

Malaysia

HOLD (no change)

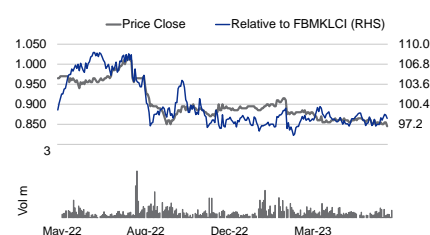
Consensus ratings*: Buy 0 Hold 7 Sell 0

Current price:	RM0.845
Target price:	RM0.86
Previous target:	RM0.894
Up/downside:	1.8%
CGS-CIMB / Consensus:	-1.0%
Reuters:	SENT.KL
Bloomberg:	SENTRAL MK
Market cap:	US\$196.8m
	RM905.7m
Average daily turnover:	US\$0.04m
	RM0.19m
Current shares o/s:	1,072m
Free float:	49.1%

*Source: Bloomberg

Key changes in this note

- FY23-25F DPU cut by 5-17% on higher utility and operating expenses.
- Risk-free rate in CoE assumption cut from 4.4% to 4.25% to be in line with the expected average under the current overnight policy rate (OPR).
- Terminal growth rate reduced from 0.9% to 0.4% to reflect the weak rental reversion.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.3	-4.5	-12
Relative (%)	-0.9	-0.6	-2.5

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

Analyst(s)



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Sentral REIT

Property disposal a re-rating catalyst

- We reiterate our Hold call on Sentral REIT with a slightly lower DDM-based TP of 86 sen.
- Although the trust's properties in KL Sentral are occupied by brand-name tenants, it is dogged by two vacant properties dragging down its earnings.
- We see office property disposal as a catalyst but difficult to achieve in the current over-built scenario. We transfer coverage to Kamarul Anwar.

Reiterate Hold; high reliance on office properties a downside risk

We keep our Hold call on Sentral REIT. Our new DDM-based TP of 86 sen is lower than our previous TP of 89 sen. While we dial down the risk-free rate assumption in our CoE calculation from 4.4% to 4.25% to be in line with our expectation of the average under the current overnight policy rate (OPR), we also trim the terminal growth rate from 0.9% to 0.4% to reflect the subdued office property outlook. We continue to believe that Sentral REIT's high composition of office rental space – at 88% of investment value of RM2.1bn (as at end-Mar 2023) – opens itself up to the downside risks of occupancy rates falling further (77% at end-1Q23) and having less power to command bigger rental raises. Nearly half of its net lettable area is due for renewal in FY24-25F. We cut FY23-25F DPU by 5-17% on higher utility and operating expenses, and now expect its DPU to weaken progressively over FY23-25F from FY22's 8.07% to 6.8% by FY25F. However, the high total yields support our Hold call. Its higher yield relative to peers is also a function of its relatively small size in Malaysia's REIT space. Sentral REIT's yield spread of 3.7% against the 10-year MGS yield is also within its 10-year average of 3.1%.

Upside and downside risks

Nonetheless, we believe Sentral REIT is still in a healthy position since 66.5% of its investment value comes from its Menara Shell and Platinum Sentral, which are nearly fully occupied and located in the coveted KL Sentral address. The upside risks for the trust come from better occupancy rates at its other properties – especially its two office buildings that were left completely vacant in 2Q22: Wisma TechnipFMC and Quill Building 2. Key downside risks are occupancy rates falling further and negative rental reversions.

Property sale may be a catalyst, but also a long shot

We think Sentral REIT's net gearing of 37.9% of its total assets as of end-Mar 2023 may not give it enough headroom to acquire more properties without resorting to cash calls. Instead, what we believe could serve as a re-rating catalyst is if it manages to divest its low-occupancy buildings. In our view, this would be a better way to rehabilitate investor interest in Sentral REIT. One-off gains aside, a property sale should help the trust improve its capital structure and reduce its exposure to the overcrowded office market in the Klang Valley. According to National Property Information Centre (NAPIC) data, despite depressed demand, Malaysia's office space has continued to creep up, from 21.8m sq m in 2018 to 24.3m sq m in 2022. Occupied space, however, dwindled from 84.1% to 78.6% of available office space over the same period. In the Klang Valley, the occupancy rate in 2022 was lower than the national average of 72.1%. We are, however, concerned that the office space glut could make it difficult for Sentral REIT to dispose of its properties.

