

20 January 2023

Sentral REIT (SENTRAL MK)

Still No Catalysts

- **Still NEUTRAL, new MYR0.92 TP from MYR0.94, 3% upside with c.7% FY23 yield.** FY22's results are in line with expectations, with Sentral REIT recording a YoY decline in revenue and earnings due to the lack of contributions from the vacant Wisma Technip and QB2 buildings. While we believe further downside risks to occupancy are limited, with just 8% of NLA due for renewal in FY23, we do expect rental reversions to remain flat as management focuses on improving the occupancy rate.
- **Results in line.** 4Q22's net profit of MYR16.6m (-8.8% QoQ, -12.7% YoY) brought FY22 earnings to MYR73.6m (-12.9% YoY) – in line with expectations at 98% and 102% of our and consensus' estimates. On a YoY basis, FY22 revenue declined by 7.3% due to lower occupancy rates, but net property income only declined by 6% thanks to better cost efficiencies. A DPU of 3.42 sen was declared in this quarter, bringing full-year DPU to 6.82 sen (FY21: 7.41 sen), which translates to a yield of 7.6% based on the year-end closing price.
- **Occupancy rate up to 77%.** Sentral REIT's blended occupancy rate improved to 77% in 4Q22 from 3Q22's 73% thanks to new tenancies at Platinum Sentral. In FY22, the REIT only managed to renew 12% out of the total 28% of NLA due for renewal in 2022. However, with just 8% of NLA up for renewal in FY23 – and most comprising stronger assets such as Platinum Sentral and Menara Shell – the pressure on occupancy rates should ease slightly, in our view. However, as rental rates are already competitive, we believe reversions will be flattish to low single-digit positive.
- **Limited guidance on the vacant buildings.** Having been vacant since 2Q22, management continues to explore options for Wisma Technip and QB2, be it securing new tenants or divestment opportunities. Recall: QB5 was previously disposed of in 2Q21 after remaining vacant for more than a year. We are wary of the situation continuing to drag out due to the current challenging supply-demand dynamics.
- **We lower our FY23F-24F earnings** by 5% after making some housekeeping adjustments, and introduce our FY25F net profit of MYR76.1m. Our new TP has a 0% ESG premium applied, as Sentral REIT's ESG score of 3.0 is in line with the country median.
- **The key downside** risk would be the oversupply of office properties in the market affecting the REIT's occupancy and rental rates. Upside risks are higher-than-expected demand for office spaces and inorganic growth opportunities.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	161	149	147	150	153
Net property income (MYRm)	124	116	114	116	118
Reported net profit (MYRm)	80.7	77.6	72.4	74.8	76.1
Total distributable income (MYRm)	80.7	77.6	72.4	74.8	76.1
DPS (MYR)	0.07	0.07	0.07	0.07	0.07
DPS growth (%)	(1.9)	(8.0)	(3.0)	3.4	1.8
P/B (x)	0.73	0.74	0.74	0.74	0.74
Dividend Yield (%)	8.3	7.6	7.4	7.6	7.8
Return on average equity (%)	6.1	5.9	5.6	5.8	5.9
Return on average assets (%)	3.7	3.6	3.4	3.5	3.5

Source: Company data, RHB

Malaysia Results Review

Property | REITS

Neutral (Maintained)

Target Price (Return):	MYR0.92 (2.8%)
Price (Market Cap):	MYR0.90 (USD223m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	0.21m/0.05m

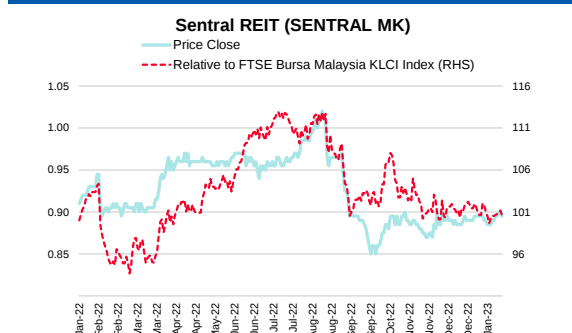
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	0.0	1.1	(6.8)	(1.7)
Relative	0.0	(1.3)	(4.6)	(11.5)	0.5
52-wk Price low/high (MYR)				0.85 – 1.02	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Sentral REIT has managed to reduce their overall water consumption in FY19 by 2% YoY, and is developing their own Water Management Policy. They also doubled the capacity of Platinum Sentral's solar power system, and subscribes to the Feed-In-Tariff or FiT for the solar photovoltaic or PV programme.

