

**HLIB Research**

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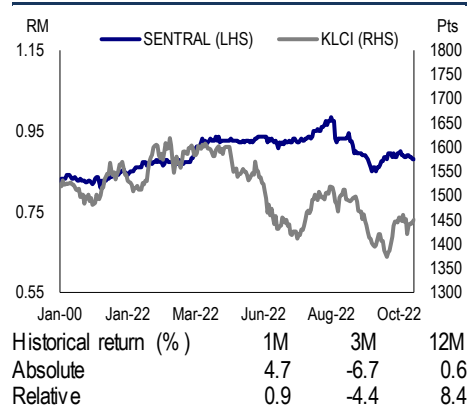
**HOLD** (Maintain)

**Target Price:** **RM0.88**
**Previously:** **RM0.88**
**Current Price:** **RM0.88**

Capital upside	0.0%
Dividend yield	8.0%
Expected total return	8.0%

**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	SENTRALMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	965
3-mth average volume ('000)	340
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

**Major shareholders**

MRCB	27.9%
Employees Provident Fund	12.0%
Tamasek Holdings Pte Ltd	10.9%

**Earnings summary**

FYE (Dec)	FY21	FY22f	FY23f
PAT – core (RM m)	84.5	77.7	81.6
EPU – core (sen)	7.9	7.2	7.6
P/E (x)	11.2	12.1	11.6

# Sentral REIT

## Occupancy levels bottoming out

Sentral REIT's 9MFY22 core net profit of RM57.0m (-7.6% YoY) was within ours (73.4%) but above street estimates (79.9%). The drop in YTD performance was mainly due to departure of key tenants from Wisma Technip and Quill Building 2 in 2Q22, which pressured occupancy levels and rental contribution. Overall occupancy rate decreased to 73% (2Q22: 78%). Management is still on the lookout for tenants for the two said properties. Sentral REIT's performance will remain soft in the coming quarters due to excess supply of office space and macroeconomic challenges. However, occupancy rate should bottom out as negotiations to renew leases expiring in 2023 (8% of NLA) have been encouraging. We retain our forecasts, **HOLD** call with unchanged TP of RM0.88.

**Within estimates.** Sentral REIT's 3QFY22 core net profit of RM18.2m (-1.3% QoQ, -17.7% YoY) brought 9MFY22 core earnings to RM57.0m (-7.6% YoY). We deem the results to be within our expectations (73.4%) but above street estimates (79.9%).

**Dividend.** None declared, usually in 2Q and 4Q. (YTD: 3.43 sen vs SPLY: 3.40 sen)

**QoQ.** Revenue edged lower (-3.0%) mainly attributed to lower rental contribution as occupancy levels decline. That said, property opex fell at faster clip (-15.0%), which led to a flattish NPI (+0.7%). Total expenditure rose +5.5%, driven by higher financing costs (+7.6%). Subsequently, core net bottom-line decreased slightly to RM18.2m (-1.3%).

**YoY/YTD.** Top line reduced (-11.9% YoY, -6.4% YTD) due to lower revenue contribution from its properties, mainly Wisma Technip and Quill Building 2. Despite a drop in property opex (-9.4% YoY, -8.1% YTD) due to lower property expenses incurred for some properties, NPI shrunk -12.5% YoY, -6.0% YTD. Meanwhile, total expenditure was down -2.3% YoY, -3.3% YTD as a result of lower manager's fee (-5.2% YoY, -3.4% YTD) and finance costs (-1.2% YoY, -4.9% YTD). All in, core net profit narrowed -17.7% YoY, -7.6% YTD.

**Occupancy and gearing.** With nine properties, the overall occupancy rate decreased to 73% (2QFY22: 78%). As for gearing level, it remained at 37.4%.

**Outlook.** We think the office market will stay challenging in the near term due to current excess and incoming supplies of office space. As such, we believe Sentral REIT's performance will remain soft in the coming quarters as flattish reversion is expected for its tenancy renewal. We opine there is a risk of rental reversion dipping into negative territory given the macroeconomic challenges. Additionally, management is still on the lookout for tenants for its Quill Building 2 and Wisma Technip which have been left vacant since 2Q22. The silver lining is that we expect a bottoming out of its occupancy rates as negotiations to renew leases expiring in 2023 (8% of NLA) have been positive thus far.

**Forecast.** Unchanged as results were in line.

**Maintain HOLD, TP: RM0.88.** We maintain our HOLD call with an unchanged TP of RM0.88. Our TP is based on FY23 forward DPU on targeted yield of 8.6%, which is derived from 5-year historical average yield spread between Sentral REIT and 10-Year MGS. We believe the downside should be cushioned for Sentral REIT due to its attractive dividend yield at around 8% and prime office properties at strategic location.

