

Quill Capita Trust (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT

12 February 2015

Price Target: RM1.34 (↔)

Share Price: RM1.22

Platinum Sentral – A Game Changer

Highlights

- Our recent visit to Platinum Sentral and meeting with QCT management has reaffirmed our positive stance on the trust.
- QCT was originally listed with only four properties and total asset value of RM280m. Upon listing, QCT was granted with 5 years first right of refusal by Quill Group and CapitaLand which resulted in six properties that had been injected progressively. As at 31 December 2014, the total asset value stood at RM837.7m.
- The quality assets held by QCT are occupied by quality tenants; most of them are subsidiaries of MNCs, single-tenanted building and based on built-to-suit basis. This helps QCT to shield itself from oversupply of office space in Klang Valley. As at 31 December 2014, QCT's occupancy rate was 91% and WALE was 5.7 year, well above the average of 3.5 year for M-REITs under our universe.
- We view QCT's acquisition of Platinum Sentral as a strategic move given its location in KL Sentral, an exclusive urban centre built around Malaysia's largest transit hub, offering global connectivity, excellent opportunities, business convenient and an international lifestyle.
- Platinum Sentral is poised to benefit from KL Sentral's world-class city. As Malaysia's first green commercial building to be awarded by the highest rating Singapore's BCA, Platinum Sentral includes contemporary office building, high-end retail, hospitality zone and green space.
- We believe the acquisition of Platinum Sentral will be a game changer for QCT and M-REITs due to: (1) It will results QCT's total asset value to jump 87% to RM1.57bn; (2) MRCB, which will be the single largest unitholder, already announced its intention to inject at least RM1bn worth of asset into QCT annually; and (3) EPF as a single largest shareholder of MRCB will also contribute to inject high quality assets into QCT.

Risks

- Management continuity following the entry of MRCB.
- Slow rental reversion rate.
- Failure on execution of Platinum Sentral acquisition plan.
- We tweaked our earnings as we factor in cost related to acquisitions. As a result, we cut our DPU assumptions for FY15 and FY16 to 8.6 sen and 9.2 sen respectively.

Forecasts

Rating

BUY ↔, TP: RM1.34 ↔

Valuation

- Positives: (1) higher possibility of asset injections from MRCB and EPF, following the injection of Platinum Sentral, resulting in MRCB taking control of QCM and major unitholder of QCT; (2) Resilient earnings growth with undemanding valuations – 7.5% DY (FY16E).
- Negatives: (1) Small asset base; (2) Lack of retail assets.
- Maintain BUY recommendation for the stock with unchanged TP of RM1.34.
- Our valuation was pegged to targeted yield of 6.9% FY16 DPU based on 2SD below 7-year historical average yield spread.
- This is justified as the entry of MRCB will be a game changer whereby there will be higher potential excitement from asset injections and thereby warrant a narrower yield gap vis-à-vis other retail REITs.

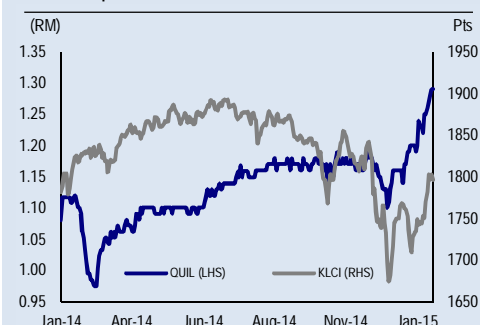
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KLCI	1799.0
Expected share price return	9.8%
Expected dividend return	7.0%
Expected total return	16.9%

Share price



Information

Bloomberg Ticker	QUILL MK
Bursa Code	5123
Issued Shares (m)	390
Market cap (RM m)	476
3-mth avg. volume ('000)	357
SC Shariah-compliant	No

Price Performance	1M	3M	12M
Absolute	1.7	4.3	5.2
Relative	-2.1	5.8	6.6

Major Shareholders

CapitaCommercial Trust	30.0%
Quill Land	12.5%
Quill Properties	11.8%

Summary Earnings Table

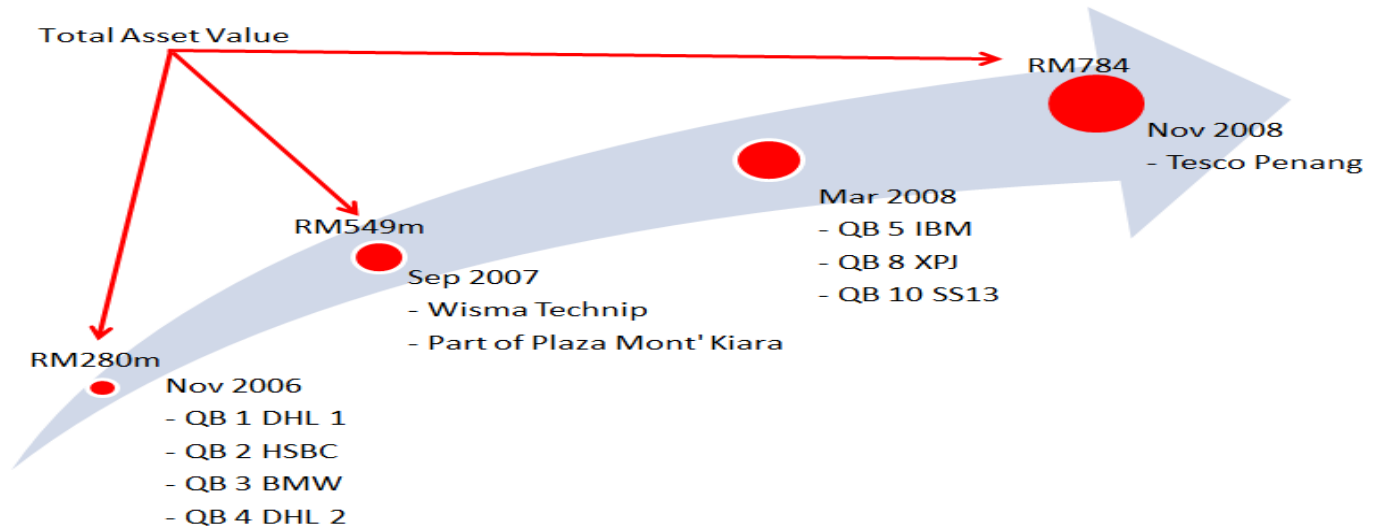
FYE Aug (RMm)	2014A	2015E	2016E	2017E
Revenue	70.2	128.3	133.0	137.9
NPI	53.2	98.2	101.8	105.5
Net invest income	56.1	98.9	103.6	107.2
PAT	36.6	58.4	62.7	66.0
EPU (sen)	8.9	8.6	9.2	9.7
Norm. PER (x)	13.8	14.2	13.3	12.6
FD PER (x)	13.8	14.2	13.3	12.6
EV/ EBITDA (x)	37.1	51.1	44.5	40.6
Net DPU (sen)	8.4	8.6	9.2	9.7
Distb. yield (%)	6.9	7.0	7.5	7.9
BVPS (RM)	1.4	1.3	1.3	1.3
P/B (x)	0.9	0.9	0.9	0.9

