Company Focus

Quill Capita Trust

Bloomberg: QUIL MK | Reuters: QCAP.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 Nov 2014

HOLD RM1.19 KLCI : 1,842.17

Price Target : 12-month RM 1.25 (Prev RM 1.25)
Shariah Compliance: No
Reason for Report : 3Q14 results
Potential Catalyst: Occupancy replenishment; yield accretive injections
Where we differ: Mildly more cautious on NPI margins than consensus

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Result Summary

FY Dec (RM m)	3Q 2014	3Q 2013	2Q 2014	yoy chg	qoq chg
P&L Items					
Sales	17.5	17.1	17.3	2.4	1.1
Net Property Inc	13.5	13.5	13.4	0.2	0.8
Net Income Aft Tax	8.9	8.9	8.6	0.2	4.3
Net Inc avail. for Dist.	0.0	0.0	16.0	nm	nm
Other Data (%)					
Net Prop Inc Margin	77.0	78.7	77.2		
Dist. Payout Ratio	0.0	0.0	95.6		

Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Gross Revenue	69	70	123	126
Net Property Inc	53	53	97	99
Total Return	37	34	56	57
Distribution Inc	33	33	56	57
EPU (sen)	9.4	8.7	8.4	8.5
EPU Gth (%)	(9)	(7)	(3)	1
DPU (sen)	8.4	8.4	8.4	8.5
DPU Gth (%)	0	0	0	1
NAV per shr (sen)	136.7	137.1	132.0	132.0
PE (X)	12.7	13.6	14.1	13.9
Distribution Yield (%)	7.0	7.0	7.0	7.1
P/NAV (x)	0.9	0.9	0.9	0.9
Agg. Leverage (%)	36.6	36.9	44.6	44.7
ROAE (%)	6.9	6.4	8.0	6.5

At A Glance

Issued Capital (m shrs)	390
Mkt. Cap (RMm/US$m)	464 / 139
Avg. Daily Vol.('000)	121

ICB Industry : Real Estate
ICB Sector: Real Estate Investment Trusts
Principal Business : Quill Capita Trust (proposed to change to MRCB-Quill REIT) is a real estate investment trust with a focus on office property. Its assets are primarily in Petaling Jaya and Cyberjaya, with a small presence in Penang. The entry of Platinum Sentral and MRCB will not shift the REIT's focus, but will give it exposure to more prime assets in Kuala Lumpur.
Source: Company, AllianceDBS, Bloomberg Finance L.P.

Uneventful quarter

- **9M14 earnings in line with stable occupancy rates**
- **Still awaiting Platinum Sentral injection**
- **No dividend announced, expect it next quarter**
- **HOLD for decent 7% yield**

Highlights

Steady as expected

- 9M14 net income was flat, inching up 0.2% y-o-y and 4.3% q-o-q. This is in line at 75% of our full year forecast, but slightly below consensus estimates.
- Earnings were supported by steady NPI margins (YTD: 76.7%; FY13:77%), within our expectations. There was also little change in revenue as there was no drastic reversions or changes in occupancy rates.

Portfolio occupancy stable at 91%

- Occupancy remained firm as more renewals were chalked in (YTD: 12%). We note that <1% of portfolio NLA was not renewed at Quill Building 3 in Cyberjaya, but the impact will be minimal. Another 18% of NLA will expire in 4Q, and 20% in FY15.

Outlook

Waiting for Platinum Sentral

- The completion is still targeted for end-2014 or early Jan 2015. This will be a significant transaction for the REIT as its asset base will swell by close to 90%, and it will see Malaysian Resources Corp (MRCB) enter as sponsor and major shareholder.

Keep an eye on occupancies

- The share of forthcoming lease expiries is relatively large (38% up to end-FY15). We remain cautious on the office sector, and these expiries present some risk.

Valuation

- We have a HOLD recommendation for Quill Capita Trust with RM1.25 price target based on the DDM model and assuming 8% cost of equity and 1% terminal growth rate. At current price the stock offers 7% yield.

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Risks

Near-term earnings dilution

- The Platinum Sentral injection is likely to result in near-term earnings dilution, which means the REIT would need to increase payout to maintain DPU. Thus, the near-term DPU growth outlook is also uninspiring.

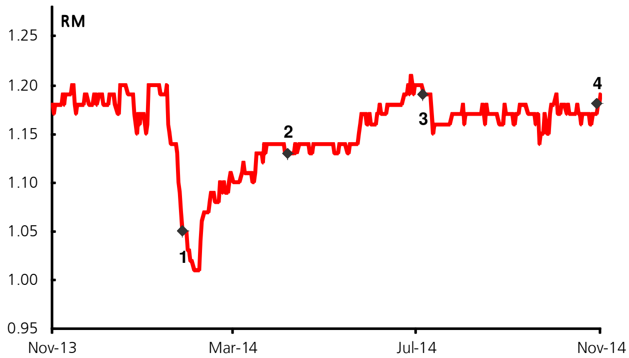
Soft office rental market

- The office sector remains tepid due to excess supply, especially in Kuala Lumpur, Klang Valley and Cyberjaya, where the REIT has exposure. Reversion potential is relatively weak and occupancies could be a risk factor.

High gearing and borrowing costs

- The borrowings required to enable the Platinum Sentral injection would result in gearing rising to 45%, near the 50% cap. Borrowing costs will rise accordingly, although >95% of its borrowings are at fixed cost and it will finalise a new MTN programme to keep rates at 4.6%-4.8% over the medium-term.

Target Price & Ratings History



Note : *Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	21 Feb 14	1.05	1.35	Buy
2:	02 May 14	1.13	1.35	Buy
3:	31 Jul 14	1.19	1.35	Buy
4:	24 Nov 14	1.18	1.25	Hold

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation
EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax
PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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