

UOBKH HIGHLIGHTS

Sentral REIT (SENTRAL MK/HOLD/RM0.86/Target: RM0.95)

1Q23: Results Within Expectations

Year to 31 Dec	1Q23 (RMm)	qoq % chg	yoy % chg	Year	Net Profit (RMm)	EPU (sen)	PE (x)	DPU (sen)	Div Yield (%)
Gross Revenue	37.7	3.0	(4.0)	2023F	71.5	6.7	13.0	6.5	7.5
Operating Expenses	(8.2)	(4.0)	(0.6)	2024F	73.5	6.9	12.6	6.7	7.7
Net Property Income	29.5	5.1	(4.9)						
Finance Cost	(9.1)	3.5	24.8						
Core Net Profit	17.7	6.5	(13.2)						
EPU (sen)	1.6	6.5	(13.2)						
DPU (sen)	0.0	n.m.	n.m.						
Margins	%	+/- ppt	+/- ppt						
NPI	78.3	1.6	(0.7)						
PAT	46.8	1.6	(5.0)						

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **Within expectations.** Sentral REIT (SENTRAL) reported 1Q23 revenue of RM37.7m (+3.0% qoq, -4.0% yoy) and core net profit of RM17.7m (+6.5% qoq, -13.2% yoy). Core net profit accounted for 25% and 24% of our and consensus' full-year forecasts respectively. The yoy decline in earnings was due to loss of income from vacant buildings QB2 and Wisma Technip (vacated in 2Q22), which was cushioned by higher occupancy in Platinum Sentral and Menara Shell. Earnings improved on a qoq basis on the commencement of new tenants in Platinum Sentral and higher rental rates of Menara Shell.
- SENTRAL declares dividends in the second and final quarters.

COMMENTS

- **Steady earnings and margins.** Recall that Wisma Technip and QB2 vacated the buildings in 2Q22, which affected earnings. Positively, net property income (NPI) margin for the quarter remained steady at 78% (2022: 78%). Key assets in KL Sentral remain intact (Menara Shell and Platinum Sentral), contributing >50% to total revenue.
- **Occupancy rate stable at 77%.** On a portfolio basis, occupancy rate maintained at 77% (4Q22: 77%, 1Q22: 86%). Total leases due for renewals for 2023 account for about 10% of total NLA. SENTRAL successfully renewed 99% of the leases due in 1Q23 with flattish rental reversion. SENTRAL's weighted average lease expiry (WALE) is 3.05 years.
- **Gearing at 37.87%.** 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 RM258m to fund future acquisitions.
- **No changes to earnings forecasts.** Faster-than-expected take-up of the vacant buildings would pose further upside risk to our forecasts.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM0.95.** 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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