

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

2Q22: Results Below Expectations; Expect Weaker Earnings Moving Forward

Even though 1H22 core earnings accounted for 48% of our full-year forecast, we deem the results below expectations as we are now forecasting a weaker 2H22. This is mainly due to lower occupancy rates, as QB2 and Wisma Technip are now vacant. Key assets in KL Sentral remain intact, contributing >50% to total revenue. Cut earnings by 13-22% for 2022-24 to reflect the absence of earnings from the vacant buildings. Downgrade to HOLD with a lower target price of RM0.90.

2022 RESULTS

Year to 31 Dec	2Q22 (RMm)	1Q22 (RMm)	qoq % chg	yoy % chg	1H22 (RMm)	yoy % chg
Gross revenue	37.1	39.3	(5.7)	(3.0)	76.4	(3.6)
Operating expenses	(8.6)	(8.3)	3.9	(0.1)	(16.8)	(7.5)
Net property income	28.5	31.0	(8.3)	(3.8)	59.5	(2.5)
Finance cost	(7.1)	(7.3)	(2.9)	(8.5)	(14.4)	(6.8)
Core Net Profit	18.5	20.4	(9.4)	(2.3)	38.8	(2.0)
EPU (sen)	1.7	1.9	(9.4)	(2.3)	3.6	(2.0)
DPU (sen)	3.4	0.0	n.m.	(3.2)	3.4	(0.9)
Margins	(%)	(%)	ppt chg	ppt chg	(%)	ppt chg
NPI	76.9	79.0	(2.1)	(0.7)	78.0	0.9
PAT	49.8	51.8	(2.0)	0.3	50.8	0.9

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **Below expectations.** Sentral REIT (SENTRAL) reported 2Q22 revenue of RM37.1m (-5.7% qoq, -3.0% yoy) and core net profit of RM18.5m (-9.4% qoq, -2.3% yoy). Cumulative 1H22 core net profit of RM38.8m (-2.0%) accounted for 48% of our and consensus' full-year forecasts. Earnings declined due to lower occupancy from Quill Building 2 (QB2) and Wisma Technip, which are both now empty.
- **Declared 3.4 sen dividend for 1H22.** This translates to a payout ratio of 94%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	166	161	152	146	148
EBITDA	113	109	100	94	96
Operating profit	113	109	100	94	96
Net profit (rep./act.)	73	70	71	65	67
Net profit (adj.)	81	81	71	65	67
EPU (sen)	7.6	7.5	6.6	6.1	6.3
DPU (sen)	7.1	7.6	6.3	5.8	6.0
PE (x)	13.4	13.4	15.3	16.6	16.0
P/B (x)	0.8	0.8	0.8	0.8	0.8
DPU Yld (%)	7.0	7.6	6.2	5.7	5.9
Net margin (%)	43.8	43.7	46.6	44.8	45.6
Net debt/(cash) to equity (%)	57.4	54.0	52.7	52.3	51.8
Interest cover (x)	3.5	3.8	3.4	3.3	3.4
ROE (%)	5.5	5.3	5.4	4.9	5.1
Consensus DPU (sen)	n.a.	n.a.	7.1	7.4	7.7
UOBKH/Consensus (x)	-	-	0.88	0.78	0.78

Source: Sentral REIT, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	RM1.01
Target Price	RM0.90
Upside	-10.9%
(Previous TP)	RM1.00

COMPANY DESCRIPTION

Sentral REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SENTRAL MK
Shares issued (m):	1,071.8
Market cap (RMm):	1,082.5
Market cap (US\$m):	241.8
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

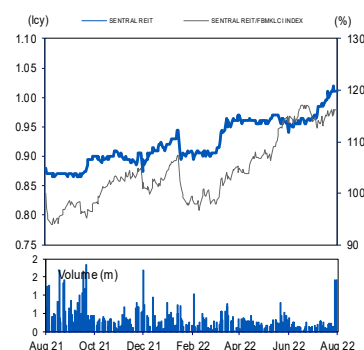
52-week high/low		RM1.02/RM0.865		
1mth	3mth	6mth	1yr	YTD
5.2	5.8	11.6	12.2	11.6

Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
CapitaLand Ltd	10.9

FY22 NAV/Share (RM)	1.23
FY22 Net Debt/Share (RM)	0.65

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Earnings impacted due to lower occupancy.** The lower occupancy stemmed from Wisma Technip and QB2 whereby tenants have vacated both buildings and are now empty. Revenue contribution from each of the buildings stand at single-digit levels of total annual revenue. Positively, net property income (NPI) margin for 1H22 remained stable at 78% (1H21: 77%). Key assets in KL Sentral remain intact (Menara Shell and Platinum Sentral), contributing >50% to total revenue.
- **Occupancy rate declined to 78% from 86%.** On a portfolio basis, occupancy rate declined to 78% (1Q22: 86%, 2Q21: 92%), due to non-renewals at QB2 and Wisma Technip. Total leases due for renewals for 2022 and 2023 account for 28% and 8% of total NLA respectively. SENTRAL successfully renewed 15% of leases due in 1H22. SENTRAL's weighted average lease expiry (WALE) is 3.53 years.
- **Gearing at 37%.** SENTRAL's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. The 50% gearing limit by the Securities Commissions will give SENTRAL debt headroom of about RM281m to fund future acquisitions.

