

Malaysia

HOLD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 0

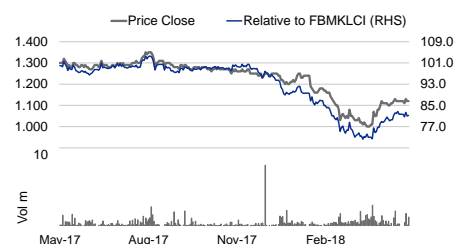
Current price:	RM1.12
Target price:	RM1.14
Previous target:	RM1.35
Up/downside:	2.1%
CGS-CIMB / Consensus:	-9.4%

Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US\$302.4m
	RM1,200m
Average daily turnover:	US\$0.17m
	RM0.65m
Current shares o/s:	1,068m
Free float:	27.7%

*Source: Bloomberg

Key changes in this note

- FY18-20F EPS decreased by 0.4-0.7%
- FY18-20F DPS decreased by 0.3-2.6%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.7	-5.1	-13.9
Relative (%)	5.1	-6	-18.3

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

Analyst(s)



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MRCB-Quill REIT

Tough negotiations for renewals

- MRCB-Quill REIT's (MQREIT) 1Q18 core net profit of RM21m met our and Bloomberg consensus expectations.
- 1Q18 saw lower rental revenue from Menara Shell due to non-renewal by of some tenants, and from Platinum Sentral due to rebates on renewed leases.
- We have imputed the group's 2017 annual report figures into our model and made adjustments on our cost of equity assumptions.
- As such, our DDM-based TP is lowered to RM1.14 but our Hold call is retained.
- Concerns over its exposure to office supply glut are offset by its high estimated dividend yields of 6.9-7.1%.

1Q18: results within expectations

MQREIT's 1Q18 revenue/core net profit fell to RM44m (-3% yoy)/RM21m (-9% yoy), due to lower rental revenue from Platinum Sentral and Menara Shell, coupled with higher property operating expenses. 1Q18 results met both our and Bloomberg consensus expectations, forming 24% and 23% of respective full-year estimates. The absence of dividends was not a surprise as the group typically declares semi-annual dividends.

1Q18 NPI growth clipped by lower rental income and higher opex

The decline of 3.3% yoy in 1Q18 realised gross revenue was mainly caused by lower rental revenue from: i) Platinum Sentral – due to rebates given to some tenants for renewals that were secured last year; and ii) Menara Shell – due to non-renewal by Tradewinds and JLT Asia. Earnings were further dragged by higher property operating expenses (+3.4% yoy) due to higher routine expenses at several of its properties which led to a lower net property income (NPI) of RM2.6m (-7% yoy).

Focusing on tenant retention, especially for its KL assets

MQREIT chalked up a renewal rate of 81% for the leases that were up for renewal in 1Q18. We gather that rental rates have been flat in the past few quarters but MQREIT has been providing incentives via rebates during renewals. MQREIT will continue to focus on retaining the current tenants, especially for its KL assets. The group will also focus on locking in longer tenancy periods, whenever possible, and will work on minimising costs.

FY18 expiring leases will mainly come from KL assets

The REIT's lease profile is well spread out (28%, 15% and 17% of its net lettable area due for renewal in 2018F, 2019F and 2020F, respectively). The bulk of the remaining leases expiring in 2018F will come in 3Q18 and 4Q18 and active negotiations are underway. We gather negotiations for renewals have been tough with management having to sacrifice reversionary rates or offer incentives, i.e.: rebates or rent-free periods.

Model update; imputed annual report figures

We have imputed MQREIT's 2017 annual report figures into our model and have subsequently adjusted our payout ratio forecast; as such, our FY18-20F EPS and DPS are cut by 0.4-0.7% and 0.3-2.6%, respectively. We have also adjusted our cost of equity assumptions from 7.7% to 8.8% (terminal growth: 1%) to account for the risks associated with investing in a stock (a pure-play office REIT) which is exposed to the office oversupply, especially for its KL assets.

