

Quill Capita Trust (QUIL MK)

Property - REITS

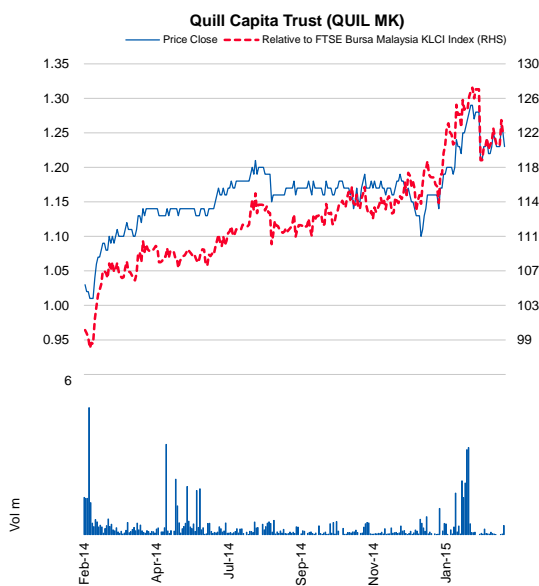
Market Cap: USD133m

Neutral (Maintained)

Target Price: MYR1.25

Price: MYR1.23

Finally Disposing Of Quill Building 10

Macro
Risks
Growth
Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.41m/0.11m
Cons. Upside (%)	2.4
Upside (%)	1.8
52-wk Price low/high (MYR)	1.01 - 1.29
Free float (%)	40
Share outstanding (m)	390
Shareholders (%)	
CapitaCommercial Trust	30.0
Quill Group	30.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	(3.2)	4.2	5.1	19.4
Relative	1.8	(4.1)	5.3	7.5	20.2

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QCT announced the proposed disposal of Quill Building 10 (QB10) for a total consideration of MYR27.3m. Maintain NEUTRAL, with an unchanged DDM-based TP of MYR1.25 (2% upside). The impact to earnings is minimal, as the asset is relatively small and has been vacant since Apr 2012. As net proceeds will be used as working capital, we do not expect any DPU enhancements from this exercise.

- ◆ **Quill Building 10 (QB10) to finally be disposed.** Quill Capita Trust (QCT) announced that it was disposing of QB10, located in Petaling Jaya, for total consideration of MYR27.3m. The building was acquired in 2008, and its latest net book value as at end-2014 was MYR26.5m. The asset only represented 3% of QCT's asset portfolio as at end-2014. The net gain from this disposal will be MYR26.6k, and the net proceeds from the disposal will be used for asset enhancement initiatives (AEI), the acquisition of new yield-accretive assets as well as for working capital purposes. It expects to complete the disposal by end-1H15.
- ◆ **Small impact to overall earnings.** We are neutral on the disposal, as QB10 has been vacant since Apr 2012. As such, it has not been contributing any rental revenue for more than two years. We believe that there would not be any significant DPU enhancement as the net proceeds will be used for working capital. However, we note that the disposal of QB10 will allow the REIT to concentrate its resources more on its Kuala Lumpur and Cyberjaya assets – especially as it expects the acquisition of Platinum Sentral to be completed by 2Q15.
- ◆ **Forecasts.** Our FY15 earnings are enhanced by less than 1% after imputing the proceeds from the disposal.
- ◆ **Maintain NEUTRAL.** Our DDM-based TP is maintained at MYR1.25. We reiterate that some underlying risks will remain for QCT over the short term. These include: i) the office space oversupply situation, ii) high post-acquisition gearing, and iii) uncertainties arising from change in management.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	69	70	107	122	124
Net property income (MYRm)	53.2	53.3	83.8	94.8	96.3
Reported net profit (MYRm)	34.5	34.1	55.9	60.4	61.7
Total distributable income (MYRm)	34.5	34.1	55.9	60.4	61.7
DPS (MYR)	0.08	0.08	0.09	0.09	0.09
DPS growth (%)	0.0	0.0	5.2	(0.3)	2.2
Recurring P/E (x)	13.9	14.1	11.0	12.9	13.2
P/B (x)	0.90	0.89	0.82	0.89	0.89
Dividend Yield (%)	6.8	6.8	7.2	7.1	7.3
Return on average equity (%)	6.5	6.3	7.7	6.6	6.8
Return on average assets (%)	4.0	3.9	4.5	3.7	3.8
Interest coverage ratio (x)	3.47	3.38	3.45	3.09	3.13
Our vs consensus EPS (adjusted) (%)			14.1	(13.4)	0.0

