

**HLIB Research**  
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**HOLD** (Maintain)

**Target Price:** **RM0.75**  
**Previously:** **RM0.81**  
**Current Price:** **RM0.85**

Capital upside	-11.8%
Dividend yield	7.9%
Expected total return	-3.9%

**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)	911
3-mth average volume ('000)	214
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

	FY22f	FY23f	FY24f
FYE (Dec)			
PAT – core (RM m)	73.6	72.5	78.6
EPU – core (sen)	6.9	6.8	7.3
P/E (x)	12.4	12.6	11.6

## Sentral REIT

### Missed estimates

Sentral REIT's 2Q23 core net profit was below our estimates due to higher-than-expected property opex and finance costs. As office owners are grappling with intense competition in the office market, we believe rental rates for office space at Klang Valley will remain suppressed going forward. As heightened cost pressures were not able to be passed down to tenants via upward revision in rental rates, we see muted earnings for office REITs. On a positive note for Sentral, 10% of total NLA is due for expiry in 2023, half of which has been renewed and management does not foresee any major issues in renewing the balance. We also reiterate our optimism on the ongoing acquisition of Menara CelcomDigi due to its long-term single tenancy structure as well as attractive rental yield at 8%. Trim our FY23f/FY24f/FY25f forecasts by -7.0%/-6.6%/6.9%. Maintain HOLD with lower TP of RM0.75 (from RM0.84).

**Below estimates.** Sentral's 2Q23 core net profit of RM17.6m (-0.2% QoQ, -4.4% YoY) brought 1H23's sum to RM35.3m (-9.1% YoY). The results were below ours (45%) but within street estimates (50%) due to higher-than-expected property opex and finance costs.

**Dividend.** Declared DPU of 3.19 sen vs 3.40 sen SPLY. Ex-date: 24-Aug-23.

**QoQ.** Top-line was up 1.7% due to higher rental revenue. However, property opex rose at a greater quantum (+9.6%), resulting in a flattish core net profit compared against 1Q23.

**YoY/YTD.** Top line remained stable as higher rental contribution from Menara Shell and Platinum Sentral offset the decline in revenue from Wisma Technip and QB2. Meanwhile, property opex increased (+4.8% YoY, +2.1% YTD) no thanks to higher utilities expenses. Coupled with escalated finance costs (+30.0% YoY, +27.3% YTD), core bottom line contracted (-4.4% YoY, -9.1% YTD).

**Occupancy and gearing.** With nine properties, the overall occupancy rate stayed flattish at 77% vs 1Q23. Similarly, gearing level remained steady at 37.5%.

**Outlook.** As office owners are grappling with intense competition in the office market, we believe rental rates for office space at Klang Valley will remain suppressed going forward. Hence, we see muted earnings performance for office REITs as rising cost pressures were not able to be passed down to tenants via upward revision in rental rates. On a positive note for Sentral, 10% of total NLA is due for expiry in 2023, half of which has been renewed and management does not foresee any major issues in renewing the balance. Also, we reiterate our optimism on the ongoing acquisition of Menara CelcomDigi due to its long-term single tenancy structure as well as attractive rental yield (8%).

**Forecast.** We trim our FY23f/FY24f/FY25f forecasts by -7.0%/-6.6%/6.9% as we pencil in higher utilities and finance costs assumptions.

**Maintain HOLD, TP: RM0.75.** Post earnings revision, our TP falls to RM0.75 (from 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's risk to reward profile is reasonably balanced at this juncture. If successful, we think the ongoing acquisition of Menara CelcomDigi would serve as a rerating catalyst for Sentral as the yield accretive deal offers steady rental stream and potentially enhances DPU.

## Financial Forecast

All items in (RM m) unless otherwise stated

## Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	93.5	79.8	82.3	82.3	83.8
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
<b>Assets</b>	<b>2,180.4</b>	<b>2,146.7</b>	<b>2,151.8</b>	<b>2,153.1</b>	<b>2,154.6</b>
Payables	19.2	20.6	26.5	27.6	27.8
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
<b>Liabilities</b>	<b>862.5</b>	<b>855.7</b>	<b>860.0</b>	<b>860.5</b>	<b>861.2</b>
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	82.0	55.2	55.9	56.7	57.6
<b>Equity</b>	<b>1,317.9</b>	<b>1,291.0</b>	<b>1,291.8</b>	<b>1,292.6</b>	<b>1,293.4</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,180.4</b>	<b>2,146.7</b>	<b>2,151.8</b>	<b>2,153.1</b>	<b>2,154.6</b>

## Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	68.8	49.7	72.5	78.6	79.9
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	5.3	0.8	0.2
<b>CFO</b>	<b>110.5</b>	<b>97.9</b>	<b>77.8</b>	<b>79.4</b>	<b>80.1</b>
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
<b>CFI</b>	<b>43.3</b>	<b>-1.7</b>	<b>-2.0</b>	<b>-1.0</b>	<b>0.0</b>
Distribution paid	-75.9	-79.1	-74.3	-80.3	-81.6
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
<b>CFF</b>	<b>-145.2</b>	<b>-110.0</b>	<b>-73.3</b>	<b>-78.3</b>	<b>-78.6</b>
<b>Net cash flow</b>	<b>8.6</b>	<b>-13.8</b>	<b>2.5</b>	<b>0.1</b>	<b>1.4</b>
Beginning cash	85.0	93.5	79.8	82.3	82.3
Ending cash	93.5	79.8	82.3	82.3	83.8

