

Malaysia

HOLD (no change)

Consensus ratings*: Buy 1 Hold 5 Sell 1

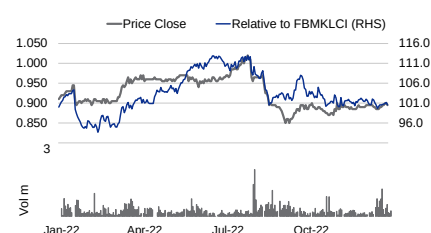
Current price:	RM0.895
Target price:	RM0.894
Previous target:	RM0.901
Up/downside:	-0.1%
CGS-CIMB / Consensus:	-0.8%

Reuters:	SENT.KL
Bloomberg:	SENTRAL MK
Market cap:	US\$222.7m
	RM959.2m
Average daily turnover:	US\$0.05m
	RM0.21m
Current shares o/s:	1,072m
Free float:	49.1%

*Source: Bloomberg

Key changes in this note

- FY23-24F EPU/DPU raised by 3.7-4%
- TP lowered to RM0.89



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	1.1	-1.7
Relative (%)	-1.3	-4.6	0.5

Major shareholders	% held
MRCB	27.8
Employees Provident Fund	12.1
CapitalCommercial Trust	11.0

Analyst(s)



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Sentral REIT

FY22 hit by negative asset revaluation

- FY22 results were above expectations despite weaker revenue performance.
- Sentral REIT recognised RM23.9m in asset FV loss, higher than FY21's.
- Reiterate Hold rating with a lower TP; 6.9-7.7% dividend yields are attractive.

Headline net loss in 4QFY22; hit by RM23.9m asset FV loss

Sentral REIT reported a headline net loss of RM4.7m for 4QFY22 as the group recognised a fair value (FV) loss (negative asset revaluation) of RM23.9m (4QFY21: RM15.7m), pertaining to five out of eight properties under its portfolio. Bulk of the negative revaluation impacted Quill Building 2 (QB2) and Wisma Technip due to zero occupancy rates (vacant as a result of tenancy non-renewal), while only Menara Shell benefitted from a gain in asset revaluation. Stripping these out, we derive a 4QFY22 core net profit of RM19.2m (+14.5% yoy, +5.3% qoq). This was primarily driven by higher NPI margin of 77% in 4QFY22 vs. 74% in 4QFY21 and lower property expenses (due to the vacant properties). 4QFY22 revenue fell 10% yoy but grew 2% qoq, thanks to the improved occupancy rate at Menara Shell (99%).

FY22 results above expectations despite weaker revenue

Overall, FY22 was a subdued year in terms of revenue performance. Topline declined 7.7% yoy, weighed by weaker portfolio occupancy rate of 77% at end-FY22 (vs. 90% at end-FY21). This was dragged by weaker QB2 and Menara Technip performance but partially offset by higher healthy occupancy at Menara Shell. FY22 NPI margin stood at 77.8% (FY21: 76.8%) and was in line with our forecast. Excluding the RM23.9m FV loss and despite the weaker topline, FY22 core net profit of RM76.2m was above expectations, at 106-110% of our and consensus' full-year forecasts. The key deviation came from lower-than-expected finance cost and lower average cost of debt of 3.62% at end-FY22 compared to our assumption of 3.9%. The final DPU of 3.4 sen in 4QFY22 brings FY22 total DPU to 6.8 sen (higher than our forecast of 5.9 sen) and translates into a payout ratio of 99%, based on distributable income.

Portfolio occupancy risks could weigh on FY23F

We our raise FY22-23F EPU/DPU by 3.7-4% for housekeeping reasons and as we factor in lower interest costs to reflect the lower average cost of debt. We also introduce FY25F forecasts. For FY23F, we believe portfolio occupancy risks could remain an overhang while rental rates may remain competitive in light of the oversupplied office assets. We expect the group to continue to: 1) roll out proactive asset management and tenant retention initiatives; and 2) focus on more effective marketing strategies for vacant assets. These may continue to put pressure on rental reversions, in our view.