S: GOOD

67% of Sentral REIT's workforce are females, and they provide sufficient training to its employees through MRCB Training Academy, MRCB Learning Zone and Industrial Practical Trainings. To ensure health and safety, they also conduct activities with external parties such as the Fire & Rescue Department.

G: EXCELLENT

We view positively the establishment of a "Policy on Giving and Receiving Gifts" and commitment to the Corruption-Free Pledge by the Malaysian Anti-Corruption Commission. Directors' tenure range between four and six years on average.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS (MYR)	0.08	0.07	0.07	0.07	0.07
Property	EPS (MYR)	0.08	0.07	0.07	0.07	0.07
Sentral REIT	DPS (MYR)	0.07	0.07	0.07	0.07	0.07
SENTRAL MK	BVPS (MYR)	1.23	1.20	1.21	1.21	1.21
Neutral	Return on average equity (%)	6.1	5.9	5.6	5.8	5.9
	Weighted avg adjusted shares (m)	1,071.78	1,071.78	1,071.78	1,071.78	1,071.78
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Dividend discount model	Recurring P/E (x)	11.88	12.37	13.26	12.83	12.60
	P/E (x)	11.88	12.37	13.26	12.83	12.60
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	8.0	7.6	7.0	7.3	7.4
	Dividend Yield (%)	8.3	7.6	7.4	7.6	7.8
	EV/EBITDA (x)	(3.75)	(3.55)	(3.05)	(2.96)	(2.87)
	EV/EBIT (x)	(3.75)	(3.55)	(3.05)	(2.96)	(2.87)
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Higher-than-expected demand of office space and inorganic growth opportunities arising from Malaysian Resources Corp (MRC MK, BUY, TP: MYR0.45) and Quill Group.	Total turnover	161	149	147	150	153
	EBITDA	109	106	104	106	108
	Operating profit	109	106	104	106	108
	Net interest	(28)	(28)	(31)	(31)	(32)
	Pre-tax profit	81	78	72	75	76
	Recurring net profit	81	78	72	75	76
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
The key downside risk would be the oversupply of office properties in the market affecting the REIT's occupancy and rental rates.	Change in working capital	(4)	(5)	(5)	(5)	(5)
	Cash flow from operations	78	75	69	72	73
	Capex	(2)	(2)	(2)	(2)	(2)
	Cash flow from investing activities	(2)	(2)	(2)	(2)	(2)
	Dividends paid	(80)	(76)	(72)	(72)	(74)
	Cash flow from financing activities	(26)	45	(72)	(72)	(74)
	Cash at beginning of period	85	94	80	19	17
	Net change in cash	50	118	(5)	(2)	(3)
	Ending balance cash	135	212	75	17	14
Upside risks are higher-than-expected demand for office spaces and inorganic growth opportunities.	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	94	80	19	17	14
	Total investments	2,081	2,061	2,061	2,061	2,061
	Total assets	2,180	2,146	2,148	2,150	2,152
	Short-term debt	130	0	0	0	0
	Total long-term debt	676	805	805	805	805
	Total liabilities	862	855	856	856	857
	Shareholders' equity	1,318	1,291	1,292	1,294	1,296
	Total equity	1,318	1,291	1,292	1,294	1,296
	Net debt	712	725	785	788	791
	Total liabilities & equity	2,180	2,146	2,148	2,150	2,152
Company Profile	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Sentral REIT is a mid-cap M-REIT that focuses on office/commercial assets. Assets are largely concentrated in the Klang Valley and Cyberjaya areas.	Revenue growth (%)	(3.0)	(7.3)	(1.0)	1.9	1.8
	Recurrent EPS growth (%)	(0.3)	(3.9)	(6.7)	3.4	1.8
	Operating EBITDA margin (%)	68.0	71.2	70.4	70.7	70.8
	Net profit margin (%)	50.3	52.1	49.1	49.7	49.7
	Dividend payout ratio (%)	98.4	94.2	98.0	98.0	98.0
	Capex/sales (%)	1.2	1.3	1.4	1.3	1.3
	Interest cover (x)	3.51	3.44	3.07	3.14	3.13

