

09 Nov 2023

Hold

Price
RM0.83

Target Price
RM0.89

Market Data

Bloomberg Code	SENTRAL MK
No. of shares (m)	1,071.8
Market cap (RMm)	884.2
52-week high/low (RM)	0.92 / 0.82
Avg daily turnover (RMm)	0.2
KLCI (pts)	1,457.6

Source: Bloomberg, KAF

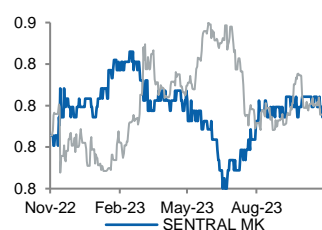
Major Shareholder (%)

MRCB	(27.9%)
EPF	(12.0%)
Temasek Holdings PTE	(10.9%)
Free Float	347.8

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(1.8)	(4.1)	(6.8)
Rel Market (%)	(2.2)	(5.6)	(7.8)



Source: Bloomberg, KAF

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Sentral REIT

Navigating steady waters

SENTRAL's 3Q23 performance remained steady, with a slight increase in core net profit to RM18.9m (QoQ: +3%, YoY: +1%), resulting in total earnings of RM53.5m (YoY: -6%). The company's top-line growth reached RM115.4m (YoY: +4%), driven by higher revenue from Menara Shell and Platinum Sentral and improved occupancy rates. However, rising property and financing costs offset this growth. Occupancy improved significantly to 86% in the quarter, largely due to the successful leasing of Sentral Building 4. Looking forward, the office market is expected to experience stagnant growth in rents, with the potential for improved rental reversions in specific areas like KL Sentral. The integration of Menara CelcomDigi is anticipated to enhance the overall occupancy rate and positively impact DPU. Maintain Hold.

Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue	159.6	147.3	153.5	191.9	192.6
Net property income	122.6	114.7	119.5	143.0	143.5
Reported net profit	70.2	52.3	74.3	85.4	87.8
Normalised net profit	84.5	76.2	74.3	85.4	87.8
EPS (sen)	7.9	7.1	6.9	7.1	7.3
DPS (sen)	7.4	6.9	6.6	6.8	7.0
P/E (x)	11.4	12.7	13.0	12.6	12.3
ROE (%)	5.3	4.0	5.7	6.3	6.2
Net yield (%)	8.2	7.7	7.3	7.5	7.8
Net gearing (%)	37.0	37.5	37.4	44.1	44.0

Source: Company, KAF

Financial snapshot

In 3Q23, SENTRAL reported a steady performance, with a marginal increase in core net profit of RM18.9m (QoQ: +3%, YoY: +1%), culminating in total earnings of RM53.5m (YoY: -6%). The company's revenue growth reached RM115.4m (YoY: +4%), driven by higher revenue from Menara Shell and Platinum Sentral, coupled with improved occupancy rates. However, this growth was offset by an increase in property and financing costs, which escalated to RM26.8m (YoY: +11%) and RM27.4m (YoY: +25%), respectively.

For the quarter under review, 1.7sen DPU was declared. This brings the cumulative DPU to 4.9sen (YoY: -4%).

Overall, we deem this to be within our's and the market's expectations, constituting 72% and 76% respectively.

Occupancy improved to 86%

In August, SENTRAL successfully leased out the entirety of its NLA in the previously vacant Sentral Building 4 (formerly known as Quill-Building 2). This strategic move has positively impacted the occupancy rate, elevating it to 86% (2Q23: 77%).

For the present year, ~10% or 211k sq.ft of the NLA is set for renewal, and ~13% is expected to follow suit next year. It is understood that ~50% has already been secured, and the management continues to hold a positive outlook towards achieving full tenancy.

Outlook

Given the considerable availability of current and forthcoming office spaces, we foresee a restrained, essentially stagnant growth in office market rents. However, specific locales like KL Sentral still hold potential for improved rental reversions. It is worth noting that one out of nine buildings, the Wisma Sentral Inai (formerly Wisma TechnipFMC) built in 1994, is currently unoccupied. Given the building's age, attracting tenants could pose a challenge.

On a positive note, the management has hinted at deploying several strategic measures to counter the static office market. These include: i) Offering competitive rental terms and rates,

ii) Broadening marketing efforts beyond office tenants, and iii) Repurposing the vacant building to cater to the requirements of various industries and tenants.

In other developments, the impending integration of Menara CelcomDigi, which is projected to be fully occupied, is expected to enhance the REIT's overall occupancy rate and subsequently contribute positively to the DPU.

Maintain Hold, TP: RM0.89

Given the result in line, we retained our earnings forecasts. Overall, we reaffirm our Hold recommendation with a TP of RM0.89. Barring any unforeseen situation, we anticipate a DPU of 6.6sen for FY23F, which translates to a fairly attractive yield of 7.9% at a current price.

Exhibit 1: Quarterly Earnings Trend

FYE December	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	%QoQ	%YoY	9M22	9M23	%chg	FY23F	9M/F
Revenue	35.7	36.4	37.5	38.2	39.8	4.2	11.4	111.0	115.4	4	153.5	75
Property operating expenses	(7.3)	(8.5)	(8.2)	(8.9)	(9.7)	8.1	32.5	(24.1)	(26.8)	11	(34.0)	79
Net property income	28.4	27.8	29.3	29.3	30.1	2.9	6.1	86.9	88.7	2	119.5	74
Interest income	0.6	0.9	0.6	0.6	0.7	7.0	22.3	1.4	1.9	35	3.4	57
Trust expenses	(3.4)	(3.6)	(3.4)	(3.7)	(3.9)	4.4	15.0	(10.6)	(11.0)	4	(14.8)	74
Borrowing costs	(7.6)	(8.8)	(9.1)	(9.2)	(9.1)	(1.1)	19.4	(22.0)	(27.4)	25	(33.8)	81
Exceptional items	-	(23.7)	-	-	-	-	-	-	-	-	-	-
Profit before tax	17.9	(7.3)	17.7	17.6	18.2	3.2	1.4	56.8	53.5	(6)	74.3	72
Tax	-	2.6	-	-	-	-	-	-	-	-	-	-
Net profit	17.9	(4.7)	17.7	17.6	18.2	3.2	1.4	56.8	53.5	(6)	74.3	72
Normalized net profit	17.9	16.3	17.7	17.6	18.2	3.2	1.4	56.8	53.5	(6)	74.3	72

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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