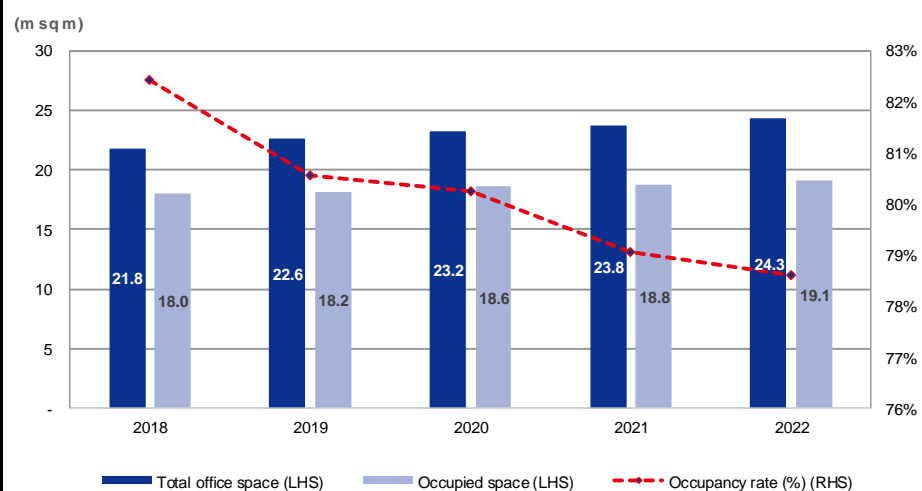
Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (RMm)	159.6	146.9	141.8	142.5	143.2
Net Property Income (RMm)	122.6	114.3	107.7	107.2	105.6
Net Profit (RMm)	70.25	52.28	65.06	64.41	62.78
Distributable Profit (RMm)	79.42	73.10	63.92	63.29	61.70
DPS (RM)	0.074	0.068	0.060	0.059	0.058
Dividend Yield	8.77%	8.07%	7.06%	6.99%	6.81%
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)	0.69	0.70	0.63	0.63	0.63
Recurring ROE	6.13%	5.67%	4.78%	4.50%	4.39%
% Change In DPS Estimates			(4.8%)	(14.1%)	(16.6%)
CGS-CIMB/Consensus DPS (x)			0.92	0.87	0.82

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revision

	Previous			Revised			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	149.2	157.4	158.2	141.8	142.5	143.2	-5%	-9%	-10%
NPI	115.7	123.2	123.6	107.7	107.2	105.6	-7%	-13%	-15%
DPU (sen)	6.3	6.9	6.9	6.0	5.9	5.8	-5%	-14%	-17%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Supply and occupancy of purpose-built office (private and government), 2018-2022 (m sq m)


SOURCES: NATIONAL PROPERTY INFORMATION CENTRE (NAPIC), STARBIZ

Figure 3: Sentral REIT's valuation at 86 sen TP

FYE 31 Dec	FY17	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F
Core P/E (x)	10.4	12.2	15.8	11.8	11.4	12.5	14.2	14.3	14.7
P/BV (x)	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Div yield (%)	9.8%	9.4%	7.9%	8.2%	8.6%	7.9%	6.9%	6.9%	6.7%
FCF yield (%)	14.6%	15.7%	12.8%	13.8%	16.8%	12.0%	11.0%	10.8%	10.8%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 4: Yield spread between Sentral REIT's rolling 12-month yield and MGS 10-year yield

