

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

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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.

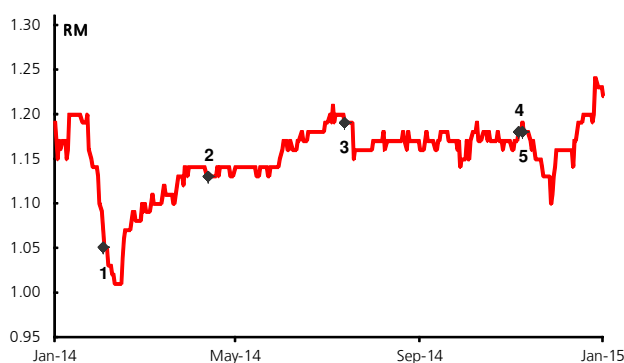
Soft office rental market

- 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.

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

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