

UOBKH HIGHLIGHTS

Sentral REIT (SENTRAL MK/HOLD/RM0.895/Target: RM0.95)

4Q22: Results Within Expectations

4Q22 RESULTS

Year to 31 Dec (RMm)	4Q22 (RMm)	qoq % chg	yoy % chg	2022 (RMm)	yoy % chg	Year	Net Profit (RMm)	EPU (sen)	PE (x)	DPU (sen)	Div Yield (%)
Gross Revenue	36.6	1.9	(9.8)	148.9	(7.3)	2023F	71.5	6.7	13.4	6.5	7.2
Operating Expenses	(8.5)	17.2	(20.3)	(32.7)	(11.6)	2024F	73.5	6.9	13.1	6.7	7.4
Net Property Income	28.1	(2.0)	(6.1)	116.3	(6.0)						
Finance Cost	(8.8)	15.4	11.2	(30.8)	(0.8)						
Core Net Profit	16.6	(8.9)	(12.9)	73.6	(8.8)						
EPU (sen)	1.5	(8.9)	(12.9)	6.9	(8.8)						
DPU (sen)	3.4	n.m.	(14.1)	6.8	(8.0)						
Margins	%	+/- ppt	+/- ppt	%	+/- ppt						
NPI	76.7	(3.1)	3.1	78.1	1.1						
PAT	45.3	(5.4)	(1.6)	49.4	(0.8)						

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **Largely in line with expectations.** Sentral REIT (SENTRAL) reported 4Q22 revenue of RM36.6m (+1.9% qoq, -9.8% yoy) and core net profit of RM16.6m (-8.9% qoq, -12.9% yoy). 2022 core net profit of RM73.6m (-8.8% yoy) accounts for 104% and 102% of our and consensus full-year forecasts respectively. Bottom line declined at a higher rate due to higher finance cost incurred.
- **Declared 3.42 sen dividend for 2H22**, bringing full-year dividend to 6.82 sen (-8.0% yoy). This translates to a payout ratio of 99%.

COMMENTS

- **Earnings have bottomed.** Recall that Wisma Technip and QB2 vacated the buildings in 2Q22, which affected earnings. Positively, net property income (NPI) margin for 2022 remained stable at 78% (2021: 77%). Key assets in KL Sentral remain intact (Menara Shell and Platinum Sentral), contributing >50% to total revenue.
- **Occupancy rate improved to 77% from 73%.** On a portfolio basis, occupancy rate improved to 77% (3Q22: 73%, 4Q21: 90%), thanks to Platinum Sentral (96% currently vs 80% previously). Total leases due for renewals for 2022 and 2023 account for 28% and 8% of total NLA respectively. SENTRAL successfully renewed 41% of leases due in 2022. SENTRAL's weighted average lease expiry (WALE) is 3.2 years.
- **Gearing at 37.5%.** SENTRAL's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. The 50% gearing limit by the Securities Commissions will give SENTRAL debt headroom of about RM269m to fund future acquisitions.
- **Raise earnings forecasts for 2023-24** by 9% mainly to reflect the better occupancy rates of Platinum Sentral. The decline in 2023 earnings of 2.8% yoy is due to higher opex and finance costs.
- Faster-than-expected take-up of the vacant buildings would pose further upside risk to our forecasts.

VALUATION/RECOMMENDATION

- **Maintain HOLD with higher target price of RM0.95** (from RM0.90), after earnings adjustments. Our target price is based on a Dividend Discount model (required rate of return: 8.9%, terminal growth: 1.3%) and represents an implied dividend yield of 6.8%.

SHARE PRICE CATALYST

- Faster-than-expected take-up of the vacant buildings.
- Inorganic growth arising from acquisitions.

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