

21 January 2022

# Sentral REIT (SENTRAL MK)

Cautiously Optimistic On FY22; Maintain BUY

- **Maintain BUY and MYR1.02 TP, 11% upside with c.8% FY22F yield.** Results came in line with expectations, demonstrating a largely flattish YoY growth in earnings from a combination of muted reversion rates and granted rebates. We believe Sentral REIT should be able to maintain its robust c.90% occupancy levels moving into FY22 despite the threat of work-from-home (WFH), considering the quality of its prime assets. However, we remain cautious about reversion rates remaining at flattish levels.
- **Results in line with expectations.** 4Q21 core earnings of MYR19m (-13.9% QoQ, -7.6% YoY) brought FY21 earnings to MYR80.2m (-2.2% YoY). These results met expectations, coming in at 99-101% of full-year estimates. On a YoY basis, FY21 revenue was 4% lower due to decreased revenue contributions coming from QB3-BMW, Plaza Mont Kiara, and Platinum Sentral. We have reason to believe that rental rebates were also granted, which resulted in the negative YoY growth. FY21 earnings dropped by 2.2%, supported in part by the lower property expenses and finance costs. A DPU of 1.78 sen was declared for the quarter, bringing full-year DPU to 7.27 sen (FY20: 7.35 sen).
- **Occupancy still stable at 90%.** Sentral REIT's blended occupancy rate remains stable, dropping marginally to 90% from 91% in 3Q21, with leases up for renewal in FY21 seeing a 66% renewal rate. The drop in occupancy was mainly attributed to the lower occupancy demonstrated by Menara Shell for the quarter – from 96% in 3Q21 to 92% in 4Q21. Despite the drop, overall occupancy for the REIT remains at respectable levels, with the quality of Menara Shell further evidenced by its valuation surplus of MYR0.53m in the FY21 revaluation of its properties.
- **Expecting flattish reversions moving forward.** 16% of NLA is due for renewal in FY22. Management guided that reversion rates for FY21 were flat. We remain cautious of the possibility of reversion rates remaining flat or dipping into negative territory moving forward to retain tenants, considering that over 30% of the leases up for renewal were not renewed last year. That said, despite the rising WFH trend, we believe demand for office space will remain, with tenants only downsizing their presence. That said, we prefer strategically located prime office buildings such as Platinum Sentral and Menara Shell.
- **Maintain BUY.** We leave our earnings forecasts unchanged, as results came in line with expectations. Our DDM-derived TP is not changed and remains at MYR1.02 – it does not include an ESG premium discount either, as Sentral REIT's ESG score of 3.0 is in line with the country median.

| Forecasts and Valuations          | Dec-20 | Dec-21 | Dec-22F | Dec-23F | Dec-24F |
|-----------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm)             | 166    | 161    | 161     | 163     | 167     |
| Net property income (MYRm)        | 128    | 124    | 124     | 126     | 128     |
| Reported net profit (MYRm)        | 73     | 70     | 83      | 84      | 88      |
| Total distributable income (MYRm) | 81     | 84     | 83      | 84      | 88      |
| DPS (MYR)                         | 0.07   | 0.07   | 0.08    | 0.08    | 0.08    |
| P/B (x)                           | 0.74   | 0.74   | 0.74    | 0.74    | 0.74    |
| Dividend Yield (%)                | 7.7    | 8.1    | 8.4     | 8.5     | 8.9     |
| Return on average equity (%)      | 5.5    | 5.3    | 6.3     | 6.4     | 6.6     |
| Return on average assets (%)      | 3.3    | 3.2    | 3.8     | 3.9     | 4.0     |

Source: Company data, RHB

## Malaysia Results Review

Property | REITS

**Buy** (Maintained)

|                              |                   |
|------------------------------|-------------------|
| Target Price (Return):       | MYR1.02 (10.9%)   |
| Price (Market Cap):          | MYR0.92 (USD234m) |
| ESG score:                   | 3.00 (out of 4)   |
| Avg Daily Turnover (MYR/USD) | 0.29m/0.07m       |

### Analysts

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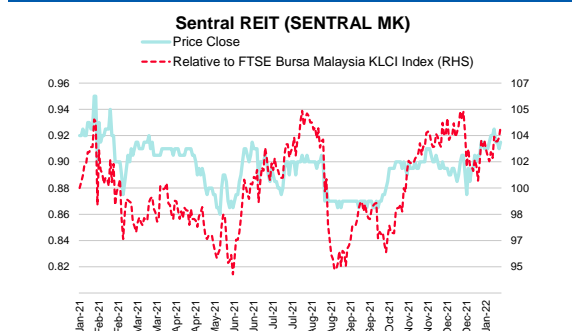


