

11 November 2021

# Sentral REIT

## 9MFY21 Within Our Expectations

By Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my)

9MFY21 RNI of RM65.6m came in within our expectation but marginally above consensus' at 80% and 82%, respectively. No dividends, as expected. Maintain FY21-22E CNP of RM81.8-82.4m on stable occupancy, mildly positive reversions and minimal lease expiries. Maintain OUTPERFORM and TP of RM0.935 on FY22E GDPU of 7.2 sen on unchanged spread and 10-year MGS target of 3.6%. We like SENTRAL's stable earnings profile which still translates to attractive gross yield of 8.0% vs. peers' average of 5.5%.

9MFY21 realised net income (RNI) of RM65.6m came in within our expectation but slightly above consensus' at 80% and 82%, respectively. No dividends, as expected.

**Results' highlights.** YoY-Ytd, top-line was down slightly by 3% due to lower revenue from QB3-BMW, Plaza Mont Kiara, Wisma Technip and Platinum Sentral. However, RNI was up by 8% on lower operating cost (-6%), lower financing cost (-14%) and gains on disposal of QB5 of RM3.8m which was completed in April 2021. QoQ, top-line bounced back up by 6.8%, likely due to rental deferments or rebates given in 2QFY21, but bottom-line declined by 2.3% with the absence of the RM3.8m disposal gain. Gearing remained stable at 0.37x (vs. 0.38x in 2QFY21).

**Outlook.** The Group's portfolio occupancy remains relatively stable at 91%. 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. With minimal lease expiries, we believe that SENTRAL would be able to at least see flattish YoY earnings growth. The group remains diligent in managing cash flows and exercising financial discipline and on the lookout for accretive acquisition opportunities should the situation arise given its healthy balance sheet.

**Maintain FY21-22E CNP of RM81.8-82.4m.** Earnings are driven by stable organic growth and occupancy of c.90% on flattish-to-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 (net yield of 7.2%).

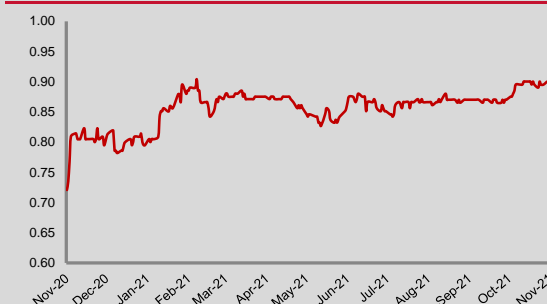
**Maintain OUTPERFORM and TP of RM0.935** on FY22E GDPU and 4.1ppt spread @ average SD to our 10-year MGS target of 3.6%. We continue to favour SENTRAL REIT for its resilient earnings which have remained stable throughout the pandemic in FY20 and 9MFY21 with earnings faring better than retail and hospitality MREIT peers. FY22 prospect is expected to be stable with minimal lease expiries, allowing the Group to maintain its stable earnings and attractive gross yields of 8.0% vs. other large cap MREIT peers of 4.7% to 7.5%.

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

# OUTPERFORM ↔

Price: **RM0.895**  
Target Price: **RM0.935** ↔

## Share Price Performance



KLCI 1,520.74  
YTD KLCI chg -6.5%  
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:	0.79
Free Float	631,113
Beta	33%
	0.9

## Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.0%
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
<b>Net Profit</b>	<b>73.8</b>	<b>81.8</b>	<b>82.4</b>
<b>Core NP*</b>	<b>81.0</b>	<b>81.8</b>	<b>82.4</b>
Consensus (CNP)	n.a.	80.0	82.3
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.3	7.6	7.6
Core EPS growth (%)	4	4	0
NDPS (sen)	6.2	6.460	6.5
BVPS (RM)	1.27	1.27	1.28
Core PER (x)	12.3	11.8	11.8
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.39	0.38	0.38
Net Div. Yield (%)	7.0	7.2	7.2

