

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

2Q23: Results Within Expectations; Expect Largely Similar 2H Performance

While 1H23 recorded a flattish revenue (as the improved performance from Menara Shell and Platinum Sentral was offset by revenue loss from Wisma Technip and QB2), net profit was lower by 9% due to higher finance cost. We expect a largely similar performance for 2H23, where we forecast full-year 2023 earnings to decline by 3%. Acquisition of Menara CelcomDigi will start contributing in 2024, and will provide 5% earnings growth in 2024. Maintain HOLD. Target price: RM0.95

2023 RESULTS

Year to 31 Dec (RMm)	2Q23	1Q23	qoq % chg	yoy % chg	1H23	yoy % chg
Gross Revenue	38.4	37.7	1.7	3.6	76.1	(0.3)
Property Opex	(9.0)	(8.2)	9.6	4.8	(17.2)	2.1
Net Property Income	29.4	29.5	(0.4)	3.2	58.9	(1.0)
Finance Costs	(9.2)	(9.1)	1.1	30.0	(18.3)	27.3
PAT	17.6	17.7	(0.2)	(4.4)	35.3	(9.1)
EPU (sen)	1.6	1.6	(0.2)	(4.4)	3.3	(9.1)
DPU (sen)	3.2	0.0	n.m.	(6.2)	3.2	(6.2)
Margins (%):			ppt chg	ppt chg		ppt chg
NPI	76.6	78.3	(1.7)	(0.3)	77.4	(0.5)
PAT	45.9	46.8	(0.9)	(3.8)	46.4	(4.4)

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **Within expectations.** Sentral REIT (SENTRAL) reported 2Q23 revenue of RM38.4m (+1.7% qoq, +3.6% yoy) and core net profit of RM17.6m (-0.2% qoq, -4.4% yoy). Cumulative 1H23 core net profit of RM35.3m (-9.1%) accounted for 49% of our and 50.1% of consensus full-year forecasts. 1H23 recorded a flattish revenue (-0.3% yoy) as the improved performance from Menara Shell and Platinum Sentral was offset by revenue loss from Wisma Technip and QB2 (which were vacant since 2Q22). However, 1H23 earnings fell 9.1% yoy due to higher finance cost mainly on higher KLIBOR rate.
- No exceptional items were recorded in 1H23.
- **Declared 3.19 sen dividend for 1H23 (1H22: 3.4 sen).** This translates to a payout ratio of 97% and annualised yield of 7.6%

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	161	149	152	190	192
EBITDA	109	102	101	135	138
Operating profit	109	102	101	135	138
Net profit (rep./act.)	70	52	72	84	86
Net profit (adj.)	81	74	72	84	86
EPU (sen)	7.5	6.9	6.7	7.0	7.2
DPU (sen)	7.6	6.8	6.5	6.9	7.0
PE (x)	11.3	12.4	12.7	12.1	11.8
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	9.0	8.0	7.6	8.1	8.3
Net margin (%)	43.7	35.1	47.0	44.2	45.1
Net debt/(cash) to asset (%)	32.7	33.8	33.5	41.5	41.5
Interest cover (x)	3.8	3.6	3.4	2.6	2.7
ROE (%)	5.3	4.0	5.5	6.2	6.2
Consensus DPU (sen)	n.a.	n.a.	6.4	6.7	6.7
UOBKH/Consensus (x)	-	-	1.01	1.02	1.05

Source: Sentral REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.85
Target Price	RM0.95
Upside	+11.7%

COMPANY DESCRIPTION

Sentral REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SENTRAL MK
Shares issued (m):	1,071.8
Market cap (RMm):	911.0
Market cap (US\$m):	199.3
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

52-week high/low RM1.02/RM0.815

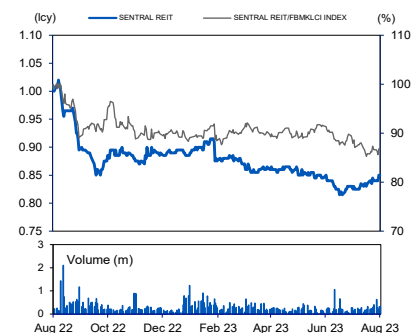
1mth	3mth	6mth	1yr	YTD
2.4	(1.7)	(2.9)	(15.0)	(5.0)

