

# Sentral REIT (SENTRAL MK)

## 2Q22: Sequential decline in earnings

### Downgrade to HOLD

2Q22 earnings were slightly below expectations, with 1H22 core net profit at 47%/46% of our/consensus' estimates. First interim gross DPU is 3.4sen (1H21: 3.43sen). We expect sequentially weaker quarters as QB2 and Wisma Technip have become vacant since end-April and June, respectively. We have adjusted lower our FY22-24E core net profit by 11%/9.2%/6.6%, and tweak our beta higher to 0.64, a 10% premium vs. Bloomberg indicative beta, to account for heightened tenant/ occupancy risk given demand for office space remains soft due to oversupply issues. We lowered our DDM-TP to MYR0.97 and downgrade Sentral to HOLD.

### Sequential decline in earnings

2Q22 core net profit was MYR18.5m (-2.3% YoY, -9.4% QoQ), taking 1H22 core net profit to MYR38.8m (-2% YoY). The QoQ earnings decline was mainly due to non-renewal of tenants at QB2-HSBC and Wisma Technip, both of which have become vacant since end-April and June 2022, respectively. To note, QB2 was previously sole-tenanted to HSBC (moved to Menara IQ @ TRX), while Wisma Technip was previously occupied by Technip Geoproduction and Technip Marine (moved to newer buildings nearby). However, earnings were cushioned by lower financing cost (-3%) attributed to the debt refinancing exercise in Mar 2022. Portfolio occupancy rate as at end-2Q22 fell to 78% (1Q22: 86%). Platinum Sentral and Menara Shell occupancy remain stable at 80% and 99%, respectively.

### Lowering forecasts

Our FY22-24E net profit forecasts are lowered by 11%/9.2%/6.6% as we adjust for lower occupancies at the Wisma Technip and QB2 properties. We expect sequentially weaker quarterly earnings over 2H22, with new tenants only expected to come in from next year onwards.

### Ability to retain tenants is critical

Near-term earnings will rely on its existing office assets with tenants on long-term leases in Platinum Sentral, Menara Shell, QB1, QB4, and Tesco Building. Sentral REIT is now in negotiation for the balance of renewals due in 2H2022 (9% of total NLA), whilst actively looking for tenants to take up the vacant space in both QB2 and Wisma Technip.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	166	161	154	159	165
Net property income	128	124	119	122	127
Core net profit	81	82	73	76	81
Core EPU (sen)	7.6	7.7	6.8	7.1	7.6
Core EPU growth (%)	12.3	1.5	(11.2)	4.4	6.3
Net DPU (sen)	6.4	6.7	5.8	6.1	6.5
Net DPU growth (%)	4.1	4.7	(12.7)	4.4	6.3
P/NTA (x)	0.7	0.7	0.8	0.8	0.8
Net DPU yield (%)	7.3	7.4	6.0	6.3	6.7
ROAE (%)	5.5	5.3	5.5	5.7	6.1
ROAA (%)	3.6	3.7	3.3	3.4	3.6
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	6.3	6.3	6.8
MKE vs. Consensus (%)	-	-	(7.6)	(3.6)	(5.6)

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## HOLD

[Prior:BUY]

Share Price	MYR 0.97
12m Price Target	MYR 0.97 (+7%)
Previous Price Target	MYR 1.15

### Company Description

Sentral REIT (formerly known as MRCB-Quill REIT) engages in the investment in commercial properties which are mainly located in the Klang Valley.

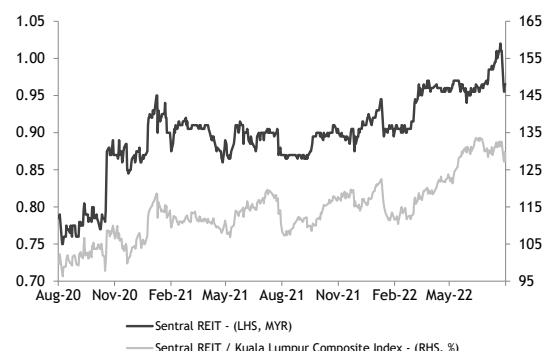
### Statistics

52w high/low (MYR)	1.02/0.87
3m avg turnover (USDm)	0.1
Free float (%)	41.4
Issued shares (m)	1,072
Market capitalisation	MYR1.0B
	USD231M

### Major shareholders:

Malaysian Resources Corp. Bhd.	27.8%
Employees Provident Fund	12.0%
CapitaLand Integrated Commercial Trust	10.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	1	11
Relative to index (%)	(0)	6	19