HLIB

INTRODUCTION

QCT made its debut on Main Market Bursa Malaysia on 8 January 2007 with initially four properties. Over a short span period two years, QCT managed to grow its total asset value from RM280m to RM784m, thanks to the 5-year first right of refusal granted by Quill group of companies and CapitaLand RECM Pte Ltd. QCT has a strong foothold in REITs industry as the manager is owned by Quill Resources Holding Bhd, one of the companies within Quill Group which is a designed-led property construction and consultancies; and also CapitaLand Financial Ltd, a wholly owned subsidiary of CapitaLand Limited, one of Asia's largest real estate companies headquartered and listed in Singapore with extensive REIT and property fund management track record.

Figure #1 Asset injection since listing



Company Data

QUALITY ASSETS ON THE LIST

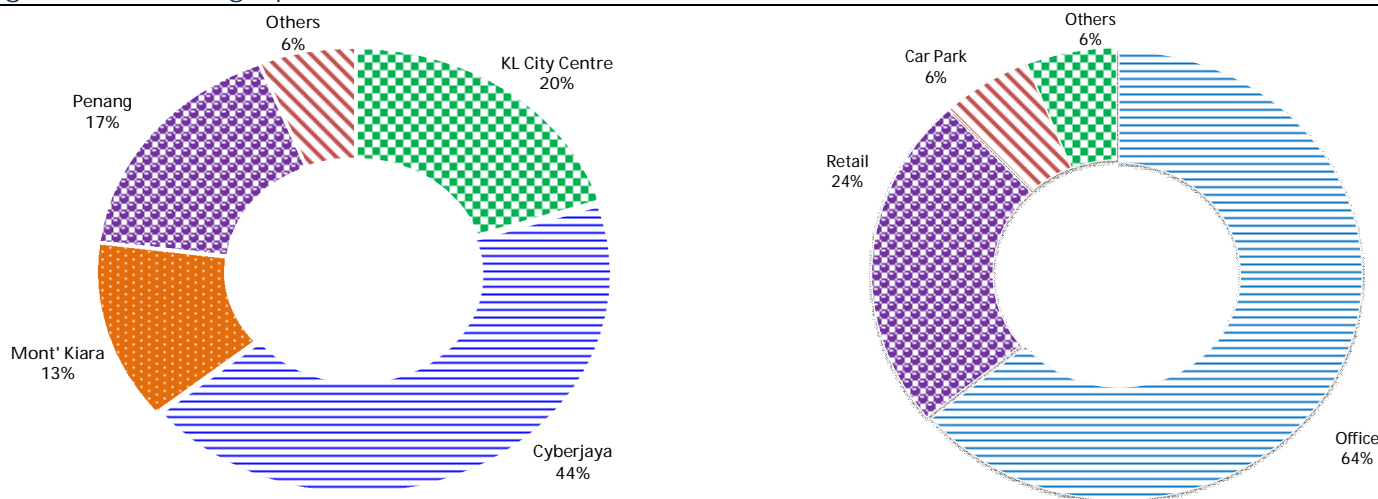
QCT was established with the objective to acquire and invest in properties used or predominantly used for commercial purposes primarily in Malaysia with a view to provide unitholders with a long term and sustainable distribution of income and to achieve long term growth in the net asset value per unit. Most of the buildings are single-tenanted building based on build-to-suit basis. As such, QCT is able to lock in resilient long term source of income and most importantly shield itself from the oversupply office space in Klang Valley. As at 31 December 2014, QCT's occupancy rate was 91% and weighted average lease expire – WALE – stood at about 5.7 year, well above average of 3.5 year for M-REITs under our universe.

