

UOBKH HIGHLIGHTS

Sentral REIT (SENTRAL MK/HOLD/RM0.88/Target: RM0.90)

3Q22: Results Within Expectations

3Q22 RESULTS

Year to 31 Dec	3Q22 (RMm)	qoq % chg	yoy % chg	9M22 (RMm)	yoy % chg	Year	Net Profit (RMm)	EPU (sen)	PE (x)	DPU (sen)	Div Yield (%)
Gross Revenue	35.9	(3.0)	(11.9)	112.3	(6.4)	2022F	70.7	6.6	13.3	6.3	7.1
Operating Expenses	(7.3)	(15.0)	(9.5)	(24.1)	(8.1)	2023F	65.3	6.1	14.4	5.8	6.6
Net Property Income	28.7	0.7	(12.5)	88.2	(6.0)	2024F	67.4	6.3	14.0	6.0	6.8
Finance Cost	(7.6)	7.6	(1.2)	(22.0)	(4.9)						
Core Net Profit	18.2	(1.3)	(17.7)	57.0	(7.6)						
EPU (sen)	1.7	(1.3)	(17.7)	5.3	(7.6)						
DPU (sen)	0.0	n.a.	n.a.	3.4	(0.9)						
Margins	%	+/- ppt	+/- ppt	%	+/- ppt						
NPI	79.7	2.9	(0.5)	78.5	0.4						
PAT	50.6	0.8	(3.6)	50.8	(0.6)						

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **In line with expectations.** Sentral REIT (SENTRAL) reported 3Q22 revenue of RM35.9m (-3.0% qoq, -11.9% yoy) and core net profit of RM18.2m (-1.3% qoq, -17.7% yoy). 9M22 core net profit of RM57.0m (-7.6% yoy) accounts for 80% of our and consensus' full-year forecasts. Top-line for the period declined due to lower occupancy caused by Wisma Technip and QB2 being vacated.
- No dividend declared for the quarter as distribution is only in 2Q and 4Q.

COMMENTS

- **Earnings impacted by lower occupancy.** Recall that the Wisma Technip and QB2 buildings were vacated, which affected earnings. Positively, net property income (NPI) margin for 9M22 remained stable at 79% (9M21: 78%). Key assets in KL Sentral remain intact (Menara Shell and Platinum Sentral), contributing >50% to total revenue.
- **Occupancy rate declined to 73% from 78%.** On a portfolio basis, occupancy rate declined to 73% (2Q22: 78%, 3Q21: 91%), 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 40% of leases due in 9M22. SENTRAL's weighted average lease expiry (WALE) is 3.5 years.
- **Gearing at 37.4%.** 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 RM271m to fund future acquisitions.
- **Maintain forecasts.** Faster-than-expected take-up of the vacant buildings would pose an upside risk to our forecasts.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM0.90.** Our target price is based on the dividend discount model (required rate of return: 8.9%, terminal growth: 1.3%) and represents an implied dividend yield of 6.4% for 2023.

SHARE PRICE CATALYST

- Faster-than-expected take-up of the vacant buildings.
- Inorganic growth arising from acquisitions.

ANALYST

Yap Xiu Li
+603 2147 1915
xiuli@uobkayhian.com

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