Retain Hold call with a lower TP; 6.9-7.7% dividend yields attractive

We reiterate our Hold rating on Sentral REIT, supported by attractive FY23-25F dividend yields of 6.9-7.7%. Despite higher DPU forecasts, our DDM-based TP is lowered to RM0.89, pegged to a higher COE of 8.9% (8% previously) as we impute a higher adjusted beta. Upside risks: improving occupancy rates and positive rental reversions. Downside risks: falling occupancy rates and no tenancy replacements.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (RMm)	159.6	146.9	149.2	157.4	158.2
Net Property Income (RMm)	122.6	114.3	115.7	123.2	123.6
Net Profit (RMm)	70.25	52.28	72.82	79.93	80.24
Distributable Profit (RMm)	79.42	73.10	67.15	73.69	73.98
DPS (RM)	0.074	0.068	0.063	0.069	0.069
Dividend Yield	8.28%	7.62%	7.00%	7.68%	7.71%
Asset Leverage	37.0%	37.5%	35.2%	35.2%	35.2%
BVPS (RM)	1.23	1.20	1.33	1.33	1.34
P/BV (x)	0.73	0.74	0.67	0.67	0.67
Recurring ROE	6.13%	5.67%	5.35%	5.59%	5.61%
% Change In DPS Estimates			4.04%	3.66%	
CGS-CIMB/Consensus DPS (x)			0.96	1.01	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	4QFY22	4QFY21	yoy % chg	3QFY22	qoq % chg	4QFY22 cum	4QFY21 cum	yoy % chg	Prev FY22F	Comments
Revenue	36.4	40.4	-10.0	35.7	2.0	147.3	159.6	-7.7	146.9	Menara Shell occupancy rate recovered to 99%
Operating costs	(11.9)	(18.2)	-34.6	(10.4)	14.9	(45.2)	(48.9)	-7.7	(46.7)	Absence of rental income from Wisma Technip and QB2
EBITDA	24.5	22.2	10.1	25.3	-3.3	102.2	110.7	-7.7	100.2	due to tenancy non-renewal (vacant assets)
EBITDA margin (%)	67.3	55.0		70.9		69.3	69.3		68.2	NPI margin flat yoy at 69% in FY22
Depn & amort.	(0.0)	(0.0)	-50.9	(0.0)	-26.6	(0.1)	(0.2)	-42.1	(0.2)	
EBIT	24.5	22.2	10.2	25.3	-3.3	102.1	110.5	-7.6	100.0	
Interest expense	(8.8)	(7.9)	11.2	(7.6)	15.4	(30.8)	(31.1)	-0.8	(35.4)	Total debt of RM804.5m as at end-Dec
Interest & invt inc	0.9	1.0	-8.1	0.5	71.8	2.4	1.3	74.6	4.0	Cash & equivalents of RM79.8m at end-Dec
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Exceptionals & revaln	(23.9)	(11.9)	100	0.0	nm	(23.9)	(11.9)	nm	-	Negative asset revaluation of RM23.9m in FY22
Pretax profit	(7.3)	3.3	-319.0	18.2	-140.2	49.7	68.8	-27.8	68.7	
Tax	2.6	1.5	nm	0.0	nm	2.6	1.5	nm	-	
Tax rate (%)	35.3	(43.4)	nm	0.0	nm	(5.2)	(2.1)	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Net profit	(4.7)	4.8	-198.9	18.2	-126.0	52.3	70.2	-25.6	68.7	
Core net profit	19.2	16.7	14.5	18.2	5.3	76.2	82.2	-7.3	68.7	FY22 core net profit made up 106-110% of our and
Distr profit	16.6	19.0	-12.7	18.2	-8.8	73.6	84.5	-12.9	63.4	consensus full-year forecasts
DPU (sen)	3.4	4.0	-14.1	1.7	nm	6.8	7.4	(8.0)	5.9	FY22 DPU was 15% above our forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Changes in assumptions post-FY22 results

	Previous			Revised			% chg		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(%)	(%)	(%)
Revenue	149.2	157.4	158.2	149.2	157.4	158.2	0.0%	0.0%	0.0%
NPI	115.7	123.2	123.6	115.7	123.2	123.6	0.0%	0.0%	0.0%
Net profit	70.0	77.1	80.2	72.8	79.9	80.2	4.0%	3.7%	0.0%
DPS	6.0	6.6	6.9	6.3	6.9	6.9	4.0%	3.7%	0.0%
Dividend yield	6.7%	7.4%	7.7%	7.0%	7.6%	7.7%	0.3%	0.3%	0.0%
NPI margin	78%	78%	78%	78%	78%	78%	0.0%	0.0%	0.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

Sentral REIT's sustainability initiatives are focused on 11 key areas: 1) sustainable business growth and financial performance, 2) quality of assets and services, 3) anti-corruption, 4) health and safety, 5) regulatory compliance, 6) employee management, 7) data privacy, 8) energy and carbon footprint, 9) water management, 10) waste management, and 11) community partnerships and activities.