Figure #2 Portfolio overview

Name of Properties	Location	Type	Tenure	NLA (sq ft)	Purchase Price (RM m)	Market Value (RM m)	Occupancy
Quill Building 1 - DHL 1	Cyberjaya	Commercial Building	Term in Perpetuity	92,284	52.1	125.7	100%
Quill Building 4 - DHL 2	Cyberjaya	Commercial Building	Term in Perpetuity	99,183	57.7	125.7	100%
Quill Building 2 - HSBC	Cyberjaya	Commercial Building	Term in Perpetuity	184,453	107.5	119.1	100%
Quill Building 3 - BMW	Cyberjaya	Commercial Building	Term in Perpetuity	117,198	59.4	74.4	73%
Wisma Technip	Kuala Lumpur	Office Building	Term in Perpetuity	233,021	125.0	169.0	100%
Part of Plaza Mont' Kiara	Kuala Lumpur	Commercial Lots & Car Parks	Term in Perpetuity	73,408 + 1,499 bays	90.0	111.7	89%
Quill Building 5 - IBM	Cyberjaya	Commercial Building	Term in Perpetuity	81,602	43.0	45.2	91%
Quill Building 8 - DHL XPJ	Shah Alam	Industrial Building	Term in Perpetuity	65,205	28.8	26.4	92%
Quill Building 10 - SS13	Petaling Jaya	Commercial Building	27-Jan-2063	68,377	22.7	26.5	Vacant
Tesco Building	Penang	Commercial Building	Term in Perpetuity	275,020	132.0	139.7	100%
Total Asset Value						837.7	

Company Data

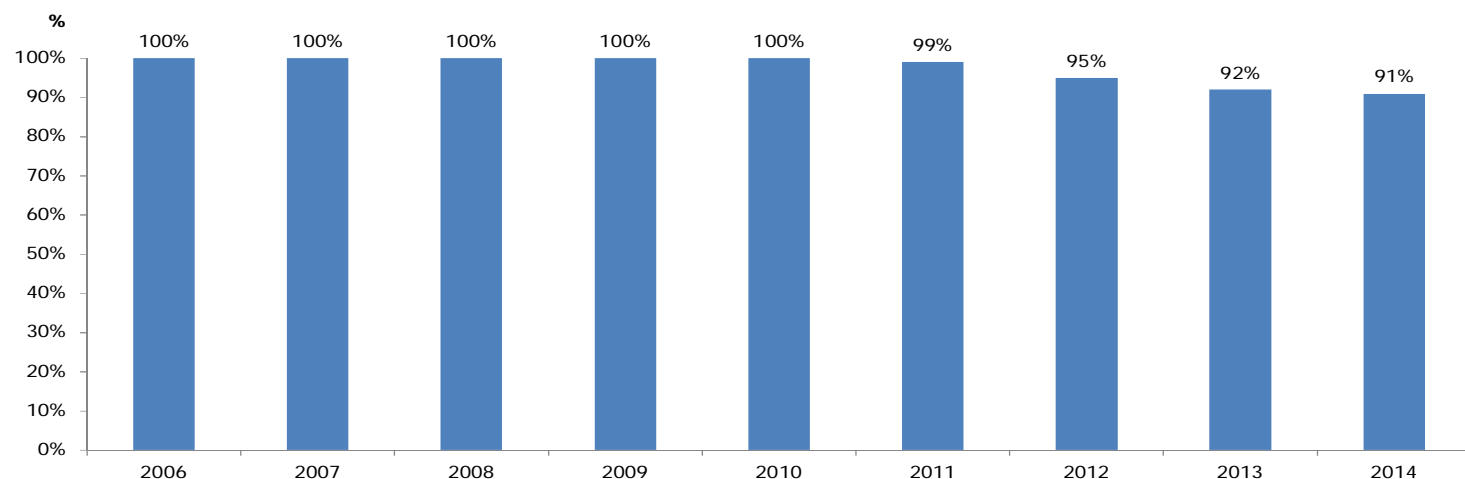
Figure #3 Geographical diversification & revenue contribution



Company Data

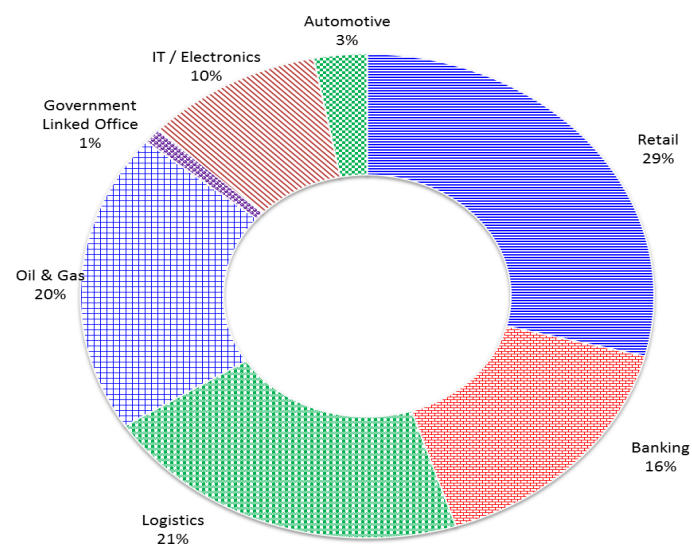
Ever since its listing, QCT aims for exposure in the growing Malaysian commercial property market and has wide presence in Cyberjaya, Malaysia's Multimedia Super Corridor. Its office buildings were built based on high quality building specifications that meet the requirements of MNCs. Tenants are mainly subsidiaries of MNCs with a balanced tenant mix from various sectors.

