

HLIB Research
PP 9484/12/2012 (031413)

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BUY (Maintain)

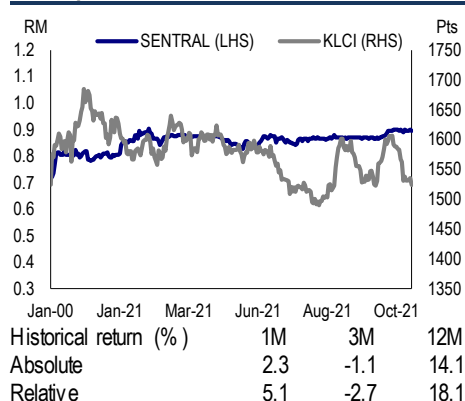
Target Price: **RM0.98**
Previously: **RM0.98**
Current Price: **RM0.89**

Capital upside	10.1%
Dividend yield	8.5%
Expected total return	18.6%

Sector coverage: REIT

Company description: Sentral 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)	954
3-mth average volume ('000)	633
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.0%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	79.7	82.5	85.3
EPU – core (sen)	7.4	7.7	8.0
P/E (x)	12.0	11.6	11.2

Sentral REIT

Persistently resilient

Sentral REIT's 9MFY21 core net profit of RM61.7m (+2.2% YoY) was within both ours and consensus estimates. YTD, top line fell (-3.1% YoY) mainly due to lower revenue received from 3 properties in Klang Valley and 1 in Cyberjaya. Lower total expenses (-9.9%) aided the improvement in core net profit (+2.2%). Occupancy remained strong at 91% while gearing dropped slightly to 37%. Maintain our forecasts, reiterate BUY with unchanged TP of RM0.98 based on FY22 DPU on targeted yield 7.9%. We like Sentral REIT for its attractive high dividend yield of 8.5% and resiliency amid Covid-19.

Within expectation. 3QFY21 core net profit of RM22.1m (+17.1% QoQ, +3.0% YoY) brought 9MFY21 core net profit to RM61.7m (+2.2% YoY). The result was within both ours and consensus estimates, accounting for 75%-77% respectively.

Dividend. None as dividend is usually payable semi-annually.

QoQ. Revenue was up by 6.8% mainly thanks to smaller rental rebates provided during the quarter. Lower property operating expenses (-6.3%) incurred for some of the properties and lower administrative expenses (-25.4%) led to the increase in core net profit (+17.1%).

YoY. Top line fell (-3.0%) due to lower revenue generated from QB3-BMW, Plaza Mont Kiara, Wisma Technip and Menara Shell. The decline in property operating expenses (-13.6%) paired with lower expenses (-5.2%) from lower finance costs (-7.2%) offset the drop in revenue. Hence, core net profit improved to RM22.1m (+3.0%).

YTD. Gross revenue reduced (-3.1%) to RM120.0m, owing to the drop in revenue generated from QB3-BMW, Plaza Mont Kiara, Wisma Technip and Platinum Sentral. The decline in property operating expenses (-5.8%) slightly cushioned the fall in NPI (-2.3%). Decline in total expenses (-9.9%) was mainly driven by lower finance costs (-13.5%) on the back of lower interest rates that mitigated the increase in administrative expenses (+15.3%). Thus, core net profit of RM61.7m (+2.2%) was attained.

Occupancy and gearing. With 9 properties, the overall occupancy rate remained stably high at 91%. While gearing level reduced slightly to 37% (2QFY21: 38%) with majority of its borrowings being charged a floating interest rate (56%).

Lease expiry. In 2021, 22% of Sentral REIT's total net lettable area (NLA) or approximately 440k sq. ft. are due for renewal. Approximately 81% of leases due in 3QFY21 have been successfully renewed.

Outlook. Sentral REIT will continue to focus on cost optimisation and tenant retention. We foresee 4Q to register resilient earnings backed by stable occupancy across assets. We believe Sentral REIT is relatively shielded from Covid-19 impact due to its large exposure to office (88% of portfolio), and miniscule exposure to retail unlike the other mall-based REITs.

