

06 May 2021

Hold

Price
RM0.90

Target Price
RM0.90

Bloomberg code
SENTRAL MK

Equity | Malaysia | REITs
Flashnote

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Sentral REIT

1Q21: in line with estimates

Financial Highlights

FYE Dec	2018	2019	2020	2021F	2022F
Revenue (RM mil)	173.4	161.0	164.0	166.1	166.7
Net Property Income	133.7	121.7	126.1	127.8	128.2
Realised Net profit (RM mil)	82.5	71.0	79.3	81.1	81.6
EPU (sen)	7.7	6.6	7.4	7.6	7.6
EPU Growth (%)	(5.5)	(13.9)	11.6	2.2	0.7
DPU (sen)	8.1	6.8	7.1	7.1	7.1
PE (x)	11.6	13.5	12.1	11.8	11.7
Div yield (%)	8.9	7.5	7.8	7.8	7.8
ROE (%)	5.3	2.1	5.4	6.1	6.1
Gearing (%)	37.6	37.8	37.9	37.8	37.8

Source: Company, KAF

- We maintain our Hold recommendation on Sentral REIT (SENTRAL) with an unchanged target price of RM0.90 based on DDM valuation.
- SENTRAL reported net property income of RM31.4m in 1Q21, in line with our expectations, making up 25% of our full-year forecast.
- No DPU was declared during the quarter under review, as it is usually payable on a semi-annual basis.
- 1Q21 revenue declined 2.8% yoy to RM41.0m, mainly due to lower contributions from Plaza Mont Kiara, Quill Building 3-BMW, and Wisma Technip.
- Net property income (NPI) fell 4.2% yoy, in line with lower revenue and higher operating expenses (+2.1% yoy) incurred for some of the properties under the portfolio.
- As at end-March 2021, the REIT's overall portfolio occupancy stood stable at 89.0% (vs. 1Q20: 90.5%, 4Q20: 90.0%).
- During the quarter, SENTRAL has managed to successfully renew/lease c.2% of the 22% total net lettable area (NLA) due in FY21F.
- Active negotiations for renewal of the remaining leases are currently in progress, with the bulk of it expiring in the second half of the year.
- These mostly come from tenancies in Wisma Technip (c.194k sq ft), Menara Shell (c.121k sq ft), and Quill Building 3-BMW (c.13k sq ft).
- In terms of renewals over the next few years, FY22F and FY23F see about 14% and 1% of NLA due for renewal, respectively.
- Elsewhere, gearing remains stable at c.38%, presenting SENTRAL with a comfortable debt headroom of c.RM490m for future acquisitions, assuming 60% gearing limit set by the SC.
- Given the in line set of results, we make no changes to our FY21-22 DPU forecasts and maintain our DDM-based TP of RM0.90.
- At the current price level, SENTRAL trades at FY21F distribution yield of 7.8%.

Exhibit 1: Quarterly earnings trend

(RM m)	1Q20	2Q20	3Q20	4Q20	1Q21	Change		Cumulative			KAF	
FYE 31 Dec	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	% qoq	% yoy	3M20	3M21	% chg	2021F	1Q/F
Revenue	42.2	40.6	41.7	39.5	41.0	4	(3)	42.2	41.0	(3)	166.1	25
Property operating expenses	(9.4)	(9.1)	(9.3)	(10.0)	(9.6)	(4)	2	(9.4)	(9.6)	2	(38.4)	25
Net property income	32.8	31.5	32.4	29.4	31.4	7	(4)	32.8	31.4	(4)	127.8	25
Interest income	0.6	0.5	0.6	1.2	0.5	(58)	(16)	0.6	0.5	(16)	3.4	14
Trust expenses	(3.5)	(3.5)	(3.6)	(3.8)	(3.5)	(6)	(0)	(3.5)	(3.5)	(0)	(14.6)	24
Borrowing costs	(9.5)	(8.9)	(8.3)	(8.6)	(7.7)	(10)	(19)	(9.5)	(7.7)	(19)	(35.6)	22
Exceptional items	0.3	(0.5)	-	(7.2)	-			0.3	-	-		
Profit before tax	20.6	19.1	21.1	11.1	20.7	86	0	20.6	20.7	0	81.1	26
Tax	-	-	-	(1.2)	-			-	-		-	
Net profit	20.6	19.1	21.1	9.9	20.7	109	0	20.6	20.7	0	81.1	26
Normalized net profit	20.3	19.6	21.1	18.3	20.7	13	2	20.3	20.7	2	81.1	26

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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