HLIB Research
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Sentral REIT

Slight miss

Sentral REIT's FY22 core net profit of RM73.6m (-7.6% YoY) was slightly below ours (94.8%) but within street estimates (101.8%). The drop in FY22 performance was mainly due to departure of key tenants from Wisma Technip and QB2 starting from 2Q22, which pressured occupancy levels and rental contribution. Overall occupancy rate increased to 77% (3Q22: 73%). The office market is expected to remain choppy in FY23 due to the office space glut which pressures occupancy and rental rates. This along with the continued vacant QB2 and Wisma Technip, we expect Sentral REIT's performance to remain soft, although we think the occupancy level has already bottomed out and should trend higher as the management renews its 8% NLA in 2023.

HOLD (Maintain)

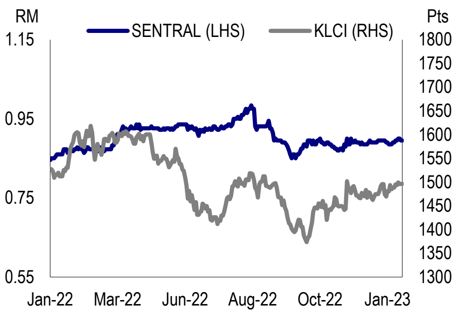
Target Price:	**RM0.87**
Previously:	**RM0.88**
Current Price:	**RM0.895**

Capital upside	-3.3%
Dividend yield	8.3%
Expected total return	5.0%

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



Historical return (%)	1M	3M	12M
Absolute	0.6	0.0	-2.2
Relative	-1.4	-3.9	-0.1

Stock information

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	959
3-mth average volume ('000)	254
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)	FY22f	FY23f	FY24f
PAT – core (RM m)	73.6	80.0	82.6
EPU – core (sen)	7.2	7.5	7.7
P/E (x)	12.4	12.1	11.7

Marginal miss. Sentral REIT's 4QFY22 core net profit of RM16.6m (-8.9% QoQ, -12.9% YoY) brought FY22 core earnings to RM73.6m (-8.8% YoY). We deem the results to be marginally below our expectations (94.8%) but within street estimates (101.8%). The shortfall was due to lower than expected rental income and higher finance costs. Core net profit was arrived after excluding RM23.9m fair value loss of its properties.

Dividend. Declared DPS of 3.42 sen (FY22: 6.82 sen vs FY21: 7.41 sen)

QoQ. Revenue was up slightly (+1.9%) to RM36.6m due to improvement in portfolio occupancy rate. Dragged by the increase in property opex (+17.2%), NPI fell 2.0% to RM28.1m. Further hit by higher finance costs +15.4%, core bottom line shrunk -8.9%.

YoY/YTD. Top line was down (-9.8% YoY, -7.3% YTD), attributed to lower revenue from Wisma Technip, QB2-HSBC; partially offset by higher revenue from Plaza Mont Kiara, Menara Shell and Platinum Sentral. NPI dropped at a slower clip (-6.1% YoY, -6.0% YTD) as the revenue shortfall was slightly negated by moderating opex (-20.3% YoY, -11.6% YTD). Accounting for the flattish total expenditure, bottom line reduced (-12.9% YoY, -8.8% YTD).

Occupancy and gearing. With nine properties, the overall occupancy rate reverted to 77% (3QFY22: 73%). As for gearing level, it remained at 37.5%.

Outlook. The office market still remains choppy moving into FY23 due to the office space glut which drags the industry's occupancy and rental rates. As such, we expect Sentral REIT's performance to remain soft, at least in the near term due to anticipated flattish reversion for its tenancy renewal. Furthermore, we gathered from the management that QB2-HSBC and Wisma Technip still remains vacant with no potential tenants in sight yet. On a positive note, we think the portfolio occupancy rate has already bottomed out in 2022 as management is confident to achieve full renewal of the 8% expiring NLA in 2023.

Forecast. We cut our FY23/24 forecasts by -1.9%/-4.8% to account for lower rental rate input in view of the challenging outlook, but maintain our occupancy rate assumptions as we believe it should reverse upward on a slow pace moving forward.

Maintain HOLD, TP: RM0.87. We maintain our HOLD call but decrease our TP to RM0.87 (from 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 locations.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	164.0	159.6	148.9	162.0	164.7
Core PBT	73.8	68.8	73.6	80.0	82.6
Core PAT	81.0	84.5	73.6	80.0	82.6
Core EPU (sen)	7.6	7.9	7.2	7.5	7.7
P/E (x)	11.9	11.4	12.4	12.1	11.7
DPU (sen)	7.1	7.4	7.2	7.5	7.7
Dividend yield (%)	7.9	8.2	7.6	8.3	8.5
BVPS (RM/share)	1.2	1.2	1.2	1.2	1.2
P/B (x)	0.7	0.7	0.7	0.7	0.7
ROE (%)	6.1%	6.4%	5.9%	6.1%	6.3%
Net Gearing (%)	34.1%	32.7%	33.8%	32.6%	32.6%

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Gross Revenue	**40.6**	**35.9**	**36.6**	**1.9%**	**-9.8%**	**160.6**	**148.9**	**-7.3%**
Property operating expenses	-10.7	-7.3	-8.5	17.2%	-20.3%	-37.0	-32.7	-11.6%
Net Property Income	**29.9**	**28.7**	**28.1**	**-2.0%**	**-6.1%**	**123.7**	**116.3**	**-6.0%**
Interest income	1.0	0.6	0.9	68.7%	-8.1%	2.6	2.4	-10.4%
Net Investment Income	**15.2**	**29.2**	**29.0**	**-0.7%**	**90.7%**	**110.6**	**118.6**	**7.2%**
Finance costs	-7.9	-7.6	-8.8	15.4%	11.2%	-31.1	-30.8	-0.8%
Valuation fees	-0.1	-0.1	-0.1	-23.1%	16.1%	-0.3	-0.3	-5.8%
Administrative expenses	-0.6	-0.0	-0.3	793.1%	-44.0%	-0.7	-0.8	16.6%
Total Expenses	**-11.9**	**-11.0**	**-12.4**	**13.0%**	**4.7%**	**-45.6**	**-45.0**	**-1.2%**
Core PBT	19.0	18.2	16.6	-8.9%	-12.9%	80.7	73.6	-8.8%
Core PAT	**19.0**	**18.2**	**16.6**	**-8.9%**	**-12.9%**	**80.7**	**73.6**	**-8.8%**
Distributable income	19.0	18.2	16.6	-8.9%	-12.9%	80.7	73.6	-8.8%
EPU (realised)	1.78	1.70	1.55	-8.9%	-12.9%	7.53	6.87	-8.8%
DPU (sen)	3.98	0.00	3.42	-	-14.1%	7.41	6.82	-8.0%

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

Sector rating guide

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

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.