Keep your eye on

In view of the impact of Covid-19 and greater adoption of work-from-home (WFH) protocols, data privacy has gained importance among Sentral REIT's office tenants. This is in view of the widespread adoption of technology during the pandemic period since early-2020. Some initiatives include protection of all data, information and intellectual property against cyber security breaches and safeguarding the privacy of tenant, organisational and visitor information.

Implications

Potentially supportive of tenant retention initiatives, on top of ongoing tenancy negotiation, with flattish rental reversion guided for FY23F.

ESG highlights

Some achievements in 2020 include installing Building Automated Systems (BAS) to allow real-time monitoring of energy consumption. The group achieved a 15% reduction in electricity consumption and carbon emissions and an 11% decline in water consumption. In the technology space, the group has implemented facial recognition readers and temperature scanning at Menara Shell as part of its health and safety initiatives.

Implications

No major expenditure relating to building automation and technology enhancements expected in the foreseeable future as the group maintains its cash retention strategy due to the Covid-19 pandemic. Asset enhancement initiatives (AEI)-related capex would also be minimal in FY22F.

Trends

Under sustainable business growth, the group will continue to practice proactive leasing strategies to ensure stabilisation of portfolio occupancy rates and rental income, ongoing cost management and ensuring quality of all office assets (supply chain management), potentially considering new acquisitions when feasible and when market conditions are accommodative.

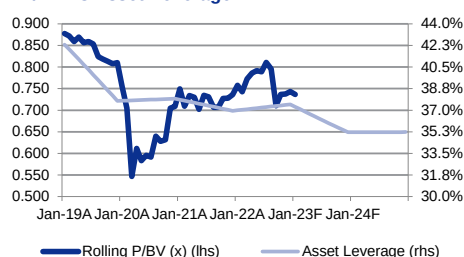
Implications

Leasing strategies remain more oriented towards retaining tenants. Portfolio occupancy rate of 86% at end-1QFY22 remains decent.

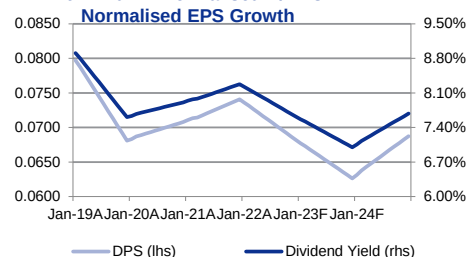
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs Asset Leverage



12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth



Profit & Loss

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	142.1	130.2	132.1	139.9	140.4
Other Revenues	17.5	16.7	17.1	17.4	17.8
Gross Property Revenue	159.6	146.9	149.2	157.4	158.2
Total Property Expenses	(37.0)	(32.7)	(33.4)	(34.2)	(34.6)
Net Property Income	122.6	114.3	115.7	123.2	123.6
General And Admin. Expenses	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)
Management Fees	(12.6)	(12.2)	(12.2)	(12.4)	(12.5)
Trustee's Fees	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBITDA	108.1	100.0	101.5	108.6	108.9
Depreciation And Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	108.0	99.9	101.3	108.4	108.7
Net Interest Income	(28.4)	(28.5)	(28.5)	(28.5)	(28.5)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	(10.7)	(21.7)	0.0	0.0	0.0
Pre-tax Profit	68.8	49.7	72.8	79.9	80.2
Taxation	1.5	2.6	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Net Profit	70.2	52.3	72.8	79.9	80.2
Distributable Profit	79.4	73.1	67.1	73.7	74.0

Cash Flow

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-tax Profit	68.8	49.7	72.8	79.9	80.2
Depreciation And Non-cash Adj.	28.6	28.6	28.6	28.6	28.6
Change In Working Capital	(0.6)	0.6	0.4	(0.7)	2.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	9.7	23.9	0.0	0.0	0.0
Cashflow From Operations	106.5	102.9	101.9	107.9	111.2
Capex	(0.7)	(1.5)	(2.5)	(2.5)	(3.5)
Net Investments And Sale Of FA	46.8	4.9	5.0	5.0	5.0
Other Investing Cashflow	(0.6)	2.4	2.4	2.4	2.4
Cash Flow From Investing	45.5	5.8	4.9	4.9	3.9
Debt Raised/(repaid)	231.3	(40.5)	0.0	0.0	0.0
Equity Raised/(Repaid)	0.0	0.0	1.0	2.0	3.0
Dividends Paid	(75.9)	(73.1)	(67.1)	(73.7)	(74.0)
Cash Interest And Others	(28.4)	(28.5)	(28.5)	(28.5)	(28.5)
Cash Flow From Financing	126.9	(142.1)	(94.6)	(100.2)	(99.5)
Total Cash Generated	279.0	(33.4)	12.1	12.6	15.6
Free Cashflow To Firm	154.7	111.0	109.1	115.1	117.4
Free Cashflow To Equity	354.8	39.7	78.3	84.3	86.6