Figure #4 Occupancy rate



Company Data

Figure #5 Tenant mix and debt profile



Fixed rate borrowings: 100% since 4Q2011

Average cost of debt: 4.4%

Gearing level: 35%

Company Data

Figure #6 Lease expiry profile - 31 December 2014

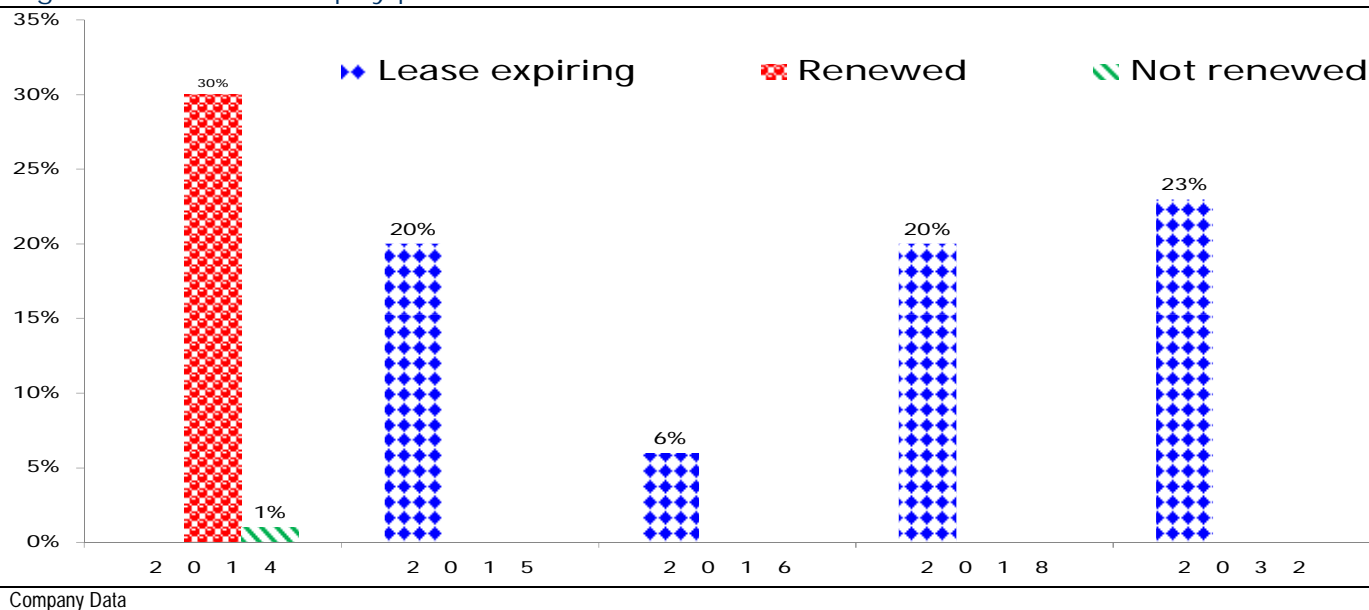
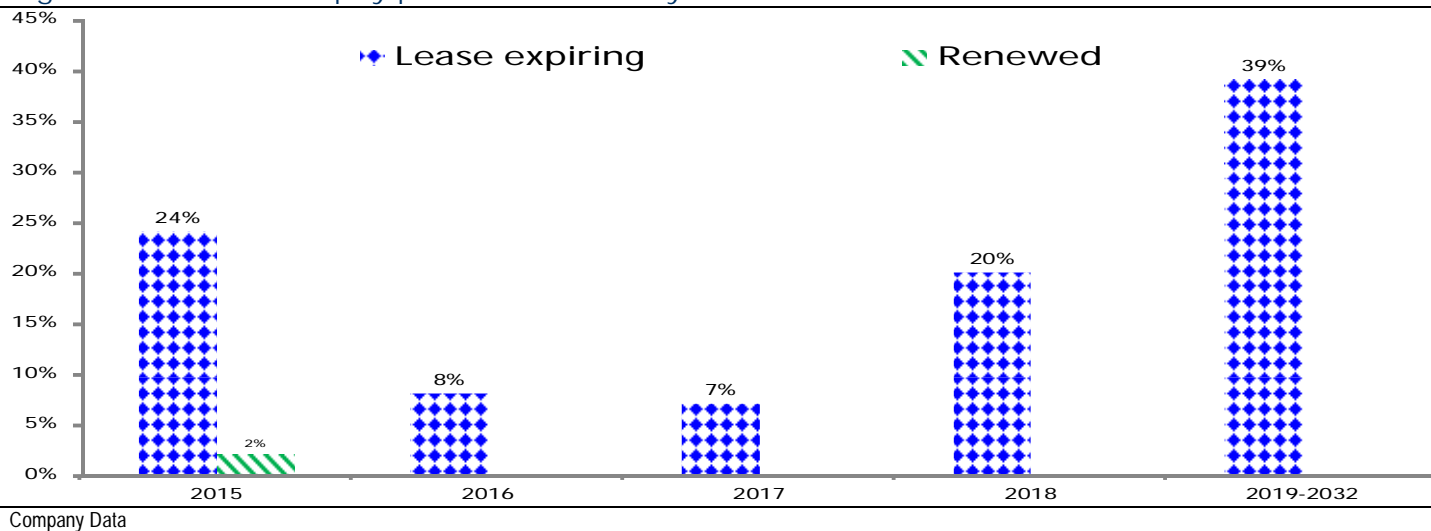


Figure #7 Lease expiry profile - 15 January 2015



PLATINUM SENTRAL: What's so excited?

