

# Sentral REIT (SENTRAL MK)

## 3Q22: Within expectations

### Upgrade to BUY

3Q22 results was in-line, whereby the lower YoY net profit was expected as QB2 and Wisma Technip remain vacant since end-April and June 2022, respectively. We believe portfolio occupancy will gradually improve from 4Q onwards. We maintain our forecasts, but upgrade the stock to BUY with an unchanged DDM-TP of MYR0.97 (total return plus dividend is >10%). 6.6% DY for FY22E is attractive (vs. sector average of 5.4%).

### QB2 and Wisma Technip remain vacant

3Q22 core net profit was MYR18.2m (-18% YoY, -1% QoQ), taking 9M22 core net profit to MYR57m (-8% YoY), at 78% of our and consensus' FY22E. The YoY earnings decline was mainly due to lower revenue from QB2-HSBC and Wisma Technip, after non-renewal of their tenancies in the previous quarter. This partially offset higher revenue from Menara Shell and Plaza Mont Kiara. Earnings were also cushioned by lower financing cost (-1%) post debt refinancing in Mar 2022. QoQ earnings were relatively flat. Portfolio occupancy rate as at end-3Q22 fell to 73% (2Q22: 78%). Platinum Sentral and Menara Shell occupancy remained stable at 80% and 99%, respectively. Notably, average cost of debt increase to 3.48% (2Q22: 3.41%), due to increase in the OPR.

### Forecasts are intact

Our FY22-24E earnings forecasts and DDM-TP of MYR0.97 are intact. We expect new tenants at the Wisma Technip and QB2 properties to come in only from next year onwards. A balance of 1% of NLA is due for renewal in 4Q22. In FY23, we understand 8% of the leases will expire, with most tenants remaining committed to renew their tenancies.

### Ongoing strategies

We remain positive on the REIT's existing office assets with tenants on long-term leases - in Platinum Sentral, Menara Shell, QB1, QB4, and Tesco Building. Sentral REIT remains on active marketing for its vacant spaces to improve its portfolio occupancy and continues to explore yield accretive acquisition opportunities. Gross gearing was unchanged at 0.37x as at end 3Q22.

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	0.7	0.7	0.7
Net DPU yield (%)	7.3	7.4	6.6	6.9	7.3
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	-	-	5.9	5.9	6.4
MKE vs. Consensus (%)	-	-	(0.5)	3.1	1.0

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## BUY

[Prior:HOLD]

Share Price	MYR 0.88
12m Price Target	MYR 0.97 (+17%)
Previous Price Target	MYR 0.97

### 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.

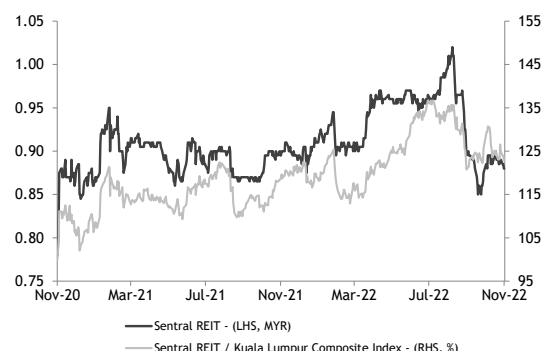
### Statistics

52w high/low (MYR)	1.02/0.85
3m avg turnover (USDm)	0.1
Free float (%)	41.1
Issued shares (m)	1,072
Market capitalisation	MYR943.2M
	USD201M

### Major shareholders:

Malaysian Resources Corp. Bhd.	27.9%
Employees Provident Fund	12.0%
CapitaLand Integrated Commercial Trust	10.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(12)	(2)
Relative to index (%)	(2)	(9)	3

