

HLIB Research
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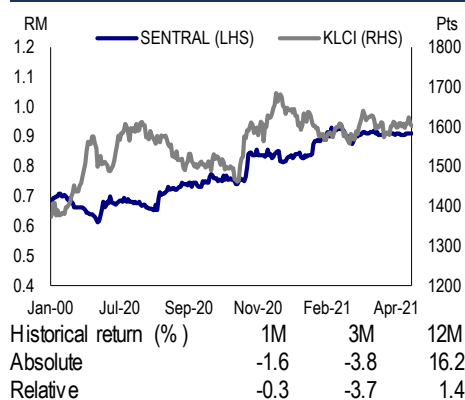
BUY (Maintain)

Target Price: **RM0.98**
Previously: **RM0.94**
Current Price: **RM0.895**

Capital upside	10.1%
Dividend yield	8.5%
Expected total return	18.6%

Sector coverage: REIT

Company description: MRCB-Quill 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)	959
3-mth average volume ('000)	259
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	79.7	82.5	85.3
EPU – core (sen)	7.4	7.7	8.0
P/E (x)	12.0	11.6	11.2

Sentral REIT

Starting off firmly

Sentral REIT's 1QFY21 core net profit of RM20.7m (+0.4% QoQ, +4.6% YoY) was within both ours and consensus estimates. No dividends were declared. Top line remained flat (-1.6% YoY). Lower finance costs (-19.5% YoY) pushed up core net profit to RM20.7m (+4.6% YoY). Overall occupancy is stable at 89%, while gearing increased to 38.3%. We updated our model for FY20 audited accounts which led to our FY21-22 earnings increase by 3%-4%. We also introduced FY23 estimates. Post book keeping, our TP increases to RM0.98 (from RM0.94), based on FY22 DPU on targeted yield 7.9%. **Maintain BUY.**

Within expectation. 1QFY21 core net profit of RM20.7m (+0.4% QoQ, +4.6% YoY) was within both ours and consensus full year estimates at 26%.

Dividend. No dividends were declared as it is usually payable semi-annually.

QoQ. Top line remained flat (-1.8%) at RM41.0m. Lower property operating expenses (-4.1%) on some of the properties as well as lower finance costs (-10.5%) incurred during the quarter. This followed with core net profit of RM20.7m (+0.4%).

YoY. Gross revenue continued to be flat (-1.6%); while we understand some properties had recorded higher revenues, this was offset by lower revenue from Plaza Mont Kiara, QB3-BMW and Wisma Technip. Property operating expenses increased slightly (+2.1%) due to higher expenses incurred on some properties. Total expenses reduced (-14.3%) mainly driven by lower finance costs (-19.5%) on the back of lower interest rates. This pushed up core net profit to RM20.7m (+4.6%).

Occupancy and gearing. With 9 properties, the overall occupancy rate remained stable at 89% (4Q20: 90%). As for gearing level, it increased to 38.3% (4Q20: 37.9%) with a majority of its total borrowings being charged a floating interest rate (54%).

Lease expiry. In 2021, 22% of Sentral REIT's total net lettable area (NLA) or approximately 440k sq. ft. are due for renewal. Approximately 96% of leases due in 1Q21 have been successfully renewed. Sentral REIT is negotiating for the balance of the leases with the intention to lock in the tenancy ahead of its expiry and we believe chances of tenancy renewal are high due to nature of business of their tenants (big corporations and multinational companies like Shell, HSBC, DHL, etc).

Outlook. Sentral REIT will be focusing on cost optimisation and tenant retention to overcome the challenging environment that stems from Covid-19 pandemic. Furthermore, we believe Sentral REIT is relatively shielded from Covid-19 headwinds and MCOs impact due to its large exposure of office and miniscule exposure to the retail segment (unlike retail and hotel based REITs).

Forecast. We updated our model for FY20 audited accounts and our FY21-22 forecasts increased slightly by 3%-4%. We also introduce FY23 forecasts.

