

## COMPANY RESULTS

### Sentral REIT (SENTRAL MK)

1Q21: Displays Resilience Against The Pandemic

Results came in within our estimates, accounting for 25% of our full-year forecast. Core net earnings improved on the back of stable earnings and lower finance costs. We believe SENTRAL will continue to report decent results moving forward, given a stable occupancy rate. The stock still offers an attractive dividend yield of 8-9% for 2021-23. Maintain BUY and target price of RM1.00.

#### 1Q21 RESULTS

Year to 31 Dec	1Q21 (RMm)	4Q20 (RMm)	qoq % chg	yoy % chg
Gross revenue	41.0	41.8	(1.8)	(1.6)
Operating expenses	(9.6)	(10.0)	(4.1)	2.1
Net property income	31.4	31.8	(1.1)	(2.7)
Finance cost	(7.7)	(8.6)	(10.5)	(19.5)
Core Net Profit	20.7	20.6	0.4	4.6
EPU (sen)	1.9	1.9	0.4	4.6
DPU (sen)	0.0	3.7	n.m.	n.m.
<b>Margins</b>	<b>(%)</b>	<b>(%)</b>	<b>+/- ppt chg</b>	<b>+/- ppt chg</b>
NPI	76.6	76.0	0.5	(0.8)
PAT	50.4	49.3	1.1	3.0

Source: SENTRAL, UOB Kay Hian

#### RESULTS

- In line with expectations.** Sentral REIT (SENTRAL) reported 1Q21 revenue of RM41m (-1.8% qoq, -1.6% yoy) and core net profit of RM20.7m (+0.4% qoq, +4.6% yoy). Core net profit accounts for 25% of our and 26% of consensus' full-year forecasts. The 4.6% yoy earnings improvement despite revenue marginal decline of 1.6% can be attributed to lower finance costs.
- No dividend**, as SENTRAL typically declares dividends in the second and final quarters.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	162	166	169	171	172
EBITDA	108	113	113	113	115
Operating profit	108	113	113	113	115
Net profit (rep./act.)	29	73	82	85	88
Net profit (adj.)	72	81	82	85	87
EPU (sen)	6.7	7.6	7.7	7.9	8.1
DPU (sen)	6.8	7.1	7.5	7.8	8.0
PE (x)	13.3	11.8	11.6	11.3	11.0
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	7.6	7.9	8.4	8.7	8.9
Net margin (%)	18.0	43.8	48.7	49.9	51.1
Net debt/(cash) to equity (%)	58.4	57.4	54.8	51.7	50.0
Interest cover (x)	3.0	3.5	3.7	4.0	4.1
ROE (%)	2.2	5.5	6.2	6.4	6.6
Consensus DPU (sen)	n.a.	n.a.	6.9	7.1	7.0
UOBKH/Consensus (x)	-	-	1.09	1.10	1.14

Source: Sentral REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM0.90
Target Price	RM1.00
Upside	+11.8%

#### COMPANY DESCRIPTION

Sentral REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SENTRAL MK
Shares issued (m):	1,071.8
Market cap (RMm):	959.2
Market cap (US\$m):	232.7
3-mth avg daily t'over (US\$m):	0.1

#### Price Performance (%)

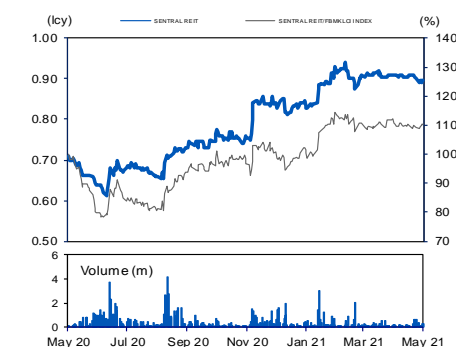
52-week high/low			RM0.950/RM0.665	
1mth	3mth	6mth	1yr	YTD
(1.6)	(3.8)	14.0	16.2	2.3

#### Major Shareholders

	<b>%</b>
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
CapitaLand Ltd	10.9