Maintain Hold; DDM-based TP lowered to RM1.14

Retain Hold with a lower DDM TP of RM1.14. Despite the exposure to office oversupply, we think its built-to-suit Cyberjaya assets should support earnings. Estimated dividend yields of 7.4-7.6% should compensate for the risks associated with the stock. Inorganic growth could re-rate share price, though we do not think Menara Celcom injection (from its sponsor, MRCB) will happen anytime soon. Key upside risk is better rental reversion rates, especially for its KL assets; non-renewal of expiring leases is a key downside risk.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Property Revenue (RMm)	136.6	180.1	177.7	180.9	182.7
Net Property Income (RMm)	107.2	140.0	138.3	140.3	141.7
Net Profit (RMm)	67.57	68.45	88.21	89.99	91.30
Distributable Profit (RMm)	62.18	89.61	88.27	90.06	91.37
DPS (RM)	0.084	0.084	0.084	0.084	0.085
Dividend Yield	7.48%	7.49%	7.49%	7.53%	7.56%
Asset Leverage	36.6%	37.3%	35.3%	35.2%	35.1%
BVPS (RM)	1.99	1.30	1.30	1.30	1.30
P/BV (x)	0.56	0.86	0.86	0.86	0.86
Recurring ROE	6.18%	6.41%	6.37%	6.51%	6.60%
% Change In DPS Estimates			(0.36%)	(1.46%)	(2.66%)
CIMB/consensus DPS (x)			1.01	1.03	1.07

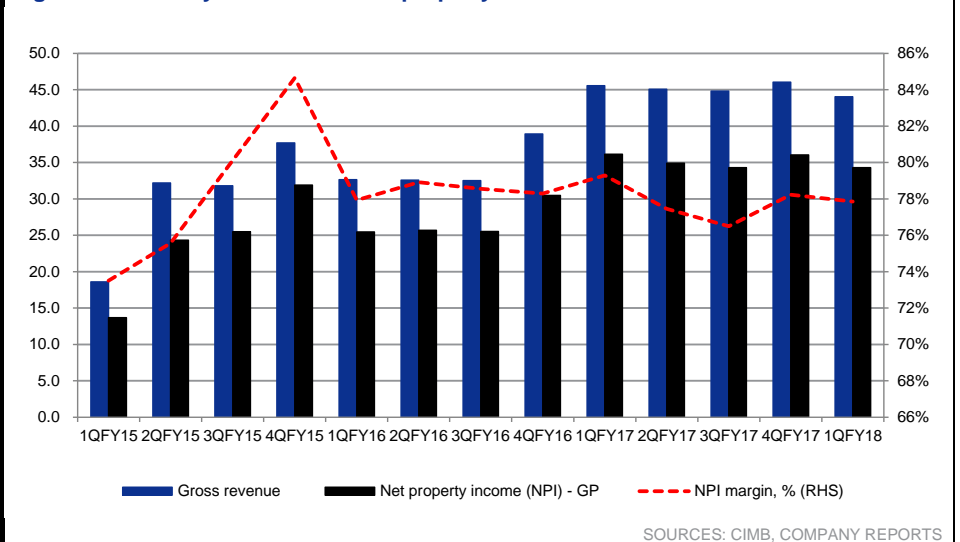
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	1QFY18	1QFY17	yoy % chg	4QFY18	qoq % chg	Prev FY18F	Comments
Revenue	44.0	45.6	-3.3	46.1	-4.4	181.5	Realised gross revenue declined due to lower rental revenue from
Operating costs	(14.1)	(13.1)	7.2	(15.4)	-8.5	(56.6)	Platinum Sentral and Menara Shell
EBITDA	30.0	32.5	-7.6	30.7	-2.3	124.8	
EBITDA margin (%)	68.1	71.2				68.8	
Depn & amort.	(0.0)	(0.0)	4.2	(0.0)	0.0	(0.1)	
EBIT	30.0	32.4	-7.6	30.7	-2.3	124.8	
Interest expense	(9.7)	(9.7)	-0.3	(11.0)	-11.8	(41.7)	Total debt of RM851m as at end-1Q18
Interest & invt inc	0.7	0.5	61.3	1.7	-58.1	5.3	Total cash and deposits with FIs of RM50m as at end-1Q18
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	None as expected
Exceptionals & revaln	0.0	0.0	#DIV/0!	(18.1)	nm	0.0	-
Pretax profit	21.0	23.2	-9.3	3.3	532	88.4	
Tax	0.0	0.0	nm	0.0	nm	0.0	No tax due to REIT structure, ie: more than 90% payout
Tax rate (%)	0.0	0.0	nm	0.0	nm	0.0	-
Minority interests	0.0	0.0	nm	0.0	nm	0.0	None as expected
Net profit	21.0	23.2	-9.3	3.3	532	88.4	-
Core net profit	21.0	23.2	-9.3	21.4	-1.9	88.4	In line with estimates
Distr profit	22.4	28.9	-22.5	22.3	nm	94.2	After accounting for distribution adjustments
DPU (sen)	0.0	0.0	#DIV/0!	4.2	nm	8.4	-