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### Share Performance (%)

|                            | YTD         | 1m    | 3m  | 6m  | 12m   |
|----------------------------|-------------|-------|-----|-----|-------|
| Absolute                   | 1.1         | 1.1   | 2.2 | 1.7 | (0.6) |
| Relative                   | 3.6         | (1.2) | 7.1 | 1.2 | 4.0   |
| 52-wk Price low/high (MYR) | 0.86 – 0.95 |       |     |     |       |



Source: Bloomberg

### Overall ESG Score: 3.00 (out of 4)

#### E: GOOD

Sentral REIT has managed to reduce its overall water consumption in FY19 by 2% YoY, and is developing its own water management policy. The REIT also doubled the capacity of Platinum Sentral's solar power system and subscribes to the Feed-In-Tariff or FiT for the solar photovoltaic or PV programme.

#### S: GOOD

67% of Sentral REIT's workforce is female, and it provides sufficient training to its employees through MRCB Training Academy, MRCB Learning Zone, and industrial practical trainings. To ensure health and safety, the REIT also conduct activities with external parties such as the Fire & Rescue Department.

#### G: EXCELLENT

We view positively the establishment of a "Policy on Giving and Receiving Gifts" and the commitment to the Corruption-Free Pledge by the Malaysian Anti-Corruption Commission. Directors' tenures range between four and six years on average.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

|  |                                     |               |               |                |                |                |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Asia</b>  | <b>Financial summary</b>            | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| Malaysia   | Recurring EPS (MYR)                 | 0.08          | 0.08          | 0.08           | 0.08           | 0.08           |
| Property   | EPS (MYR)                           | 0.08          | 0.08          | 0.08           | 0.08           | 0.08           |
| <b>Sentral REIT</b>  | DPS (MYR)                           | 0.08          | 0.08          | 0.08           | 0.08           | 0.08           |
| SENTRAL MK   | BVPS (MYR)                          | 1.23          | 1.23          | 1.23           | 1.23           | 1.23           |
| Buy  | Return on average equity (%)        | 6.1           | 6.1           | 6.3            | 6.4            | 6.7            |
|  | Weighted avg adjusted shares (m)    | 1,071.78      | 1,071.78      | 1,071.78       | 1,071.78       | 1,071.78       |
| <b>Valuation basis</b>   | <b>Valuation metrics</b>            | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| DDM  | Recurring P/E (x)                   | 12.11         | 12.15         | 11.82          | 11.62          | 11.17          |
|  | P/E (x)                             | 12.11         | 12.15         | 11.82          | 11.62          | 11.17          |
|  | P/B (x)                             | 0.7           | 0.7           | 0.7            | 0.7            | 0.7            |
|  | FCF Yield (%)                       | 7.8           | 7.8           | 8.0            | 8.1            | 8.4            |
|  | Dividend Yield (%)                  | 8.3           | 8.6           | 8.4            | 8.5            | 8.9            |
|  | EV/EBITDA (x)                       | (3.15)        | (3.55)        | (2.75)         | (2.69)         | (2.59)         |
|  | EV/EBIT (x)                         | (3.15)        | (3.55)        | (2.75)         | (2.69)         | (2.59)         |
| <b>Key drivers</b>   | <b>Income statement (MYRm)</b>      | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| Higher-than-expected demand of office space and inorganic growth opportunities arising from Malaysian Resources Corp (MRC MK, NEUTRAL, TP: MYR0.38) or MRCB and Quill Group. | Total turnover                      | 166           | 161           | 161            | 163            | 167            |
|  | EBITDA                              | 113           | 109           | 114            | 116            | 119            |
|  | Operating profit                    | 113           | 109           | 114            | 116            | 119            |
|  | Net interest                        | (32)          | (28)          | (31)           | (31)           | (31)           |
|  | Pre-tax profit                      | 81            | 81            | 83             | 84             | 88             |
|  | Recurring net profit                | 81            | 81            | 83             | 84             | 88             |
| <b>Key risks</b>   | <b>Cash flow (MYRm)</b>             | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| The downside risk of an oversupply in office properties might affect the portfolio's office property occupancy and rental rates.   | Change in working capital           | (4)           | (4)           | (5)            | (5)            | (5)            |
|  | Cash flow from operations           | 79            | 78            | 80             | 81             | 85             |
|  | Capex                               | (2)           | (2)           | (2)            | (2)            | (2)            |
|  | Cash flow from investing activities | (2)           | (2)           | (2)            | (2)            | (2)            |
|  | Dividends paid                      | (77)          | (83)          | (83)           | (83)           | (85)           |
|  | Cash flow from financing activities | 54            | (24)          | (83)           | (83)           | (85)           |
|  | Cash at beginning of period         | 63            | 85            | 94             | 20             | 17             |
|  | Net change in cash                  | 131           | 53            | (5)            | (3)            | (3)            |
|  | Ending balance cash                 | 194           | 137           | 89             | 17             | 14             |
| <b>Company Profile</b>   | <b>Balance sheet (MYRm)</b>         | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| Sentral REIT is a mid-cap MREIT that focuses on office/commercial assets. Assets are largely concentrated in the Klang Valley and Cyberjaya areas.                           | Total cash and equivalents          | 85            | 94            | 20             | 17             | 14             |
|  | Total investments                   | 2,097         | 2,081         | 2,081          | 2,081          | 2,081          |
|  | Total other assets                  | 40            | 0             | 0              | 0              | 0              |
|  | Total assets                        | 2,227         | 2,180         | 2,181          | 2,183          | 2,184          |
|  | Short-term debt                     | 218           | 130           | 130            | 130            | 130            |
|  | Total long-term debt                | 627           | 676           | 676            | 676            | 676            |
|  | Total liabilities                   | 904           | 862           | 863            | 863            | 864            |
|  | Shareholders' equity                | 1,324         | 1,318         | 1,319          | 1,320          | 1,320          |
|  | Total equity                        | 1,324         | 1,318         | 1,319          | 1,320          | 1,320          |
|  | Net debt                            | 760           | 712           | 786            | 789            | 792            |
|  | Total liabilities & equity          | 2,227         | 2,180         | 2,181          | 2,183          | 2,184          |
|  | <b>Key metrics</b>                  | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
|  | Revenue growth (%)                  | 2.2           | (3.0)         | 0.5            | 0.8            | 2.4            |
|  | Recurrent EPS growth (%)            | 12.3          | (0.3)         | 2.8            | 1.7            | 4.1            |
|  | Operating EBITDA margin (%)         | 68.5          | 68.0          | 70.7           | 71.0           | 71.4           |
|  | Net profit margin (%)               | 48.9          | 50.3          | 51.4           | 51.8           | 52.7           |
|  | Dividend payout ratio (%)           | 100.0         | 104.6         | 99.0           | 99.0           | 99.0           |
|  | Capex/sales (%)                     | 1.2           | 1.2           | 1.2            | 1.2            | 1.2            |
|  | Interest cover (x)                  | 3.21          | 3.51          | 3.37           | 3.42           | 3.52           |