\*Core NP refers to RNI



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Results Highlight								
FYE 31 Dec (RM'm)	3Q21	2Q21	QoQ	3Q20	YoY	9MFY20	9MFY21	YoY-Ytd
Gross revenue	40.8	38.2	6.8%	42.1	-3.0%	123.9	120.0	-3%
Prop Opex	-8.0	-8.6	-6.3%	-9.3	-13.6%	-27.9	-26.2	-6%
<b>NPI excl unrealised rental income</b>	<b>32.7</b>	<b>29.6</b>	<b>10.6%</b>	<b>32.7</b>	<b>0.0%</b>	<b>96.0</b>	<b>93.8</b>	<b>-2%</b>
Interest Income	0.6	0.5	31.8%	0.6	2.1%	1.8	1.6	-8%
Gain on divestment prop	0.0	3.8	n.a.	0.0	n.a.	0.0	3.8	n.a.
Surplus on revaluation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Total Trust Income</b>	<b>33.4</b>	<b>33.9</b>	<b>-1.4%</b>	<b>33.4</b>	<b>0.0%</b>	<b>97.8</b>	<b>99.2</b>	<b>1%</b>
Expenditure	-3.6	-3.5	2.6%	-3.6	-0.8%	-10.6	-10.5	-1%
Finance Cost	-7.7	-7.8	-0.3%	-8.3	-7.2%	-26.8	-23.2	-14%
<b>Income Before Tax</b>	<b>22.1</b>	<b>22.6</b>	<b>-2.3%</b>	<b>21.5</b>	<b>3.0%</b>	<b>60.3</b>	<b>65.5</b>	<b>8%</b>
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	22.1	22.6	-2.3%	21.5	3.0%	60.3	65.5	8%
<b>Realised Net income (RNI)</b>	<b>22.1</b>	<b>22.6</b>	<b>-2.3%</b>	<b>21.5</b>	<b>3.0%</b>	<b>60.3</b>	<b>65.5</b>	<b>8%</b>
Core EPU (sen)	2.06	2.11	-2.3%	2.00	3.0%	5.63	6.11	8%
DPU (sen)	0.00	3.43	n.a.	0.00	n.a.	3.43	3.43	0%
NAV/unit (RM)	1.23	1.24		1.22		1.22	1.23	
Gearing (x)	0.37	0.38		0.38		0.38	0.37	
NPI Margins	80.3%	77.5%		77.9%		77.5%	78.1%	
RNI Margins	54.2%	59.3%		51.1%		48.7%	54.5%	

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)	
<b>MREITs UNDER COVERAGE</b>																		
AXIS REIT	1.89	2,733.9	Y	12/2021	3.6%	2.5%	11.9%	1.6%	21.0	18.9	18.9	1.5	1.5	6.2%	4.6%	2.15	OP	
CAPITALAND MALAYSIA TRUST	0.620	1,321.1	N	12/2021	-12.0%	42.3%	-33.9%	141.6%	20.7	31.0	12.4	0.5	0.5	2.6%	2.7%	0.580	MP	
IGB REIT	1.66	5,929.3	N	12/2021	12.6%	1.8%	-12.0%	40.7%	23.7	27.7	20.8	1.6	1.6	6.2%	3.3%	1.70	MP	
KLCCP STAPLED GROUP	6.77	12,222.1	Y	12/2021	3.7%	8.1%	7.1%	11.5%	22.6	20.7	18.6	0.9	0.9	5.4%	4.3%	7.35	OP	
SENTRAL REIT	0.895	959.2	N	12/2021	3.0%	2.6%	1.0%	0.7%	12.3	11.8	11.8	0.7	0.7	5.3%	7.2%	0.935	OP	
PAVILION REIT	1.41	4,300.6	N	12/2021	9.1%	10.4%	-6.3%	83.2%	35.3	35.3	20.1	1.1	1.1	2.5%	2.5%	1.30	MP	
SUNWAY REIT	1.43	4,897.5	N	12/2021	7.6%	5.0%	-21.3%	21.7%	18.4	26.2	18.1	0.9	0.9	5.4%	3.3%	1.35	MP	
<b>Simple Average</b>					<b>3.9%</b>	<b>10.4%</b>	<b>-7.7%</b>	<b>43.0%</b>	<b>21.8</b>	<b>24.4</b>	<b>17.2</b>	<b>1.0</b>	<b>1.0</b>	<b>4.8%</b>	<b>4.0%</b>			

\* 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

