

06 August 2021

Sentral REIT

1HFY21 Well Within Range

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1HFY21 RNI of RM43.3m came in within our and consensus expectations at 53% and 54% of full-year estimates, respectively. 1HFY21 GDPU of 3.43 sen (48%) also met our FY21E's of 7.2 sen. Maintain FY21-22E CNP of RM81.8-82.4m on stable occupancy, mildly positive reversions and minimal lease expiries. Maintain OUTPERFORM and TP of RM0.935 on FY22E GDPU of 7.2 sen on unchanged spread and 10-year MGS target of 3.6%. We like SENTRAL's attractive gross yield of 8.0% vs. peers' average of 5.8% while its earnings have remained stable throughout the Covid-19 pandemic period.

1HFY21 realised net income (RNI) of RM43.3m came in within our and consensus expectations at 53% and 54% of full-year estimates, respectively. 1HFY21 dividend of 3.43 sen is also within at 48% of our FY21E of 7.20 sen.

Results' highlights. YoY-Ytd, top-line was down slightly by 3% due to lower revenues from Platinum Sentral, Plaza Mont Kiara, QB3-BMW and Wisma Technip. However, RNI was up by 12% on lower financing cost (-16%) and gains on disposal from QB5 of RM3.8m which was completed in April 2021. QoQ, top-line was down by 6.9% due to similar reasons mentioned above, but bottom-line was up by 9.4% on lower operating expenditure (-10.7%), RM3.8m disposal gain and lower expenditure (-2%), Gearing remained stable at 0.38x.

Outlook. FY21-22 will see minimal lease expiries of 22-16% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. Asset occupancy remains relatively stable at 91.7%. With minimal lease expiries, we believe that SENTRAL would be able to at least see flattish earnings growth YoY. Meanwhile the Covid-19 situation has caused the group to be more diligent in managing cash flows and exercising financial discipline. This may help with attractive acquisition opportunities should the situation arise given the healthy balance sheet.

Maintain FY21-22E CNP of RM81.8-82.4m. Earnings is premised on stable occupancy of >90% and flattish-to-mildly positive reversions. Our FY21-22E GDPU/NDPU of 7.2-7.2 sen / 6.5-6.5 sen imply attractive gross yield of 8.0% each (with net yield of 7.2%).

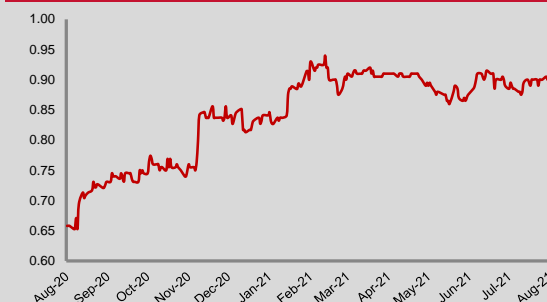
Maintain OUTPERFORM on an unchanged TP of RM0.935 on FY22E GDPU and an unchanged spread of 4.1ppt @ average SD to our 10-year MGS target of 3.6%. We like SENTRAL REIT as its earnings have remained stable throughout the pandemic in FY20 and 1HFY21, performing better than retail and hospitality peers. Its FY21-22 prospects appear promising with minimal lease expiries, and superior attractive gross yields of 8.0% vs. other large cap MREIT peers of 4.8% to 7.5%.

Risks to our call include bond yield expansions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: **RM0.905**
Target Price: **RM0.935** ↔

Share Price Performance



KLCI 1,495.78
YTD KLCI chg -8.1%
YTD stock price chg 3.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity 970.0
Shares Outstanding	1,071.8
52-week range (H)	0.96
52-week range (L)	0.70
3-mth avg daily vol:	417,948
Free Float	33%
Beta	0.9

