

11 November 2021

Sentral REIT (SENTRAL MK)

Occupancy To Remain Stable; Maintain BUY

- **BUY, new DDM-derived MYR1.02 TP from MYR1.00, 13% upside and c.8% FY22F yield.** Sentral REIT's results came in above our expectations but within consensus', with flattish YoY performance owing to muted reversion rates and rental rebates granted YTD. We continue to be cautious of reversion rates dipping into negative territory for tenant-retention purposes, but turn more confident on the REIT's ability to maintain robust occupancy levels.
- **Results were in line with Street's expectations.** 3Q21 core earnings of MYR22.1m (+20.7% QoQ, +3.0% YoY) brought 9M21 earnings to MYR61.1m (-0.4% YoY). The results were above expectations at 83% of our full-year estimates, but in line with consensus' at 76%. On a YoY basis, 9M21 revenue was 4.4% lower, due to lower contributions from QB3, Plaza Mont Kiara, Wisma Technip, and Platinum Sentral. As blended occupancy remained robust, we believe the slightly negative growth was due to rental rebates granted to tenants on a case-by-case basis, as well as possibly flat-to-negative reversion rates. 9M21 earnings YoY growth was flattish – dropping only marginally by 0.4% – supported in part by lower property expenses and finance costs.
- **Flattish reversion rates for 22% of NLA due for renewal in FY21.** Leases up for expiry in 9M21 saw a 73% renewal rate, with 8ppts of the 22% seeing renewals (making up c.36% of the leases up for renewal in FY21); while 2ppts of the 22% (translating to c.9% of NLA up for expiry this year) did not renew their tenancies. As negotiations for a large bulk of the renewals are ongoing, we are cautious of reversion rates dipping into negative territory for tenant-retention purposes, especially in the face of the rising work-from-home trend. According to management, most of the leases up for expiry are in Wisma Technip and Menara Shell.
- **Occupancy still stable at 91%.** Sentral REIT's blended occupancy rate remains stable at 91%, from 92% last quarter. In addition to downsizing of a tenant in Platinum Sentral last quarter, we gather that another tenant has reduced its NLA within Menara Shell, causing the marginal drop in blended occupancy for 3Q21. Nevertheless, we believe Menara Shell should see relatively stronger renewals for its remaining leases up for expiry, given its asset quality.
- **Maintain BUY.** We acknowledge that our occupancy rate assumptions were previously a tad bearish, and raise them to reflect a slightly more optimistic view on renewals moving forward. We revise our FY21-23 earnings forecasts upwards by 6-7% post results, maintaining our Street-low position. Our DDM-derived TP is raised marginally to MYR1.02, and includes neither an ESG premium or a discount, as Sentral REIT's ESG score of 3.0 is in line with the country median.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	162	166	159	160	160
Net property income (MYRm)	123	128	122	123	123
Reported net profit (MYRm)	72.1	81.0	78.8	80.0	80.6
Total distributable income (MYRm)	72.1	81.0	78.8	80.0	80.6
DPS (MYR)	0.07	0.08	0.07	0.07	0.07
DPS growth (%)	(16.2)	10.9	(3.6)	1.6	0.7
P/B (x)	0.72	0.72	0.72	0.72	0.72
Dividend Yield (%)	7.6	8.4	8.1	8.3	8.3
Return on average equity (%)	5.3	6.1	6.0	6.0	6.1
Return on average assets (%)	3.2	3.6	3.5	3.6	3.6

Source: Company data, RHB

Malaysia Results Review

Property | REITS

Buy (Maintained)

Target Price (Return):	MYR1.02 (13.3%)
Price (Market Cap):	MYR0.90 (USD231m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	0.51m/0.12m

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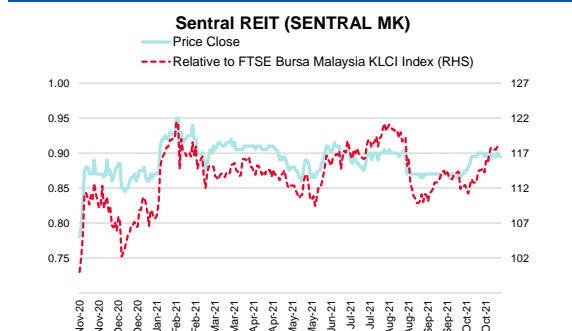


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.3	2.9	(0.6)	1.7	14.7
Relative	8.7	5.5	(2.4)	5.5	18.0
52-wk Price low/high (MYR)				0.80 – 0.95	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Sentral REIT has managed to reduce its overall water consumption in FY19 by 2% YoY, and is developing its own Water Management Policy. The REIT also doubled the capacity of Platinum Sentral's solar power system, and subscribes to the Feed-In-Tariff (FIT) for the Solar PV programme.

