

11 November 2022

Sentral REIT

Occupancy Rate Slips Further

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9MFY22 net profit of RM57.0m (-13% YoY) is within expectations. The weaker performance was mainly attributed to lower topline contribution. No distribution was declared, as expected. Our forward earnings are maintained. Still an UNDERPERFORM with an unchanged TP of RM0.79 based on a target yield of 8.0% (which implies a 3.5% yield spread above our 10-year MGS assumption of 4.5%).

Results' highlights. YoY, gross revenue was down 7% to RM111.0m, which led net profit to decline by 13% to RM57.0m (as a gain on divestment of investment property of RM3.8m was recognised in 9MFY21). This represents 78%/80% of our/consensus estimates – broadly within our expectation and a tad above consensus – as we anticipate a marginally softer final quarter. The fall in revenue was mainly due to lower contributions from Wisma Technip, QB2-HSBC and QB3-BMW. Net property income (NPI) dropped in tandem by 7% to RM86.9m as property operating expenses dipped 8% to RM24.1m. There was no distribution declared in 3QFY22 (as SENTRAL typically pays distribution on a semi-annual basis).

Outlook. The prevailing industry oversupply of office space will continue to weigh on SENTRAL's earnings. Reflecting this, overall portfolio occupancy rate has been on the decline from 90% in end-December 2021, to 86% in end-March 2022, to 78% end-June, and down further to 73% end-September this year. Against this backdrop, approximately 511,000 sq ft or 28% of total committed net lettable area (NLA) is due for renewal this year. As of end-September 2022, 11% has been renewed while another 16% was not renewed (mainly from Quill Building 2 and Wisma Technip) with negotiations for the balance 1% currently in progress for renewal in 4QFY22.

Earnings maintained. Post the results, we are keeping our net profit projections at RM73.2m for FY22 and RM71.3m for FY23. Our FY22F and FY23F DPU remain at 6.5 sen and 6.3 sen, respectively, which imply yields of 7.4% and 7.2%.

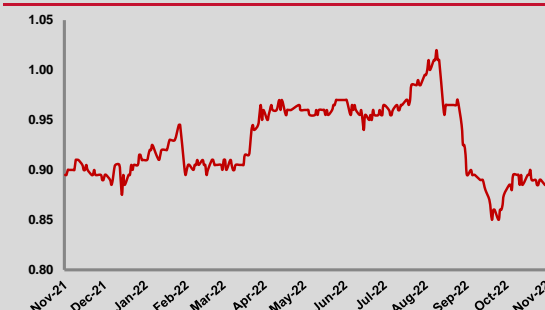
Still an UNDERPERFORM. Its share price has fallen 12.9% since our downgrade on 22 August 2022 amid the poor fundamentals. We are keeping our TP at RM0.79 based on a target yield of 8.0% (which is derived from a 3.5% yield spread above our 10-year MGS assumption of 4.5%) on FY23F GDPU. This is to take into consideration SENTRAL's high exposure to the office space sector (which is expected to be affected by the persistent oversupply situation amid an uncertain economic environment). There is no adjustment to our TP based on ESG of 3-star rating as appraised by us.

Risks to our call include: (i) risk-free rate eases, (ii) higher-than-expected rental reversions, and (iii) oversupply in office space eases, boosting occupancy and rental rates.

UNDERPERFORM ↔

Price: RM0.88
Target Price: RM0.79 ↔

Share Price Performance



KLCI 1,449.74
YTD KLCI chg -7.5%
YTD stock price chg -2.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity
Shares Outstanding	943.2
52-week range (H)	1,071.8
52-week range (L)	1.02
3-mth avg daily vol:	0.85
Free Float	353,818
Beta	31%
	0.4

Major Shareholders

Malaysian Resources Corporation Berhad	27.9%
Employees Provident Fund Board	12.0%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	159.6	149.0	150.3
EBIT	96.2	100.2	100.5
PBT	68.8	73.2	71.3
Net Profit (NP)	70.2	73.2	71.3
Core NP*	82.2	73.2	71.3
Income Distribution	79.4	69.5	67.8
Consensus (CNP)	n.a.	71.3	66.8
Earnings Revision	n.a.	-	-
Core EPS (sen)	7.7	6.8	6.7
Core EPS growth (%)	4.1	-11.7	-1.5
GDPU (sen)	7.4	6.5	6.3
BVPS (RM)	1.19	1.19	1.19
Core PER (x)	11.4	12.9	13.1
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.38	0.37	0.37
Net Div. Yield (%)	8.4	7.4	7.2

* - After adjusting for change in FV of investment properties and gain on disposal of investment property.



