

Sentral REIT (SENTRAL MK)

2Q21 within expectations

Maintain BUY

2Q21 earnings and 1st gross DPU of 3.43sen were within our estimates, with 1H21 net profit at 46%/49% of our/consensus' FY21E. We lower our FY21E net profit by -6% but maintain our DDM-TP of MYR1.23 (Ke: 7.2%) and BUY rating. We continue to favour Sentral for its stable long-term office tenants and strong FY21-23E net DPU yield of c.7-8%.

Marginal rental income impact

Excluding divestment gains of MYR3.8m (disposed Quill Building 5 on 21 Apr 21), 2Q21 core net profit was MYR18.9m (-1% YoY, -9% QoQ), taking 1H21 core earnings to MYR39.6m (+2% YoY). YoY, 2Q21's core bottom line has marginally eased due to lower rental income at several properties. This was mainly attributed to non-renewal of selected tenants (at QB3 and Wisma Technip), rental support to retail tenants and lower carpark income (at Plaza Mont Kiara and Platinum Sentral). Nevertheless, 2Q21 portfolio occupancy remained stable and favourable at 92% (+2ppt YoY), with Platinum Sentral and Menara Shell's occupancy rates at 80% and 99%, respectively (2Q20: 82% and 99%).

Minor forecast tweak

We lower our FY21E earnings by 6% as we impute some near-term rental income impact at Plaza Mont Kiara and Platinum Sentral due to rental support to their retail tenants, under Malaysia's Full Movement Control Order (FMCO). Elsewhere, our earnings/DPU growth estimates are primarily backed by stable occupancy and rental rates, and rental step-ups (single-digit rates).

Organic earnings outlook unchanged

We continue to favour properties with long-term rental/leases which entail resilient earnings and occupancies, namely Platinum Sentral, Menara Shell, QB1, QB4, QB2 and Tesco Building. Cumulatively, these assets are contributing 51-53% to our FY21-23E revenue. Separately, we note that Sentral remains on a lookout for acquisition opportunities. This is backed by a gross gearing of 0.38x (end-2Q21) - translating into debt headroom of about MYR536m for acquisitions (at 0.50x gearing).

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	162	166	162	173	174
Net property income	123	128	127	133	134
Core net profit	72	81	81	86	87
Core EPU (sen)	6.7	7.6	7.5	8.1	8.1
Core EPU growth (%)	(14.8)	12.3	(0.4)	7.0	1.1
Net DPU (sen)	6.1	6.4	6.4	6.9	7.0
Net DPU growth (%)	(15.8)	4.1	1.0	7.0	1.1
P/NTA (x)	0.8	0.7	0.7	0.7	0.7
Net DPU yield (%)	6.1	7.3	7.1	7.6	7.7
ROAE (%)	2.2	5.5	6.1	6.5	6.5
ROAA (%)	3.2	3.6	3.6	3.9	3.9
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	6.3	6.3	6.5
MKE vs. Consensus (%)	-	-	1.4	8.5	7.8

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BUY

Share Price	MYR 0.91
12m Price Target	MYR 1.23 (+43%)
Previous Price Target	MYR 1.23

Company Description

Sentral REIT (formerly known as MRCB-Quill REIT) engages in the investment in commercial properties which are mainly located in the Klang Valley.

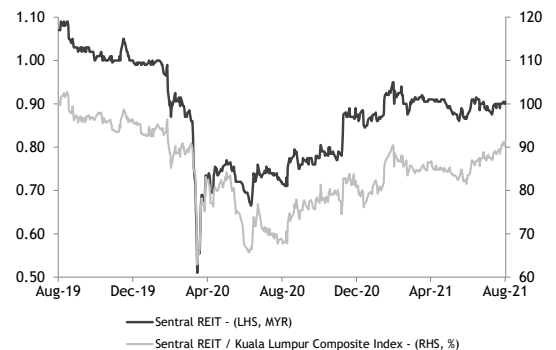
Statistics

52w high/low (MYR)	0.95/0.71
3m avg turnover (USDm)	0.1
Free float (%)	40.8
Issued shares (m)	1,072
Market capitalisation	MYR970.0M
	USD230M