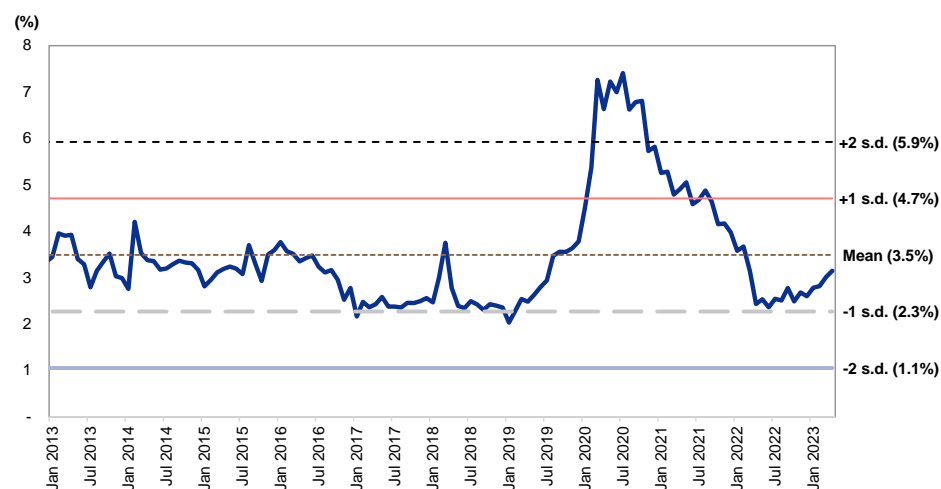


Figure 5: Sentral REIT's DPU trend

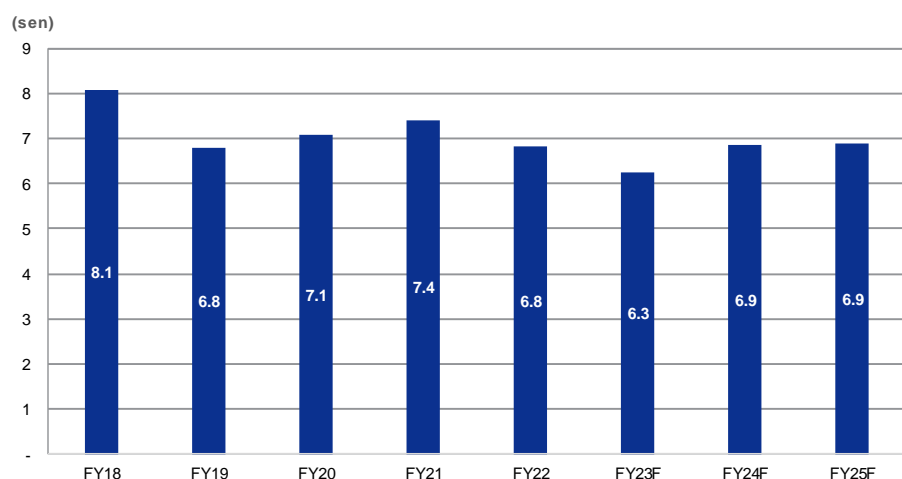



Figure 6: Sector comparison (as at 30 May 2023)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY23F	CY24F		CY23F	CY24F	CY23F	CY24F	CY23F	CY24F
Axis REIT	AXRB MK	Add	1.84	2.01	696	11.3	10.5	2.6%	1.2	1.2	6.5%	6.4%	5.3%	5.4%
CapitaLand Malaysia Trust	CLMT MK	Hold	0.51	0.49	296	13.4	12.1	0.9%	0.3	0.3	4.5%	4.3%	12.2%	13.1%
IGB REIT	IGBREIT MK	Add	1.62	2.02	1,265	16.0	15.1	13.7%	1.5	1.5	9.3%	9.8%	6.4%	6.7%
KLCCP Stapled Group	KLCCSS MK	Hold	7.10	7.47	2,785	17.0	16.6	7.4%	1.0	1.0	5.8%	5.9%	5.4%	5.5%
Sentral REIT	SENTRAL MK	Hold	0.85	0.86	197	13.9	14.1	-6.7%	0.6	0.6	4.9%	4.5%	7.2%	7.0%
Sunway REIT	SREIT MK	Add	1.56	1.72	1,161	15.7	15.5	-0.4%	1.0	0.9	6.3%	6.1%	5.9%	5.8%
Weighted average						15.7	15.2	6.0%	1.1	1.1	6.6%	6.6%	6.1%	6.2%
Simple average						13.5	12.6	5.7%	1.0	1.0	6.8%	6.8%	8.0%	8.4%

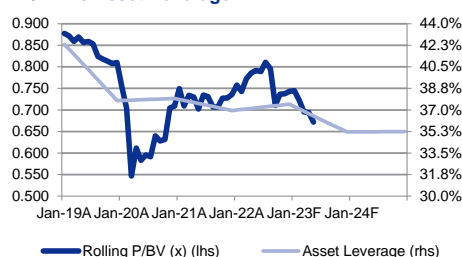
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

<div>  </div> <div>ESG in a nutshell</div>	
<p>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.</p>	
Keep your eye on <p>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 Covid-19 pandemic period since early-2020. Some initiatives by Sentral REIT include protection of all data, information and intellectual property against cyber security breaches and safeguarding the privacy of tenant, organisational and visitor information.</p>	Implications <p>In our view, initiatives to protect the health and safety tenants and occupants should potentially supportive of tenant retention initiatives, on top of ongoing tenancy negotiation, with flattish rental reversion guided for FY23F.</p>
ESG highlights <p>Some achievements in 2022 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. No other major ESG-related initiative has stood out since then, given the extensive work done in 2020.</p>	Implications <p>We expect no major expenditure relating to building automation and technology enhancements 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 FY23F.</p>
Trends <p>As part of its sustainable business growth plan, the group will continue to practice proactive leasing strategies to ensure stable portfolio occupancy rates and rental income, efficient cost management and quality office assets, potentially considering new acquisitions when feasible and when market conditions are accommodative, it said in its FY20 annual report.</p>	Implications <p>Sentral REIT's leasing strategies remain more oriented towards retaining tenants, in our view, its portfolio occupancy rate remains decent at 77% at end-1QFY23. Despite the office glut in the Klang Valley area, we see Sentral REIT's occupancy rate as a testament to its initiatives to uphold the society's well-being.</p>