11 November 2022

Results Highlights

FYE 31 Dec (RM m)	3Q22	3Q21	YoY	2Q22	QoQ	9M22	9M21	YoY
Gross revenue	35.7	40.5	-12%	36.5	-2%	111.0	119.2	-7%
Property operating expenses	-7.3	-8.0	-9%	-8.6	-15%	-24.1	-26.2	-8%
Net property income	28.4	32.5	-13%	27.9	2%	86.9	92.9	-7%
Interest income & other income	0.8	0.9	-12%	1.0	-15%	2.8	2.5	12%
Finance costs	-7.6	-7.7	-1%	-7.1	8%	-22.0	-23.2	-5%
Other non-operating expenses	-3.4	-3.6	-5%	-3.3	1%	-10.6	-10.5	0%
Gain on disposal of invmt prop	0.0	0.0	n.m.	0.0	-	0.0	3.8	-
Pretax profit	18.2	22.1	-18%	18.5	-1%	57.0	65.5	-13%
Taxation	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit	18.2	22.1	-18%	18.5	-1%	57.0	65.5	-13%
Income distribution	0.0	0.0	n.m.	36.4	-	36.4	36.8	-1%
EPU (sen)	1.70	2.06	-17%	1.72	-1%	5.32	6.11	-13%
DPU (sen)	0.00	0.00	n.m.	3.40	-	3.40	3.43	-1%
Key Operating Metrics:								
Occupancy rate# (eop)	73.0%	91.0%	-	78.0%	-	73.0%	91.0%	-
Gearing (eop)	37.4%	37.1%	-	37.0%	-	37.4%	37.1%	-
Net property income margin	79.6%	80.2%	-	76.5%	-	78.3%	78.0%	-

Source: Company, Kenanga Research

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11 November 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.84	1.89	2.72%	3,019.5	Y	12/2022	9.6	10.5	2.1%	9.4%	19.2	17.5	1.4	6.2%	9.6	5.2%
CAPITALAND MALAYSIA MALL TRUST	MP	0.525	0.510	-2.86%	1,156.4	N	12/2022	3.9	3.8	-	-1.5%	13.6	13.9	0.5	3.6%	3.9	7.4%
IGB REIT	MP	1.59	1.65	3.77%	5,703.2	N	12/2022	9.3	9.5	66.1%	4.4%	17.1	16.7	1.5	8.8%	9.7	6.1%
KLCCP STAPLED GROUP	MP	6.80	6.60	-2.94%	12,276.3	Y	12/2022	37.6	40.2	5.9%	6.9%	18.1	16.9	0.9	5.2%	33.1	4.9%
SENTRAL REIT	UP	0.880	0.790	-10.23%	943.2	N	12/2022	6.8	6.7	-11.7%	-1.5%	12.9	13.1	0.7	5.5%	6.5	7.4%
PAVILION REIT	OP	1.21	1.42	17.36%	3,697.4	N	12/2022	7.6	8.1	85.9%	6.8%	15.9	14.9	0.9	6.0%	7.9	6.5%
SUNWAY REIT	OP	1.39	1.60	15.11%	4,760.5	N	12/2022	9.5	9.9	41.8%	4.2%	14.6	14.0	0.9	5.4%	8.5	6.1%
Simple Average								12.0	12.7	31.7%	4.1%	15.9	15.3	1.0	5.8%		6.2%

Source: Company, Bloomberg, Kenanga Research

11 November 2022

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Waste Management	★	★	★		
	Energy Efficiency	★	★	☆		
	Digital Transformation	★	★	★		
	Customer Safety / Protection	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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