

HLIB Research

PP 9484/12/2012 (031413)

Farah Diyana Kamaludin

FarahDiyana@hlib.hongleong.com.my

(603) 2083 1719

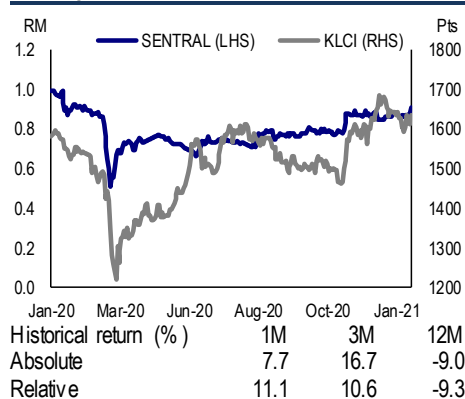
BUY (Maintain)

Target Price: **RM0.96**
Previously: **RM0.96**
Current Price: **RM0.91**

Capital upside	5.5%
Dividend yield	7.8%
Expected total return	13.3%

Sector coverage: REIT

Company description: MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

Share price

Stock information

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	975
3-mth average volume ('000)	419
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	81.0	79.5	81.9
EPU – core (sen)	7.6	7.4	7.6
P/E (x)	12.0	12.3	11.9

Sentral REIT

FY20 wrapped up within expectation

Sentral REIT (fka MRCB-Quill REIT) FY20 core profit of RM81.0 (+12.3% YoY) was within our expectations and consensus. The improvement was driven by better revenue contribution (+2.2%) especially from Menara Shell, Wisma Technip and Tesco, alongside decrease in property operating expenses (-3.4%) and finance costs (-10.7%). Overall occupancy remain stable at 90% while gearing stood at 37.9%. Sentral REIT will be focussing on cost optimisation and tenant retention in FY21 to overcome the challenging environment. We maintain our forecast; reiterate BUY call and sector top pick, with unchanged TP of RM0.96 based on targeted yield of 7.6% on FY21 DPU.

Within expectations. 4Q20 core net profit of RM20.6m (-4.0% QoQ, +10.9% YoY) brought full year FY20 sum to RM81.0m (+12.3% YoY). The results were within both ours and consensus full year estimates, at 102% and 104% respectively.

Dividend. Declared dividend of 3.65 sen, going ex on 4 Feb 2021. This brought FY20 dividend to 7.08 sen (FY19: 6.80 sen).

QoQ. Total revenue was flat (-0.6%) at RM41.8m. Core net profit fell slightly by 4% to RM20.6m, owing to the increase in property operating expenses (+7.7%) and finance costs (+3.2%).

YoY. Top line remained flat (-0.4%) while property operating expense fell by 4.4%. Together with lower finance costs (-16.4%), bottom line showed an increase of 10.9%.

FY20. Revenue for FY20 was up 2.2% to RM165.7m on the back of higher contribution from Menara Shell, Wisma Technip and Tesco. Lower property operating expenses (-3.4%) as well as finance cost (-10.7%) pushed up core net profit to RM81.0m (+12.3%).

Occupancy and gearing. Overall occupancy rate remain stable at 90%. As for gearing level, it reduced slightly to 37.9% (3Q20: 38.2%) with a majority of its total borrowings being charged a floating interest rate (54%).

Outlook. Sentral REIT has completed renewals that were due in 2020 with 85% renewal rate. Approximately 440k sq.ft. or 22% of NLA is due for renewal in 2021, and Sentral REIT has initiated early renewal negotiations for some tenancies. Main focus going forward into 2021 would be on cost optimisation and tenant retention to overcome the challenging environment that stem from Covid-19 pandemic.

Forecast. Maintain as the results were inline.

Maintain BUY, TP: RM0.96. We maintain our BUY call with an unchanged TP of RM0.96 based on FY21 forward DPU on targeted yield of 7.6% on FY21 DPU, which is derived from 2 years historical average yield spread of Sentral REIT and 10-year MGS. We like Sentral REIT for its attractive dividend yield of 7.8% (highest among REITs in our universe), and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike mall REITs.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY17	FY18	FY19	FY20	FY21f	FY22f
Revenue	181.5	173.4	162.1	165.7	168.7	169.8
Core PBT	88.1	84.7	72.1	81.0	79.5	81.9
Core PAT	88.1	84.7	72.1	81.0	79.5	81.9
Core EPU (sen)	8.2	7.9	6.7	7.6	7.4	7.6
P/E (x)	11.1	11.5	13.5	12.0	12.3	11.9
DPU (sen)	8.4	8.1	6.8	7.1	7.3	7.5
Dividend yield (%)	9.2	8.9	7.5	7.8	8.0	8.2
BVPS (RM/share)	1.30	1.28	1.23	1.24	1.24	1.24
P/B (x)	0.7	0.7	0.7	0.7	0.7	0.7
ROE (%)	5.0%	5.3%	5.4%	5.9%	6.0%	6.2%
Net Gearing (%)	34.0%	33.8%	37.8%	37.9%	34.7%	34.7%

HLIB Research

Figure #2 Quarterly results comparison

FYE Dec (RM m)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Gross revenue	42.0	42.1	41.8	-0.6%	-0.4%	162.1	165.7	+2.2%
Property operating expenses	-10.5	-9.3	-10.0	+7.7%	-4.4%	-39.2	-37.9	-3.4%
Net property income	31.5	32.7	31.8	-2.9%	+0.9%	122.8	127.8	+4.1%
Interest income	1.1	0.6	1.2	+83.2%	+2.8%	3.2	2.9	-9.6%
Net investment income	32.6	33.4	25.8	-22.8%	-21.0%	126.0	123.5	-2.0%
Finance costs	-10.3	-8.3	-8.6	+3.2%	-16.4%	-39.6	-35.4	-10.7%
Valuation fees	-0.1	-0.1	-0.0	-54.8%	-26.0%	-0.3	-0.3	-1.4%
Administrative expenses	-0.3	-0.0	-0.3	+857%	-2.3%	-0.4	-0.4	-7.8%
Total expenses	-14.0	-11.9	-12.3	+3.7%	-12.1%	-54.0	-54.0	-2.7%
Core PBT	18.6	21.5	20.6	-4.0%	+10.9%	72.1	81.0	+12.3%
Core PAT	18.6	21.5	20.6	-4.0%	+10.9%	72.1	81.0	+12.3%
Distributable adjustments	0.0	0.0	0.0	N.M	N.M	0.9	0.0	-100%
Distributable income	18.6	21.5	20.6	-4.0%	+10.9%	73.0	81.0	+10.9%
Core EPU (sen)	1.7	2.0	1.9	-4.0%	+10.5%	6.7	7.6	+12.2%
DPU (sen)	3.4	0.0	3.7	N.M	+8.3%	6.8	7.1	+4.1%

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 20 January 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 20 January 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.