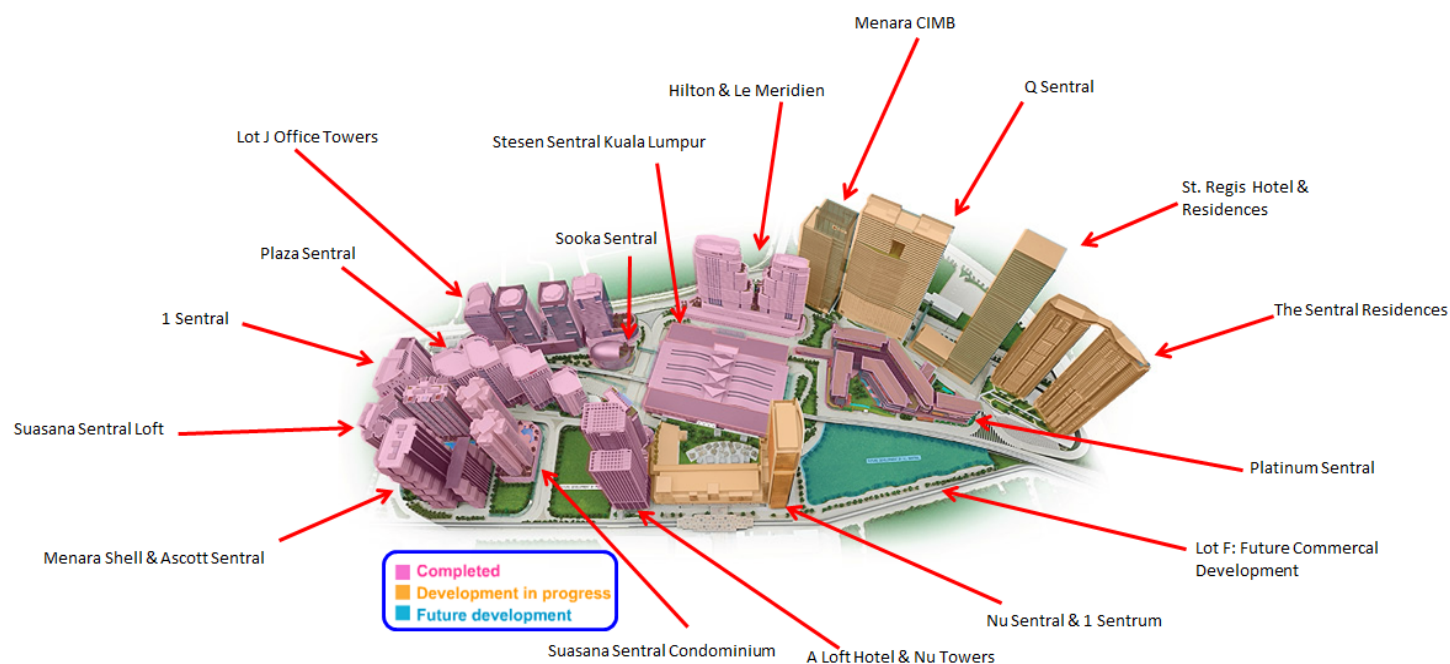
The much – touted Platinum Sentral is located in the most desired address of Kuala Lumpur Sentral, an exclusive urban centre built around Malaysia's largest transit hub, offering global connectivity, excellent investment opportunities, business convenience and an international lifestyle.

KL Sentral which was designed by award-winning Japanese architect, whose other works include the Main Building of KLIA, Melbourne Sentral, Oita Stadium (Japan), Osaka International Convention Centre and Republic Plaza (Singapore) has won many domestic and international awards as well as accolades.

KL Sentral has an excellent global connectivity for air, road and rail such as KTM Intercity, KTM Komuter, RapidKL (f.k.a. Putra & Star), KLIA Ekspres, KLIA Transit, KL Monorail as well as the much awaited Mass Rapid Transit project, KVMRT. It is also easily assessable via major roads and highways including Jalan Bangsar, Jalan Tun Sambathan, Jalan Istana, Jalan Damansara, Jalan Syed Putra, Lebuhraya Mahameru, New Pantai Expressway and Federal Highway.

Five star hotels and luxurious residences namely Hilton, Le Meridien and St Regis are part of the packages offered by KL Sentral. In addition, the complex and integrated KL Sentral also provide convenient lifestyle facilities and retail such as Sooka Sentral, Nu Sentral, Plaza Sentral and 1 Sentral.

Figure #8 KL Sentral Master Plan



KL Sentral, HLIB

Platinum Sentral is poised to benefit from KL Sentral's world-class urban hub, as it is the first green office campus in KL CBD. Given its unique green and state-of-the-art campus-style office, we believe Platinum Sentral has a lot to offer in terms of seamless connectivity, creative working environment and contemporary business lifestyle.

We also note that as one of MRCB's signature projects, Platinum Sentral was built with highest energy efficient building and design specifications, in compliance with Singapore's Building and Construction Authority (BCA) Green Mark highest rating – Platinum Award; which also position itself as Malaysia's first commercial development to be awarded the highest rating from BCA.

It includes contemporary office building, retail, business centres, hospitality zones and green space. The building also comes with ample car parking bays equipped with digital guidance system.

Figure #9 Platinum Sentral Details

Postal address	Platinum Sentral, Jalan Stesen Sentral 2, KL Sentral, 50470 Kuala Lumpur
Tenure	Term in perpetuity
Registered owner	KL Sentral Sdn Bhd, a subsidiary of MRCB
Commencement of operations	November 2011
Number of car parking bays	637
NLA	Office 419,643 sq ft Retail 56,214 sq ft Total 475,857 sq ft (excluding licenced area/outdoor/terrace)
Occupancy rate as at 15 Sep 2014	Office 100% Retail 48% Total 94%
Gross rental income	Approximately RM48.6m as at 31 December 2013
Market value	RM740m
Purchase consideration	RM476m in cash RM264m by issuance of 206.250m consideration units at issue price of RM1.28 (previously RM1.32)
Source of funds (max scenario)	RM90.95m proceeds to be raised from proposed placement RM430m borrowings from financial institution(s)
Among tenants	Office: SPAD, SME Corp, PEMANDU, LYNAS, SBM Offshore, ICLIF
Company Data	

ACQUISITION – A GAME CHANGER

In our opinion, brave move by QCT to acquire Platinum Sentral will be a game changer not only for QCT but also M-REITs as a whole, as we believe there will be further yield accretive acquisition which will create some excitement for the counter.