Source: Company data, RHB

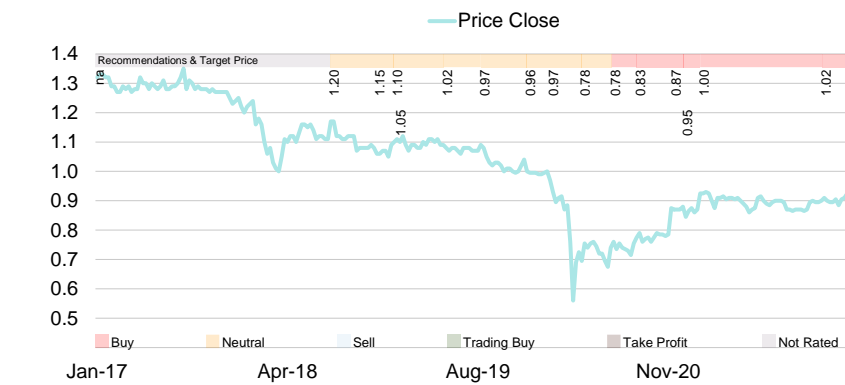
## Results at a Glance

Figure 1: Sentral REIT's 9M20 results summary

| FYE Dec (MYRm)                      | 4Q20        | 3Q21        | 4Q21         | QoQ (%)        | YoY (%)        | FY20         | FY21         | YoY (%)       | Comments  |
|-------------------------------------|-------------|-------------|--------------|----------------|----------------|--------------|--------------|---------------|---|
| <b>Revenue</b>                      | <b>41.8</b> | <b>40.8</b> | <b>40.6</b>  | <b>(0.4)</b>   | <b>(2.9)</b>   | <b>166.7</b> | <b>160.1</b> | <b>(4.0)</b>  | Lower YoY on lower income from QB3-BMW, Plaza Mont Kiara, and Platinum Sentral. |
| <b>Net property income (NPI)</b>    | <b>31.8</b> | <b>32.7</b> | <b>29.9</b>  | <b>(8.7)</b>   | <b>(5.9)</b>   | <b>128.8</b> | <b>123.1</b> | <b>(4.4)</b>  |   |
| Interest expense                    | (8.6)       | (7.7)       | (7.9)        | 2.5            | (7.7)          | (35.4)       | (31.1)       | (12.1)        |   |
| Interest income                     | 1.2         | 0.6         | 1.0          | 57.8           | (12.0)         | 2.9          | 2.6          | (9.4)         |   |
| Associates                          | 0.0         | 0.0         | 0.0          | nm             | nm             | 0.0          | 0.0          | nm            |   |
| Others                              | (3.8)       | (3.6)       | (10.5)       | 196.9          | 181.2          | (14.4)       | (21.1)       | 46.6          | Within expectations.  |
| <b>Pre-tax profit</b>               | <b>13.4</b> | <b>22.1</b> | <b>(3.2)</b> | <b>(114.7)</b> | <b>(124.1)</b> | <b>73.8</b>  | <b>58.5</b>  | <b>(20.8)</b> |   |
| Tax                                 | (1.2)       | 0.0         | 1.5          | nm             | (219.6)        | (1.2)        | 1.5          | (219.6)       |   |
| Minority interest                   | (1.2)       | 0.0         | 1.5          | nm             | (219.6)        | (1.2)        | 1.5          | (219.6)       |   |