Source: Company data, RHB

Figure 1: Forecasts assumptions

<u>Asset</u>	<u>NLA / GFA (sf)</u>	<u>Average Rental Rates (MYR psf)</u>		
		<u>FY15</u>	<u>FY16</u>	<u>FY17</u>
QB 1 - DHL 1	92,284	4.08	4.16	4.24
QB 4 - DHL 2	99,183	4.08	4.16	4.24
QB 2 - HSBC	184,453	4.08	4.16	4.24
QB 3 - BMW	117,198	4.08	4.16	4.24
QB 5 - IBM	81,602	3.03	3.06	3.09
Plaza MK	73,408	8.51	8.52	8.53
Wisma Technip	233,021	5.31	5.46	5.63
QB 8 - DHL	65,205	3.03	3.06	3.09
Tesco Penang	275,020	2.92	2.97	3.03
Platinum Sentral	475,857	8.77	8.77	8.77
DPU (sen)		8.81	8.78	8.97

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	69	70	107	122	124
Property operating expenses	(16)	(17)	(24)	(27)	(27)
Net property income	53	53	84	95	96
Management fees	(5)	(5)	(6)	(6)	(6)
Trust expenses	(0)	(0)	(1)	(1)	(1)
Operating EBIT	47	47	78	88	90
Operating EBITDA	47	47	78	88	90
Interest income	1	1	1	1	1
Interest expense	(14)	(14)	(22)	(29)	(29)
Pre-tax profit	35	34	56	60	62
Profit after tax & minorities	35	34	56	60	62
Reported net profit	35	34	56	60	62
Total distributable income	35	34	56	60	62

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	47	47	78	88	90
Change in working capital	(8)	(3)	(3)	(3)	(4)
Other operating cash flow	3	0	2	2	2
Operating cash flow	42	44	76	87	88
Interest received	1	1	1	1	1
Interest paid	(14)	(14)	(22)	(29)	(29)
Cash flow from operations	29	31	55	59	60
Capex	(2)	(6)	(2)	(2)	(2)
Cash flow from investing activities	(2)	(6)	(2)	(2)	(2)
Dividends paid	(33)	(33)	(43)	(56)	(59)
Proceeds from issue of shares	-	0	-	-	-
Increase in debt	116	0	-	-	-
Other financing cash flow	-	0	-	-	-
Cash flow from financing activities	84	(32)	(43)	(56)	(59)
Cash at beginning of period	30	31	23	60	34
Total cash generated	111	(7)	9	1	(1)
Implied cash at end of period	141	24	33	61	33

Source: Company data, RHB

Financial Exhibits

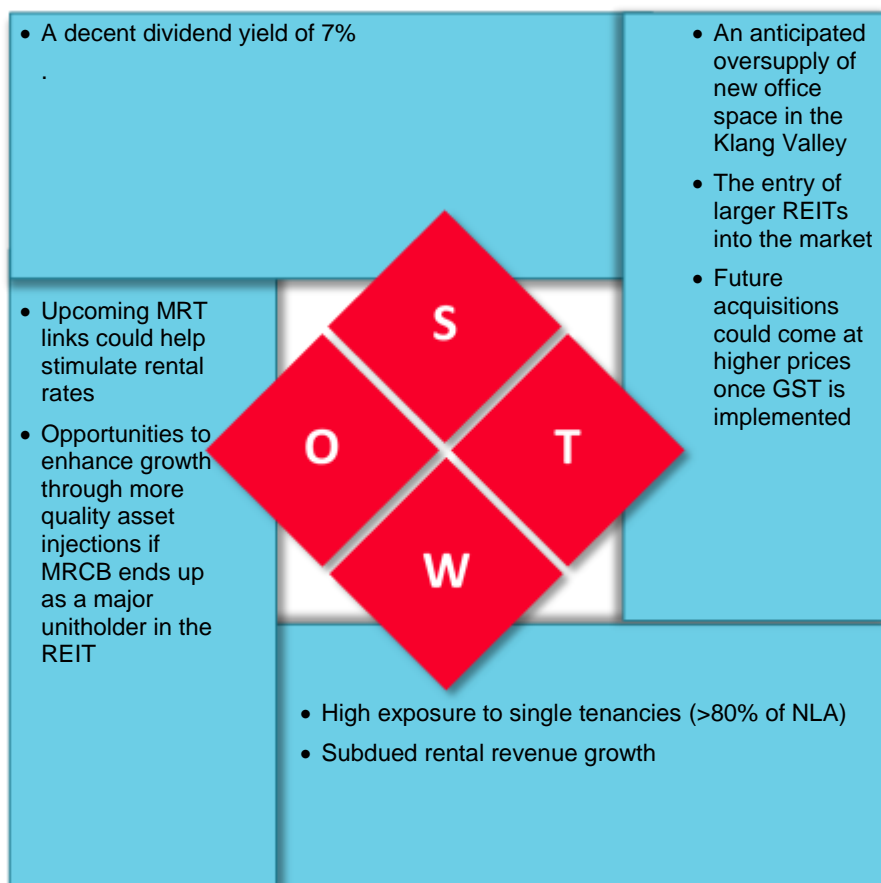
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	31	23	60	34	33
Accounts receivable	3	6	6	6	6
Other current assets	-	-	-	29	32
Total current assets	34	29	66	69	71
Total investments	827	839	1,562	1,562	1,562
Total other assets	0	0	0	0	0
Total non-current assets	827	839	1,562	1,562	1,562
Total assets	860	868	1,629	1,631	1,634
Accounts payable	12	12	12	12	12
Other current liabilities	5	2	2	2	2
Total current liabilities	17	15	15	15	15
Total long-term debt	305	305	698	698	698
Other liabilities	5	8	8	8	8
Total non-current liabilities	310	313	705	705	706
Total liabilities	327	327	720	720	720
Share capital	412	412	676	676	676
Retained earnings reserve	122	130	233	235	238
Shareholders' equity	533	541	909	911	914
Total equity	533	541	909	911	914
Total liabilities & equity	860	868	1,629	1,631	1,634