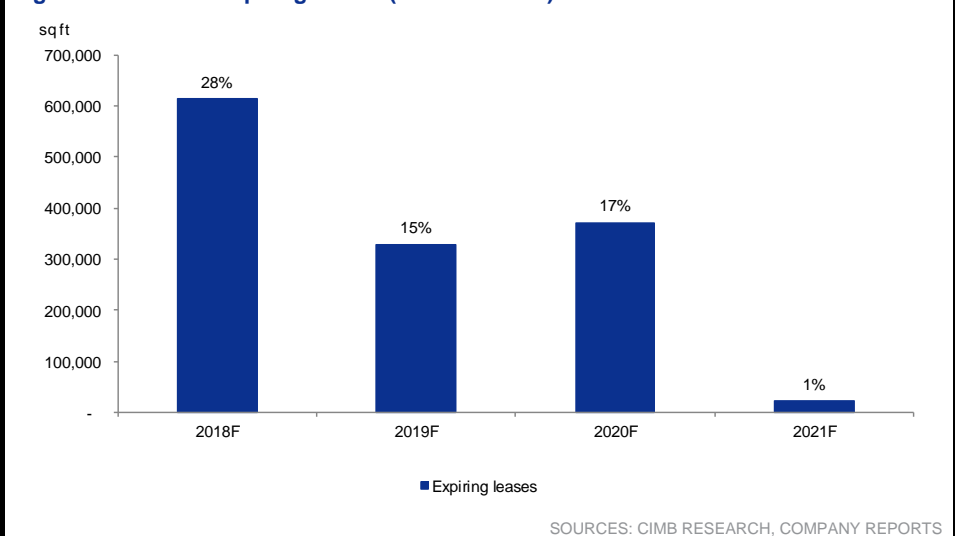
SOURCES: CIMB, COMPANY REPORTS

Figure 2: Quarterly revenue and net property income



SOURCES: CIMB, COMPANY REPORTS

Figure 3: Profile of expiring leases (as a % of NLA)

