

Company Note

Malaysia

HOLD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 0

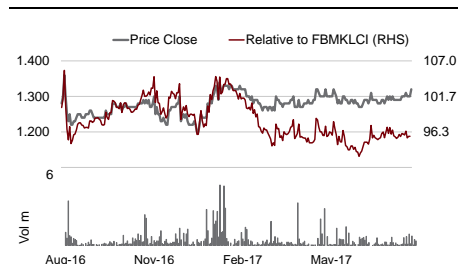
Current price:	RM1.32
Target price:	RM1.35
Previous target:	RM1.35
Up/downside:	2.2%
CIMB / Consensus:	-1.8%

Reuters:	MQRE.KL
Bloomberg:	MQREIT MK
Market cap:	US\$328.5m
	RM1,410m
Average daily turnover:	US\$0.09m
	RM0.40m
Current shares o/s:	661.4m
Free float:	27.7%

*Source: Bloomberg

Key changes in this note

None.

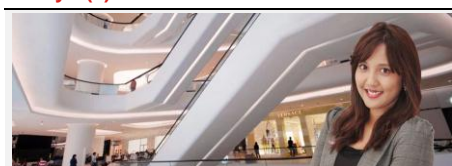


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	1.5	3.1
Relative (%)	1.8	1.4	-2.8

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

Analyst(s)



Liyana FUAD

T (60) 3 2261 9080

E norliyanaalia.ahmadfuad@cimb.com

MRCB-Quill REIT

Menara Shell provides boost to earnings

- 1H17 core net profit of RM45m met our and Bloomberg consensus expectations.
- 1H17 DPU of 4.23 sen within our FY17 DPU estimate of 8.52 sen.
- 1H17's net property income (NPI) growth was boosted by the additional contribution from Menara Shell, as well as positive rental reversions at its other properties.
- We are expecting low single-digit portfolio rental reversions for FY17 as management focuses on tenant retention.
- We maintain our Hold rating and DDM-based target price of RM1.35.

1H17 earnings met expectations

MRCB-Quill REIT's (MQREIT) 1H17 core net profit of RM45.2m (+48% yoy) was in line with expectations, at 49% of our and 50% of Bloomberg consensus full-year forecasts. MQREIT declared its first interim DPU for the year of 4.23 sen, within our FY17 DPU estimate of 8.52 sen.

Newly-added Menara Shell boosted 1H17 earnings

MQREIT's 1H17 realised revenue rose 39.0% yoy to RM90.6m, boosted by additional contributions from Menara Shell since Dec 16, coupled with positive rental reversions at Quill Building 3 in Cyberjaya, Wisma Technip on Jalan Tun Razak, and Quill Building 2 in Cyberjaya. The revenue boost more than offset the 39.3% yoy increase in the group's property expenses (due to the newly-added asset), which translated to 3.6%-pt improvement in NPI margins to 82%. 1H17 NPI grew 38.9% yoy to RM74.3m.

Portfolio rental reversions stood at mid single-digits

14% of MQREIT's NLA (c.316k sq ft) is up for renewal in FY17 and c.16k sq ft has been renewed at mid single-digit rental reversions. The lease of SBM Offshore, which takes up c.67k sq ft in Platinum Sentral, will expire in Oct. While we are positive that SBM intends to renew, we are cautious on the reversionary rates as we think MQREIT is likely to sacrifice rates to retain SBM given the tough market conditions. Jones Lang Wootton is guiding for 0% to -5% rental reversions for offices in KL Sentral and Cyberjaya in 2017.

MQREIT will continue to focus on tenant retention

We understand that MQREIT's strategy for tenant renewals is to offer incentives, i.e. asset enhancement initiatives (AEIs) and rent-free periods, to retain tenants while maintaining rental rates. The group will also focus on locking in longer tenancy periods, whenever possible. Given the challenging market conditions, we expect low single-digit portfolio rental reversions in FY17F as well as FY18F.

Inorganic growth could be the re-rating catalyst

Yield-accretive asset acquisitions are currently the only potential catalysts for the stock, in our view. However, the only potential asset in the pipeline at the moment is Menara Celcom, Petaling Jaya (from its sponsor, Malaysian Resources Corp Bhd). We gather from media reports that construction of the building is slated for completion by end-2017 or early-2018. Typically, due diligence and feasibility studies prior to a proposal will take c.9 months; hence, we do not expect it to happen any time before FY19F.

Platinum Sentral could leverage on traffic from MRT

On another note, management is currently monitoring traffic in Platinum Sentral following the completion of the MRT station there. The building is linked to the bridge that seamlessly connects the MRT station to KL Sentral. We gather that MQREIT may look into adding more retail space to the building to leverage on this.