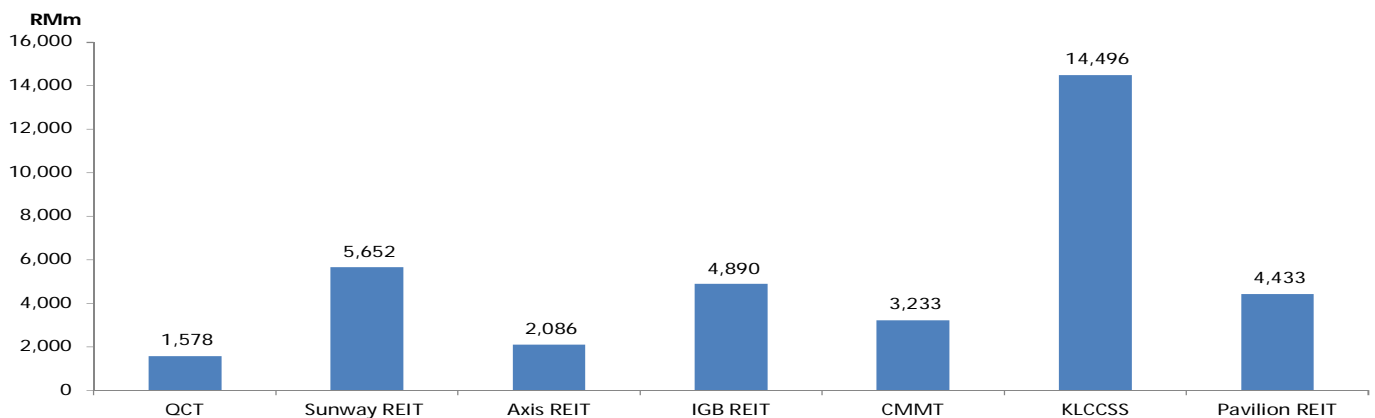
Upon completion of the acquisition exercise, MRCB will emerge as single largest unitholder in QCT with 31% stake and the name of QCT will be changed to MRCB-Quill REIT. In The Star newspaper dated 11 April 2014, MRCB group MD Tan Sri Mohamad Salim bin Fateh openly mentioned that MRCB intends to injects at least RM1bn worth of asset to QCT annually, with some RM20bn worth of properties in the pipeline will be injected in near term.

The excitement does not stop there. As EPF being the single largest shareholder of MRCB with 36% stake, we opine that there is high possibility of asset injections from both MRCB and EPF given the extensive list of properties held by both of the giant institutions.

Post-acquisition will also results in QCT's total asset value jump close to 87% from RM837.7m to RM1.57bn. With progressive asset injections, we are of the view that QCT is able to achieve its target of becoming one of the largest office REIT listed on Bursa.

This, in turn, should act as a catalyst for the yield gap (vis-à-vis retail REITs) to narrow, especially when QCT has highly stable income and relatively shielded from office oversupply in Klang Valley.

