

UOBKH HIGHLIGHTS

Sentral REIT (SENTRAL MK/BUY/RM0.895/Target: RM1.00)

3Q21: Results Within Expectations

3Q21 RESULTS

Year to 31 Dec	3Q21 (RMm)	qoq % chg	yoy % chg	9M21 (RMm)	yoy % chg	Year	Net Profit (RMm)	EPU (sen)	PE (x)	DPU (sen)	Div Yield (%)
Gross Revenue	40.8	6.8	(3.0)	120.0	(3.1)	2021F	82	7.7	11.7	7.3	8.1
Operating Expenses	(8.0)	(6.2)	(13.5)	(26.2)	(5.8)	2022F	85	7.9	11.3	7.5	8.4
Net property Income	32.7	10.6	(0.0)	93.8	(2.3)	2023F	87	8.1	11.0	7.7	8.6
Finance Cost	(7.7)	(0.3)	(7.2)	(23.2)	(13.5)						
Core Net Profit	22.1	17.0	2.9	61.7	2.2						
EPU (sen)	2.1	17.0	2.9	5.8	2.2						
DPU (sen)	0.0	n.m.	n.m.	3.4	0.0						
Margins	(%)	ppt chg	ppt chg	(%)	ppt chg						
NPI	80.3	2.7	2.4	78.1	0.6						
PAT	54.2	4.7	3.1	51.4	2.7						

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **In line with expectations.** Sentral REIT (SENTRAL) reported 3Q21 revenue of RM40.8m (+6.8% qoq, -3.0% yoy) and core net profit of RM22.1m (+17.0% qoq, +2.9% yoy). 9M21 core net profit of RM61.7m (+2.2% yoy) accounts for 75% of our and 77% of consensus' full-year forecasts. The qoq improvement is mainly due to lesser rental assistance provided for the quarter. Net property income (NPI) margin for 3Q21 improved to 80% due to lesser expenses incurred (mainly utilities) as majority of the occupants are not back at the premises. On that note, expect margins to normalise downwards as more occupants return to the office premises.
- No dividend declared for the quarter as distribution is only in 2Q and 4Q.

COMMENTS

- **Business as usual.** 9M21 core earnings remained steady (+2.2% yoy) with corresponding NPI margin of 78% (9M20: 77.5%). 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 was resilient at 91% (2Q21: 91.7%, 3Q20: 90.5%), 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 81% of leases due in 9M21. We do not see any major risks as negotiations are already underway. SENTRAL's weighted average lease expiry (WALE) is 4.02 years.
- **Gearing at 37%.** 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 60% gearing limit by the Securities Commissions (until Dec 22) will give SENTRAL debt headroom of about RM497m to fund future acquisitions (RM280m debt headroom to reach 50% gearing).
- **Maintain 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 7.5% for 2022. Dividends to be declared in 4Q21 would yield about 4% at current price.
- SENTRAL continues 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.

ANALYST

Yap Xiu Li

+603 2147 1915

xiuli@uobkayhian.com

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