Maintain Hold and DDM-based TP of RM1.35

We retain our Hold call and DDM-based target price of RM1.35. We think the stock is fairly-valued at current levels. Better rental reversions, especially for its Cyberjaya-located offices, are a key upside risk while non-renewals of its expiring leases are a key downside risk.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Property Revenue (RMm)	115.2	136.6	193.1	198.4	201.8
Net Property Income (RMm)	90.3	107.2	144.6	148.1	150.6
Net Profit (RMm)	60.68	62.77	92.77	96.22	98.63
Distributable Profit (RMm)	50.92	56.27	90.98	91.46	93.75
DPS (RM)	0.084	0.084	0.085	0.086	0.088
Dividend Yield	6.35%	6.35%	6.45%	6.49%	6.65%
Asset Leverage	42.4%	37.1%	37.3%	37.1%	36.9%
BVPS (RM)	1.37	2.06	1.27	1.28	1.28
P/BV (x)	0.97	0.64	1.04	1.03	1.03
Recurring ROE	7.39%	5.66%	6.82%	7.05%	7.21%
CIMB/consensus DPS (x)			1.05	1.03	1.03

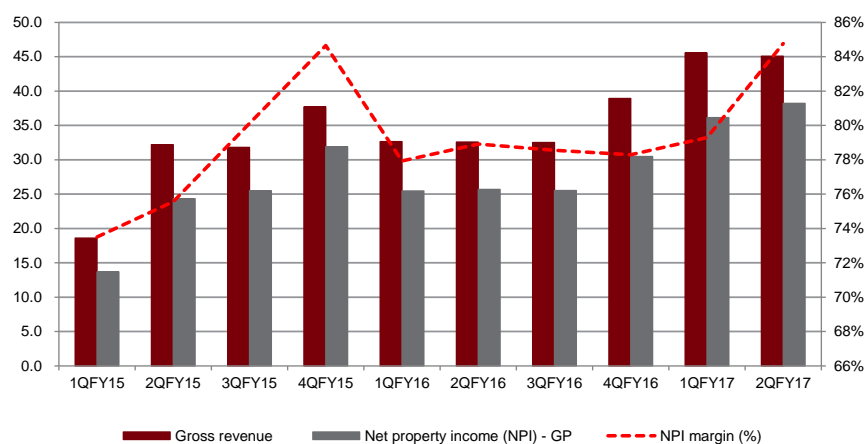
SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY17	2QFY16	yoy % chg	qoq % chg	2QFY17 cum	2QFY16 cum	yoy % chg	Prev FY17F	Comments
Revenue	45.1	32.6	38.4	-1.1	90.6	65.2	39.0	193.1	Revenue improved mainly due to the addition of Menara
Operating costs	(13.8)	(9.6)	44.5	5.3	(26.9)	(19.5)	38.1	(65.2)	Shell and positive rental reversions at several other properties
EBITDA	31.3	23.0	35.9	-3.7	63.7	45.7	39.3	127.9	
EBITDA margin (%)	69.4	70.7			70.3	70.1		66.2	
Depn & amort.	(0.0)	(0.0)	23.7	0.0	(0.1)	(0.0)	23.6	(0.1)	
EBIT	31.2	23.0	35.9	-3.7	63.7	45.7	39.4	127.9	
Interest expense	(9.8)	(8.0)	23.4	1.2	(19.6)	(15.8)	23.6	(37.5)	Total debt of RM853.9m as at end-1Q17
Interest & invt inc	0.6	0.4	71.0	43.7	1.1	0.8	43.2	2.4	Total cash of RM6.3m as at end-1Q17
Associates' contrib	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Exceptionals & revaln	-	-	nm	nm	-	-	0.0	0.0	-
Pretax profit	22.0	15.4	43.3	-4.8	45.2	30.6	47.6	92.8	
Tax	-	-	nm	nm	-	-	nm	0.0	
Tax rate (%)	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	No tax due to REIT structure, ie: more than 90% payout
Minority interests	-	-	nm	nm	-	-	nm	0.0	None as expected
Net profit	22.0	15.4	43.3	-4.8	45.2	30.6	47.6	92.8	
Distr profit	22.0	28.9	-23.7	nm	45.2	30.6	47.6	91.0	
Core net profit	22.0	15.4	43.3	-4.8	45.2	30.6	47.6	92.8	In line with estimates
DPU (sen)	4.23	4.23	0.0	nm	4.23	4.23	0.0	8.5	In line with estimates