Forecast. Maintain as the results were in line.

Maintain BUY, TP: RM0.98. Maintain BUY with unchanged TP of RM0.98. Our TP is based on FY22 forward DPU on targeted yield of 7.9%, 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 8.5% (highest among REITs in our universe), and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike mall REITs.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	63.3	85.0	86.3	86.4	87.1
Receivables	6.3	5.1	5.3	5.3	5.4
Investment properties	2,143.0	2,097.0	2,099.0	2,101.0	2,103.0
PPE	0.4	0.3	0.1	0.0	0.0
Others	0.8	40.3	40.3	40.3	40.3
Assets	2,213.7	2,227.7	2,231.0	2,233.1	2,235.8
Payables	15.7	19.1	19.8	19.2	19.2
Debt	835.7	845.0	846.0	847.0	848.0
Security deposits	38.5	40.1	40.1	40.1	40.1
Derivatives	0.0	0.0	0.0	0.0	0.0
Liabilities	889.9	904.2	905.8	906.2	907.2
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	87.6	87.6	89.3	91.0	92.7
Equity	1,323.5	1,323.5	1,325.2	1,326.9	1,328.6
Total Liabilities & Equity	2,213.7	2,227.7	2,231.0	2,233.1	2,235.8

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Gross rental income	144.1	148.0	153.8	154.7	155.5
Car park income	13.0	11.8	11.8	11.8	11.8
Other revenue	3.9	4.2	4.8	5.5	6.3
Total revenue	161.0	164.0	170.4	172.0	173.7
Property opex	-39.2	-37.9	-39.2	-38.0	-38.0
Net property income	121.7	126.1	131.2	134.0	135.7
Other income	-32.4	-2.6	3.6	3.6	3.6
Net invest income	89.3	123.5	134.8	137.6	139.3
Manager's fee	-12.8	-12.8	-13.0	-13.1	-13.1
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-39.6	-35.4	-37.6	-37.7	-37.7
Other non opex	-0.9	-0.9	-0.9	-0.9	-0.9
Profit before tax	35.4	73.8	82.5	85.3	86.8
Taxation	-6.2	-1.2	0.0	0.0	0.0
Profit after tax	29.1	72.6	82.5	85.3	86.8
Core net profit	72.1	79.7	82.5	85.3	86.8
Distributable income	73.0	81.0	82.5	85.3	86.8
Consensus core net profit			80.0	82.3	83.4
HLIB/ Consensus			103%	104%	104%

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	35.4	73.8	82.5	85.3	86.8
Finance costs	39.6	35.4	0.0	0.0	0.0
Depreciation	0.2	0.2	0.2	0.1	0.0
Fair value gain of assets	36.7	7.2	0.0	0.0	0.0
Interest income	-3.2	-2.9	0.0	0.0	0.0
Others	2.2	4.7	0.5	-0.6	0.0
CFO	110.9	118.4	83.3	84.7	86.8
Capex	-2.1	-1.2	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.1	0.0	0.0	0.0
Others	2.7	2.2	0.0	0.0	0.0
CFI	0.4	0.9	-2.0	-2.0	-2.0
Distribution paid	-78.0	-72.9	-80.9	-83.6	-85.1
Proceeds frm borrow'g	35.0	341.0	165.0	165.0	165.0
Repayment of borrow'g	-54.0	-335.0	-164.0	-164.0	-164.0
Others	-36.8	-30.7	0.0	0.0	0.0
CFF	-133.8	-97.5	-79.9	-82.6	-84.1
Net cash flow	-22.5	21.7	1.3	0.1	0.7
Beginning cash	85.8	63.3	85.0	86.3	86.4
Ending cash	63.3	85.0	86.3	86.4	87.1

