

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

Analyst

HON Seow Mee +603 2604 3967
seowmee@alliancedbs.com

Result Summary

FY Dec (RM m)	2Q 2014	2Q 2013	1Q 2014	% Chg v-o-v	% 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

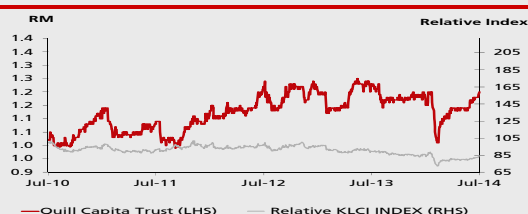
Financial Summary

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

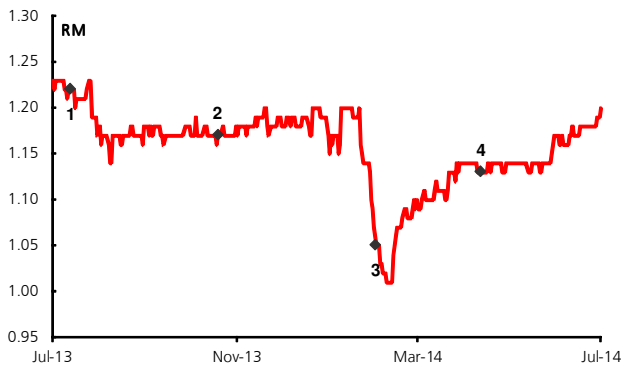
No refinancing risk, for now. The recent OPR hike (+25 bps) should have minimal impact on earnings as 95% of its loans carry fixed rates and the next refinancing is only due in Sep 2016. Average cost of debt is 4.3%.

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.

Target Price & Ratings History



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

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

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	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

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)
(formerly known as HWANGDBS Vickers Research Sdn Bhd)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com