Major Shareholders

	%
Malaysian Resources Corp	55.9
Employees Provident Fund	12.0
CapitaLand Singapore Ltd	10.9

FY23 NAV/Share (RM)	1.21
FY23 Net Debt/Share (RM)	0.67

PRICE CHART



Source: Bloomberg

ANALYST(S)

Nazira Abdullah
+603 2147 1934
nurulnazira@uobkayhian.com

STOCK IMPACT

- **Steady earnings and margin.** 2Q23 revenue grew 1.7% qoq and 3.6% yoy mainly due to stronger contribution from Menara Shell on higher rental reversion (around +5%) and higher occupancy from part of Plaza Mont Kiara (2Q23: 94%; 1Q23: 92%; 2Q22: 92%). 2Q23 net property income (NPI) margin was slightly lower by 1.7ppt qoq (higher opex on some properties in portfolio) and dropped by 0.3 ppt yoy (higher utilities), but was within its historical pre-pandemic level of 76-78%.
- **Occupancy rate unchanged at 77% qoq on portfolio basis**, lower than historical average of 89-91% on vacant occupancy at QB2 and Wisma Technip (since 2Q22). We understand that enquiries on the building were encouraging, hence management is optimistic on future improvement in occupancy, moving forward. However, we have not imputed any contribution from QB2 and Wisma Technip at this juncture, pending more concrete development. At 100% occupancy, QB2 and Wisma Technip previously contributed around RM9m and RM15m respectively (collectively 12-13% to 2024 revenue and net profit as well as upside of 0.9 sen to DPU on fully diluted basis).
- Total leases due for renewals for 2023 and 2024 account for 10% (half has been renewed at rental escalation of +3% to +5%, while the rest are expected to have flattish reversion) and 13% (mostly on Menara Shell, which should remain intact thanks to its quality and location) of total NLA respectively. SENTRAL's weighted average lease expiry is 3.13 years.
- **Acquisition of Menara CelcomDigi will start contributing in 2024.** Based on gross rental income of RM36.0m and RM450m purchase consideration (to be funded by private placement and borrowings), the building translates to 8% rental yield, higher than SENTRAL's portfolio yield of 7.7%. Furthermore, we estimate monthly rental psf to be RM6.70, which is on the higher end of average monthly rentals ranging from RM5.50 to RM7.00 psf in Petaling Jaya area, based on our channel check. We expect 2024 net profit to grow 17% yoy after the acquisition but EPU is expected to grow only 5% yoy due to dilution from private placement (share base is expected to increase by 12%).
- **Gearing at 37.5% as of 2Q23.** After the acquisition of Menara CelcomDigi, we estimate net gearing to be around 42%, still below the 50% gearing limit.

EARNINGS REVISION/RISK

- **We keep 2023 EPU at 6.7 sen but increase 2024 EPU by 5% to 7 sen** as we include the new contribution from Menara CelcomDigi. We introduce 2025 EPU at 7.2 sen.

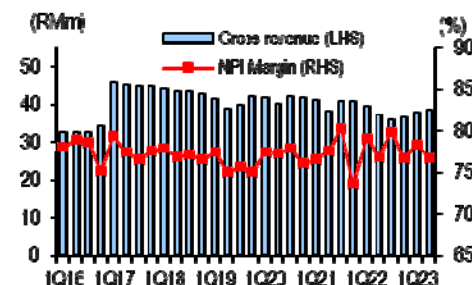
VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM0.95.** Our target price is based on a Dividend Discount model (required rate of return: 8.8%, terminal growth: 1%) and represents an implied dividend yield of 6.8%. Despite us increasing our earnings for 2024, we keep our target price unchanged as we assume lower terminal growth of 1% (from 1.3% as we think supply glut may hinder rental reversion growth). SENTRAL's forward yield spread to MGS of 3.7ppt has narrowed to below 1SD to its five-year historical mean (5.57ppt).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