Figure #10 Total asset value

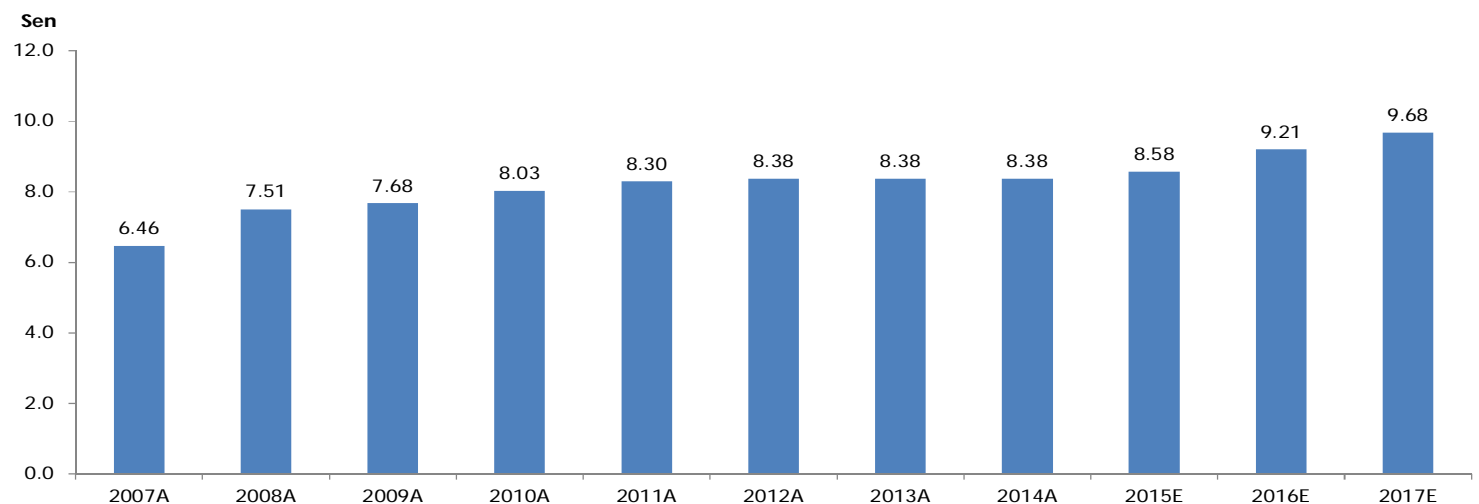


Company Data, HLIB

ACQUISITION TO BOOST TOP AND BOTTOM LINE

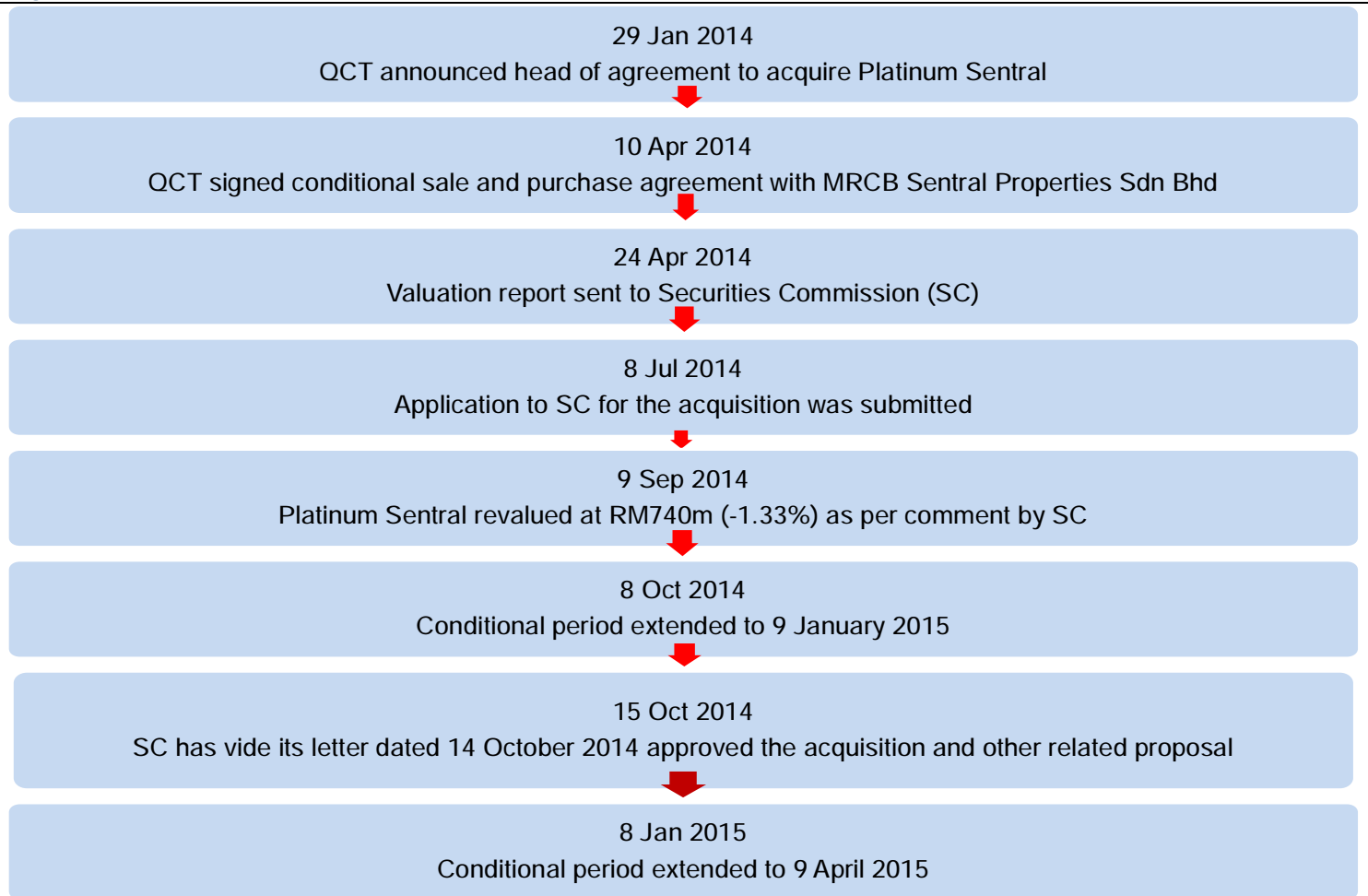
Platinum Sentral is expected to contributes RM56.2m to the top-line revenue and given its specifications, we are confident that it will command higher average rental rates of 5% annually. In line with higher revenue contribution, we also anticipate the DPU to grow 2.4%, 7.3% and 5.2% for FY15, FY16 and FY17 respectively.

Figure #11 Distribution per unit



Company Data

Figure #12 Timeline for acquisition



Bursa Malaysia, HLIB

Figure #13 View of Platinum Sentral



HLIB

Quill Capita Trust (BUY, TP: RM1.34, CP: RM1.22)

Income Statement

FYE Dec (RM m)	2013A	2014A	2015E	2016E	2017E
Gross rental income	57.4	59.3	116.1	120.4	124.9
Car park income	3.5	5.2	3.7	3.9	4.0
Other revenue	8.0	5.7	8.5	8.8	9.0
Total Revenue	68.9	70.2	128.3	133.0	137.9
Assessment & quit rent	(2.8)	(2.8)	(6.0)	(6.2)	(6.5)
Depreciation	(0.0)	0.0	(0.0)	(0.0)	(0.0)
Insurance	(0.4)	(0.4)	(0.6)	(0.6)	(0.6)
Property management fees	(2.0)	(2.0)	(3.8)	(3.9)	(4.1)
Service contracts	(4.1)	(4.7)	(5.8)	(6.0)	(6.2)
Utilities	(6.5)	(7.0)	(13.9)	(14.4)	(15.0)
Total Opex	(15.7)	(16.9)	(30.1)	(31.2)	(32.4)
Net property income	53.2	53.3	98.2	101.8	105.5
Net investment income	56.1	60.2	98.9	103.6	107.2
Pretax profit	36.6	34.2	58.4	62.7	66.0
Taxation	0.0	0.0	0.0	0.0	0.0
Net profit	36.6	34.2	58.4	62.7	66.0
No of units (m)	390.1	390.1	681.4	681.4	681.4
EPU (sen)	9.4	8.8	8.6	9.2	9.7