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Quarterly revenue and net property income trend



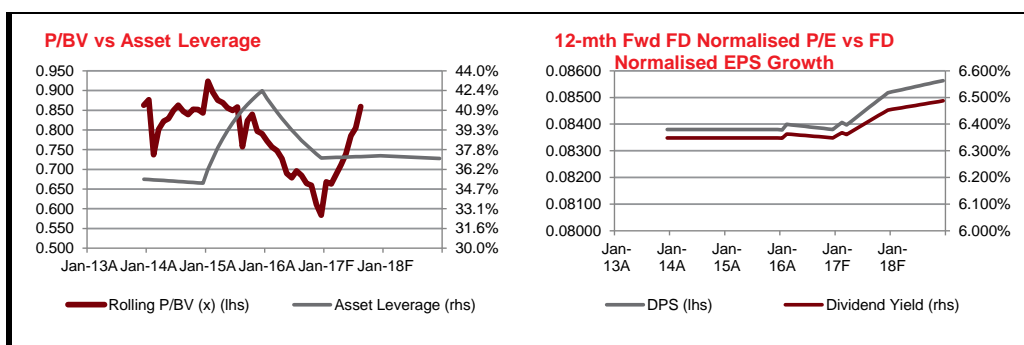
SOURCE: COMPANY DATA, CIMB RESEARCH

Figure 3: MQREIT's portfolio net lettable area

sq. ft.	as-at 2Q17	% NLA contribution
Quill Building 1 - DHL1	92,284	4%
Quill Building 4 - DHL 2	99,183	4%
Quill Building 2 - HSBC	184,453	8%
Quill Building 3 - BMW	117,198	5%
Wisma Technip	233,021	10%
Part of Plaza Mont Kiara (retail)	73,408	3%
Quill Building 5 - IBM	81,602	4%
Quill Building 8 - DHL XPJ	65,205	3%
Tesco Building, Penang	275,020	12%
Platinum Sentral	476,370	21%
Menara Shell	557,053	25%
Portfolio	2,254,797	100%

SOURCE: COMPANY DATA, CIMB RESEARCH

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Rental Revenues	99.5	136.6	182.8	182.9	186.2
Other Revenues	15.7	0.0	10.3	15.5	15.5
Gross Property Revenue	115.2	136.6	193.1	198.4	201.8
Total Property Expenses	(24.9)	(29.5)	(48.5)	(50.2)	(51.1)
Net Property Income	90.3	107.2	144.6	148.1	150.6
General And Admin. Expenses	(0.4)	(1.7)	(2.2)	(2.2)	(2.2)
Management Fees	(8.6)	(9.7)	(13.2)	(13.3)	(13.4)
Trustee's Fees	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
EBITDA	80.5	94.7	127.9	131.4	133.8
Depreciation And Amortisation	(0.0)	0.0	(0.1)	(0.1)	(0.1)
EBIT	80.5	94.7	127.9	131.3	133.7
Net Interest Income	(27.1)	(30.7)	(35.1)	(35.1)	(35.1)
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	7.3	(1.3)	0.0	0.0	0.0
Pre-tax Profit	60.7	62.8	92.8	96.2	98.6
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	60.7	62.8	92.8	96.2	98.6
Distributable Profit	50.9	56.3	91.0	91.5	93.8

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Pre-tax Profit	60.7	62.8	92.8	96.2	98.6
Depreciation And Non-cash Adj.	27.1	30.7	35.1	35.1	35.1
Change In Working Capital	6.4	15.1	(19.4)	7.0	4.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	(7.2)	(3.5)	0.0	0.0	0.0
Cashflow From Operations	87.0	105.0	108.6	138.3	137.7
Capex	(751.9)	(647.4)	(1.5)	(1.5)	(1.5)
Net Investments And Sale Of FA	29.1	1.5	4.0	5.0	5.0
Other Investing Cashflow	(1.5)	1.6	2.4	2.4	2.4
Cash Flow From Investing	(724.4)	(644.2)	4.9	5.9	5.9
Debt Raised/(repaid)	389.0	164.0	0.0	0.0	0.0
Equity Raised/(Repaid)	342.0	487.9	0.0	0.0	0.0
Dividends Paid	(38.7)	(56.9)	(91.0)	(91.5)	(93.8)
Cash Interest And Others	(27.1)	(30.7)	(35.1)	(35.1)	(35.1)
Cash Flow From Financing	665.2	564.4	(126.1)	(126.5)	(128.8)
Total Cash Generated	27.8	25.1	(12.6)	17.7	14.8
Free Cashflow To Firm	(636.5)	(536.9)	115.8	146.6	146.0
Free Cashflow To Equity	(275.5)	(405.9)	78.4	109.1	108.5