FY21 NAV/Share (RM)	1.24
FY21 Net Debt/Share (RM)	0.68

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Yap Xiu Li**  
+603 2147 1915  
xiuli@uobkayhian.com

### STOCK IMPACT

- **Resilient against COVID-19.** Net profit improved 4.6% yoy, even though revenue declined marginally, due to stable occupancy rate as well as lower finance cost. NPI margin improved to 76.6% (4Q20: 76.0%, 1Q20: 77.4%). We expect earnings to remain resilient as SENTRAL's tenants are mostly well-established MNCs and local businesses that are able to ride out the current situation.
- **Stable occupancy rate.** On a portfolio basis, occupancy rate remained steady at 89% (4Q20: 90%), well above the average of 78% in 2020 for office buildings in Kuala Lumpur. Total leases due for renewals for 2021 and 2022 account for 22% and 16% of total NLA respectively, with the majority of the leases due in 2021 taking place in 2H21. SENTRAL successfully renewed 96% of leases due in 1Q21. We do not see any major risk as negotiations are already underway and there are no indications of non-renewals. SENTRAL's WALE is 4.36 years.
- **Gearing at 37.9%.** SENTRAL's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. The recent increase in gearing limit by the Securities Commissions (from 50% to 60%) will give SENTRAL debt headroom of RM492m to fund future acquisitions.

### EARNINGS REVISION/RISK

- No change to our earnings forecasts.

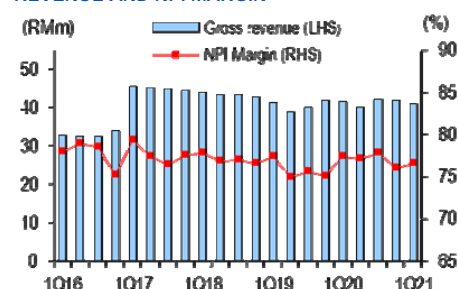
### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.00.** Our target price is based on a dividend discount model (required rate of return: 8.5%, terminal growth: 1.3%) and represents an implied dividend yield of 7.3% for 2021.
- We opine SENTRAL will continue to be appealing for its attractive and sustainable high dividend yields of 8-9% for 2021-23, backed by its property portfolio's stable occupancy.

### SHARE PRICE CATALYST

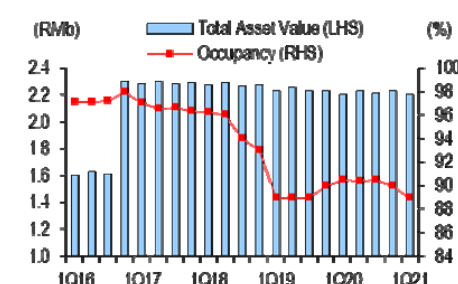
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

### REVENUE AND NPI MARGIN



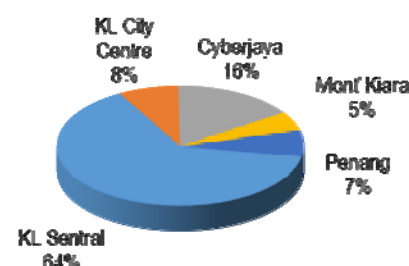
Source: SENTRAL, UOB Kay Hian

### TOTAL ASSET VALUE AND OCCUPANCY RATE



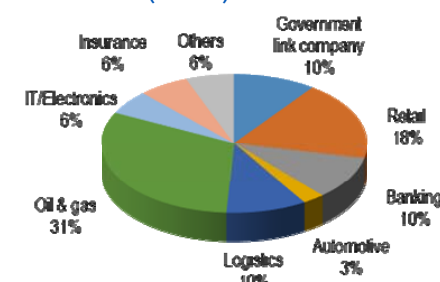
Source: SENTRAL, UOB Kay Hian

### GEOGRAPHICAL DIVERSIFICATION (BY VALUATION)



Source: SENTRAL, UOB Kay Hian

### TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	166	169	171	172
EBITDA	113	113	113	115
Deprec. & amort.	0	0	0	0
EBIT	113	113	113	115
Net interest income/(expense)	(32)	(31)	(28)	(28)
Pre-tax profit	74	82	85	87
Tax	(1)	0	0	1
Net profit	73	82	85	88
Net profit (adj.)	81	82	85	87

