

HLIB Research
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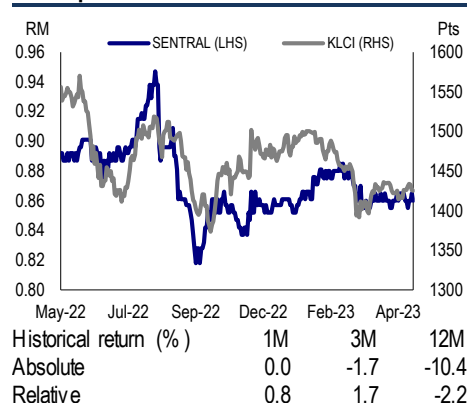
HOLD (Maintain)

Target Price: **RM0.81**
Previously: **RM0.81**
Current Price: **RM0.855**

Capital upside	-5.3%
Dividend yield	8.5%
Expected total return	3.2%

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

Stock information

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	922
3-mth average volume ('000)	233
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	55.9%
Employees Provident Fund	12.0%
Tamasek Holdings Pte Ltd	10.9%

Earnings summary

FYE (Dec)	FY22f	FY23f	FY24f
PAT – core (RM m)	73.6	77.9	84.1
EPU – core (sen)	6.9	7.3	7.8
P/E (x)	12.5	11.8	10.9

Sentral REIT

Portfolio occupancy stabilising

Sentral REIT's 1Q23 core net profit of RM17.7m (+6.5% QoQ, -13.2% YoY) was within ours (23%) and street estimates (24%). The drop in its YoY performance was mainly due to rising finance costs arising from OPR hikes over the past year. Looking ahead, we think Sentral REIT will display gradual improvement in portfolio occupancy, driven by the better anticipated take up for its vacant office space, especially Menara Technip and QB2. We also expect full renewal of its office space due for expiry in FY23 (10% of total NLA). However, we highlight that the key downside risk for Sentral REIT is the potential decline of its overall rental rates owing to the prevailing office space glut in Klang Valley. Reiterate HOLD with unchanged TP of RM0.81 based on FY24 DPU on targeted yield of 9.7%.

Within estimates. Sentral REIT's 1Q23 core net profit of RM17.7m (+6.5% QoQ, -13.2% YoY) within ours (23%) and street estimates (24%).

Dividend. None as dividends are usually declared semi-annually.

QoQ. Revenue was marginally up (+3.0%) due to the slight potential improvement in rental rates as occupancy level stayed flattish at 77%. This along with lower property opex (-4.0%) helped core net profit to rise 6.5%.

YoY. Top line eased -4.0%, attributable to lower rental from QB2 and Wisma Technip but these were partially cushioned by the increase in revenue from Menara Shell, Platinum Sentral and Plaza Mont Kiara. Furthermore, finance costs rose +24.8% due to impact of OPR hikes over the past year. As such, core bottom line dipped at a faster pace (-13.2%).

Occupancy and gearing. With nine properties, the overall occupancy rate stayed flattish at 77% vs the preceding quarter. Similarly, gearing level remained steady at 37.9%.

Outlook. We believe that Sentral REIT will display gradual improvement in portfolio occupancy in the coming quarters, as management is undergoing negotiations with prospective tenants to fill up its vacant buildings (Menara Technip and QB2). Also, leasing activities have been active in Cyberjaya, where part of its property portfolio (~15% of NLA) are located due to expansion of existing tenants within the vicinity. Meanwhile, about 10% of its total NLA are due for renewal in 2023. Of which, 4% has been renewed and management is confident in renewing the balance 6%. Hence, these suggest limited scope in further deterioration in occupancy rate in FY23. That said, the key downside risk of Sentral REIT is the potential decline of its overall rental rates owing to the prevailing office space glut in Klang Valley.

Forecast. Unchanged as results were inline.

Maintain HOLD, TP: RM0.81. Our TP is based on FY24 forward DPU on targeted yield of 9.7%, which is derived from 5-year historical average yield spread between Sentral REIT and 10-Year MGS. Although Sentral REIT is grappling with intense competition in the Klang Valley office market, we think its portfolio occupancy would stabilize and gradually improve going forward. However, this comes at the expense on overall rental rates (downward pressure). Overall, we think Sentral REIT's risk and reward profile is reasonably balanced at this juncture. Plus, its attractive dividend yield should help to cushion some downside risks.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	93.5	79.8	80.7	79.7	80.9
Receivables	5.6	6.2	6.8	7.0	7.1
Investment properties	2,081.0	2,060.7	2,062.7	2,063.7	2,063.7
PPE	0.1	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0	0.0
Assets	2,180.4	2,146.7	2,150.2	2,150.5	2,151.8
Payables	19.2	20.6	24.8	24.8	24.8
Debt	805.6	804.5	802.9	802.3	802.7
Security deposits	37.7	30.6	30.6	30.6	30.6
Derivatives	0.0	0.0	0.0	0.0	0.0
Liabilities	862.5	855.7	858.3	857.8	858.2
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	82.0	55.2	56.0	56.8	57.7
Equity	1,317.9	1,291.0	1,291.8	1,292.7	1,293.6
Total Liabilities & Equity	2,180.4	2,146.7	2,150.2	2,150.5	2,151.8