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Investments	1,570	2,222	2,223	2,225	2,226
Intangible Assets	0	0	0	0	0
Other Long-term Assets	4	0	0	0	0
Total Non-current Assets	1,574	2,222	2,224	2,225	2,227
Total Cash And Equivalents	45	54	35	45	53
Inventories	0	0	0	0	0
Trade Debtors	6	18	25	26	26
Other Current Assets	1	0	0	0	0
Total Current Assets	52	72	60	71	79
Trade Creditors	14	28	16	24	28
Short-term Debt	189	189	189	189	189
Other Current Liabilities	3	35	35	35	35
Total Current Liabilities	205	252	240	248	252
Long-term Borrowings	501	662	662	662	662
Other Long-term Liabilities	16	20	20	20	20
Total Non-current Liabilities	516	682	682	682	682
Shareholders' Equity	904	1,360	1,362	1,366	1,371
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	0	0	0
Total Equity	904	1,360	1,362	1,366	1,371

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Property Revenue Growth	64.0%	18.6%	41.3%	2.7%	1.7%
NPI Growth	69.3%	18.7%	34.9%	2.5%	1.7%
Net Property Income Margin	78.4%	78.4%	74.9%	74.7%	74.7%
DPS Growth	0.00%	0.00%	1.65%	0.53%	2.50%
Gross Interest Cover	2.88	2.87	3.41	3.50	3.57
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	83.9%	89.6%	98.1%	95.1%	95.1%
Current Ratio	0.25	0.28	0.25	0.29	0.31
Quick Ratio	0.25	0.28	0.25	0.29	0.31
Cash Ratio	0.22	0.21	0.15	0.18	0.21
Return On Average Assets	4.87%	3.20%	4.05%	4.20%	4.29%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
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	1,699	2,256	1,699	1,699
Occupancy (%)	95.9%	97.2%	97.2%	97.2%	97.2%
Assets Under Management (m) (RM)	1,569.8	2,222.0	2,223.4	2,224.9	2,226.4
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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(a) MRCB-Quill REIT

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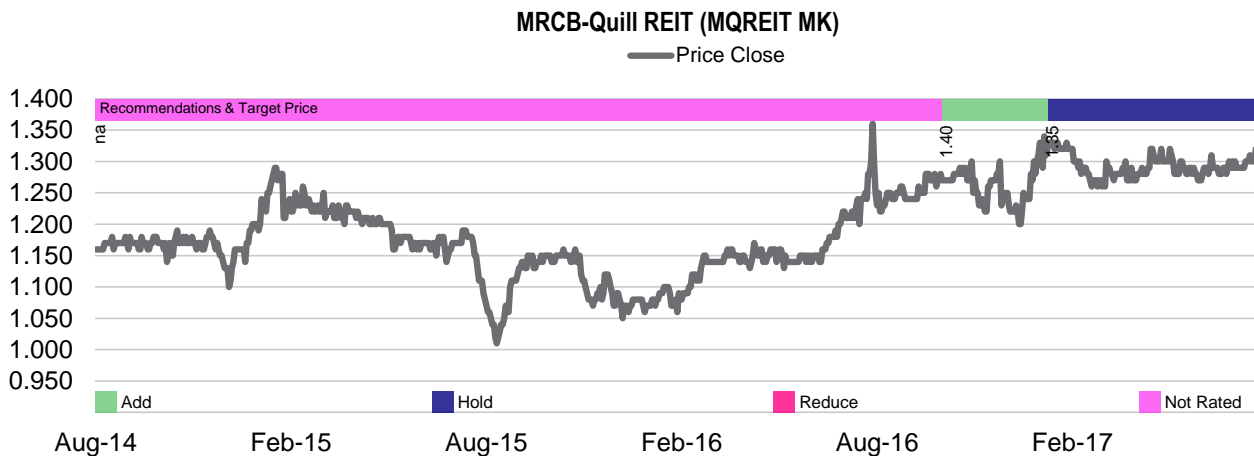
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1288 companies under coverage for quarter ended on 30 June 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	51.2%	5.5%
Hold	35.7%	3.1%
Reduce	11.9%	0.1%

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 2016, Anti-Corruption 2016

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BJCHI** – Good, Declared, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – 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** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PLAT** – Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPA** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TNR** – not available, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **TVO** – Very Good, 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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- 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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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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