S: GOOD

67% of Sentral REIT's workforce consists of females, and the company provides sufficient training to its employees through the MRCB Training Academy, MRCB Learning Zone, and Industrial Practical Trainings. To ensure health and safety, Sentral REIT also conducts activities with external parties such as BOMBA.

G: EXCELLENT

We view positively its establishment of a "Policy on Giving and Receiving Gifts" and the commitment to the Corruption-Free Pledge by the Malaysian Anti-Corruption Commission. Directors' tenure range between 4-6 years on average.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS (MYR)	0.07	0.08	0.07	0.07	0.08
Property	EPS (MYR)	0.07	0.08	0.07	0.07	0.08
Sentral REIT	DPS (MYR)	0.07	0.08	0.07	0.07	0.07
SENTRAL MK	BVPS (MYR)	1.23	1.23	1.24	1.24	1.24
Buy	Return on average equity (%)	5.3	6.1	6.0	6.0	6.1
	Weighted avg adjusted shares (m)	1,071.78	1,071.78	1,071.78	1,071.78	1,071.78
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Dividend discount model	Recurring P/E (x)	13.31	11.85	12.17	11.99	11.91
	P/E (x)	13.31	11.85	12.17	11.99	11.91
Key drivers	P/B (x)	0.7	0.7	0.7	0.7	0.7
Higher-than-expected demand of office space and inorganic growth opportunities arising from MRCB and Quill Group.	FCF Yield (%)	7.1	8.0	7.8	7.9	7.9
	Dividend Yield (%)	7.6	8.4	8.1	8.3	8.3
Key risks	EV/EBITDA (x)	(3.80)	(3.34)	(2.91)	(2.45)	(2.40)
Downside risk: Oversupply of office properties may affect the portfolio's office property occupancy and rental rates.	EV/EBIT (x)	(3.80)	(3.34)	(2.91)	(2.45)	(2.40)
Company Profile	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Sentral REIT is a mid-cap MREIT that focuses on office/commercial assets. Assets are largely concentrated in the Klang Valley and Cyberjaya areas.	Total turnover	162	166	159	160	160
	EBITDA	108	113	111	113	113
	Operating profit	108	113	111	113	113
	Net interest	(36)	(32)	(33)	(33)	(33)
	Pre-tax profit	72	81	79	80	81
	Recurring net profit	72	81	79	80	81
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(4)	(4)	(4)	(5)	(5)
	Cash flow from operations	70	79	76	77	78
	Capex	(2)	(2)	(2)	(2)	(2)
	Cash flow from investing activities	(2)	(2)	(2)	(2)	(2)
	Dividends paid	(80)	(77)	(79)	(79)	(79)
	Cash flow from financing activities	(442)	54	(79)	(79)	(79)
	Cash at beginning of period	86	63	85	71	23
	Net change in cash	(374)	131	(5)	(3)	(4)
	Ending balance cash	(288)	194	80	68	19
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	63	85	71	23	19
	Total investments	2,144	2,097	2,057	2,057	2,057
	Total other assets	0	40	0	0	0
	Total assets	2,214	2,227	2,229	2,230	2,232
	Short-term debt	333	218	218	218	218
	Total long-term debt	503	627	627	627	627
	Total liabilities	890	904	904	905	906
	Shareholders' equity	1,323	1,324	1,324	1,325	1,326
	Total equity	1,323	1,324	1,324	1,325	1,326
	Net debt	772	760	774	822	826
	Total liabilities & equity	2,214	2,227	2,229	2,230	2,232
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(6.5)	2.2	(4.3)	0.8	0.1
	Recurrent EPS growth (%)	(11.2)	12.3	(2.7)	1.6	0.7
	Operating EBITDA margin (%)	66.9	68.5	70.2	70.5	70.7
	Net profit margin (%)	44.5	48.9	49.7	50.1	50.3
	Dividend payout ratio (%)	101.2	100.0	99.0	99.0	99.0
	Capex/sales (%)	1.2	1.2	1.3	1.3	1.2
	Interest cover (x)	2.74	3.21	3.14	3.17	3.19