Source: Company data, RHB

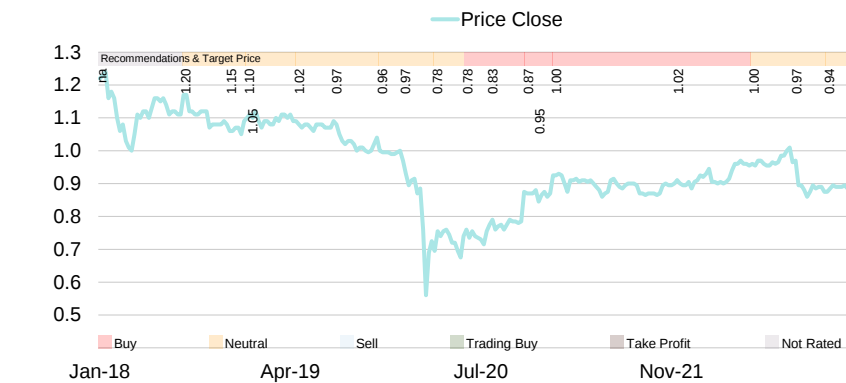
Results At a Glance

Figure 1: Sentral REIT's results summary

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
Revenue	40.6	35.9	36.6	1.9	(9.8)	160.6	148.9	(7.3)	Declined, due to the loss of tenants at QB2 and Wisma Technip.
Net property income (NPI)	29.9	28.7	28.1	(2.0)	(6.1)	123.7	116.3	(6.0)	
Interest expense	(7.9)	(7.6)	(8.8)	15.4	11.2	(31.1)	(30.8)	(0.8)	
Interest income	1.0	0.6	0.9	68.7	(8.1)	2.6	2.4	(10.4)	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
EI	(15.7)	0.0	(23.9)	nm	52.3	(15.7)	(23.9)	52.3	In line with expectations.
Others	(4.0)	(3.4)	(3.6)	7.5	(8.2)	(14.5)	(14.2)	(2.1)	
Pre-tax profit	3.3	18.2	(7.3)	(140.2)	(319.0)	68.8	49.7	(27.8)	
Tax	1.5	0.0	2.6	nm	78.0	1.5	2.6	78.0	
Minority interest	1.5	0.0	2.6	nm	78.0	1.5	2.6	78.0	
Net profit	4.8	18.2	(4.7)	(126.0)	(198.9)	70.2	52.3	(25.6)	In line with expectations.
Core profit	19.0	18.2	16.6	(8.8)	(12.7)	84.5	73.6	(12.9)	
Core earnings per unit (sen)	1.8	1.7	1.6	(8.8)	(12.9)	7.9	6.9	(12.9)	
Dividends per unit (sen)	4.0	0.0	3.4	nm	(14.1)	7.4	6.8	(8.0)	
NPI margin (%)	73.6	79.7	76.7			77.0	78.1		
Pre-tax margin (%)	8.2	50.6	(20.0)			42.8	33.4		
Net margin (%)	46.9	50.6	45.3			52.6	49.4		

Source: Company data, RHB

Recommendation Chart

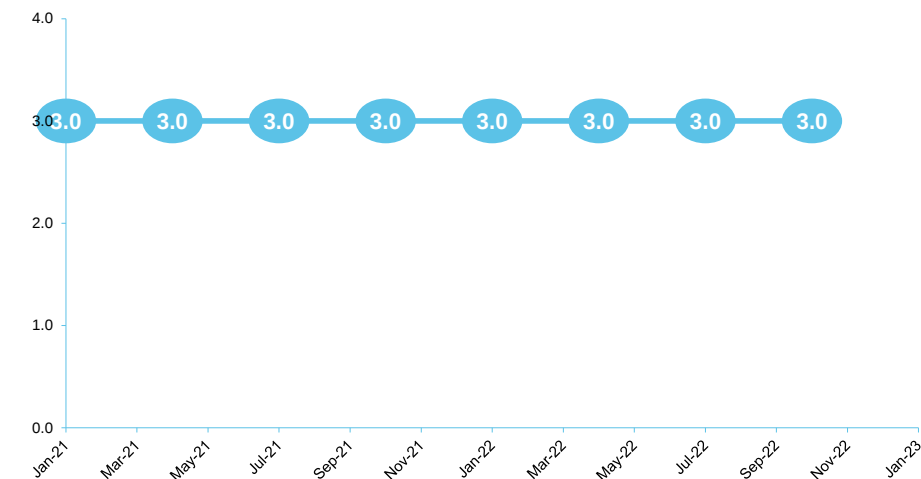


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-11	Neutral	0.94	0.88
2022-08-23	Neutral	0.97	0.96
2022-05-13	Neutral	1.00	0.96
2022-01-21	Buy	1.02	0.92
2021-11-11	Buy	1.02	0.90
2021-08-06	Buy	1.00	0.90
2021-01-19	Buy	1.00	0.91
2020-12-09	Buy	0.95	0.87
2020-11-13	Buy	0.87	0.88
2020-11-12	Buy	0.87	0.83
2020-08-17	Buy	0.83	0.78
2020-06-18	Buy	0.78	0.71
2020-04-06	Neutral	0.78	0.74
2020-01-20	Neutral	0.97	1.00
2019-11-26	Neutral	0.96	1.02

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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