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPU (sen)	6.7	7.4	7.7	8.0	8.1
P/E (x)	13.2	12.0	11.6	11.2	11.0
EBITDA	111.8	116.5	120.4	123.0	124.6
EBIT	111.7	116.3	120.2	123.0	124.6
EV	1,726.3	1,713.9	1,713.6	1,714.5	1,714.8
EV/EBITDA (x)	15.4	14.7	14.2	13.9	13.8
DPU (sen)	6.8	7.1	7.6	7.9	8.0
Dividend yield	7.6	8.0	8.5	8.8	9.0
NTA/ share (sen)	123.5	123.5	123.6	123.8	124.0
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.23	1.24	1.24	1.24
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	69.5%	71.1%	70.6%	71.5%	71.7%
EBIT margin	69.4%	70.9%	70.5%	71.5%	71.7%
PBT margin	22.0%	45.0%	48.4%	49.6%	50.0%
Net margin	44.8%	48.6%	48.4%	49.6%	50.0%
ROE	2.2%	5.5%	6.2%	6.4%	6.5%
ROA	3.3%	3.6%	3.7%	3.8%	3.9%
Net gearing	34.89%	34.12%	34.05%	34.06%	34.03%

Assumptions

FYE Dec	FY21f	FY22f	FY23f
Gross rental income			
Quill Building 1 - DHL 1	5.0	5.1	5.1
Quill Building 4 - DHL 2	5.4	5.5	5.6
Quill Building 2 - HSBC	10.0	10.0	10.1
Quill Building 3 - BMW	5.8	5.8	5.8
Wisma Technip	8.5	8.6	8.6
Part of Plaza Mont' Kiara	3.5	3.5	3.5
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.2	15.2	15.3
Platinum Sentral	51.8	52.1	52.4
Menara Shell	48.6	48.9	49.1
Total:	153.8	154.7	155.5

Quarterly financial summary

FYE Dec	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)
Gross Revenue	42.1	38.2	40.79	6.8%	-3.0%
Property operating expen	-9.3	-8.6	(8.04)	-6.3%	-13.6%
Net Property Income	32.7	29.6	32.75	10.6%	0.0%
Interest income	0.6	0.5	0.65	31.8%	2.1%
Net Investment Income	33.4	33.9	33.39	-1.4%	0.0%
Total Expenses	-11.9	-11.2	(11.28)	0.6%	-5.2%
Normalised PBT	21.5	18.9	22.11	17.1%	3.0%
Normalised PAT	21.5	18.9	22.11	17.1%	3.0%
Distributable income	21.5	18.9	22.11	17.1%	3.0%
EPU (realised)	2.0	1.8	2.06	17.1%	3.0%
DPU (sen)	-	3.4	-	NM	NM

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	3QFY20	2QFY21	2QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Gross Revenue	42.1	38.2	40.8	+6.8%	-3.0%	123.9	120.0	-3.1%
Property operating expenses	-9.3	-8.6	-8.0	-6.3%	-13.6%	-27.9	-26.2	-5.8%
Net Property Income	32.7	29.6	32.7	+10.6%	+0.0%	96.0	93.8	-2.3%
Interest income	0.6	0.5	0.6	+31.8%	+2.0%	1.8	1.6	-7.7%
Net Investment Income	33.4	33.9	33.4	-1.4%	+0.0%	97.8	99.2	+1.4%
Finance costs	-8.3	-7.8	-7.7	-0.3%	-7.2%	-26.8	-23.2	-13.5%
Valuation fees	-0.1	-0.1	-0.1	+0.0%	-6.4%	-0.3	-0.3	-6.3%
Administrative expenses	-0.0	-0.0	-0.0	-25.4%	+1.6%	-0.1	-0.1	+15.3%
Total Expenses	-11.9	-11.2	-11.3	+0.6%	-5.2%	-37.4	-33.7	-9.9%
Core PBT	21.5	18.9	22.1	+17.1%	+3.0%	60.3	61.7	+2.2%
Core PAT	21.5	18.9	22.1	+17.1%	+3.0%	60.3	61.7	+2.2%
Distributable income	21.5	18.9	22.1	+17.1%	+3.0%	60.3	61.7	+2.2%
EPU (realised)	2.00	1.76	2.06	+17.1%	+3.0%	5.63	5.76	+2.2%
DPU (sen)	0.00	3.43	0.00	N.M.	+0.0%	3.43	3.43	+0.0%

HLIB Research

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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.

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