

22 August 2022

Sentral REIT

Office Space Oversupply Weighs

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1HFY22 net profit of RM38.8m (-10% YoY) and DPU of 3.40 sen are behind our expectations. Following the results, our forward earnings have been reduced by 11% for FY22 and 14% for FY23. Downgrade to **UNDERPERFORM** with a lower TP of RM0.79 based on a target yield of 8.0% (which implies a 3.5% yield spread above our 10-year MGS assumption of 4.5%).

Results' highlights. YoY, cumulative net profit fell 10% to RM38.8m (accounting for 47%/48% of our/consensus estimates) which we deem as below expectations. Stripping out a gain on divestment of investment property of RM3.8m that was recognised in the previous first half, core net profit would have been down by 2%. 1HFY22 revenue was down 4% mainly due to lower contributions from Wisma Technip, QB2-HSBC, Menara Shell and QB3-BMW. After accounting for slightly lower property operating expenses (-8%), net property income (NPI) dipped 3%. 1HFY22 DPU of 3.40 sen is slightly behind our full-year estimate of 7.2 sen.

Outlook. With 88% of its portfolio valuation derived from the office segment (while another 10% is from retail assets and the balance 2% from car parks), SENTRAL will continue to face challenges ahead against a backdrop of office space oversupply. Overall portfolio occupancy rate has been declining from 90% in end-December 2021 to 86% in end-March 2022 and down further to 78% end-June this year. This comes as approximately 511,000 sf or 28% of total committed net lettable area (NLA) is due for renewal this year. Of which, thus far, only 3% has been renewed while another 16% was not renewed (mainly from Quill Building 2 and Wisma Technip). Negotiations are currently in progress for the balance 9% up for renewal in the second half of this year.

Earnings adjustments. Following the weaker-than-expected first half performance, we have trimmed our net profit projections to RM73.2m (-11.2%) for FY22 and RM71.3m (-14.1%) for FY23 after adjusting our assumptions. Correspondingly, our FY22F and FY23F DPU are revised to 6.5 sen (from 7.2 sen) and 6.3 sen (from 7.2 sen), respectively, which imply yields of 6.4%-6.2%.

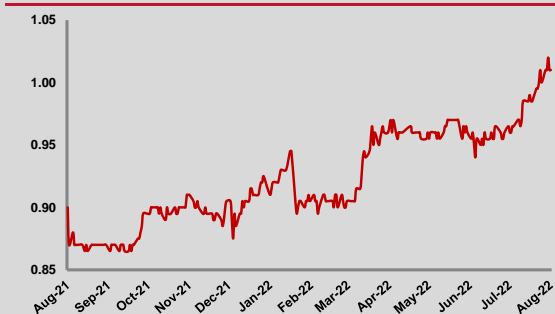
Downgrade to UNDERPERFORM as we reckon its relative share price outperformance (up 11.6% YTD) is not backed by fundamental factors. We have revised down our TP to RM0.79 (from RM0.89) based on a target yield of 8.0% (which is derived from a 3.5% yield spread above our 10-year MGS assumption of 4.5%) on FY23F GDPU. This is to reflect SENTRAL's fairly high exposure to the office space sector (which is expected to be clouded by an oversupply situation going forward amid an ongoing patchy economic recovery). There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

Risks to our call include: (i) risk-free rate eases, (ii) higher-than-expected rental reversions, and (iii) oversupply in office space is to ease, boosting occupancy and rental rates.

UNDERPERFORM

Price: **RM1.01**
Target Price: **RM0.79**

Share Price Performance



KLCI 1,504.44
YTD KLCI chg -4.0%
YTD stock price chg 11.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity
Shares Outstanding	1,082.5
52-week range (H)	1,071.8
52-week range (L)	1.02
3-mth avg daily vol:	0.87
Free Float	211,435
Beta	31%
	0.6

