

MRCB-Quill REIT (MQREIT MK)

BUY

Share Price MYR 1.02
 12m Price Target MYR 1.18 (+22%)
 Previous Price Target MYR 1.18

Putting the shine back into Platinum Sentral

Maintain BUY with total return of 22%

Post our recent meeting with management, we reiterate our positive, long-term outlook on MQREIT. The rental income setbacks at Platinum Sentral in FY19 should be short-lived. Meanwhile, half of MQREIT's FY19-21E revenue is still supported by long-term tenants. Our earnings forecasts and DDM-TP of MYR1.18 (Ke: 7.2%) are intact. Maintain BUY with an attractive FY20E net DPU yield of 6.4% (sector average: 5.3%).

New long-term tenant at Platinum Sentral

SPACES, a co-working space provider owned by IWG PLC (IWG LN; Not Rated) has begun operations at Platinum Sentral (c.15% of NLA) since Jul 2019. Consequently, we expect a gradual improvement in rental income from 2H19 onwards post the fit-out period of SPACES and other new tenants. Committed occupancy at Platinum Sentral has been stable since 2Q19 at 88%. We understand that IWG plans to aggressively expand SPACES in Malaysia. Hence, we do not rule out the possibility of SPACES taking on additional space at Platinum Sentral in the future, particularly in the event of non-renewal/lease expiries of existing tenants.

Limited risks at QB5

Management is still actively seeking a replacement tenant at QB5, following the vacancy of its sole tenant since end-1Q19. However, we see limited earnings risks from QB5 as it only contributed c.2% to MQREIT's FY19-21E revenue (4% of portfolio NLA), based on our estimates. We also do not discount the possibility of MQREIT disposing the asset if opportunities arise.

Long-term outlook intact

We maintain our positive outlook on MQREIT's assets and rental income where long-term tenants, i.e. Menara Shell (close to full office occupancy), QB1, QB4, QB2 and the Tesco Building are estimated to contribute 51-52% to our FY19-21E revenue. We have not factored in new assets in our forecasts.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	180	173	163	164	167
Net property income	140	134	124	129	131
Core net profit	88	85	74	79	80
Core EPU (sen)	8.2	7.9	6.9	7.4	7.5
Core EPU growth (%)	(8.0)	(4.1)	(12.8)	6.7	1.9
Net DPU (sen)	7.6	7.3	6.1	6.5	6.6
Net DPU growth (%)	0.1	(3.7)	(16.4)	6.7	1.9
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
Net DPU yield (%)	6.0	6.9	6.0	6.4	6.5
ROAE (%)	5.1	5.3	5.4	5.7	5.8
ROAA (%)	3.8	3.7	3.3	3.5	3.5
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	6.1	6.1	6.4
MKE vs. Consensus (%)	-	-	(1.0)	5.9	2.9

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

Company Description

MRCB-Quill REIT engages in the investment in commercial properties which are mainly located in the Klang Valley.

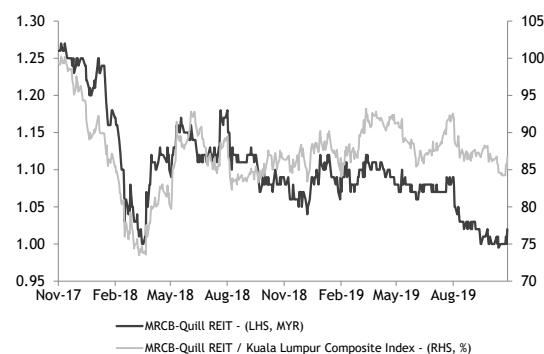
Statistics

52w high/low (MYR)	1.12/1.00
3m avg turnover (USDm)	0.0
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.1B USD262M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

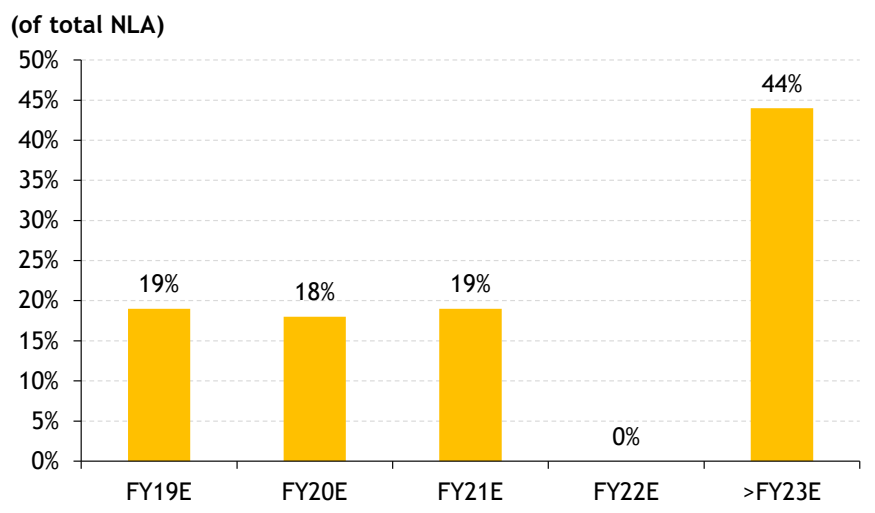
Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(6)	(6)
Relative to index (%)	(1)	(5)	(1)