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	1HFY22	1HFY21	% YoY
Gross revenue	37.1	38.2	(3.0)	39.3	(5.7)	76.4	79.2	(3.6)
<b>Net property income</b>	<b>28.5</b>	<b>29.6</b>	<b>(3.8)</b>	<b>31.0</b>	<b>(8.3)</b>	<b>59.5</b>	<b>61.0</b>	<b>(2.5)</b>
Interest income	0.4	0.5	(15.2)	0.5	(9.3)	0.9	1.0	(10.4)
Fair value gains/(loss)	-	3.8	NM	-	NM	-	3.8	NM
Finance costs	(7.1)	(7.8)	(8.5)	(7.3)	(2.9)	(14.4)	(15.4)	(6.8)
Other expenses/gains	(3.3)	(3.5)	(3.2)	(3.8)	(12.9)	(7.2)	(7.0)	2.9
<b>Pretax profit</b>	<b>18.5</b>	<b>22.6</b>	<b>(18.5)</b>	<b>20.4</b>	<b>(9.4)</b>	<b>38.8</b>	<b>43.3</b>	<b>(10.4)</b>
Tax	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>18.5</b>	<b>22.6</b>	<b>(18.5)</b>	<b>20.4</b>	<b>(9.4)</b>	<b>38.8</b>	<b>43.3</b>	<b>(10.4)</b>
<b>Net profit ex-EI</b>	<b>18.5</b>	<b>18.9</b>	<b>(2.3)</b>	<b>20.4</b>	<b>(9.4)</b>	<b>38.8</b>	<b>39.6</b>	<b>(2.0)</b>
EPU ex-EI (sen)	1.7	1.8	(2.3)	1.9	(9.4)	3.6	3.7	(2.0)
<b>Gross DPU (sen)</b>	<b>3.4</b>	<b>3.4</b>	<b>(0.9)</b>	<b>-</b>	<b>NM</b>	<b>3.4</b>	<b>3.4</b>	<b>(0.9)</b>
	2QFY22	2QFY21	+/- ppt	1QFY22	+/- ppt	1HFY22	1HFY21	+/- ppt
Net property margin (%)	76.9	77.5	(0.7)	79.0	(2.1)	78.0	77.0	0.9
Net income ex-EI margin (%)	49.8	49.5	0.3	51.8	(2.0)	50.8	50.0	0.9

Source: Trust, Maybank IBG Research

## Risk statement

There are several risks factors for our earnings estimates, target price and rating for Sentral REIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for Sentral. 28% of Sentral's total NLA is due for lease renewal in 2022, while 66% of Sentral's total debt is based on floating rates. Another earnings risk would be the resurgence of COVID-19 affecting tenancy renewals.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Price/DPU(x)	13.7	13.6	16.6	15.9	14.9
P/BV (x)	0.7	0.7	0.8	0.8	0.8
P/NTA (x)	0.7	0.7	0.8	0.8	0.8
DPU yield (%)	8.1	8.2	6.7	7.0	7.4
FCF yield (%)	12.9	10.4	10.2	10.7	11.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	165.7	160.6	154.2	158.7	165.2
<b>Net property income</b>	<b>127.8</b>	<b>123.7</b>	<b>118.8</b>	<b>122.0</b>	<b>126.7</b>
Management and trustee fees	(14.4)	(14.5)	(13.2)	(13.3)	(13.5)
Net financing costs	(32.5)	(28.4)	(32.6)	(32.5)	(32.3)
Exceptionals	(7.2)	(11.9)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>73.8</b>	<b>68.8</b>	<b>73.0</b>	<b>76.2</b>	<b>80.9</b>
Income tax	(1.2)	1.5	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>72.6</b>	<b>70.2</b>	<b>73.0</b>	<b>76.2</b>	<b>80.9</b>
Core net profit	81.0	82.2	73.0	76.2	80.9
Distributable inc to unitholders	81.0	82.2	73.0	76.2	80.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	85.0	74.4	77.0	81.2	85.8
Accounts receivable	4.7	4.5	4.3	4.5	4.6
Property, Plant & Equip (net)	0.3	1.4	1.8	2.0	2.1
Investment properties	2,080.9	2,080.9	2,080.9	2,080.9	2,080.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	56.9	56.9	56.9	56.9	56.9
<b>Total assets</b>	<b>2,227.7</b>	<b>2,218.0</b>	<b>2,220.9</b>	<b>2,225.4</b>	<b>2,230.3</b>
ST interest bearing debt	217.8	217.8	217.8	217.8	217.8
Accounts payable	19.1	18.6	17.9	18.5	19.4
LT interest bearing debt	627.1	627.1	627.1	627.1	627.1
Other liabilities	40.1	40.1	40.1	40.1	40.1
<b>Total Liabilities</b>	<b>904.2</b>	<b>903.7</b>	<b>902.9</b>	<b>903.6</b>	<b>904.4</b>
Shareholders Equity	1,323.5	1,326.3	1,329.9	1,333.7	1,337.8
Minority Interest	0.0	(11.9)	(11.9)	(11.9)	(11.9)
<b>Total shareholder equity</b>	<b>1,323.5</b>	<b>1,314.3</b>	<b>1,318.0</b>	<b>1,321.8</b>	<b>1,325.8</b>
<b>Total liabilities and equity</b>	<b>2,227.7</b>	<b>2,218.0</b>	<b>2,220.9</b>	<b>2,225.4</b>	<b>2,230.3</b>
<b>CASH FLOW (MYR m)</b>					
<b>Cash flow from operations</b>	<b>121.0</b>	<b>100.7</b>	<b>105.8</b>	<b>110.2</b>	<b>115.1</b>
Acquisitions & investments	(1.2)	(1.3)	(1.2)	(1.2)	(1.3)
Disposal of FA & investments	(0.1)	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.2	4.2	3.7	3.9	4.1
<b>CF from investing activities</b>	<b>0.9</b>	<b>3.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>
Dividends paid	(72.9)	(79.4)	(69.3)	(72.4)	(76.9)
Interest expense	(32.0)	(36.3)	(36.3)	(36.3)	(36.3)
Change in debt	6.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(98.9)</b>	<b>(115.8)</b>	<b>(105.6)</b>	<b>(108.7)</b>	<b>(113.2)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>22.9</b>	<b>(12.1)</b>	<b>2.7</b>	<b>4.1</b>	<b>4.6</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.2	(3.0)	(4.0)	2.9	4.1
Net property income growth	4.1	(3.2)	(4.0)	2.7	3.9
Core net profit growth	12.3	1.5	(11.2)	4.4	6.3
Distributable income growth	10.9	1.5	(11.2)	4.4	6.3
<b>Profitability ratios (%)</b>					
Net property income margin	77.1	77.0	77.0	76.9	76.7
Core net profit margin	48.9	51.2	47.3	48.0	49.0
Payout ratio	94.1	101.8	85.5	85.5	85.5
<b>DuPont analysis</b>					
Total return margin (%)	43.8	43.7	47.3	48.0	49.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.5	5.3	5.5	5.7	6.1
ROAA (%)	3.6	3.7	3.3	3.4	3.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	57.4	58.6	58.3	57.8	57.3
Net interest cover (x)	3.5	3.8	3.2	3.3	3.5
Debt/EBITDA (x)	7.4	7.7	7.9	7.7	7.4
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	760.0	770.6	768.0	763.8	759.2
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank IBG Research

