Result Snapshot

Quill Capita Trust

Bloomberg: QUIL MK | Reuters: QCAP.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

23 Jul 2014

BUY RM1.20 KLCI : 1,868.64

Price Target : 12-month RM 1.35
Shariah Compliant : No

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Result Summary

FY Dec (RM m)	2Q 2014	2Q 2013	1Q 2014	% Chg y-o-y	% Chg q-o-q
P&L Items					
Revenue	17.3	17.3	17.2	0.4	1.0
Net Property Inc	13.4	13.6	13.0	(1.4)	2.9
Net Income Aft Tax	8.6	8.9	8.2	(3.9)	4.9
Net Inc avail. for Dist.	8.6	8.9	8.2	(3.9)	4.9
Other Data (%)					
Net Prop Inc Margin	77.2	78.6	75.7		
Dist. Payout Ratio	96.0	94.0	N/A		

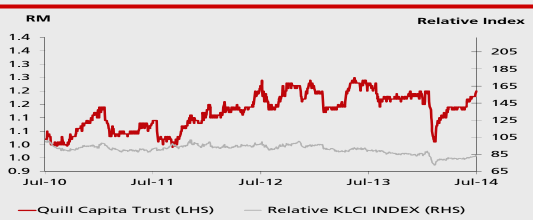
Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Gross Revenue	69	74	76	79
Net Property Inc	53	57	59	61
Total Return	37	38	39	42
Distribution Inc	33	36	38	40
EPU (sen)	9.4	9.6	10.1	10.7
EPU Gth (%)	(9)	2	5	6
DPU (sen)	8.4	9.1	9.6	10.1
DPU Gth (%)	0	9	5	5
NAV per shr (sen)	136.7	136.5	136.9	137.4
PE (X)	12.8	12.5	11.9	11.3
Distribution Yield (%)	7.0	7.6	8.0	8.5
P/NAV (x)	0.9	0.9	0.9	0.9
Agg. Leverage (%)	36.6	36.3	36.2	36.0
ROAE (%)	6.9	7.0	7.4	7.8

At A Glance

Issued Capital (m shrs)	390
Mkt. Cap (RMm/US$m)	468 / 148
Avg. Daily Vol.('000)	359

Price Relative



Source: Company, AllianceDBS

Stable quarter

- **2Q14 results in line; renewed all leases due in the quarter with up to 5% rental reversion**
- **Injection of Platinum Sentral: revenue driver**
- **Declared 4.1sen DPU, implying 96% of 1H14 earnings; ex-date is 6 Aug**
- **Maintain BUY and RM1.35 TP**

Highlights

2Q14 results in line. Revenue was flat q-o-q but lower operating expenses (driven by lesser repair costs) lifted net property income (+3% q-o-q) and margin (+2 ppt to 77%). Administrative expenses were significantly lower (-54% q-o-q) due to the absence of one-off advisory fee incurred in 1Q14. Occupancy rate was stable at 91%.

Revenues supported by lease renewals. About 30% of its NLA is due for renewal in 2014, with 24% renewed in 2Q14 (at up to 5% rental reversion). The remaining 76% is due in 2H14. This should generate stable revenue and earnings growth.

Our View

No refinancing risk, for now. The recent OPR hike (+25 bps) should have minimal impact on earnings as 95% of its loans carry fixed rates and the next refinancing is only due in Sep 2016. Average cost of debt is 4.3%.

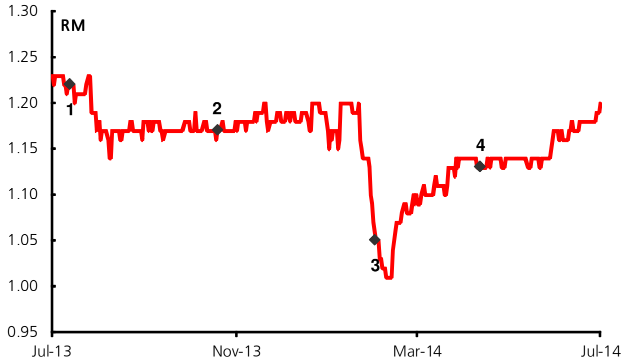
Platinum Sentral: next earnings kicker. We estimate the injection of Platinum Sentral (office: 450k sf NLA, retail: 79k sf NLA) would lift QCT's net property income by 60% (based on RM750m purchase price and 6% yield). The transaction would see the entry of MRCB as a shareholder and also grant QCT the Right of First Refusal to MRCB's stable of properties in KL Sentral, effectively providing a solid pipeline of assets for future injection. As MRCB and the Quill Group would hold more than 33% of the enlarged unitholders' capital (post-acquisition), it is seeking an exemption from carrying out a mandatory offer under the Malaysian Code on Take-Overs and Mergers. The transaction is expected to be completed in 4Q 2014.

Recommendation

BUY, RM1.35 TP. QCT remains undervalued and is trading at below NAV, but offers strong distribution yield of c.8% at current price.

Quill Capita Trust

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	02 Aug 13	1.22	1.40	Buy
2:	08 Nov 13	1.17	1.35	Buy
3:	21 Feb 14	1.05	1.35	Buy
4:	02 May 14	1.13	1.35	Buy

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

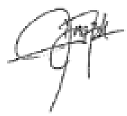
Commonly used abbreviations

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

DISCLAIMER



Wong Ming Tek, Executive Director

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