

07 May 2021

Sentral REIT

1QFY21 Within Expectations

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1QFY21 RNI of RM20.7m came in within our and consensus expectations at 25% and 26% of full-year estimates, respectively. No dividend, as expected. Maintain FY21-22E CNP of RM82.1-82.4m on stable occupancy, mildly positive reversions and minimal lease expiries. Maintain OUTPERFORM and TP of RM0.975 as we roll valuation forward to FY22E GDPU of 7.2 sen on unchanged spread and 10-year MGS target of 3.3%. A plus is its attractive gross yield of 8.0% vs. peers' average of 5.3% as its earnings are more resilient than retail players which are struggling during this pandemic.

1QFY21 realised net income (RNI) of RM20.7m came in well within our and consensus expectations at 25% and 26% of full-year estimates, respectively. No dividend announced, as expected.

Results' highlights. YoY, top-line was down slightly by 1.6% due to lower revenues from Plaza Mont Kiara, QB3-BMW and Wisma Technip. However, RNI was up by 4.6% mainly due to lower financing cost (-19.5%) on lower borrowing rates. **QoQ, RNI** was marginally up by 0.4% on the back of a marginally lower top-line by 1.8%, but offset by lower operating (-4.1%), financing cost (-10.5%) and expenditure (-5.9%) costs. Gearing remained stable at 0.38x which is below MREITs' gearing limit of 0.60x currently.

Outlook. FY21-22 will see minimal lease expiries of 22-16% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. Asset occupancy remains relatively stable at 89.0% (vs. 90.0% in 4QFY20). With minimal lease expiries and its track record of low single-digit positive reversions, we believe that SENTRAL would be able to at least see flattish earnings growth YoY. Meanwhile the Covid-19 situation has caused the group to be more diligent in managing cash flows and exercising financial discipline. This may help with attractive acquisition opportunities should the situation arise given the healthy balance sheet.

Maintain FY21-22E CNP of RM81.8-82.4m on stable occupancy and mildly positive reversions. Our FY21-22E GDPU/NDPU of 7.2-7.2 sen / 6.5-6.5 sen imply attractive gross yield of 8.0% each (with net yield of 7.2%).

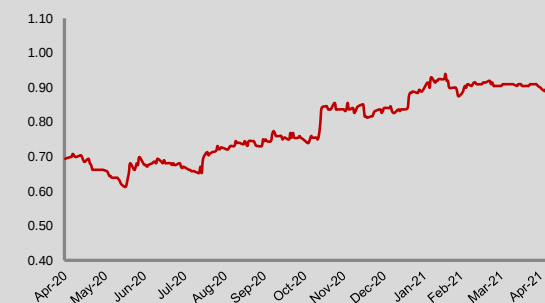
Maintain OUTPERFORM on an unchanged TP of RM0.975 post rolling valuation forward to FY22E on an unchanged spread of 4.1ppt @ average SD to our 10-year MGS target of 3.3%. We like SENTRAL REIT as its earnings have remained unscathed in FY20 despite the pandemic and it has proven to be more stable than its peers given that it operates within the office segment with more stable rental. Its FY21-22 prospects appear promising with minimal lease expiries, and superior attractive gross yields of 8.0% vs. other large cap MREITs peers of 4.7% to 7.0%.

Risks to our call include bond yield expansions and weaker-than-expected rental reversions.

OUTPERFORM ↔

Price: **RM0.895**
Target Price: **RM0.975** ↔

Share Price Performance



KLCI 1,578.33
YTD KLCI chg -3.0%
YTD stock price chg 2.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity
Shares Outstanding	959.2
52-week range (H)	1,071.8
52-week range (L)	0.96
3-mth avg daily vol:	0.66
Free Float	258,695
Beta	33%
	0.9

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.1%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	165.7	170.6	175.1
EBIT	127.8	121.5	122.2
PBT	73.8	81.8	82.4
Net Profit	73.8	81.8	82.4
Core NP*	81.0	81.8	82.4
Consensus (CNP)	n.a.	79.4	80.2
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.6	7.6	7.6
Core EPS growth (%)	12	0	0
NDPS (sen)	6.4	6.5	6.5
BVPS (RM)	1.23	1.27	1.28
Core PER (x)	11.8	11.8	11.8
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.38	0.38	0.38
Net Div. Yield (%)	7.1	7.2	7.2

*Core NP refers to RNI



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Results Highlight

FYE 31 Dec (RM m)	1Q21	4Q20	QoQ	1Q20	YoY
Gross revenue	41.0	41.8	-1.8%	41.7	-1.6%
Prop Opex	-9.6	-10.0	-4.1%	-9.4	2.1%
NPI excl. unrealised rental income	31.4	31.8	-1.1%	32.3	-2.7%
Interest Income	0.5	1.2	-58.1%	0.6	-16.3%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.
Surplus on revaluation	0.0	-7.2	n.m.	0.0	n.a.
Total Trust Income	31.9	25.8	23.8%	32.9	-2.9%
Expenditure	-3.5	-3.8	-5.9%	-3.5	-0.1%
Finance Cost	-7.7	-8.6	-10.5%	-9.5	-19.5%
Income Before Tax	20.7	13.4	54.0%	19.8	4.6%
Tax	0.0	0.0	n.a.	0.0	n.a.
Net Income	20.7	13.4	54.0%	19.8	4.6%
Realised Net income (RNI)	20.7	20.6	0.4%	19.8	4.6%
Core EPU (sen)	1.93	1.92	0.4%	1.85	4.6%
DPU (sen)	0.00	3.65	n.m.	0.00	n.a.
NAV/unit (RM)	1.22	1.23		1.22	
Gearing (x)	0.38	0.38		0.38	
NPI Margins	76.6%	76.0%		77.4%	
RNI Margins	50.4%	49.3%		47.4%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
MREITs UNDER COVERAGE																		
AXIS REIT	1.96	2,835.1	Y	12/2021	3.6%	2.5%	11.9%	1.6%	21.8	19.6	19.6	1.5	1.5	6.2%	4.4%	2.30	OP	
CAPITALAND MALAYSIA MALL TRUST	0.635	1,337.4	N	12/2021	17.3%	6.9%	42.2%	12.5%	21.2	15.9	12.7	0.5	0.5	2.6%	6.0%	0.605	MP	
IGB REIT	1.73	6,170.2	N	12/2021	12.6%	1.8%	21.7%	1.7%	24.7	21.6	21.6	1.6	1.6	6.2%	4.2%	1.90	OP	
KLCCP STAPLED GROUP	6.90	12,456.8	Y	12/2021	4.9%	6.9%	8.2%	10.3%	23.0	20.9	19.2	1.0	0.9	5.4%	4.2%	8.15	OP	
SENTRAL REIT	0.895	959.2	N	12/2021	3.0%	2.6%	1.0%	0.7%	11.8	11.8	11.8	0.7	0.7	5.3%	6.9%	0.975	OP	
PAVILION REIT	1.37	4,175.4	N	12/2021	9.1%	7.9%	51.7%	13.1%	34.3	22.8	19.6	1.1	1.1	2.5%	4.0%	1.40	MP	
SUNWAY REIT	1.47	5,034.5	N	12/2021	1.5%	12.2%	-10.5%	24.4%	14.7	16.3	14.7	1.0	0.9	5.4%	4.8%	1.15	UP	
Simple Average					7.4%	5.8%	18.0%	9.2%	21.5	18.6	16.9	1.1	1.0	4.8%	4.9%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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