## Financial Forecast

All items in (RM m) unless otherwise stated

## Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	85.0	93.5	94.0	92.3	92.5
Receivables	5.1	5.6	5.7	5.7	5.9
Investment properties	2,097.0	2,081.0	2,083.0	2,085.0	2,086.0
PPE	0.3	0.1	0.0	0.0	0.0
Others	40.3	0.1	0.1	0.1	0.1
<b>Assets</b>	<b>2,227.7</b>	<b>2,180.4</b>	<b>2,182.8</b>	<b>2,183.2</b>	<b>2,184.6</b>
Payables	19.1	19.2	20.5	20.5	20.5
Debt	845.0	805.6	805.2	804.7	805.3
Security deposits	40.1	37.7	37.7	37.7	37.7
Derivatives	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>904.2</b>	<b>862.5</b>	<b>863.3</b>	<b>862.9</b>	<b>863.4</b>
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	87.6	82.0	83.6	84.4	85.3
<b>Equity</b>	<b>1,323.5</b>	<b>1,317.9</b>	<b>1,319.4</b>	<b>1,320.3</b>	<b>1,321.2</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,227.7</b>	<b>2,180.4</b>	<b>2,182.8</b>	<b>2,183.2</b>	<b>2,184.6</b>

## Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Gross rental income	148.0	146.6	147.1	149.4	154.6
Car park income	11.8	9.5	9.6	9.6	9.8
Other revenue	4.2	3.5	4.0	4.6	4.7
<b>Total revenue</b>	<b>164.0</b>	<b>159.6</b>	<b>160.7</b>	<b>163.6</b>	<b>169.1</b>
Property opex	-37.9	-37.0	-39.4	-39.4	-39.4
<b>Net property income</b>	<b>126.1</b>	<b>122.6</b>	<b>121.3</b>	<b>124.2</b>	<b>129.7</b>
Other income	-2.6	-8.3	2.9	2.9	2.9
<b>Net invest income</b>	<b>123.5</b>	<b>114.4</b>	<b>124.2</b>	<b>127.1</b>	<b>132.5</b>
Manager's fee	-12.8	-12.6	-13.5	-12.5	-12.7
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-35.4	-31.1	-31.1	-31.1	-31.1
Other non opex	-0.9	-1.2	-1.3	-1.3	-1.3
Profit before tax	<b>73.8</b>	<b>68.8</b>	<b>77.7</b>	<b>81.6</b>	<b>86.8</b>
Taxation	-1.2	1.5	1.5	1.5	1.5
<b>Profit after tax</b>	<b>72.6</b>	<b>70.2</b>	<b>79.1</b>	<b>83.0</b>	<b>88.3</b>
<b>Core net profit</b>	<b>81.0</b>	<b>84.5</b>	<b>77.7</b>	<b>81.6</b>	<b>86.8</b>
<b>Distributable income</b>	<b>81.0</b>	<b>84.5</b>	<b>77.7</b>	<b>81.6</b>	<b>86.8</b>

Consensus core net profit	85.8	87.0	89.0
HLIB/ Consensus	91%	94%	98%

## Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	73.8	68.8	77.7	81.6	86.8
Finance costs	35.4	31.1	0.0	0.0	0.0
Depreciation	0.2	0.2	0.1	0.0	0.0
Fair value gain of assets	7.2	15.7	0.0	0.0	0.0
Interest income	-2.9	-2.6	0.0	0.0	0.0
Others	4.7	-2.7	1.2	-0.1	-0.2
<b>CFO</b>	<b>118.4</b>	<b>110.5</b>	<b>79.0</b>	<b>81.5</b>	<b>86.7</b>
Capex	-1.2	-0.7	-2.0	-2.0	-1.0
Disposal / (purchase)	-0.1	0.0	0.0	0.0	0.0
Others	2.2	44.0	0.0	0.0	0.0
<b>CFI</b>	<b>0.9</b>	<b>43.3</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-1.0</b>
Distribution paid	-72.9	-75.9	-77.5	-82.2	-87.4
Proceeds frm borrow/g	341.0	258.4	165.0	165.0	166.0
Repayment of borrow/g	-335.0	-300.0	-164.0	-164.0	-164.0
Others	-30.7	-27.7	0.0	0.0	0.0
<b>CFF</b>	<b>-97.5</b>	<b>-145.2</b>	<b>-76.5</b>	<b>-81.2</b>	<b>-85.4</b>
<b>Net cash flow</b>	<b>21.7</b>	<b>8.6</b>	<b>0.5</b>	<b>-1.7</b>	<b>0.2</b>
Beginning cash	63.3	85.0	93.5	94.0	92.3
Ending cash	85.0	93.5	94.0	92.3	92.5