Source: Company data, RHB

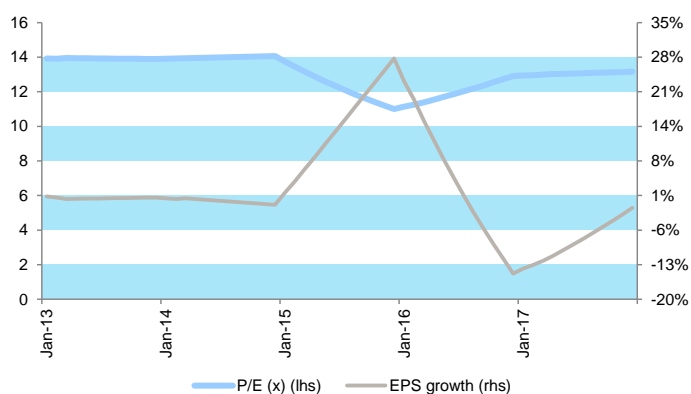
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(0.8)	1.9	53.0	13.1	1.6
Net profit growth (%)	0.2	(1.2)	63.7	8.1	2.2
EPS growth (%)	0.2	(1.2)	27.9	(14.9)	(1.8)
Bv per share growth (%)	0.9	1.5	7.6	(7.6)	0.3
Net profit margin (%)	50.1	48.6	52.0	49.7	50.0
Return on average assets (%)	4.0	3.9	4.5	3.7	3.8
Return on average equity (%)	6.5	6.3	7.7	6.6	6.8
Net debt to equity (%)	51.4	52.1	70.2	72.9	72.7
DPS	0.08	0.08	0.09	0.09	0.09
Recurrent cash flow per share	0.07	0.08	0.11	0.09	0.09

Source: Company data, RHB

SWOT Analysis

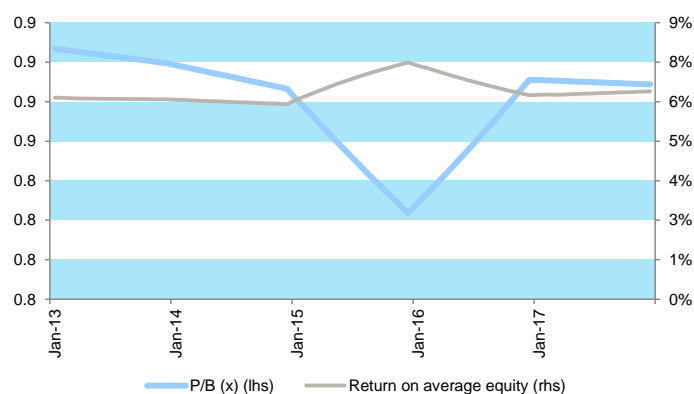


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Quill Capita Trust is a mid-cap MREIT that focuses on office/commercial assets. Its assets are largely concentrated in the Klang Valley and Cyberjaya areas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-01-20	Neutral	1.25	1.25
2014-11-27	Neutral	1.25	1.18
2014-05-02	Neutral	1.25	1.13
2014-01-30	Neutral	1.25	1.20
2014-01-29	Sell	1.06	1.20
2013-08-02	Sell	1.10	1.22
2013-05-13	Neutral	1.27	1.21
2013-03-06	Neutral	1.27	1.14
2013-02-04	Neutral	1.27	1.20
2012-12-20	NEUTRAL	1.27	1.19

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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