EARNINGS REVISION/RISK

- **Cut earnings by 13-22% for 2022-24** as we remove the earnings contribution from QB2 and Wisma Technip. Expect earnings to be weaker from 3Q22 onwards as we do not foresee any immediate take-up of the buildings.
- Faster-than-expected take-up of the vacant buildings would pose an upside risk to our forecasts.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a lower target price of RM0.90** (from RM1.00), after our earnings adjustment. Our target price is based on a Dividend Discount model (required rate of return: 8.9%, terminal growth: 1.3%) and represents an implied dividend yield of 7.0% for 2022.

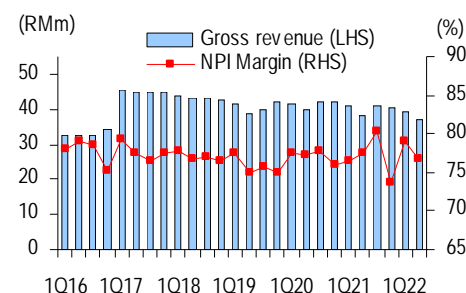
SHARE PRICE CATALYST

- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

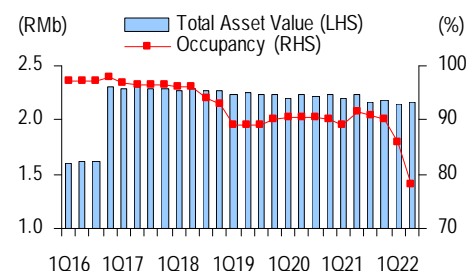
• Environmental <ul style="list-style-type: none"> - Currently developing their Energy Management Policy, with the intent to roll out the policy to all buildings by 2022.
• Social <ul style="list-style-type: none"> - Their Health and Safety Policy guides management on all health and safety issues, complying with the relevant laws and regulations such as the Occupational Safety and Health Act 1994 by the Department of Occupational Safety and Health.
• Governance <ul style="list-style-type: none"> - Aligned to the Malaysian Code on Corporate Governance issued by Securities Commission Malaysia. - Adopts a zero-tolerance approach against all forms of bribery and corruption and has instituted measures to guard against any unethical behaviour.

REVENUE AND NPI MARGIN



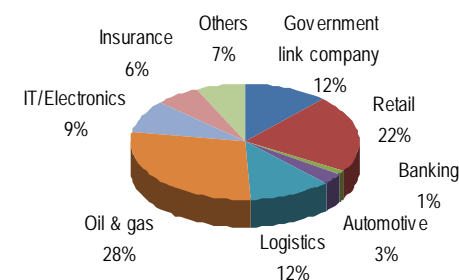
Source: SENTRAL, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



Source: SENTRAL, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	161	152	146	148
EBITDA	109	100	94	96
Deprec. & amort.	0	0	0	0
EBIT	109	100	94	96
Net interest income/(expense)	(28)	(29)	(29)	(29)
Pre-tax profit	69	71	65	67
Tax	1	0	0	0
Net profit	70	71	65	67
Net profit (adj.)	81	71	65	67

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	2,081	2,083	2,085	2,087
Other LT assets	0	0	0	0
Cash/ST investment	94	114	121	130
Other current assets	6	5	5	5
Total assets	2,180	2,203	2,211	2,223
ST debt	130	135	138	143
Other current liabilities	32	46	48	51
LT debt	676	676	676	676
Other LT liabilities	25	25	25	25
Shareholders' equity	1,318	1,321	1,325	1,328
Total liabilities & equity	2,180	2,203	2,211	2,223

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	110	105	98	100
Pre-tax profit	69	71	65	67
Deprec. & amort.	0	0	0	0
Other operating cashflows	41	34	33	33
Investing	40	(2)	(2)	(2)
Capex (growth)	(1)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	41	0	0	0
Financing	(145)	(82)	(89)	(89)
Distribution to unitholders	(76)	(67)	(62)	(64)
Issue of shares	0	0	0	0
Proceeds from borrowings	258	175	120	120
Loan repayment	(27)	(170)	(117)	(115)
Others/interest paid	(301)	(20)	(30)	(30)
Net cash inflow (outflow)	5	21	7	9
Beginning cash & cash equivalent	85	94	114	121
Changes due to forex impact	3	0	0	0
Ending cash & cash equivalent	94	114	121	130

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Turnover	(3.0)	(5.5)	(3.9)	1.3
EBITDA	(3.7)	(8.5)	(5.9)	2.1
Pre-tax profit	(6.8)	2.8	(7.6)	3.2
Net profit	(3.2)	0.7	(7.6)	3.2
Net profit (adj.)	(0.3)	(12.4)	(7.6)	3.2
EPU	(0.3)	(12.4)	(7.6)	3.2
Profitability				
EBITDA margin	68.0	65.8	64.4	64.9
Pre-tax margin	42.8	46.6	44.8	45.6
Net margin	43.7	46.6	44.8	45.6
ROA	3.2	3.2	3.0	3.0
ROE	5.3	5.4	4.9	5.1
Leverage				
Debt to total capital	37.9	38.0	38.1	38.1
Debt to equity	61.1	61.3	61.4	61.6
Net debt/(cash) to equity	54.0	52.7	52.3	51.8
Interest cover (x)	3.8	3.4	3.3	3.4

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