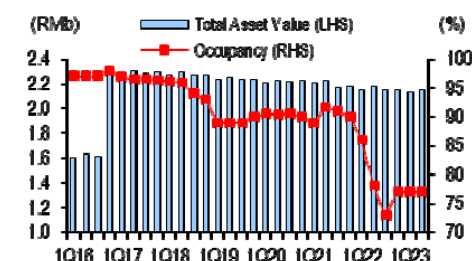
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Currently developing its Energy Management Policy, with the intent to roll out the policy to all buildings by 2024. • Social <ul style="list-style-type: none"> - Its Health and Safety Policy guides management on all health and safety issues, complying with the relevant laws and regulations such as the Occupational Safety and Health Act 1994 by the Department of Occupational Safety and Health. • Governance <ul style="list-style-type: none"> - Aligned to the Malaysian Code on Corporate Governance issued by Securities Commission Malaysia. - Adopts a zero-tolerance approach against all forms of bribery and corruption and has instituted measures to guard against any unethical behaviour.

REVENUE AND NPI MARGIN



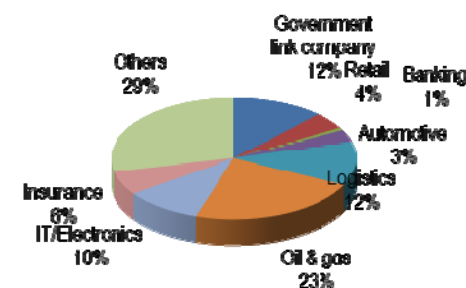
Source: SENTRAL, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



Source: SENTRAL, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	149	152	190	192
EBITDA	102	101	135	138
Deprec. & amort.	0	0	0	0
EBIT	102	101	135	138
Net interest income/(expense)	(28)	(30)	(51)	(51)
Pre-tax profit	50	72	84	86
Tax	3	0	0	0
Net profit	52	72	84	86
Net profit (adj.)	74	72	84	86

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	98	107	136	140
Pre-tax profit	50	72	84	86
Deprec. & amort.	0	0	0	0
Other operating cashflows	48	36	52	54
Investing	2	(2)	(457)	(2)
Capex (growth)	(4)	(2)	(457)	(2)
Proceeds from sale of assets	0	0	0	0
Others	6	0	0	0
Financing	(110)	(99)	319	(138)
Distribution to unitholders	(79)	(69)	(82)	(84)
Issue of shares	0	0	93	0
Proceeds from borrowings	207	120	362	0
Loan repayment	(30)	(117)	0	0
Others/interest paid	(208)	(32)	(54)	(54)
Net cash inflow (outflow)	(10)	7	(2)	1
Beginning cash & cash equivalent	94	80	86	84
Changes due to forex impact	(4)	0	0	0
Ending cash & cash equivalent	80	86	84	85

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,061	2,063	2,520	2,522
Other LT assets	0	0	0	0
Cash/ST investment	80	86	84	85
Other current assets	6	6	8	8
Total assets	2,147	2,155	2,612	2,614
ST debt	0	3	3	3
Other current liabilities	26	29	29	29
LT debt	804	804	1,166	1,166
Other LT liabilities	25	25	25	25
Shareholders' equity	1,291	1,293	1,388	1,390
Total liabilities & equity	2,147	2,155	2,612	2,614

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	68.5	66.5	71.1	71.8
Pre-tax margin	33.4	47.0	44.2	45.1
Net margin	35.1	47.0	44.2	45.1
ROA	2.4	3.3	3.5	3.3
ROE	4.0	5.5	6.2	6.2
Growth				
Turnover	(7.3)	2.2	24.6	1.1
EBITDA	(6.5)	(0.8)	33.1	2.0
Pre-tax profit	(27.8)	44.0	17.1	3.2
Net profit	(25.6)	36.8	17.1	3.2
Net profit (adj.)	(8.8)	(2.8)	17.1	3.2
EPU	(8.9)	(2.8)	5.0	3.2
Leverage				
Debt to total capital	38.4	38.4	45.7	45.7
Debt to asset	37.5	37.5	44.8	44.7
Net debt/(cash) to asset	33.8	33.5	41.5	41.5
Interest cover (x)	3.6	3.4	2.6	2.7

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W