Source: FactSet

Figure 1: Lease expiry profile



Note: As at 30 Jun 2019

Source: Trust

Risk statement

There are several risk factors for our earnings estimates, target price and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for MQREIT. 19% of MQREIT's total NLA is due for lease renewal in 2019 while 24% of MQREIT's total debt is based on floating rates.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	16.6	14.6	16.8	15.7	15.4
P/BV (x)	1.0	0.8	0.8	0.8	0.8
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
DPU yield (%)	6.7	7.6	6.6	7.1	7.2
FCF yield (%)	9.7	10.0	10.0	10.3	10.7
INCOME STATEMENT (MYR m)					
Revenue	180.1	173.4	163.4	164.5	167.2
Net property income	140.0	133.7	124.3	129.4	131.0
Management and trustee fees	(14.9)	(14.9)	(14.6)	(14.7)	(14.8)
Net financing costs	(36.9)	(36.3)	(35.8)	(35.8)	(35.9)
Exceptionals	(18.2)	(3.2)	0.0	0.0	0.0
Pretax profit	69.9	79.3	73.9	78.8	80.3
Income tax	0.0	(6.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	69.9	73.1	73.9	78.8	80.3
Distributable inc to unitholders	92.4	87.1	73.9	78.8	80.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	76.0	85.8	85.7	84.2	84.7
Accounts receivable	5.2	5.6	5.3	5.4	5.4
Property, Plant & Equip (net)	0.2	0.3	2.0	3.4	4.8
Investment properties	2,159.5	2,158.7	2,158.7	2,158.7	2,158.7
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	47.5	20.9	20.9	20.9	20.9
Total assets	2,288.4	2,271.4	2,272.6	2,272.6	2,274.6
ST interest bearing debt	116.9	0.0	0.0	0.0	0.0
Accounts payable	20.3	15.8	15.6	14.0	14.4
LT interest bearing debt	736.6	853.7	853.7	853.7	853.7
Other liabilities	29.9	29.6	29.6	29.6	29.6
Total Liabilities	903.7	899.1	898.9	897.3	897.7
Shareholders Equity	1,384.7	1,372.3	1,373.8	1,375.3	1,376.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,384.7	1,372.3	1,373.8	1,375.3	1,376.9
Total liabilities and equity	2,288.4	2,271.4	2,272.6	2,272.6	2,274.6
CASH FLOW (MYR m)					
Cash flow from operations	129.1	113.3	109.8	113.1	116.8
Acquisitions & investments	(0.4)	(4.1)	(1.6)	(1.6)	(1.7)
Disposal of FA & investments	0.0	28.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.2	3.7	4.7	4.7	4.6
CF from investing activities	1.8	27.6	3.1	3.1	3.0
Dividends paid	(72.6)	(89.8)	(72.4)	(77.2)	(78.7)
Interest expense	(37.2)	(39.2)	(40.6)	(40.6)	(40.6)
Change in debt	1.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	4.0	0.0	0.0	0.0
Other financial activities	(0.0)	(0.0)	0.0	0.0	0.0
CF from financing activities	(108.8)	(125.0)	(112.9)	(117.8)	(119.3)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	22.0	15.9	(0.0)	(1.5)	0.5

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.7	(3.7)	(5.8)	0.7	1.6
Net property income growth	36.8	(4.5)	(7.0)	4.1	1.3
Core net profit growth	48.6	(3.8)	(12.8)	6.7	1.9
Distributable income growth	56.2	(5.8)	(15.2)	6.7	1.9
Profitability ratios (%)					
Net property income margin	77.7	77.1	76.1	78.7	78.4
Core net profit margin	48.9	48.8	45.2	47.9	48.0
Payout ratio	115.4	106.6	88.2	88.2	88.2
DuPont analysis					
Total return margin (%)	38.8	42.2	45.2	47.9	48.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.1	5.3	5.4	5.7	5.8
ROAA (%)	3.8	3.7	3.3	3.5	3.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.1	56.0	55.9	56.0	55.8
Net interest cover (x)	3.4	3.3	3.1	3.2	3.2
Debt/EBITDA (x)	6.8	7.2	7.8	7.4	7.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	777.4	767.9	768.0	769.5	769.0
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38

Source: Company; Maybank

Research Offices

MACRO

Sadiq CURRIMBHOY
Head of Regional Macro Research
(65) 6231 5836
sadiq@maybank-ke.com.sg

ECONOMICS

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

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore | Thailand
(65) 6231 5844
leejuye@maybank-ke.com.sg

Linda LIU
Singapore | Vietnam
(65) 6231 5847
lindaliu@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh@maybank-ib.com

William POH
(603) 2297 8683
william.poh@maybank-ib.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

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

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, ACA
(65) 6812 8807
winsonphoon@maybank-ke.com.sg

