

# 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

### Analyst

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### Result Summary

FY Dec (RM m)	3Q 2014	3Q 2013	2Q 2014	yoy cha	qoq cha
<b>P&amp;L Items</b>					
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
<b>Other Data (%)</b>					
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.

## 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.

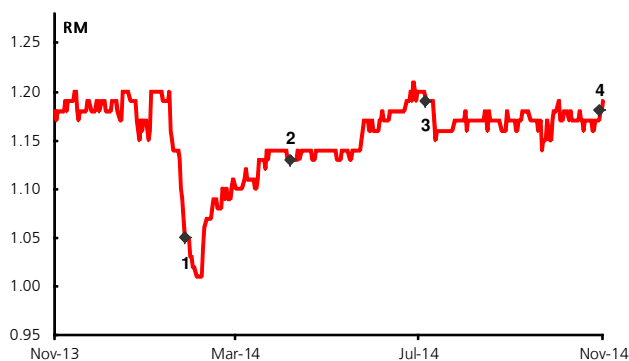
### Soft office rental market

- 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.*

Source: AllianceDBS

## DISCLOSURE

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

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