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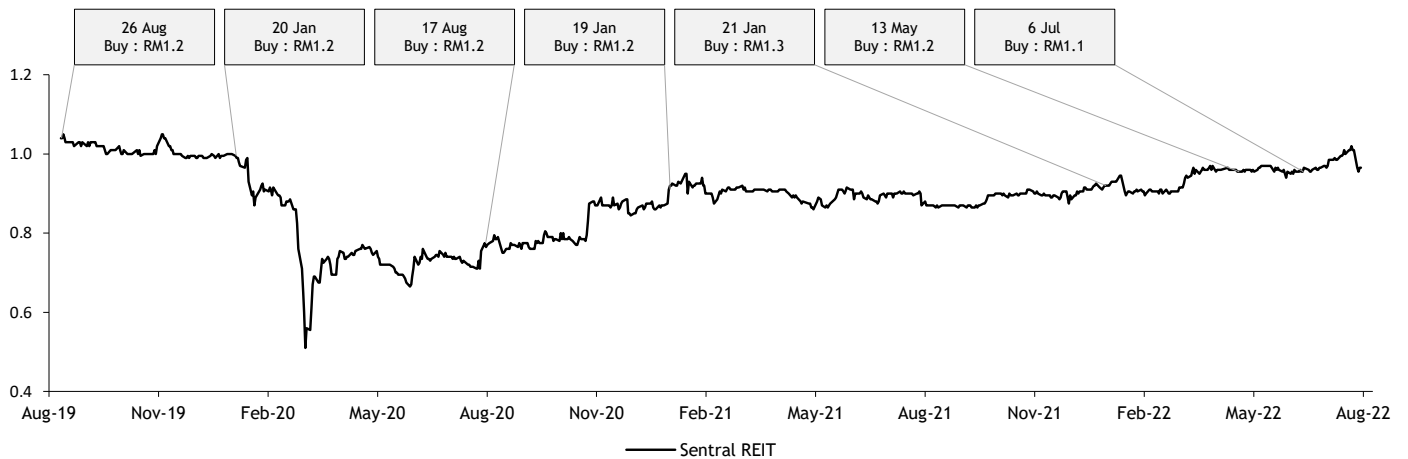
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## Historical recommendations and target price: Sentral REIT (SENTRAL MK)



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