

HLIB Research
PP 9484/12/2012 (031413)

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BUY (Maintain)

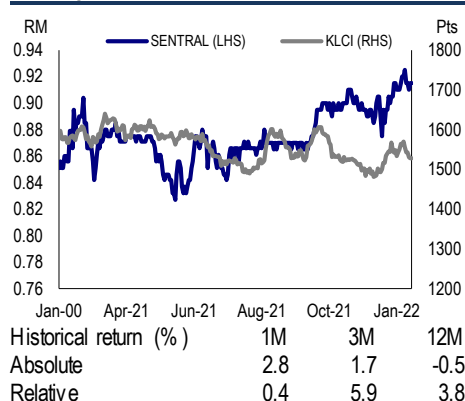
Target Price: RM0.95
Previously: RM0.95
Current Price: RM0.915

Capital upside	3.8%
Dividend yield	8.1%
Expected total return	11.9%

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)	981
3-mth average volume ('000)	338
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)	FY21	FY22f	FY23f
PAT – core (RM m)	84.5	85.3	86.8
EPU – core (sen)	7.9	8.0	8.1
P/E (x)	11.6	11.5	11.3

Sentral REIT

Ended FY21 within expectation

Sentral REIT FY21 core profit of RM84.5m (+4.4% YoY) was within our and consensus' expectations. Dividend of 3.98 per unit was declared. The overall improvement was driven by lower total expenses (-8.4%) which mitigated the fall in revenue (-3.0%) given weak contribution from QB3-BMW, Plaza Mont Kiara and Platinum Sentral. Overall occupancy remains stable at 90% while gearing stood at 36.9%. Going forward, Sentral REIT will be focussing on cost optimisation and tenant retention. We maintain our forecast and reiterate BUY call, with unchanged TP of RM0.95 based on targeted yield of 8.3% on FY22 DPU.

Within expectations. 4QFY21 core net profit of RM19.0m (-13.9% QoQ, -7.6% YoY) brought full year FY21 sum to RM84.5m (+4.4% YoY). The results were within both ours and consensus full year estimates, accounting for 102% and 104% respectively.

Dividend. Declared dividend of 3.98 sen, going ex on 7 Feb 2022. This brought FY21 dividend to 7.41 sen (FY20: 7.08 sen).

QoQ. Total revenue was flat (-0.4%) at RM40.6m. However, higher property operating expenses (+33.1%) were incurred for some of the properties and led to the decline in NPI (-8.7%). Also, total expenses increased 5.3% mainly due to higher finance costs (+2.5%). Overall, core net profit fell -13.9%.

YoY. Top line fell (-2.9%) due to lower revenue generated from Platinum Sentral, QB3-BMW, Wisma Technip and Menara Shell. Again, higher operating expenses (+6.9%) were seen, dragging NPI to RM29.9m (-5.9%). Separately, lower finance costs (-7.7%) slightly mitigated the increase in valuation fees (+23.3%) and administrative expenses (+105.7%). Hence, core net profit decreased to RM19.0m (-7.6%).

FY21. Revenue for FY21 reduced to RM160.6m (-3%) mainly due to lower contribution from QB3-BMW, Plaza Mont Kiara, and Platinum Sentral. The decline in property operating expenses (-2.5%) slightly cushioned the fall in NPI (-3.2%). Decline in total expenses (-8.4%) was mainly driven by lower finance costs (-12.1%) but was capped by the higher administrative expenses (+80.8%). Thus, core net profit of RM84.5m (+4.4%) was attained.

Occupancy and gearing. With 9 properties, the overall occupancy rate remained firmly high at 90%. As for gearing level, it reduced slightly to 36.9% (3QFY21: 37.1%) with majority of its borrowings being charged a floating interest rate (56%).

Outlook. Sentral REIT successfully recorded a retention rate of 66% for FY21. Approximately 511k sq.ft. or 28% of its total NLA is due for renewal in 2022, and Sentral REIT has initiated early renewal negotiations for some tenancies. Main focus going forward would be on asset enhancement initiatives, cost optimisation and tenant retention to overcome the challenging pandemic environment. We believe Sentral REIT is relatively shielded from Covid-19 impact due to its large exposure to office (88% of portfolio) as opposed to retail.

Forecast. Maintain as the results were inline.

Maintain BUY, TP: RM0.95. We maintain our BUY call with an unchanged TP of RM0.95. Our TP is based on FY22 forward DPU on targeted yield of 8.3%, which is derived from 2 years historical average yield spread of Sentral REIT and 10-year MGS. We like Sentral REIT for its attractive high dividend yield of 8.6-8.7% for FY22-23 (highest among REITs in our universe), and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike mall REITs.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	161.0	165.7	160.6	172.0	173.7
Core PBT	72.1	81.0	84.5	85.3	86.8
Core PAT	72.1	81.0	84.5	85.3	86.8
Core EPU (sen)	6.7	7.6	7.9	8.0	8.1
P/E (x)	13.6	12.0	11.6	11.5	11.3
DPU (sen)	6.8	7.1	7.4	7.9	8.0
Dividend yield (%)	7.4	7.7	8.1	8.6	8.7
BVPS (RM/share)	1.23	1.23	1.24	1.24	1.24
P/B (x)	0.7	0.7	0.7	0.7	0.7
ROE (%)	2.2%	5.5%	6.2%	6.4%	6.5%
Net Gearing (%)	34.9%	34.1%	36.9%	34.0%	34.0%

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4QFY20	3QFY21	4QFY21	QoQ	YoY	FY20	FY21	YoY
Gross revenue	41.8	40.8	40.6	-0.4%	-2.9%	165.7	160.6	-3.0%
Property operating expenses	-10.0	-8.0	-10.7	+33.1%	+6.9%	-37.9	-37.0	-2.5%
Net property income	31.8	32.7	29.9	-8.7%	-5.9%	127.8	123.7	-3.2%
Interest income	1.2	0.6	1.0	+57.8%	-12.0%	2.9	2.6	-9.4%
Net investment income	25.8	33.4	15.2	-54.4%	-40.9%	123.5	114.4	-7.4%
Finance costs	-8.6	-7.7	-7.9	+2.5%	-7.7%	-35.4	-31.1	-12.1%
Valuation fees	-0.0	-0.1	-0.1	-40.5%	+23.3%	-0.3	-0.3	-2.4%
Administrative expenses	-0.3	-0.0	-0.6	+>1000%	+105.7%	-0.4	-0.7	+80.8%
Total expenses	-12.3	-11.3	-11.9	+5.3%	-3.7%	-49.8	-45.6	-8.4%
Core PBT	20.6	22.1	19.0	-13.9%	-7.6%	81.0	84.5	+4.4%
Core PAT	20.6	22.1	19.0	-13.9%	-7.6%	81.0	84.5	+4.4%
Distributable adjustments	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	+0.0%
Distributable income	20.6	22.1	19.0	-13.9%	-7.6%	81.0	84.5	+4.4%
Core EPU (sen)	1.9	2.1	1.8	-13.9%	-7.6%	7.6	7.9	+4.4%
DPU (sen)	3.7	0.0	3.9	N.M	+9.0%	7.1	7.4	+4.7%

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Stock rating guide

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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