Maintain BUY, TP: RM0.98. Post book keeping, our TP increases to RM0.98 (from RM0.94). Our TP is based on FY22 forward DPU on targeted yield of 7.9%, which is derived from 2 years historical average yield spread of Sentral REIT and 10-year MGS. **Maintain BUY.** We like Sentral REIT for its attractive dividend yield of 8.5% (highest among REITs in our universe), and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike mall REITs.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	63.3	85.0	86.3	86.4	87.1
Receivables	6.3	5.1	5.3	5.3	5.4
Investment properties	2,143.0	2,097.0	2,099.0	2,101.0	2,103.0
PPE	0.4	0.3	0.1	0.0	0.0
Others	0.8	40.3	40.3	40.3	40.3
Assets	2,213.7	2,227.7	2,231.0	2,233.1	2,235.8
Payables	15.7	19.1	19.8	19.2	19.2
Debt	835.7	845.0	846.0	847.0	848.0
Security deposits	38.5	40.1	40.1	40.1	40.1
Derivatives	0.0	0.0	0.0	0.0	0.0
Liabilities	889.9	904.2	905.8	906.2	907.2
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	87.6	87.6	89.3	91.0	92.7
Equity	1,323.5	1,323.5	1,325.2	1,326.9	1,328.6
Total Liabilities & Equity	2,213.7	2,227.7	2,231.0	2,233.1	2,235.8

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Gross rental income	144.1	148.0	153.8	154.7	155.5
Car park income	13.0	11.8	11.8	11.8	11.8
Other revenue	3.9	4.2	4.8	5.5	6.3
Total revenue	161.0	164.0	170.4	172.0	173.7
Property opex	-39.2	-37.9	-39.2	-38.0	-38.0
Net property income	121.7	126.1	131.2	134.0	135.7
Other income	-32.4	-2.6	3.6	3.6	3.6
Net invest income	89.3	123.5	134.8	137.6	139.3
Manager's fee	-12.8	-12.8	-13.0	-13.1	-13.1
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-39.6	-35.4	-37.6	-37.7	-37.7
Other non opex	-0.9	-0.9	-0.9	-0.9	-0.9
Profit before tax	35.4	73.8	82.5	85.3	86.8
Taxation	-6.2	-1.2	0.0	0.0	0.0
Profit after tax	29.1	72.6	82.5	85.3	86.8
Core net profit	72.1	79.7	82.5	85.3	86.8
Distributable income	73.0	81.0	82.5	85.3	86.8
Consensus core net profit			78.9	79.8	79.8
HLIB/ Consensus			105%	107%	109%

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	35.4	73.8	82.5	85.3	86.8
Finance costs	39.6	35.4	0.0	0.0	0.0
Depreciation	0.2	0.2	0.2	0.1	0.0
Fair value gain of assets	36.7	7.2	0.0	0.0	0.0
Interest income	-3.2	-2.9	0.0	0.0	0.0
Others	2.2	4.7	0.5	-0.6	0.0
CFO	110.9	118.4	83.3	84.7	86.8
Capex	-2.1	-1.2	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.1	0.0	0.0	0.0
Others	2.7	2.2	0.0	0.0	0.0
CFI	0.4	0.9	-2.0	-2.0	-2.0
Distribution paid	-78.0	-72.9	-80.9	-83.6	-85.1
Proceeds frm borrow'g	35.0	341.0	165.0	165.0	165.0
Repayment of borrow'g	-54.0	-335.0	-164.0	-164.0	-164.0
Others	-36.8	-30.7	0.0	0.0	0.0
CFF	-133.8	-97.5	-79.9	-82.6	-84.1
Net cash flow	-22.5	21.7	1.3	0.1	0.7
Beginning cash	85.8	63.3	85.0	86.3	86.4
Ending cash	63.3	85.0	86.3	86.4	87.1