Source: Company data, RHB

Results At a Glance

Figure 1: Sentral REIT's 9M20 results summary

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Revenue	42.1	37.6	40.8	8.4	(3.0)	124.9	119.5	(4.4)	Lower YoY on lower income from QB3, Wisma Technip, Plaza Mont Kiara and Platinum Sentral.
Net property income (NPI)	32.7	29.0	32.7	12.8	(0.0)	97.0	93.2	(3.9)	
Interest expense	(8.3)	(7.8)	(7.7)	(0.3)	(7.2)	(26.8)	(23.2)	(13.5)	
Interest income	0.6	0.5	0.6	31.8	2.1	1.8	1.6	(7.7)	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Others	(3.6)	(3.5)	(3.6)	2.6	(0.8)	(10.6)	(10.5)	(0.8)	
Pretax profit	21.5	22.6	22.1	(2.3)	3.0	60.3	61.7	2.2	Supported in part by the lower property expenses and finance costs.
Tax	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net Profit	21.5	22.6	22.1	(2.3)	3.0	60.3	61.7	2.2	
Core Profit	21.5	18.3	22.1	20.7	3.0	61.4	61.1	(0.4)	Above our expectations, but within consensus'.
Core earnings per unit (sen)	2.00	2.11	2.06	(2.4)	3.0	5.63	6.11	8.5	
Dividends per unit (sen)	2.00	3.43	2.06	(39.9)	3.0	5.43	5.49	1.1	
<i>NPI Margin (%)</i>	<i>77.9</i>	<i>77.2</i>	<i>80.3</i>			<i>77.7</i>	<i>78.0</i>		
<i>Pretax Margin (%)</i>	<i>51.1</i>	<i>60.2</i>	<i>54.2</i>			<i>48.3</i>	<i>51.6</i>		
<i>Net Margin (%)</i>	<i>51.1</i>	<i>48.7</i>	<i>54.2</i>			<i>49.1</i>	<i>51.2</i>		

Source: Company data, RHB

Recommendation Chart

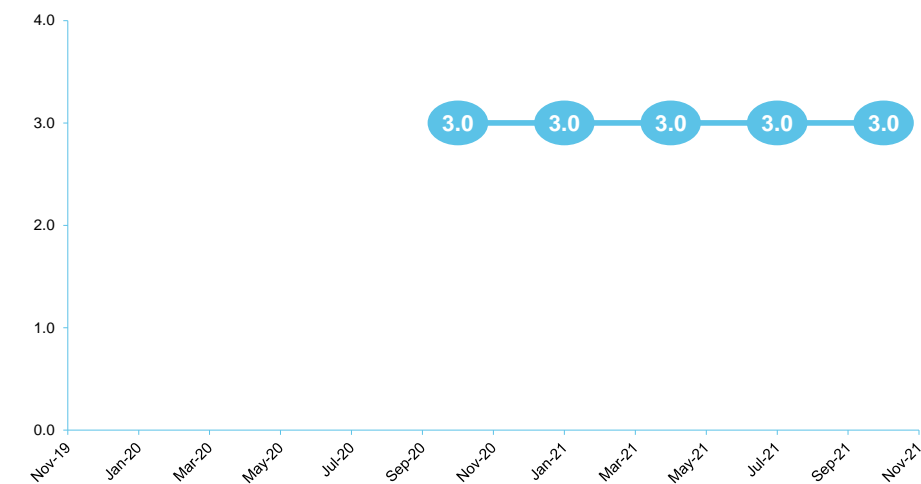


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-01-19	Buy	1.00	0.91
2020-12-09	Buy	0.95	0.87
2020-11-12	Buy	0.87	0.83
2020-08-17	Buy	0.83	0.78
2020-06-18	Buy	0.78	0.71
2020-04-06	Neutral	0.78	0.74
2020-01-20	Neutral	0.97	1.00
2019-11-26	Neutral	0.96	1.02
2019-08-08	Neutral	0.97	1.07
2019-05-10	Neutral	1.02	1.09
2019-01-18	Neutral	1.05	1.11
2019-01-10	Neutral	1.10	1.09
2018-11-28	Neutral	1.15	1.07

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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