Major shareholders:

Malaysian Resources Corp. Bhd.	27.8%
Employees Provident Fund	12.0%
Capitaland Integrated Commercial Trust	10.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	2	27
Relative to index (%)	5	7	33

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2QFY21	2QFY20	%YoY	1QFY21	%QoQ	1HFY21	1HFY20	%YoY
Gross revenue	38.2	40.1	(4.8)	41.0	(6.9)	79.2	81.8	(3.2)
Net property income	29.6	31.0	(4.4)	31.4	(5.8)	61.0	63.3	(3.5)
Interest income	0.5	0.5	(9.9)	0.5	1.0	1.0	1.1	(13.2)
Fair value gains/(loss)	-	-	NM	-	NM	-	-	NM
Finance costs	(7.8)	(8.9)	(13.0)	(7.7)	0.8	(15.4)	(18.5)	(16.4)
Other expenses/gains	(3.5)	(3.5)	(1.5)	(3.5)	(2.0)	(7.0)	(7.1)	(0.8)
Pretax profit	22.6	19.1	18.7	20.7	9.4	43.3	38.9	11.5
Tax	-	-	NM	-	NM	-	-	NM
Net profit	22.6	19.1	18.7	20.7	9.4	43.3	38.9	11.5
Net profit ex-EI	18.9	19.1	(1.0)	20.7	(8.7)	39.6	38.9	1.8
EPU ex-EI (sen)	1.8	1.8	(1.0)	1.9	(8.7)	3.7	3.6	1.8
Gross DPU (sen)	3.4	3.4	0.0	-	NM	3.4	3.4	0.0
	2QFY21	2QFY20	+/- ppt	1QFY21	+/- ppt	1HFY21	1HFY20	+/- ppt
Net property margin (%)	77.5	77.2	0.3	76.6	1.0	77.0	77.3	(0.3)
Net income ex-EI margin (%)	49.5	47.6	1.9	50.4	(1.0)	50.0	47.5	2.5

Sources: Trust

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Sentral. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for Sentral. 21% of Sentral's total NLA is due for lease renewal in 2021 while 54% of Sentral's total debt is based on floating rates. Another earnings risk would be if the impact from Covid-19 becomes prolonged.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Price/DPU(x)	16.3	13.7	14.1	13.1	13.0
P/BV (x)	0.8	0.7	0.7	0.7	0.7
P/NTA (x)	0.8	0.7	0.7	0.7	0.7
DPU yield (%)	6.8	8.1	7.9	8.5	8.5
FCF yield (%)	11.1	12.9	11.5	12.5	12.4

INCOME STATEMENT (MYR m)

Revenue	162.1	165.7	162.3	172.7	173.8
Net property income	122.8	127.8	127.2	133.0	133.7
Management and trustee fees	(14.4)	(14.4)	(14.5)	(14.7)	(14.7)
Net financing costs	(36.4)	(32.5)	(32.1)	(32.0)	(31.7)
Exceptionals	(36.7)	(7.2)	0.0	0.0	0.0
Pretax profit	35.4	73.8	80.7	86.3	87.2
Income tax	(6.2)	(1.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	29.1	72.6	80.7	86.3	87.2
Core net profit	72.1	81.0	80.7	86.3	87.2
Distributable inc to unitholders	73.0	81.0	80.7	86.3	87.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	63.3	85.0	86.6	92.4	96.7
Accounts receivable	5.8	4.7	4.6	4.9	4.9
Property, Plant & Equip (net)	0.4	0.3	1.4	1.9	2.1
Investment properties	2,125.2	2,080.9	2,080.9	2,080.9	2,080.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	19.1	56.9	56.9	56.9	56.9
Total assets	2,213.7	2,227.7	2,230.3	2,236.9	2,241.5
ST interest bearing debt	332.7	217.8	217.8	217.8	217.8
Accounts payable	15.7	19.1	17.7	20.0	20.2
LT interest bearing debt	503.0	627.1	627.1	627.1	627.1
Other liabilities	38.8	40.1	40.1	40.1	40.1
Total Liabilities	890.2	904.2	902.8	905.1	905.3
Shareholders Equity	1,323.5	1,323.5	1,327.5	1,331.9	1,336.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,323.5	1,323.5	1,327.5	1,331.9	1,336.2
Total liabilities and equity	2,213.7	2,227.7	2,230.3	2,236.9	2,241.5