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.0%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	159.6	149.0	150.3
EBIT	96.2	100.2	100.5
PBT	68.8	73.2	71.3
Net Profit (NP)	70.2	73.2	71.3
Core NP*	82.2	73.2	71.3
Income Distribution	79.4	69.5	67.8
Consensus (CNP)	n.a.	81.5	83.4
Earnings Revision	n.a.	-11.2	-14.1
Core EPS (sen)	7.7	6.8	6.7
Core EPS growth (%)	4.1	-11.7	-1.5
GDPU (sen)	7.4	6.5	6.3
BVPS (RM)	1.19	1.19	1.19
Core PER (x)	13.1	14.9	15.1
Price/BV (x)	0.8	0.8	0.8
Gearing (x)	0.38	0.37	0.37
Net Div. Yield (%)	7.3	6.4	6.2

* - After adjusting for change in FV of investment properties and gain on disposal of investment property.



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Results Highlights

FYE 31 Dec (RM m)	2Q22	2Q21	YoY	1Q22	QoQ	1H22	1H21	YoY
Gross revenue	36.5	37.6	-3%	38.8	-6%	75.3	78.6	-4%
Property operating expenses	-8.6	-8.6	0%	-8.3	4%	-16.8	-18.2	-8%
Net property income	27.9	29.0	-4%	30.5	-8%	58.4	60.4	-3%
Interest income & other income	1.0	1.1	-10%	1.0	-4%	2.0	1.6	25%
Finance costs	-7.1	-7.8	-9%	-7.3	-3%	-14.4	-15.4	
Other non-operating expenses	-3.3	-3.5	-3%	-3.8	-13%	-7.2	-7.0	3%
Gain on disposal of invmt prop	0.0	3.8	-100%	-	-	0.0	3.8	-
Pretax profit	18.5	22.6	-19%	20.4	-9%	38.8	43.3	-10%
Taxation	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit	18.5	22.6	-19%	20.4	-9%	38.8	43.3	-10%
Income distribution	36.4	36.8	-1%	0.0	-	36.4	36.8	-1%
EPU (sen)	1.72	2.11	-18%	1.90	-9%	3.62	4.04	-10%
DPU (sen)	3.40	3.43	-1%	0.00	-	3.40	3.43	-1%
Key Operating Metrics:								
Occupancy rate# (eop)	78.0%	91.7%	-	86.0%	-	78.0%	91.7%	-
Gearing (eop)	37.0%	38.0%	-	37.4%	-	37.0%	38.0%	-
Net property income margin	76.5%	77.2%	-	78.7%	-	77.6%	76.9%	-

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.92	1.95	1.56%	3,150.8	Y	12/2022	9.3	10.2	10.4%	9.9%	21.3	19.2	1.2	6.2%	8.3	4.3%
CAPITALAND MALAYSIA MALL TRUST	MP	0.550	0.510	-7.27%	1,185.4	N	12/2022	4.1	4.1	176.0%	-1.7%	0.1	0.1	0.5	-3.3%	3.5	7.1%
IGB REIT	MP	1.65	1.65	0.00%	5,912.3	N	12/2022	9.7	9.9	58.1%	2.5%	0.2	0.2	1.6	8.8%	8.8	5.3%
KLCCP STAPLED GROUP	MP	7.09	6.60	-6.91%	12,799.8	Y	12/2022	30.2	36.4	6.0%	7.0%	18.4	17.2	1.0	5.2%	26.8	4.6%
SENTRAL REIT	UP	1.01	0.790	-21.78%	1,082.5	N	12/2022	6.8	6.7	-11.7%	-1.5%	14.8	15.1	0.8	5.5%	6.5	6.4%
PAVILION REIT	MP	1.33	1.42	6.77%	4,064.1	N	12/2022	7.6	8.1	85.9%	6.8%	0.2	0.2	1.0	6.0%	7.1	5.3%
SUNWAY REIT	MP	1.54	1.60	3.90%	5,274.2	N	12/2022	9.5	9.9	-41.8%	4.2%	16.0	15.4	1.0	5.8%	8.8	5.8%
Simple Average								11.1	12.3	41.7%	4.2%	9.9	9.4	1.0	4.9%		5.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Waste Management	★	★	★		
	Energy Efficiency	★	★	☆		
	Digital Transformation	★	★	★		
	Customer Safety / Protection	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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