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPU (sen)	6.7	7.4	7.7	8.0	8.1
P/E (x)	13.3	12.0	11.6	11.2	11.0
EBITDA	111.8	116.5	120.4	123.0	124.6
EBIT	111.7	116.3	120.2	123.0	124.6
EV	1,731.7	1,719.3	1,718.9	1,719.8	1,720.1
EV/EBITDA (x)	15.5	14.8	14.3	14.0	13.8
DPU (sen)	6.8	7.1	7.6	7.9	8.0
Dividend yield	7.6	7.9	8.5	8.8	8.9
NTA/ share (sen)	123.5	123.5	123.6	123.8	124.0
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.23	1.24	1.24	1.24
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	69.5%	71.1%	70.6%	71.5%	71.7%
EBIT margin	69.4%	70.9%	70.5%	71.5%	71.7%
PBT margin	22.0%	45.0%	48.4%	49.6%	50.0%
Net margin	44.8%	48.6%	48.4%	49.6%	50.0%
ROE	2.2%	5.5%	6.2%	6.4%	6.5%
ROA	3.3%	3.6%	3.7%	3.8%	3.9%
Net gearing	34.89%	34.12%	34.05%	34.06%	34.03%

Assumptions

FYE Dec	FY21f	FY22f	FY23f
Gross rental income			
Quill Building 1 - DHL 1	5.0	5.1	5.1
Quill Building 4 - DHL 2	5.4	5.5	5.6
Quill Building 2 - HSBC	10.0	10.0	10.1
Quill Building 3 - BMW	5.8	5.8	5.8
Wisma Technip	8.5	8.6	8.6
Part of Plaza Mont' Kiara	3.5	3.5	3.5
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.2	15.2	15.3
Platinum Sentral	51.8	52.1	52.4
Menara Shell	48.6	48.9	49.1
Total:	153.8	154.7	155.5

Quarterly financial summary

FYE Dec	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)
Gross Revenue	41.7	41.8	41.04	-1.8%	-1.6%
Property operating expen:	-9.4	-10.0	(9.61)	-4.1%	2.1%
Net Property Income	32.3	31.8	31.43	-1.1%	-2.7%
Interest income	0.6	1.2	0.48	-58.1%	-16.3%
Net Investment Income	32.9	25.8	31.91	23.8%	-2.9%
Total Expenses	-13.1	-12.3	(11.22)	-9.1%	-14.3%
Normalised PBT	19.8	20.6	20.69	0.4%	4.6%
Normalised PAT	19.8	20.6	20.69	0.4%	4.6%
Distributable income	19.8	20.6	20.69	0.4%	4.6%
EPU (realised)	1.8	1.9	1.93	0.4%	4.6%
DPU (sen)	-	3.7	-	NM	NM

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Gross Revenue	41.7	41.8	41.0	-1.8%	-1.6%
Property operating expenses	-9.4	-10.0	-9.6	-4.1%	+2.1%
Net Property Income	32.3	31.8	31.4	-1.1%	-2.7%
Interest income	0.6	1.2	0.5	-58.1%	-16.3%
Net Investment Income	32.9	25.8	31.9	+23.8%	-2.9%
Finance costs	-9.5	-8.6	-7.7	-10.5%	-19.5%
Valuation fees	-0.1	-0.0	-0.1	+107.7%	-6.2%
Administrative expenses	-0.0	-0.3	-0.1	-81.0%	+50.7%
Total Expenses	-13.1	-12.3	-11.2	-9.1%	-14.3%
Core PBT	19.8	20.6	20.7	+0.4%	+4.6%
Core PAT	19.8	20.6	20.7	+0.4%	+4.6%
Distributable income	19.8	20.6	20.7	+0.4%	+4.6%
EPU (realised)	1.85	1.92	1.93	+0.4%	+4.6%
DPU (sen)	0.0	3.7	0.0	N.M.	N.M.

HLIB Research

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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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