Cash Flows

FYE Dec (RM m)	2013A	2014A	2015E	2016E	2017E
PBT	40.1	40.3	58.4	62.4	65.2
Finance costs	13.9	(14.1)	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Fair value gain of assets	(5.6)	(6.1)	0.0	0.0	0.0
Interest income	(0.7)	(0.7)	0.0	0.0	0.0
Others	(20.2)	11.7	8.3	(0.5)	(1.4)
Operating cashflow	27.5	31.1	66.8	62.9	65.8
Capex	(0.0)	(6.0)	(740.0)	(2.0)	(2.0)
Disposal / (purchase)	(0.0)	(16.7)	(0.0)	(0.0)	(0.0)
Others	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	(0.0)	(5.3)	(740.0)	(2.0)	(2.0)
Distribution paid	(32.8)	(32.7)	(58.4)	(62.4)	(65.2)
Proceeds from borrowings	0.0	15.0	430.0	0.0	0.0
Repayment of borrowings	0.0	(15.0)	0.0	0.0	0.0
Placement / New shares	0.0	0.0	355.0	0.0	0.0
Financing cashflow	(32.8)	(46.7)	726.5	(62.4)	(65.2)

Balance Sheet

FYE Dec (RM m)	2013A	2014A	2015E	2016E	2017E
PPE	0.0	0.0	0.0	0.0	0.0
Investment properties	820.5	837.7	1,567.6	1,569.6	1,571.6
Derivatives	0.0	1.2	1.0	1.0	1.0
Non-current assets	820.5	838.9	1,568.6	1,570.6	1,572.6
Trade receivables	8.9	6.1	5.1	5.3	5.5
Cash	30.5	8.4	83.5	82.1	80.6
Total Current Assets	39.7	29.4	88.6	87.4	86.1
Total assets	860.2	868.4	1,657.3	1,658.0	1,658.7
Unitholders' capital	411.7	411.7	766.7	766.7	766.7
Undistributed profit	117.1	129.5	123.5	123.5	123.5
Total Equity	528.8	541.3	890.1	890.1	890.1
Borrowings	305.5	305.1	734.9	734.9	734.9
Security Deposits	14.5	7.5	10.1	10.1	10.1
Derivatives	0.0	305.1	0.0	0.0	0.0
Trade payables	11.3	12.2	22.1	22.8	23.6
Total liabilities	331.4	327.1	767.1	767.8	768.6
Total liabilities & equity	860.2	868.4	1,657.3	1,658.0	1,658.7

Valuation Ratios

FYE Dec (RM m)	2013A	2014A	2015E	2016E	2017E
EPU before mgr's fee	10.8	10.2	9.9	10.6	11.1
EPU after mgr's fee	9.4	8.9	8.6	9.2	9.7
PER (x)	13.0	13.8	14.2	13.3	12.6
No of units	390.1	390.1	681.4	681.4	681.4
Net DPU	8.4	8.4	8.6	9.2	9.7
Net DY (%)	6.9	6.9	7.0	7.5	7.9
NTA/ share (sen)	136.0	136.2	129.9	129.8	129.6
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
FCF/ share (sen)	18.4	17.7	11.8	18.8	19.8
FCF yield (%)	15.1	14.5	9.7	15.4	16.2
Enterprise value	749.9	750.6	1,482.7	1,484.0	1,485.4
EV/ EBITDA (x)	32.6	37.1	51.1	44.5	40.6
ROE (%)	6.9	6.5	6.6	7.0	7.4
Net gearing (x)	0.3	0.3	0.4	0.4	0.4
Total gearing (x)	0.4	0.4	0.4	0.4	0.4
BVPS (RM)	1.4	1.4	1.3	1.3	1.3
P/B (x)	0.9	0.9	0.9	0.9	0.9

Assumption metrics

Gross Rental Income	2015E	2016E	2017E
Quill Building 1 - DHL 1	4.7	4.8	4.9
Quill Building 4 - DHL 2	5.0	5.1	5.3
Quill Building 2 - HSBC	9.3	9.5	9.8
Quill Building 3 - BMW	4.8	5.0	5.1
Wisma Technip	11.8	12.0	12.3
Part of Plaza Mont' Kiara	3.7	3.8	3.9
Quill Building 5 - IBM	3.7	3.8	3.9
Quill Building 6 - DHL XPJ	3.0	3.1	3.2
Quill Building 10 - Section 13	0.0	0.0	0.0
Tesco Building - Penang	13.9	14.2	14.6
Platinum Sentral	56.2	58.4	60.8
Total	116.1	119.8	123.7

Quarterly Financial Summary

FYE Dec (RM m)	4Q13	3Q14	4Q14	FY13	FY14
Gross revenue	17.3	17.5	18.2	68.9	70.2
Operating expenses	(4.2)	(4.0)	(4.8)	(15.7)	(16.9)
Net property income	13.1	13.5	13.4	53.2	53.3
Interest income	0.1	0.2	0.1	0.8	0.7
Revaluation gains	2.1	0.0	6.1	2.1	6.1
Total Income	15.3	13.7	19.6	56.1	60.2
Finance costs	(3.3)	(3.6)	(3.5)	(13.7)	(14.1)
Valuation fees	(0.0)	(0.0)	(0.0)	(0.2)	(0.2)
Administrative expenses	0.2	0.3	(0.1)	0.3	0.0
Total Expenses	(4.6)	(4.8)	(5.0)	(19.4)	(19.9)
Normalised PBT	8.6	8.9	8.5	34.5	34.2
Normalised PAT	8.6	8.9	8.5	34.5	34.2
EPU after mgmt fee	2.2	2.3	2.2	6.8	8.8
DPU (sen)	4.3	0.0	4.3	8.4	8.4

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.