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Investments	2,066	2,047	2,180	2,182	2,186
Intangible Assets	0	0	0	0	0
Other Long-term Assets	15	14	14	14	14
Total Non-current Assets	2,081	2,061	2,194	2,196	2,200
Total Cash And Equivalents	94	80	87	83	85
Inventories	0	0	0	0	0
Trade Debtors	5	6	4	4	0
Other Current Assets	0	0	0	0	0
Total Current Assets	99	86	91	88	85
Trade Creditors	19	21	19	19	16
Short-term Debt	130	0	0	0	0
Other Current Liabilities	13	5	5	5	5
Total Current Liabilities	162	26	24	24	22
Long-term Borrowings	676	804	804	804	804
Other Long-term Liabilities	25	25	25	25	25
Total Non-current Liabilities	701	830	830	830	830
Shareholders' Equity	1,318	1,291	1,430	1,430	1,433
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds					
Total Equity	1,318	1,291	1,430	1,430	1,433

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	(2.69%)	(7.96%)	1.55%	5.49%	0.56%
NPI Growth	(2.75%)	(6.85%)	1.29%	6.43%	0.36%
Net Property Income Margin	76.8%	77.8%	77.6%	78.3%	78.1%
DPS Growth	4.66%	(7.96%)	(8.13%)	9.74%	0.40%
Gross Interest Cover	3.47	3.24	3.28	3.52	3.53
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	113%	140%	92%	92%	92%
Current Ratio	0.61	3.32	3.73	3.67	3.91
Quick Ratio	0.61	3.32	3.73	3.67	3.91
Cash Ratio	0.58	3.08	3.55	3.48	3.90
Return On Average Assets	3.19%	2.42%	3.29%	3.50%	3.51%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Average rental reversion (%)	0.3%	1.3%	2.3%	2.3%	2.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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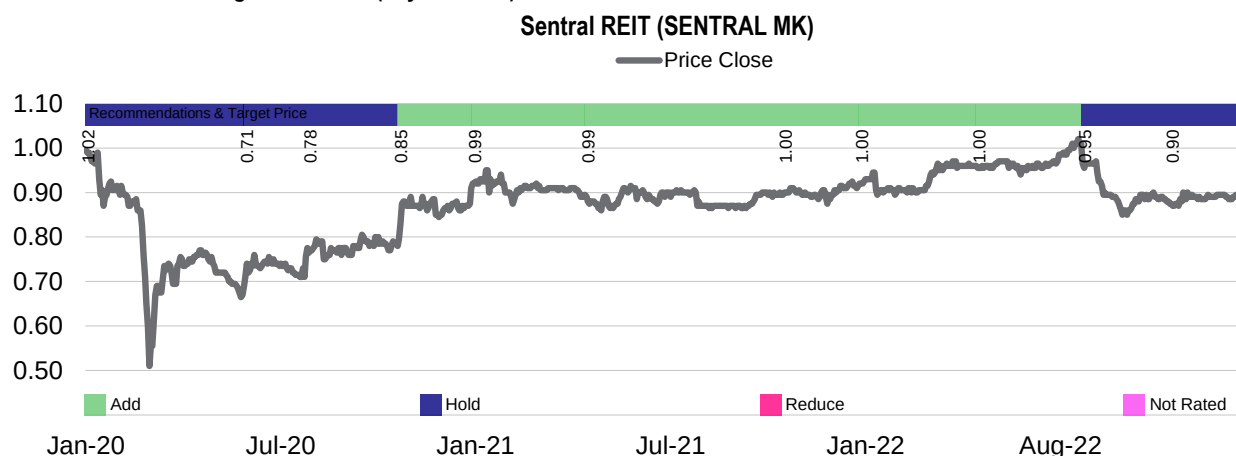
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2022		
646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

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