## Assumptions

FYE Dec	FY23f	FY24f	FY25f
<b>Gross rental income</b>			
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
<b>Total:</b>	<b>144.1</b>	<b>150.1</b>	<b>151.6</b>

## 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
<b>Total revenue</b>	<b>159.6</b>	<b>147.3</b>	<b>160.4</b>	<b>166.8</b>	<b>168.6</b>
Property opex	-37.0	-32.7	-42.0	-43.7	-44.2
<b>Net property income</b>	<b>122.6</b>	<b>114.7</b>	<b>118.5</b>	<b>123.1</b>	<b>124.5</b>
Other income	-8.3	-20.0	2.0	2.1	2.1
<b>Net invest income</b>	<b>114.4</b>	<b>94.7</b>	<b>120.5</b>	<b>125.1</b>	<b>126.5</b>
Manager's fee	-12.6	-12.2	-12.2	-12.4	-12.4
Trustee's fee	-0.7	-0.6	-0.7	-0.7	-0.7
Finance costs	-31.1	-30.8	-33.7	-32.1	-32.1
Other non opex	-1.2	-1.3	-1.4	-1.5	-1.5
Profit before tax	<b>68.8</b>	<b>49.7</b>	<b>72.5</b>	<b>78.6</b>	<b>79.9</b>
Taxation	<b>1.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>
<b>Profit after tax</b>	<b>70.2</b>	<b>52.3</b>	<b>75.1</b>	<b>81.1</b>	<b>82.5</b>
<b>Core net profit</b>	<b>84.5</b>	<b>73.6</b>	<b>72.5</b>	<b>78.6</b>	<b>79.9</b>
<b>Distributable income</b>	<b>84.5</b>	<b>73.6</b>	<b>72.5</b>	<b>78.6</b>	<b>79.9</b>

## Valuation &amp; Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	7.9	6.9	6.8	7.3	7.5
P/E (x)	10.8	12.4	12.6	11.6	11.4
EBITDA	115.8	104.5	106.2	110.7	112.0
EBIT	115.6	104.4	106.2	110.7	112.0
EV	1,623.1	1,635.7	1,631.7	1,631.0	1,630.0
EV/EBITDA (x)	14.0	15.6	15.4	14.7	14.6
DPU (sen)	7.4	6.8	6.8	7.3	7.4
Dividend yield	8.7	8.0	7.9	8.6	8.7
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%	66.2%	66.4%	66.4%
EBIT margin	72.4%	70.9%	66.2%	66.3%	66.4%
PBT margin	43.1%	33.7%	45.2%	47.1%	47.4%
Net margin	52.9%	49.9%	45.2%	47.1%	47.4%
ROE	6.4%	5.7%	5.6%	6.1%	6.2%
ROA	3.9%	3.4%	3.4%	3.6%	3.7%
Net gearing	33.76%	33.74%	33.49%	33.44%	33.37%

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
<b>Gross Revenue</b>	<b>37.1</b>	<b>37.7</b>	<b>38.4</b>	<b>1.7%</b>	<b>3.6%</b>	<b>76.4</b>	<b>76.1</b>	<b>-0.3%</b>
Property operating expenses	-8.6	-8.2	-9.0	9.6%	4.8%	-16.8	-17.2	2.1%
<b>Net Property Income</b>	<b>28.5</b>	<b>29.5</b>	<b>29.4</b>	<b>-0.4%</b>	<b>3.2%</b>	<b>59.5</b>	<b>58.9</b>	<b>-1.0%</b>
Interest income	0.4	0.6	0.6	2.4%	52.6%	0.9	1.3	43.4%
<b>Net Investment Income</b>	<b>28.9</b>	<b>30.1</b>	<b>30.0</b>	<b>-0.4%</b>	<b>3.9%</b>	<b>60.4</b>	<b>60.2</b>	<b>-0.4%</b>
Finance costs	-7.1	-9.1	-9.2	1.1%	30.0%	-14.4	-18.3	27.3%
Valuation fees	-0.1	-0.1	-0.1	16.9%	-2.7%	-0.2	-0.1	-9.7%
Administrative expenses	-0.0	-0.0	0.1	-478.1%	-656.5%	-0.5	0.1	-122.8%
<b>Total Expenses</b>	<b>-10.4</b>	<b>-12.5</b>	<b>-12.4</b>	<b>-0.6%</b>	<b>18.7%</b>	<b>-21.6</b>	<b>-24.9</b>	<b>15.2%</b>
Core PBT	18.5	17.7	17.6	-0.2%	-4.4%	38.8	35.3	-9.1%
<b>Core PAT</b>	<b>18.5</b>	<b>17.7</b>	<b>17.6</b>	<b>-0.2%</b>	<b>-4.4%</b>	<b>38.8</b>	<b>35.3</b>	<b>-9.1%</b>
Distributable income	18.5	17.7	17.6	-0.2%	-4.4%	38.8	35.3	-9.1%
EPU (realised)	1.72	1.65	1.65	-0.2%	-4.4%	3.62	3.29	-9.1%
DPU (sen)	3.40	0.00	3.19	N.A.	-6.2%	3.40	3.19	-6.2%

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

**Sector rating guide**

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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