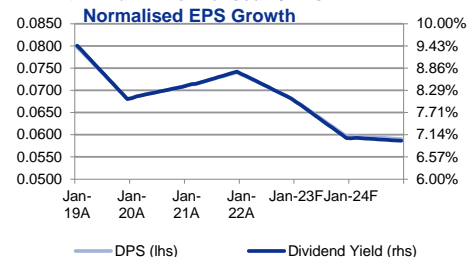
SOURCES: CGS-CIMB RESEARCH, REFINITIV

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	124.7	125.2	125.6
Other Revenues	17.5	16.7	17.1	17.3	17.5
Gross Property Revenue	159.6	146.9	141.8	142.5	143.2
Total Property Expenses	(37.0)	(32.7)	(34.1)	(35.3)	(37.5)
Net Property Income	122.6	114.3	107.7	107.2	105.6
General And Admin. Expenses	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)
Management Fees	(12.6)	(12.2)	(12.0)	(11.9)	(11.9)
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	93.7	93.1	91.4
Depreciation And Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	108.0	99.9	93.5	92.9	91.3
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	65.1	64.4	62.8
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	65.1	64.4	62.8
Distributable Profit	79.4	73.1	63.9	63.3	61.7

Cash Flow

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-tax Profit	68.8	49.7	65.1	64.4	62.8
Depreciation And Non-cash Adj.	28.6	28.6	28.6	28.6	28.6
Change In Working Capital	(0.6)	0.6	0.6	(0.5)	1.9
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	94.3	92.6	93.3
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	0.0	0.0	0.0
Dividends Paid	(75.9)	(73.1)	(63.9)	(63.3)	(61.7)
Cash Interest And Others	(28.4)	(28.5)	(28.5)	(28.5)	(28.5)
Cash Flow From Financing	126.9	(142.1)	(92.4)	(91.8)	(90.2)
Total Cash Generated	279.0	(33.4)	6.8	5.7	7.0
Free Cashflow To Firm	154.7	111.0	101.6	99.8	99.5
Free Cashflow To Equity	354.8	39.7	70.7	69.0	68.7

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	87	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	829	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%)	(3.45%)	0.46%	0.47%
NPI Growth	(2.75%)	(6.85%)	(5.71%)	(0.52%)	(1.45%)
Net Property Income Margin	76.8%	77.8%	76.0%	75.2%	73.8%
DPS Growth	4.7%	(8.0%)	(12.5%)	(1.0%)	(2.5%)
Gross Interest Cover	3.47	3.24	3.03	3.01	2.96
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	113%	140%	98%	98%	98%
Current Ratio	0.61	3.32	3.72	3.65	3.91
Quick Ratio	0.61	3.32	3.72	3.65	3.91
Cash Ratio	0.58	3.08	3.55	3.48	3.90
Return On Average Assets	3.19%	2.42%	2.94%	2.82%	2.75%

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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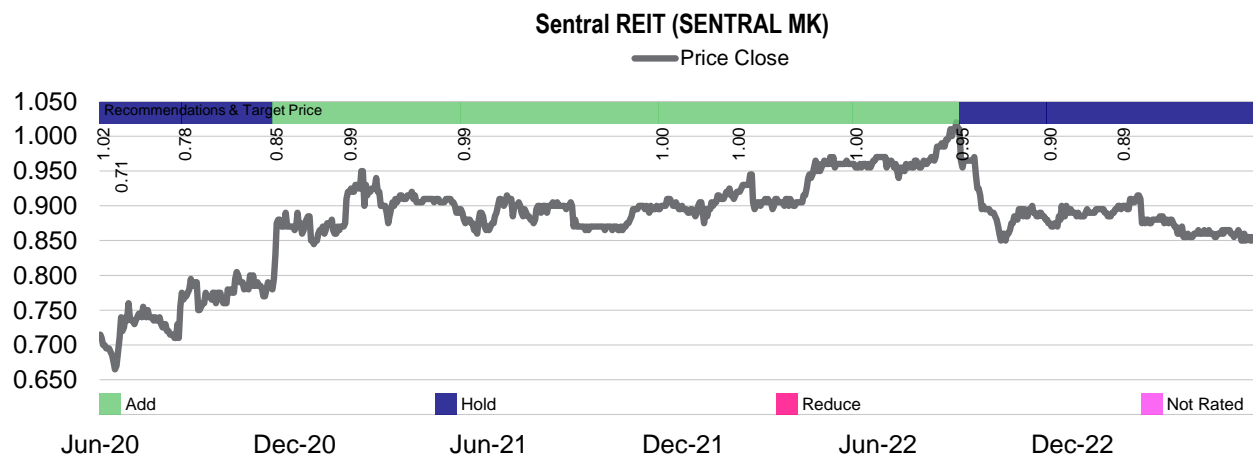
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647 companies under coverage for quarter ended on 31 March 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	64.6%	1.1%
Hold	27.0%	0.2%
Reduce	8.3%	0.2%

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.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight

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Neutral

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Underweight

An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral

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Underweight

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