Maybank IB Research

February 26, 2015

Quill Capita Trust Units (QUIL MK)

Share Price: MYR1.23	MCap (USD): 132M	Malaysia	HOLD (Unchanged)
Target Price: MYR1.17 (-5%)	ADTV (USD): 0.1M	REITs	

Disposes Quill Building 10

- Positive on the MYR27.3m asset sale, but marginal earnings impact from lower maintenance expenses.
- Nudge FY15-17 core net profit by +0.7% p.a..
- Maintain HOLD with a slightly higher MYR1.17 (+1 sen) DCF-based TP; share price downside limited by 6.2% net yield.

What's New

QCT has proposed to dispose Quill Building 10 (QB10) in Petaling Jaya, Selangor to Aldwych Capital Sdn Bhd for MYR27.3m in cash or 3.0% above the market valuation of MYR26.5m appraised by DTZ Nawawi Tie Lung Property Consultants.

The sale of QB10 will result in a net gain of MYR0.8m; negligible. QB10 is currently a vacant 5-storey office building with a NLA of 68.4k sq. ft.. The disposal will likely be completed by 1H15.

What's Our View

We are positive on the deal given its good pricing and potential capital redeployment into better yielding assets/reduction in debts. QB10 has not been generating rental income ('zero' occupancy rate) for more than two years, hence, the disposal will also release QCT from incurring maintenance costs.

Management intends to retain the proceeds for asset enhancement initiatives (AEI) for one of its properties in Cyberjaya. It is also considering to pare down its borrowings. Based on our ballpark calculation, the entire disposal proceeds could reduce QCT's end-FY14 proforma net gearing to 32.0% from 35.1%.

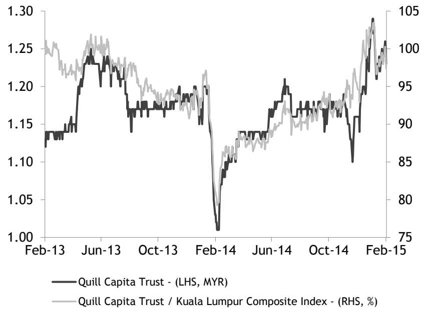
We marginally increase FY15/16/17 core net profit forecasts by 0.7% p.a. and nudge our DCF-based TP to MYR1.17 (+1sen). While we remain cautious on QCT's medium-term outlook due to huge incoming supply of office spaces, share price downside could be limited by its 6.2% net yield. HOLD.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	68.9	70.2	113.9	124.4	126.5
Net property income	53.2	53.3	91.9	103.0	104.7
Distributable income	34.5	34.2	57.9	59.8	61.6
DPU (sen)	7.5	7.5	7.6	7.9	8.1
DPU growth (%)	0.0	0.0	1.4	3.4	2.8
Price/DPU(x)	16.3	16.3	16.1	15.6	15.1
P/BV (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	6.1	6.1	6.2	6.4	6.6
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Debt/Assets (x)	0.4	0.4	0.4	0.4	0.4

Key Data

52w high/low (MYR)	1.29/1.01
3m avg turnover (USDm)	0.1
Free float (%)	28.5
Issued shares (m)	390
Market capitalization	MYR479.9M
Major shareholders:	
-CapitaCommercial Trust	30.0%
-Quill Land Sdn. Bhd.	12.5%
-Quill Properties Sdn. Bhd.	11.8%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(3.1)	4.2	19.4
Relative to index (%)	(4.0)	5.4	20.4

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	2	0

	Maybank	Consensus	% +/-
Target Price (MYR)	1.17	1.25	(6.4)
2015 DPU (sen)	8.5	8.6	(1.2)
2016 DPU (sen)	8.8	9.2	(4.5)

Source: FactSet; Maybank

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FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	16.3	16.3	16.1	15.6	15.1
P/BV (x)	0.9	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	6.8	6.8	6.9	7.1	7.3
FCF yield (%)	9.7	8.4	8.9	8.6	0.0
INCOME STATEMENT (MYR m)					
Gross revenue	68.9	70.2	113.9	124.4	126.5
Net property income	**53.2**	**53.3**	**91.9**	**103.0**	**104.7**
Net financing costs	(12.9)	(13.3)	(21.7)	(30.2)	(30.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.1	6.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Total return before tax	**36.6**	**40.3**	**57.9**	**59.8**	**61.6**
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	36.6	40.3	57.9	59.8	61.6
Distributable inc to unitholders	**34.5**	**34.2**	**57.9**	**59.8**	**61.6**
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	30.9	23.3	16.8	23.6	19.1
Accounts receivable	2.6	6.1	6.1	6.1	6.1
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	825.6	837.7	1,583.5	1,589.3	1,594.8
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	0.0	0.0	0.0	0.0	0.0
Total assets	**859.1**	**867.1**	**1,606.5**	**1,619.1**	**1,620.0**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	11.7	12.2	12.2	12.2	12.2
LT interest bearing debt	304.9	305.1	665.1	665.1	665.1
Other liabilities	10.1	9.8	26.1	38.7	39.7
Total Liabilities	**326.7**	**327.1**	**703.5**	**716.1**	**717.0**
Shareholders Equity	533.5	541.3	903.0	903.0	903.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**533.5**	**541.3**	**903.0**	**903.0**	**903.0**

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	(0.8)	1.9	62.1	9.3	1.6
Total return before tax growth	(8.7)	9.9	43.7	3.4	2.8
Total return growth	(8.7)	9.9	43.7	3.4	2.8
Distributable income growth	(8.7)	9.9	43.7	3.4	2.8
Profitability ratios (%)					
Total return before tax margin	53.2	57.3	50.8	48.1	48.7
Payout ratio	80.3	73.0	90.0	90.0	90.0
DuPont analysis					
Total return margin (%)	53.2	57.3	50.8	48.1	48.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.8	1.8	1.8
ROAE (%)	6.9	7.5	8.0	6.6	6.8
ROAA (%)	4.3	4.7	4.7	3.7	3.8
Liquidity & Efficiency					
Days receivable outstanding	31.0	22.4	19.4	17.8	17.5
Days payables outstanding	262.9	254.1	200.9	205.8	202.3
Dividend cover (x)	1.2	1.4	1.1	1.1	1.1
Current ratio (x)	2.0	2.0	0.7	0.7	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.3	2.3	2.3
Net debt/equity (%)	51.4	52.1	71.8	71.0	71.5
Net interest cover (x)	3.7	3.6	3.7	3.0	3.1
Debt/EBITDA (x)	6.4	6.4	8.4	7.4	7.4
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	274.0	281.8	648.3	641.5	646.0

Source: Company; Maybank

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