CASH FLOW (MYR m)

Cash flow from operations	118.8	121.0	111.6	121.1	120.3
Acquisitions & investments	(2.3)	(1.2)	(1.3)	(1.4)	(1.4)
Disposal of FA & investments	0.0	(0.1)	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.7	2.2	4.2	4.3	4.6
CF from investing activities	0.4	0.9	3.0	3.0	3.3
Dividends paid	(78.0)	(72.9)	(76.6)	(82.0)	(82.9)
Interest expense	(38.5)	(32.0)	(36.3)	(36.3)	(36.3)
Change in debt	(19.0)	6.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(135.5)	(98.9)	(113.0)	(118.3)	(119.2)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(16.3)	22.9	1.6	5.8	4.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(6.5)	2.2	(2.0)	6.4	0.7
Net property income growth	(8.1)	4.1	(0.5)	4.6	0.5
Core net profit growth	(14.8)	12.3	(0.4)	7.0	1.1
Distributable income growth	(16.1)	10.9	(0.4)	7.0	1.1
Profitability ratios (%)					
Net property income margin	75.8	77.1	78.4	77.0	76.9
Core net profit margin	44.5	48.9	49.7	50.0	50.2
Payout ratio	225.2	94.1	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	18.0	43.8	49.7	50.0	50.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	2.2	5.5	6.1	6.5	6.5
ROAA (%)	3.2	3.6	3.6	3.9	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	58.4	57.4	57.1	56.5	56.0
Net interest cover (x)	3.0	3.5	3.5	3.7	3.8
Debt/EBITDA (x)	7.7	7.4	7.5	7.1	7.0
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	772.5	760.0	758.4	752.6	748.3
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank

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Malaysia

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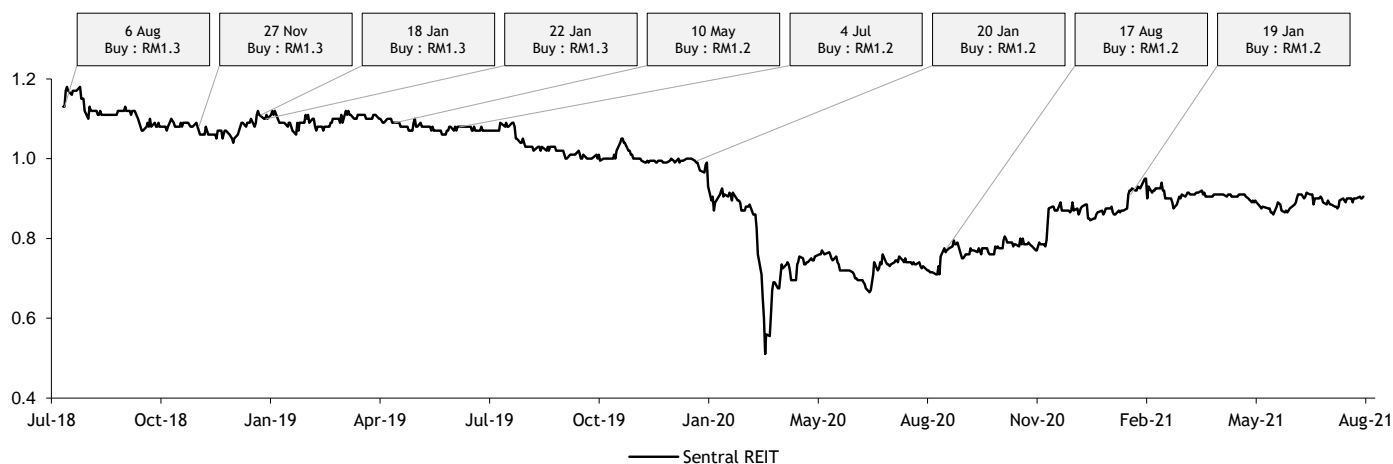
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