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	2,097	2,099	2,101	2,103
Other LT assets	1	1	1	1
Cash/ST investment	85	88	70	70
Other current assets	45	5	5	5
<b>Total assets</b>	<b>2,228</b>	<b>2,193</b>	<b>2,176</b>	<b>2,179</b>
ST debt	218	203	173	163
Other current liabilities	30	22	64	83
LT debt	627	612	582	572
Other LT liabilities	29	31	31	31
Shareholders' equity	1,324	1,325	1,327	1,330
<b>Total liabilities &amp; equity</b>	<b>2,228</b>	<b>2,193</b>	<b>2,176</b>	<b>2,179</b>

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>120</b>	<b>116</b>	<b>117</b>	<b>117</b>
Pre-tax profit	74	82	85	87
Deprec. & amort.	0	0	0	0
Other operating cashflows	46	34	32	30
<b>Investing</b>	<b>1</b>	<b>3</b>	<b>(2)</b>	<b>(2)</b>
Capex (growth)	(1)	(2)	(2)	(2)
Proceeds from sale of assets	0	5	0	0
Others	2	0	0	0
<b>Financing</b>	<b>(99)</b>	<b>(116)</b>	<b>(133)</b>	<b>(115)</b>
Distribution to unitholders	(73)	(81)	(83)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	341	0	0	0
Loan repayment	(335)	(15)	(30)	(10)
Others/interest paid	(32)	(20)	(20)	(20)
<b>Net cash inflow (outflow)</b>	<b>22</b>	<b>3</b>	<b>(19)</b>	<b>0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>63</b>	<b>85</b>	<b>88</b>	<b>70</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>85</b>	<b>88</b>	<b>70</b>	<b>70</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	68.5	67.0	66.4	66.8
Pre-tax margin	44.5	48.7	49.9	50.5
Net margin	43.8	48.7	49.9	51.1
ROA	3.3	3.7	3.9	4.0
ROE	5.5	6.2	6.4	6.6
<b>Growth</b>				
Turnover	2.2	1.9	1.0	1.0
EBITDA	4.6	(0.3)	0.1	1.5
Pre-tax profit	108.7	11.5	3.4	2.2
Net profit	149.2	13.4	3.4	3.4
Net profit (adj.)	12.3	1.6	3.4	2.2
EPU	12.3	1.6	3.4	2.2
<b>Leverage</b>				
Debt to total capital	39.0	38.1	36.3	35.6
Debt to equity	63.8	61.5	56.9	55.3
Net debt/(cash) to equity	57.4	54.8	51.7	50.0
Interest cover (x)	3.5	3.7	4.0	4.1

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Securities (M) Sdn. Bhd. ("UOBKHM") which is a licensed corporation providing investment advisory services in Malaysia.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKHM. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKHM may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKHM and its associated persons (as defined in the Capital Market Services Act 2007) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKHM to be reliable. However, UOBKHM makes no representation as to the accuracy or completeness of such sources or the Information and UOBKHM accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKHM and its associate may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKHM and its connected persons are subject to change without notice. UOBKHM reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKHM, its associated persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKHM, its associated persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKHM may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKHM may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report is prepared by UOBKHM, a company authorized, as noted above, to engage in investment advisory in Malaysia. UOBKHM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKHM (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKHM by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKHM.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Analyst Certification/Regulation AC**

Each research analyst of UOBKHM who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKHM or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKHM's total revenues, a portion of which are generated from UOBKHM's business of investment advisory.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia. Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ("U.S.")	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2021, UOB Kay Hian Securities (M) Sdn. Bhd. All rights reserved.

<http://www.utrade.com.my>