128 rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 2953 0785 aurellia.setiabudi@maybank-ke.co.id
• Property

Pandu ANUGRAH
(62) 21 2557 1137 pandu.anugrah@maybank-ke.co.id
• Infra • Construction • Transport • Telcos

Janni ASMAN
(62) 21 2953 0784 janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

Adhi TASMIN
(62) 21 2557 1209 adhi.tasmin@maybank-ke.co.id
• Plantations

PHILIPPINES

Luz LORENZO *Head of Research*
(63) 2 849 8836 luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

Lovell SARREAL
(63) 2 849 8841 lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839 rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

Katherine TAN
(63) 2 849 8843 kat_tan@maybank-atrke.com
• Banks • Construction

Ramon ADVIENTO
(63) 2 849 8845 ramon_adviento@maybank-atrke.com
• Mining

Michael BENGSON
(63) 2 849 8840 michael_bengson@maybank-atrke.com
• Conglomerates

Jaclyn JIMENEZ
(63) 2 849 8842 jaclyn_jimenez@maybank-atrke.com
• Consumer

Arabelle MAGHIRANG
(63) 2 849 8838 arabelle_maghirang@maybank-atrke.com
• Banks

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399 Maria.L@maybank-ke.co.th
• Consumer • Materials • Ind. Estates

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393 Sittichai.D@maybank-ke.co.th
• Services Sector • Transport

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 6300 ext 5090 Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKARAN
(66) 2658 6300 ext 1440 mayuree.c@maybank-ke.co.th
• Strategy

Padon VANNARAT
(66) 2658 6300 ext 1450 Padon.v@maybank-ke.co.th
• Strategy

Surachai PRAMUALCHAROENKIT
(66) 2658 6300 ext 1470 Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 6300 ext 1430 suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 6300 ext 1400 sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 6300 ext 1520 termporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 6300 ext 1404 jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

VIETNAM

THAI Quang Trung, CFA, *Deputy Manager*,
Institutional Research
(84) 8 44 555 888 x 8180 trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082 nhat.chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen, *Head of Retail Research*
(84) 8 44 555 888 x 8081 tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

TRINH Thi Ngoc Diep
(84) 8 44 555 888 x 8208 diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

PHAM Nhat Bich
(84) 8 44 555 888 x 8083 bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084 mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

TRUONG Quang Binh
(84) 4 44 555 888 x 8087 binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil & Gas

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Malaysia

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 **Malaysia**

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

 **Philippines**

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

 **South Asia Sales Trading**

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

Malaysia

Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

Indonesia

Hariato Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

Vietnam

Tien Nguyen
thuytien.nguyen@maybank-kimeng.com.vn
Tel: (84) 44 555 888 x8079

 **Singapore**

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

 **Hong Kong**

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

 **Thailand**

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

 **North Asia Sales Trading**

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

India

Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

 **London**

Maybank Kim Eng Securities
(London) Ltd
5th Floor, Aldermay House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

 **Indonesia**

PT Maybank Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

 **Vietnam**

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

 **New York**

Maybank Kim Eng Securities USA
Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

 **India**

Kim Eng Securities India Pvt Ltd
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

 **Saudi Arabia**

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787