## Valuation &amp; Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPU (sen)	7.6	7.9	7.2	7.6	8.1
P/E (x)	11.6	11.2	12.1	11.6	10.9
EBITDA	116.5	115.8	108.9	112.7	117.9
EBIT	116.3	115.6	108.7	112.6	117.9
EV	1,703.2	1,655.3	1,654.4	1,655.6	1,655.9
EV/EBITDA (x)	14.6	14.3	15.2	14.7	14.0
DPU (sen)	7.1	7.4	7.2	7.6	8.1
Dividend yield	8.0	8.4	8.1	8.6	9.2
NTA/ share (sen)	123.5	123.0	123.1	123.2	123.3
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.23	1.23	1.23	1.23
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	71.1%	72.5%	67.7%	68.9%	69.7%
EBIT margin	70.9%	72.4%	67.7%	68.9%	69.7%
PBT margin	45.0%	43.1%	48.3%	49.9%	51.4%
Net margin	49.4%	52.9%	48.3%	49.9%	51.4%
ROE	6.1%	6.4%	5.9%	6.2%	6.6%
ROA	3.6%	3.9%	3.6%	3.7%	4.0%
Net gearing	34.12%	32.66%	32.58%	32.63%	32.63%

## Assumptions

FYE Dec	FY22f	FY23f	FY24f
<b>Gross rental income</b>			
Quill Building 1 - DHL 1	5.2	5.3	5.4
Quill Building 4 - DHL 2	5.5	5.6	5.8
Quill Building 2 - HSBC	5.1	5.8	7.5
Quill Building 3 - BMW	5.8	5.9	6.0
Wisma Technip	5.5	5.2	6.8
Part of Plaza Mont' Kiara	3.6	3.7	3.8
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.6	15.9	16.2
Platinum Sentral	53.4	54.4	55.3
Menara Shell	47.4	47.6	47.9
<b>Total:</b>	<b>147.1</b>	<b>149.4</b>	<b>154.6</b>

## Quarterly financial summary

FYE Dec	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)
Gross Revenue	40.8	37.1	35.95	-3.0%	-11.9%
Property operating expen	-8.0	-8.6	(7.29)	-15.0%	-9.4%
Net Property Income	32.7	28.5	28.66	0.7%	-12.5%
Interest income	0.6	0.4	0.55	33.5%	-14.1%
Net Investment Income	33.4	28.9	29.22	1.1%	-12.5%
Total Expenses	-11.3	-10.4	(11.01)	5.5%	-2.3%
Normalised PBT	22.1	18.5	18.20	-1.3%	-17.7%
Normalised PAT	22.1	18.5	18.20	-1.3%	-17.7%
Distributable income	22.1	18.5	18.20	-1.3%	-17.7%
EPU (realised)	2.1	1.7	1.70	-1.3%	-17.7%
DPU (sen)	-	3.4	-	NM	NM

**Figure #1**      **Quarterly results comparison**

FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
<b>Gross Revenue</b>	<b>40.8</b>	<b>37.1</b>	<b>35.9</b>	<b>-3.0%</b>	<b>-11.9%</b>	<b>120.0</b>	<b>112.3</b>	<b>-6.4%</b>
Property operating expenses	-8.0	-8.6	-7.3	-15.0%	-9.4%	-26.2	-24.1	-8.1%
<b>Net Property Income</b>	<b>32.7</b>	<b>28.5</b>	<b>28.7</b>	<b>0.7%</b>	<b>-12.5%</b>	<b>93.8</b>	<b>88.2</b>	<b>-6.0%</b>
Interest income	0.6	0.4	0.6	33.5%	-14.1%	1.6	1.4	-11.9%
<b>Net Investment Income</b>	<b>33.4</b>	<b>28.9</b>	<b>29.2</b>	<b>1.1%</b>	<b>-12.5%</b>	<b>95.4</b>	<b>89.6</b>	<b>-6.1%</b>
Finance costs	-7.7	-7.1	-7.6	7.6%	-1.2%	-23.2	-22.0	-4.9%
Valuation fees	-0.1	-0.1	-0.1	0.0%	-10.1%	-0.3	-0.2	-10.2%
Administrative expenses	-0.0	-0.0	-0.0	42.2%	21.6%	-0.1	-0.5	300.8%
<b>Total Expenses</b>	<b>-11.3</b>	<b>-10.4</b>	<b>-11.0</b>	<b>5.5%</b>	<b>-2.3%</b>	<b>-33.7</b>	<b>-32.6</b>	<b>-3.3%</b>
Core PBT	<b>22.1</b>	<b>18.5</b>	<b>18.2</b>	<b>-1.3%</b>	<b>-17.7%</b>	<b>61.7</b>	<b>57.0</b>	<b>-7.6%</b>
<b>Core PAT</b>	<b>22.1</b>	<b>18.5</b>	<b>18.2</b>	<b>-1.3%</b>	<b>-17.7%</b>	<b>61.7</b>	<b>57.0</b>	<b>-7.6%</b>
Distributable income	22.1	18.5	18.2	-1.3%	-17.7%	61.7	57.0	-7.6%
<b>EPU (realised)</b>	<b>2.06</b>	<b>1.72</b>	<b>1.70</b>	<b>-1.3%</b>	<b>-17.7%</b>	<b>5.76</b>	<b>5.32</b>	<b>-7.6%</b>
<b>DPU (sen)</b>	<b>0.00</b>	<b>3.40</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>3.43</b>	<b>3.40</b>	<b>-0.9%</b>

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## Stock rating guide

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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