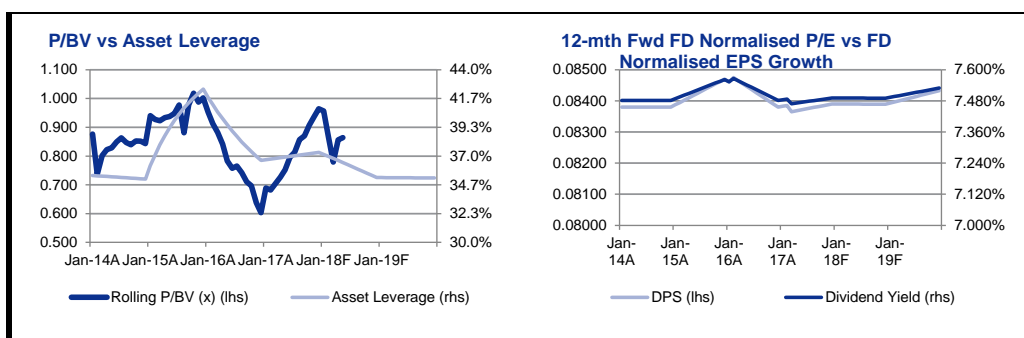


SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision table

RM m	2017A	2018F			2019F			2020F		
		Old	New	chg	Old	New	chg	Old	New	chg
Gross Property Revenue	182	181	178	-2%	184	181	-2%	186	183	-2%
Net Property Income	141	142	138	-2%	143	140	-2%	145	142	-2%
Core net profit	89.41	88.82	88.21	-1%	90.34	89.99	0%	91.92	91.30	-1%
DPS	0.08	0.08	0.08	0%	0.09	0.08	-1%	0.09	0.08	-3%

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Rental Revenues	115.9	162.1	160.3	162.8	163.8
Other Revenues	20.7	18.0	17.4	18.1	18.9
Gross Property Revenue	136.6	180.1	177.7	180.9	182.7
Total Property Expenses	(29.5)	(40.2)	(39.4)	(40.6)	(41.0)
Net Property Income	107.2	140.0	138.3	140.3	141.7
General And Admin. Expenses	(1.7)	(0.3)	(0.4)	(0.4)	(0.5)
Management Fees	(9.7)	(13.5)	(12.8)	(12.9)	(12.9)
Trustee's Fees	(0.5)	(0.7)	(0.6)	(0.7)	(0.7)
Other Operating Expenses	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)
EBITDA	94.7	125.0	124.0	125.9	127.1
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	94.7	124.9	123.9	125.8	127.1
Net Interest Income	(30.7)	(36.9)	(35.7)	(35.8)	(35.8)
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	3.5	(19.6)	0.0	0.0	0.0
Pre-tax Profit	67.6	68.5	88.2	90.0	91.3
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	67.6	68.5	88.2	90.0	91.3
Distributable Profit	62.2	89.6	88.3	90.1	91.4

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Pre-tax Profit	67.6	68.5	88.2	90.0	91.3
Depreciation And Non-cash Adj.	30.7	37.0	35.8	35.9	35.8
Change In Working Capital	15.1	4.0	(7.6)	2.2	5.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	(3.5)	19.7	0.0	0.0	0.0
Cashflow From Operations	109.8	129.1	116.3	128.1	132.5
Capex	(648.7)	(0.4)	(5.0)	(5.0)	(5.0)
Net Investments And Sale Of FA	3.0	(0.0)	5.0	5.0	5.0
Other Investing Cashflow	0.8	2.2	1.7	1.6	1.6
Cash Flow From Investing	(644.9)	1.7	1.7	1.6	1.6
Debt Raised/(repaid)	164.0	(0.3)	0.0	0.0	0.0
Equity Raised/(Repaid)	487.9	(0.0)	0.0	0.0	0.0
Dividends Paid	(56.9)	(72.6)	(89.6)	(90.1)	(90.5)
Cash Interest And Others	(30.7)	(32.4)	(35.7)	(35.8)	(35.8)
Cash Flow From Financing	564.4	(105.3)	(125.3)	(125.9)	(126.2)
Total Cash Generated	29.3	25.6	(7.3)	3.8	7.9
Free Cashflow To Firm	(532.7)	134.5	119.7	131.3	135.8
Free Cashflow To Equity	(401.8)	97.0	82.3	93.9	98.3