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY22	3QFY21	% YoY	2QFY22	% QoQ	9MFY22	9MFY21	% YoY
Gross revenue	35.9	40.8	(11.9)	37.1	(3.0)	112.3	120.0	(6.4)
<b>Net property income</b>	<b>28.7</b>	<b>32.7</b>	<b>(12.5)</b>	<b>28.5</b>	<b>0.7</b>	<b>88.2</b>	<b>93.8</b>	<b>(6.0)</b>
Interest income	0.6	0.6	(14.1)	0.4	33.5	1.4	1.6	(11.9)
Fair value gains/(loss)	-	-	NA	-	NA	-	3.8	NM
Finance costs	(7.6)	(7.7)	(1.2)	(7.1)	7.6	(22.0)	(23.2)	(4.9)
Other expenses/gains	(3.4)	(3.6)	(4.9)	(3.3)	0.9	(10.6)	(10.5)	0.3
<b>Pretax profit</b>	<b>18.2</b>	<b>22.1</b>	<b>(17.7)</b>	<b>18.5</b>	<b>(1.3)</b>	<b>57.0</b>	<b>65.5</b>	<b>(12.9)</b>
Tax	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>18.2</b>	<b>22.1</b>	<b>(17.7)</b>	<b>18.5</b>	<b>(1.3)</b>	<b>57.0</b>	<b>65.5</b>	<b>(12.9)</b>
<b>Net profit ex-EI</b>	<b>18.2</b>	<b>22.1</b>	<b>(17.7)</b>	<b>18.5</b>	<b>(1.3)</b>	<b>57.0</b>	<b>61.7</b>	<b>(7.6)</b>
EPU ex-EI (sen)	1.7	2.1	(17.7)	1.7	(1.3)	5.3	5.8	(7.6)
<b>Gross DPU (sen)</b>	<b>-</b>	<b>-</b>	<b>NA</b>	<b>3.4</b>	<b>NM</b>	<b>3.4</b>	<b>3.4</b>	<b>(0.9)</b>
	3QFY22	3QFY21	+/- ppt	2QFY22	+/- ppt	9MFY22	9MFY21	+/- ppt
<i>Net property margin (%)</i>	79.7	80.3	(0.5)	76.9	2.9	78.5	78.1	0.4
<i>Net income ex-EI margin (%)</i>	50.6	54.2	(3.6)	49.8	0.8	50.8	51.4	(0.6)

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. 8% of Sentral's total NLA is due for lease renewal in 2023, 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	15.1	14.5	13.6
P/BV (x)	0.7	0.7	0.7	0.7	0.7
P/NTA (x)	0.7	0.7	0.7	0.7	0.7
DPU yield (%)	8.1	8.2	7.3	7.7	8.2
FCF yield (%)	12.9	10.4	11.2	11.7	12.2

**INCOME STATEMENT (MYR m)**

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

**BALANCE SHEET (MYR m)**

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>

**CASH FLOW (MYR m)**

<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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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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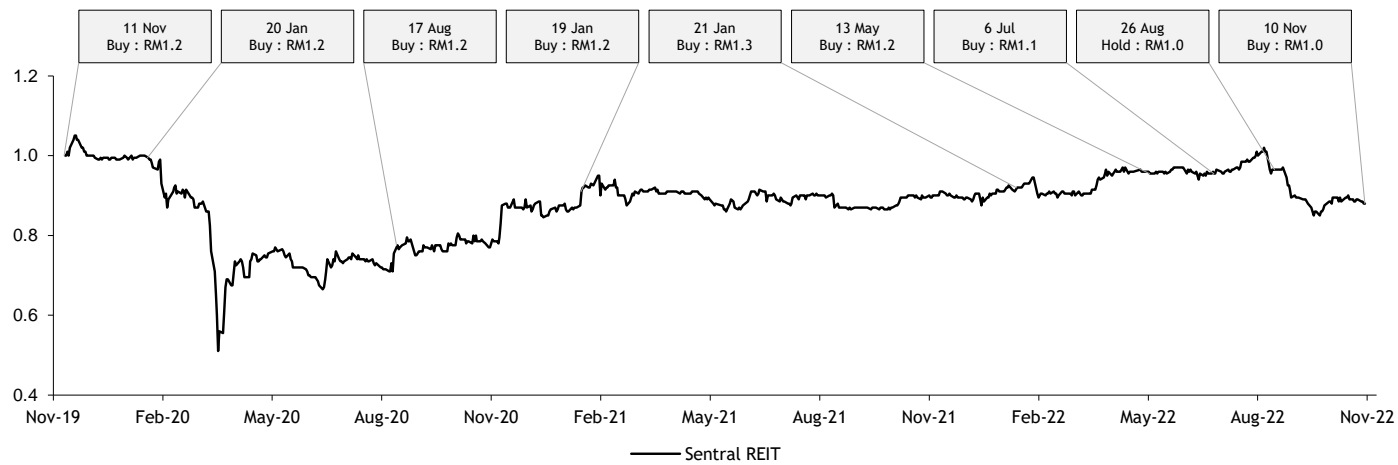
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Historical recommendations and target price: Sentral REIT (SENTRAL MK)



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