| <b>Net profit</b>                   | <b>12.2</b> | <b>22.1</b> | <b>(1.8)</b> | <b>(108.1)</b> | <b>(114.7)</b> | <b>72.6</b>  | <b>59.9</b>  | <b>(17.5)</b> |   |
| <b>Core profit</b>                  | <b>20.6</b> | <b>22.1</b> | <b>19.0</b>  | <b>(13.9)</b>  | <b>(7.6)</b>   | <b>82.0</b>  | <b>80.2</b>  | <b>(2.2)</b>  |   |
| <b>Core earnings per unit (sen)</b> | <b>1.92</b> | <b>2.06</b> | <b>1.78</b>  | <b>(13.6)</b>  | <b>(7.3)</b>   | <b>7.55</b>  | <b>7.89</b>  | <b>4.5</b>    |   |
| <b>Dividends per unit (sen)</b>     | <b>1.92</b> | <b>2.06</b> | <b>1.78</b>  | <b>(13.6)</b>  | <b>(7.3)</b>   | <b>7.35</b>  | <b>7.27</b>  | <b>(1.1)</b>  |   |
| NPI margin (%)                      | 76.0        | 80.3        | 73.6         |                |                | 77.3         | 76.9         |               |   |
| Pre-tax margin (%)                  | 32.1        | 54.2        | (8.0)        |                |                | 44.3         | 36.5         |               |   |
| Net margin (%)                      | 49.3        | 54.2        | 46.9         |                |                | 49.2         | 50.1         |               |   |

Source: Company data, RHB

## Recommendation Chart

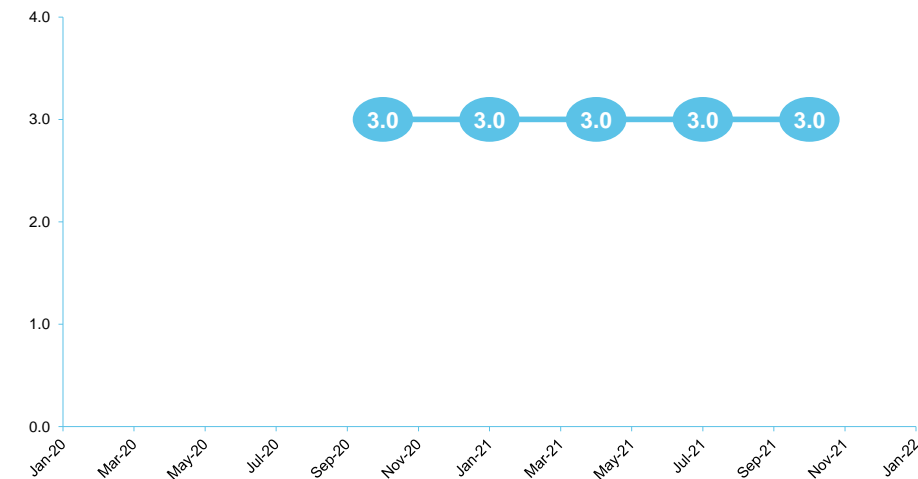


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2021-11-11 | Buy            | 1.02         | 0.90  |
| 2021-01-19 | Buy            | 1.00         | 0.91  |
| 2020-12-09 | Buy            | 0.95         | 0.87  |
| 2020-11-12 | Buy            | 0.87         | 0.83  |
| 2020-08-17 | Buy            | 0.83         | 0.78  |
| 2020-06-18 | Buy            | 0.78         | 0.71  |
| 2020-04-06 | Neutral        | 0.78         | 0.74  |
| 2020-01-20 | Neutral        | 0.97         | 1.00  |
| 2019-11-26 | Neutral        | 0.96         | 1.02  |
| 2019-08-08 | Neutral        | 0.97         | 1.07  |
| 2019-05-10 | Neutral        | 1.02         | 1.09  |
| 2019-01-18 | Neutral        | 1.05         | 1.11  |
| 2019-01-10 | Neutral        | 1.10         | 1.09  |

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
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| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
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