SE THO Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

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

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

MALAYSIA

Anand PATHMAKANTHAN, Head of Research
(603) 2297 8783
anand.pathmakanthan@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
• Automotive

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
• Glove • Ports • Shipping • Healthcare

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

Adrian WONG, CFA
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Building Materials

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples

TEE Sze Chiah Head of Retail Research
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Neel SINHA Head of Research
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy • Industrials
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos • Transport

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology • Healthcare

Thilan WICKRAMASINGHE
(65) 6231 5840 thilanw@maybank-ke.com.sg
• Banks • Consumer

INDIA

Jigar SHAH Head of Research
(91) 22 4223 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 4223 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 4223 2605
vishalperiwal@maybank-ke.co.in
• Infrastructure

Kshitiz PRASAD
(91) 22 4223 2607
kshitiz@maybank-ke.co.in
• Banks

INDONESIA

Isnaputra ISKANDAR Head of Research
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement
• Autos • Consumer • Utility

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Luthfi RIDHO
(62) 21 8066 8690
luthfi.ridho@maybank-ke.co.id
• Macro/Strategy

PHILIPPINES

Minda OLONAN Head of Research
(63) 2 8849 8840
minda.olonan@maybank-atrke.com
• Strategy • Conglomerates

Katherine TAN
(63) 2 8849 8843
kat_tan@maybank-atrke.com
• Banks • Conglomerates • Ports

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

Romel LIBO-ON
(63) 2 8849 8844
romel_libo-on@maybank-atrke.com
• Property

Kayzer LLANDA
(63) 2 8849 8839
Kayzer_llanda@maybank-atrke.com
• Utilities

THAILAND

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

Teerapol UDOMVEJ, CFA
(66) 2658 6300 ext 1394
teerapol.u@maybank-ke.co.th
• Healthcare

Jesada TECHAHUSUDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

Ekachai TARAPORN TIP Head of Retail Research
(66) 2658 5000 ext 1470
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Jaroontan WATTANAWONG
(66) 2658 5000 ext 1404
jaroontan.w@maybank-ke.co.th
• Transportation • Small cap

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanatphat.s@maybank-ke.co.th
• Media • Electronics

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Kritsapong PATAN
(66) 2658 5000 ext 1310
kritisapong.p@maybank-ke.co.th
• Chartist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84 28) 44 555 888 ext 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

LE Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

QUAN Trong Thanh
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

NGUYEN Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

NGUYEN Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

NGUYEN Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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Malaysia

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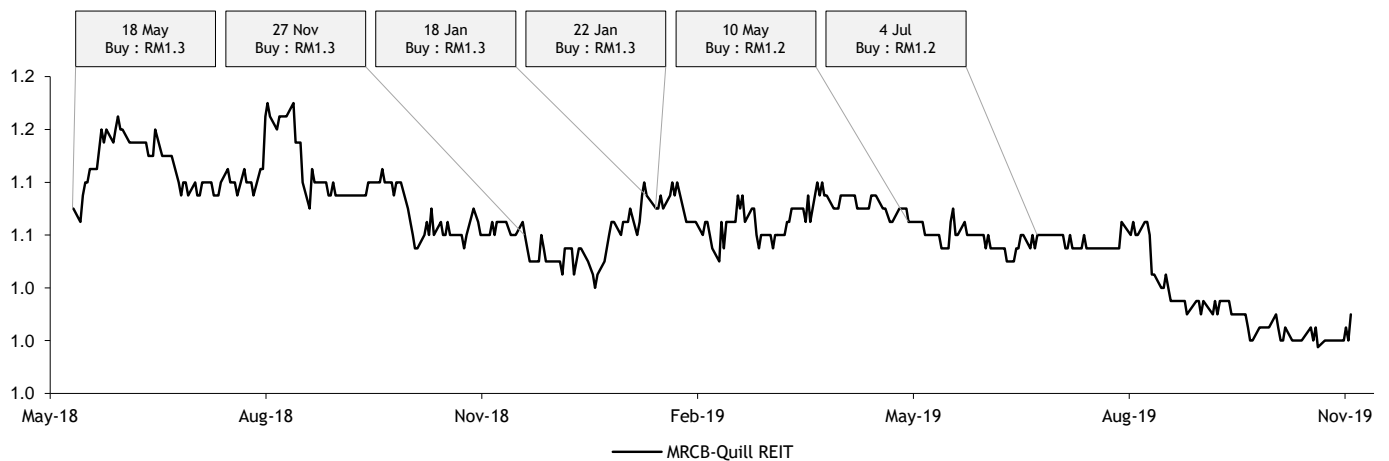
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Malaysia

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 8849 8888
Fax: (63) 2 8848 5738

South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia

Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Philippines

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

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
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
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

London

Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629

London

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

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

Indonesia

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, 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
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

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

India

Kim Eng Securities India Pvt Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

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

Saudi Arabia

In association with
Anfaal Capital
Ground Floor, KANOO Building
No.1 - Al-Faisaliyah, Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423