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Investments	2,240	2,179	2,164	2,169	2,174
Intangible Assets	0	0	0	0	0
Other Long-term Assets	3	2	2	2	2
Total Non-current Assets	2,243	2,181	2,167	2,172	2,177
Total Cash And Equivalents	54	76	38	35	36
Inventories	0	0	0	0	0
Trade Debtors	18	5	5	5	5
Other Current Assets	1	26	1	1	1
Total Current Assets	72	107	44	41	42
Trade Creditors	7	20	13	15	20
Short-term Debt	186	117	117	117	117
Other Current Liabilities	77	13	13	13	13
Total Current Liabilities	271	150	142	145	150
Long-term Borrowings	662	737	662	662	662
Other Long-term Liabilities	23	17	22	22	22
Total Non-current Liabilities	685	754	685	685	685
Shareholders' Equity	1,360	1,385	1,383	1,383	1,384
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	1,360	1,385	1,383	1,383	1,384

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Property Revenue Growth	18.6%	31.8%	(1.4%)	1.8%	1.0%
NPI Growth	18.7%	30.6%	(1.2%)	1.5%	1.0%
Net Property Income Margin	78.4%	77.7%	77.8%	77.6%	77.5%
DPS Growth	(1.06%)	0.12%	(0.01%)	0.52%	0.44%
Gross Interest Cover	2.87	3.08	3.31	3.36	3.40
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	82%	131%	100%	100%	100%
Current Ratio	0.27	0.71	0.31	0.28	0.28
Quick Ratio	0.27	0.71	0.31	0.28	0.28
Cash Ratio	0.20	0.51	0.27	0.24	0.24
Return On Average Assets	3.43%	2.97%	3.92%	4.07%	4.12%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
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	2,255	2,190	2,190	2,190
Occupancy (%)	97.7%	96.3%	97.3%	97.3%	97.3%
Assets Under Management (m) (RM)	2,222.0	2,222.0	2,164.5	2,169.5	2,174.5
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

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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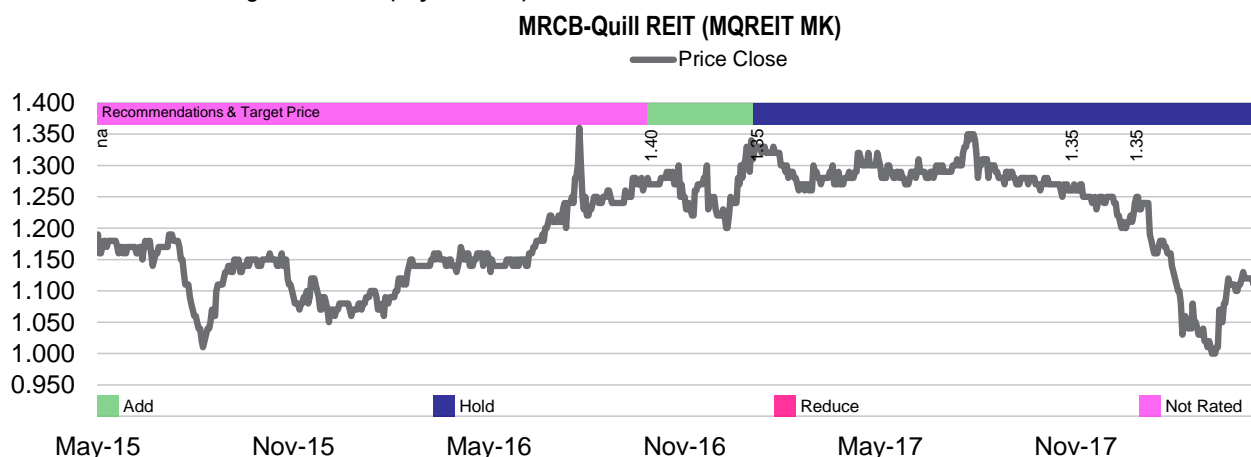
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2018		
1275 companies under coverage for quarter ended on 31 March 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.1%	5.5%
Hold	29.7%	2.0%
Reduce	8.9%	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 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, **ICHI** – 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 that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

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.

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.