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.1%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	165.7	170.6	175.1
EBIT	127.8	121.5	122.2
PBT	73.8	81.8	82.4
Net Profit	73.8	81.8	82.4
Core NP*	81.0	81.8	82.4
Consensus (CNP)	n.a.	80.4	81.8
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.6	7.6	7.6
Core EPS growth (%)	12	0	0
NDPS (sen)	6.4	6.5	6.5
BVPS (RM)	1.23	1.27	1.28
Core PER (x)	12.0	12.0	11.9
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.38	0.38	0.38
Net Div. Yield (%)	7.0	7.2	7.2

*Core NP refers to RNI



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Results Highlight

FYE 31 Dec (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	1HFY20	1HFY21	YoY- Ytd
Gross revenue	38.2	41.0	-6.9%	40.1	-4.8%	81.8	79.2	-3%
Prop Opex	-8.6	-9.6	-10.7%	-9.1	-6.1%	-18.6	-18.2	-2%
NPI excl unrealised rental income	29.6	31.4	-5.8%	31.0	-4.4%	63.3	61.0	-4%
Interest Income	0.5	0.5	1.0%	0.5	-9.9%	1.1	1.0	-13%
Gain on divestment prop	3.8	0.0	n.a.	0.0	n.a.	0.0	3.8	n.a.
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total Trust Income	33.9	31.9	6.1%	31.5	7.4%	64.4	65.8	2%
Expenditure	-3.5	-3.5	-2.0%	-3.5	-1.5%	-7.1	-7.0	-1%
Finance Cost	-7.8	-7.7	0.8%	-8.9	-13.0%	-18.5	-15.4	-16%
Income Before Tax	22.6	20.7	9.4%	19.1	18.7%	38.9	43.3	12%
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	22.6	20.7	9.4%	19.1	18.7%	38.9	43.3	12%
Realised Net income (RNI)	22.6	20.7	9.4%	19.1	18.7%	38.9	43.3	12%
Core EPU (sen)	2.11	1.93	9.4%	1.78	18.7%	3.63	4.04	12%
DPU (sen)	3.43	0.00	n.a.	3.43	0.0%	3.43	3.43	0%
NAV/unit (RM)	1.24	1.22		1.24		1.24	1.24	
Gearing (x)	0.38	0.38		0.38		0.38	0.38	
NPI Margins	77.5%	76.6%		77.2%		77.3%	77.0%	
RNI Margins	59.3%	50.4%		47.6%		47.5%	54.7%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
MREITs UNDER COVERAGE																		
AXIS REIT	1.92	2,777.2	Y	12/2021	3.6%	2.5%	11.9%	1.6%	21.3	19.2	19.2	1.5	1.5	6.2%	4.5%	2.15	OP	
CAPITALAND MALAYSIA MALL TRUST	0.615	1,298.0	N	12/2021	-12.0%	42.3%	-33.9%	141.6%	20.5	15.4	12.3	0.5	0.5	2.6%	6.1%	0.580	MP	
IGB REIT	1.67	5,960.8	N	12/2021	12.6%	1.8%	21.7%	1.7%	23.9	20.9	20.9	1.6	1.6	6.2%	4.4%	1.70	MP	
KLCCP STAPLED GROUP	6.64	11,987.4	Y	12/2021	4.9%	6.9%	8.2%	10.3%	22.1	20.1	18.4	0.9	0.9	5.4%	4.4%	7.35	OP	
SENTRAL REIT	0.905	970.0	N	12/2021	3.0%	2.6%	1.0%	0.7%	12.0	12.0	11.9	0.7	0.7	5.3%	7.2%	0.935	OP	
PAVILION REIT	1.36	4,144.9	N	12/2021	-21.5%	50.0%	-20.7%	116.7%	34.0	44.8	20.7	1.1	1.0	2.5%	2.2%	1.30	MP	
SUNWAY REIT	1.38	4,726.2	N	12/2021	7.6%	5.0%	-21.3%	21.7%	17.3	23.0	17.3	0.9	0.9	5.4%	4.1%	1.45	MP	
Simple Average					-0.3%	15.9%	-4.7%	42.1%	21.6	22.2	17.2	1.0	1.0	4.8%	4.7%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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