

Quill Capita Trust (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

26 February 2015

Price Target: RM1.34 (↔)

Share Price: RM1.23

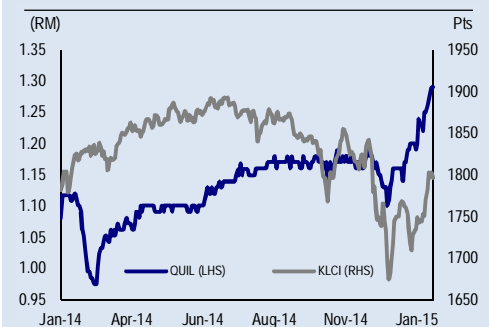
Disposal of QB10 – Section 13

News	<ul style="list-style-type: none"> QCT has proposed a disposal of Quill Building 10 – Section 13 (QB10) for a total lump sum cash consideration of RM27.3m. QB10 comprises a 5-storey office building with 1 level of basement car park located in Petaling Jaya. The manager opines that the disposal is timely as there is limited upside for future rental growth and also favourable market prices for asset sale. The deal is expected to be completed in 1HFY15. Proceeds from disposal will be used to finance asset enhancement initiatives, investment into other yield accretive properties and working capital purpose.
Highlights	<ul style="list-style-type: none"> We are not surprised by the news as we gathered that ever since it was vacant in 2012, QCT has received more interest for QB-10 to be sold, rather than leased. We understand that the property was previously occupied by HSBC for credit card back-room operation. However there was re-organization of the business operation which has resulted in the downsizing of the operation and the credit card back-room operation was moved back to the KL office. As such HSBC decided not to renew the tenancy agreement upon its expiry. We do not see any material impact on QCT's earnings and our DPU assumptions given that QB-10 did not generate rental income since it remains vacant for approximately three years.
Risks	<ul style="list-style-type: none"> Execution risk. Management continuity following the entry of MRCB. Slow rental reversion rate. Failure on execution of Platinum Sentral acquisition plan.
Forecasts	<ul style="list-style-type: none"> Unchanged
Rating	<p>BUY ↔, TP: RM1.34 ↔</p> <ul style="list-style-type: none"> 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 – 7.6% DY (FY16E). Negatives: (1) Small asset base; and (2) Lack of retail assets.
Valuation	<ul style="list-style-type: none"> 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 in view of the game-changing entry of MRCB as the major unitholder.

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KLCI	1815.9
Expected share price return	8.9%
Expected dividend return	7.0%
Expected total return	15.9%

Share price

Information

Bloomberg Ticker	QUILL MK
Bursa Code	5123
Issued Shares (m)	390
Market cap (RM m)	480
3-mth avg. volume ('000)	359
SC Shariah-compliant	No

Price Performance	1M	3M	12M
Absolute	-3.1	4.2	19.4
Relative	-3.8	5.5	20.6

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	104.1	107.8
PAT	36.6	58.4	63.3	66.6
EPU (sen)	8.9	8.6	9.3	9.8
Norm. PER (x)	13.9	14.3	13.2	12.6
FD PER (x)	13.9	14.3	13.2	12.6
EV/ EBITDA (x)	37.3	50.4	43.2	39.4
Net DPU (sen)	8.4	8.6	9.3	9.8
Distb. yield (%)	6.8	7.0	7.6	7.9
BVPS (RM)	1.4	1.3	1.3	1.3
P/B (x)	0.9	0.9	0.9	0.9

HLIB

Quill Capita Trust (BUY, TP: RM1.34, CP: RM1.23)

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	104.1	107.8
Pretax profit	36.6	34.2	58.4	63.3	66.6
Taxation	0.0	0.0	0.0	0.0	0.0
Net profit	36.6	34.2	58.4	63.3	66.6
No of units (m)	390.1	390.1	681.4	681.4	681.4
EPU (sen)	9.4	8.8	8.6	9.3	9.8

Cash Flows

FYE Dec (RM m)	2013A	2014A	2015E	2016E	2017E
PBT	40.1	40.3	58.4	63.3	66.6
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	0.6	0.7
Operating cashflow	27.5	31.1	66.8	64.0	67.2
Capex	(0.0)	(6.0)	(740.0)	(2.0)	(2.0)
Disposal / (purchase)	(0.0)	(16.7)	27.3	(0.0)	(0.0)
Others	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	(0.0)	(5.3)	(712.7)	(2.0)	(2.0)
Distribution paid	(32.8)	(32.7)	(58.4)	(63.3)	(66.6)
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	(63.3)	(66.6)

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	1,540.3	1,542.3	1,544.3
Derivatives	0.0	1.2	1.0	1.0	1.0
Non-current assets	820.5	838.9	1,541.3	1,543.3	1,545.3
Trade receivables	8.9	6.1	5.1	5.3	5.5
Cash	30.5	8.4	110.8	109.4	108.1
Total Current Assets	39.7	29.4	115.9	114.7	113.6
Total assets	860.2	868.4	1,657.3	1,658.1	1,658.9
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	22.9	23.8
Total liabilities	331.4	327.1	767.1	767.9	768.8
Total liabilities & equity	860.2	868.4	1,657.3	1,658.1	1,658.9

Valuation Ratios

FYE Dec (RM m)	2013A	2014A	2015E	2016E	2017E
EPU before mgr's fee	10.8	10.2	9.9	10.7	11.2
EPU after mgr's fee	9.4	8.9	8.6	9.3	9.8
PER (x)	13.1	13.9	14.3	13.2	12.6
No of units	390.1	390.1	681.4	681.4	681.4
Net DPU	8.4	8.4	8.6	9.3	9.8
Net DY (%)	6.8	6.8	7.0	7.6	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	7.8	19.0	19.9
FCF yield (%)	15.0	14.4	6.3	15.4	16.2
Enterprise value	753.8	754.5	1,462.2	1,463.6	1,464.9
EV/ EBITDA (x)	32.8	37.3	50.4	43.2	39.4
ROE (%)	6.9	6.5	6.6	7.1	7.5
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	59.0	62.0
Total	116.1	120.4	124.9

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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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.
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