

Company Focus

Quill Capita Trust

Bloomberg: QUIL MK | Reuters: QCAP.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

20 Jan 2015

HOLD RM1.22 KLCI : 1,753.31

Price Target : 12-month RM 1.25

Shariah Compliance : No

Reason for Report : 4Q/FY14 results

Potential Catalyst: Completion of Platinum Sentral acquisition

Where we differ: More conservative NPI margins than consensus

Analyst

Marvin KHOR +603 2604 3911
marvinkhor@alliancedbs.com

Result Summary

FY Dec (RM m)	4Q 2014	4Q 2013	3Q 2014	yoy chq	qq chq
P&L Items					
Sales	18.2	17.3	17.5	5.1	3.7
Net Property Inc	13.4	13.1	13.5	2.7	(0.7)
Net Income Aft Tax	14.6	10.7	8.9	36.6	63.7
Net Inc avail. for Dist.	16.7	16.7	0.0	0.0	nm
Other Data (%)					
Net Prop Inc Margin	73.8	75.5	77.0		
Dist. Payout Ratio	95.7	95.3	0.0		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Gross Revenue	70	123	126	129
Net Property Inc	53	97	99	102
Total Return	40	56	57	58
Distribution Inc	33	56	57	58
EPU (sen)	10.3	8.4	8.5	8.7
EPU Gth (%)	10	(18)	1	2
DPU (sen)	8.4	8.4	8.5	8.6
DPU Gth (%)	0	0	1	2
NAV per shr (sen)	134.5	132.0	132.0	132.1
PE (X)	11.8	14.5	14.3	14.1
Distribution Yield (%)	6.9	6.9	7.0	7.1
P/NAV (x)	0.9	0.9	0.9	0.9
Agg. Leverage (%)	35.1	44.6	44.7	44.8
ROAE (%)	7.5	8.0	6.5	6.6

At A Glance

Issued Capital (m shrs)	390
Mkt. Cap (RMm/US\$m)	476 / 134
Avg. Daily Vol.('000)	186

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.

FY14 wrapped up as expected

- **FY14 core earnings in line with expectations**
- **4.28 sen DPU announced, ex-date 4th Feb**
- **Slight delay in Platinum Sentral injection to end-1Q15, but inconsequential to DPU**
- **Maintain HOLD, RM1.25 TP**

Highlights

No surprises in flattish close

- Full-year FY14 core earnings of RM34.2m were largely in line at 100%/97% of our/consensus forecasts. The slightly lower (-1.1%) y-o-y performance was reflective of the tough office space environment, as rental reversions and occupancies were flat. FY14 NPI of RM53.3m (+0.2% y-o-y) told the same story, though the full-year NPI margin dipped slightly to 76% (FY13: 77%).

Occupancy level kept buoyant by decent renewal rates

- The successful renewal of all NLA expiring in 4Q14 (18% of total) was a relief, as the overall portfolio occupancy was kept at 91% (92% end-FY13).

DPU as expected; minor treat from revaluation

- QCT declared a DPU of 4.28 sen, bringing its full-year payout to 8.38 sen – identical to FY13 and FY12. We also note a relatively minor RM6.12m (0.7%) revaluation gain across eight of its 10 assets.

Outlook

Platinum Sentral still around the corner

- The conclusion of the Platinum Sentral injection (and the entry of MRCB as a sponsor/major shareholder) was expected end-2014 or early Jan 2015. However, due to delays in fulfilling certain conditions precedent, full completion is now expected by end-1Q15 instead.
- As mentioned in earlier reports, we expect the injection to have a slight dilutive effect on a per-unit basis. Hence, we are not adjusting our forecasts at this juncture as the delay is unlikely to significantly affect our DPU forecast.

Lease expiries are the acid test

- With limited earnings growth prospects, we deem maintaining occupancy levels to be crucial for the REIT in FY15. 26% of total NLA is set to expire for the year, though 2% of this has been renewed. The bulk (c.70%) of the remaining expiries come from a single tenant (DHL), of which management is reasonably confident of renewal.

Quill Capita Trust

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 its current price, the stock offers a 6.9% yield.

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.

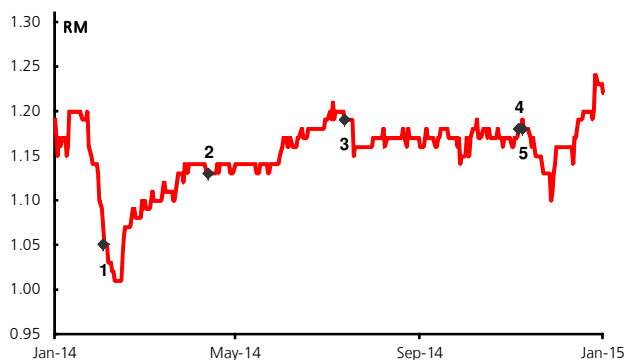
Soft office rental market

- 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 virtually all 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
5:	27 Nov 14	1.18	1.25	Hold

Source: AllianceDBS

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). This report is solely intended for the clients of DBS Bank Ltd and DBS Vickers Securities (Singapore) Pte Ltd, its respective connected and associated corporations and affiliates (collectively, the "DBS Vickers Group") only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of ADBSR.

The research set out in this report is based on information obtained from sources believed to be reliable and ADBSR, its holding company AIBB, their respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "Alliance Bank Group") do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The Alliance Bank Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The Alliance Bank Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The Alliance Bank Group may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other banking services for these companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the Alliance Bank Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months.

ANALYST CERTIFICATION

The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date the report is published, the analyst and his/her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES


1. DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of **xx xxx 2014**.
2. DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may beneficially own a total of 1% of any class of common equity securities of the company mentioned as of **xx xxx 2014**.

3. Compensation for investment banking services:

DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may have received compensation, within the past 12 months, and within the next 3 months may receive or intends to seek compensation for investment banking services from the company mentioned.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), both of which are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
Dubai	This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations. It is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

AllianceDBS Research Sdn Bhd (128540 U)
(formerly known as HwangDBS Vickers Research Sdn Bhd)
19th Floor, Menara Multi-Purpose, Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com