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	68.8	49.7	77.9	84.1	85.8
Finance costs	31.1	30.8	0.0	0.0	0.0
Depreciation	0.2	0.1	0.0	0.0	0.0
Fair value gain of assets	15.7	23.9	0.0	0.0	0.0
Interest income	-2.6	-2.4	0.0	0.0	0.0
Others	-2.7	-4.2	3.7	-0.3	-0.1
CFO	110.5	97.9	81.7	83.8	85.8
Capex	-0.7	-3.6	-2.0	-1.0	0.0
Disposal / (purchase)	0.0	0.0	0.0	0.0	0.0
Others	44.0	1.9	0.0	0.0	0.0
CFI	43.3	-1.7	-2.0	-1.0	0.0
Distribution paid	-75.9	-79.1	-79.7	-85.8	-87.5
Proceeds frm borrow'g	258.4	207.0	165.0	166.0	167.0
Repayment of borrow'g	-300.0	-207.0	-164.0	-164.0	-164.0
Others	-27.7	-30.9	0.0	0.0	0.0
CFF	-145.2	-110.0	-78.7	-83.8	-84.5
Net cash flow	8.6	-13.8	0.9	-1.0	1.2
Beginning cash	85.0	93.5	79.8	80.7	79.7
Ending cash	93.5	79.8	80.7	79.7	80.9

Assumptions

FYE Dec	FY23f	FY24f	FY25f
Gross rental income			
Quill Building 1 - DHL 1	5.1	5.1	5.2
Quill Building 4 - DHL 2	5.4	5.5	5.5
Quill Building 2 - HSBC	3.8	5.7	5.7
Quill Building 3 - BMW	4.8	4.8	4.8
Wisma Technip	2.7	5.3	5.3
Part of Plaza Mont' Kiara	3.7	3.7	3.7
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.9	16.2	16.4
Platinum Sentral	55.6	56.2	56.7
Menara Shell	47.2	47.7	48.1

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Gross rental income	146.6	132.0	144.1	150.1	151.6
Car park income	9.5	10.2	10.2	10.4	10.7
Other revenue	3.5	5.2	6.1	6.2	6.3
Total revenue	159.6	147.3	160.4	166.8	168.6
Property opex	-37.0	-32.7	-39.4	-39.4	-39.4
Net property income	122.6	114.7	121.1	127.4	129.2
Other income	-8.3	-20.0	2.0	2.0	2.0
Net invest income	114.4	94.7	123.1	129.5	131.2
Manager's fee	-12.6	-12.2	-12.3	-12.5	-12.5
Trustee's fee	-0.7	-0.6	-0.7	-0.7	-0.7
Finance costs	-31.1	-30.8	-30.8	-30.8	-30.8
Other non opex	-1.2	-1.3	-1.4	-1.5	-1.5
Profit before tax	68.8	49.7	77.9	84.1	85.8
Taxation	1.5	2.6	2.6	2.6	2.6
Profit after tax	70.2	52.3	80.5	86.7	88.4
Core net profit	84.5	73.6	77.9	84.1	85.8
Distributable income	84.5	73.6	77.9	84.1	85.8

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	7.9	6.9	7.3	7.8	8.0
P/E (x)	10.8	12.5	11.8	10.9	10.7
EBITDA	115.8	104.5	108.7	114.9	116.6
EBIT	115.6	104.4	108.7	114.8	116.6
EV	1,628.5	1,641.1	1,638.6	1,639.0	1,638.2
EV/EBITDA (x)	14.1	15.7	15.1	14.3	14.0
DPU (sen)	7.4	6.8	7.3	7.8	8.0
Dividend yield	8.7	8.0	8.5	9.2	9.3
NTA/ share (sen)	123.0	120.5	120.5	120.6	120.7
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.20	1.21	1.21	1.21
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	72.5%	70.9%	67.8%	68.9%	69.2%
EBIT margin	72.4%	70.9%	67.8%	68.9%	69.1%
PBT margin	43.1%	33.7%	48.6%	50.4%	50.9%
Net margin	52.9%	49.9%	48.6%	50.4%	50.9%
ROE	6.4%	5.7%	6.0%	6.5%	6.6%
ROA	3.9%	3.4%	3.6%	3.9%	4.0%
Net gearing	33.76%	33.74%	33.59%	33.60%	33.54%

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Gross Revenue	39.3	36.6	37.7	3.0%	-4.0%
Property operating expenses	-8.3	-8.5	-8.2	-4.0%	-0.6%
Net Property Income	31.0	28.1	29.5	5.1%	-4.9%
Interest income	0.5	0.9	0.6	-33.9%	35.1%
Net Investment Income	31.5	29.0	30.1	3.8%	-4.4%
Finance costs	-7.3	-8.8	-9.1	3.5%	24.8%
Valuation fees	-0.1	-0.1	-0.1	8.3%	-16.7%
Administrative expenses	-0.4	-0.3	-0.0	-88.4%	-91.3%
Total Expenses	-11.1	-12.4	-12.5	0.2%	11.9%
Core PBT	20.4	16.6	17.7	6.5%	-13.2%
Core PAT	20.4	16.6	17.7	6.5%	-13.2%
Distributable income	20.4	16.6	17.7	6.5%	-13.2%
EPU (realised)	1.90	1.55	1.65	6.5%	-13.2%
DPU (sen)	0.00	3.42	0.00	-100.0%	N.A.

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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.

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