

## Malaysia

### HOLD (no change)

Consensus ratings\*: Buy 1 Hold 6 Sell 1

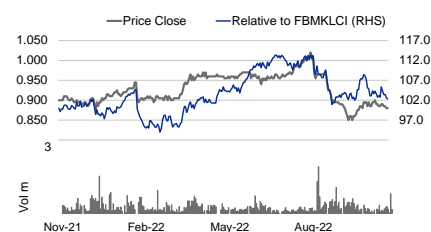
Current price:	RM0.88
Target price:	RM0.901
Previous target:	RM0.955
Up/downside:	2.4%
CGS-CIMB / Consensus:	-2.2%

Reuters:	SENT.KL
Bloomberg:	SENTRAL MK
Market cap:	US\$200.8m
	RM943.2m
Average daily turnover:	US\$0.07m
	RM0.31m
Current shares o/s:	1,072m
Free float:	49.1%

\*Source: Bloomberg

### Key changes in this note

➤ NA



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.6	-12	-1.7
Relative (%)	-2.5	-9.1	3

Major shareholders	% held
MRCB	27.8
Employees Provident Fund	12.1
CapitalCommercial Trust	11.0

### Analyst(s)


**Sharizan ROSELY**

T (60) 3 2635 9252

E sharizan.rosely@cgs-cimb.com

# Sentral REIT

## Occupancy risks offset by attractive yields

- 9MFY22 results were broadly in line; core net profit contracted 7.8% yoy.
- Portfolio occupancy rate sequentially declined to 73% in 9MFY22 (86% as at end-Mar), weighed by non-renewal of leases. We project a weaker 4Q22F.
- Retain Hold rating with a lower TP; dividend yield attractive at 6.7-7.5%.

### 9MFY22 results broadly in line; core net profit contracted 7.8% yoy

Although Sentral REIT's 9MFY22 core net profit made up 80-82% of our and consensus full-year forecasts, the performance was broadly in line as we project a weaker 4QFY22F on the back of: 1) zero occupancy rate for Wisma Technip from 44% in 1QFY22 due to non-renewal of leases, and 2) zero occupancy rate at Quill Building 2 (QB2). We observe a sequential decline in portfolio occupancy rate from 86% (as at Mar 22) to 78% (as at Jun 22) and down to 73% as at Sep 22, underpinning revenue compression risks, weighed by the oversupply of office space and competition from new office buildings. 3QFY22 revenue fell 11.9% yoy (-2.2% qoq) while 3QFY22 core net profit declined by a steeper 17.7% yoy (-1.3% qoq), dragged by the 16% yoy contraction in interest income. 9MFY22 revenue slipped 6.9% yoy. While net property income (NPI) fell 6.5% yoy, NPI margin of 78% was relatively flat yoy (in line with our forecast) given lower property expenses due to the vacancies at Wisma Technip and QB2. Overall, 9MFY22 core net profit declined 7.8% yoy. 3QFY22 DPU of 1.7 sen brings 9MFY22 DPU to 5.3 sen (-12.9% yoy).

### Proactive strategies amidst challenging landscape

For Sentral REIT, occupancy headwinds for vacant office assets remain the key risk to its earnings outlook. We expect the group to continue to: 1) roll out proactive asset management and tenant retention strategies, and 2) focus on more effective marketing strategies for vacant assets. These may continue to put pressure on rental reversions.

### Retain FY22-24F EPS/DPU; 40% tenancy renewal rate as at Sep 22

Our FY22-24F EPS/DPU are unchanged. We retain our view that rental income will continue to fall on lower occupancy rates as tenancy replacements for Wisma Technip and QB2 are unlikely to materialise so soon due to current market conditions; we also still project partial tenancy replacements in FY24F. Our 78% NPI margin assumption for FY22-24F is intact. For FY22F, 28% of total committed NLA is due for renewal. Sentral REIT achieved a 40% renewal rate for expiring tenancies as at Sep 22, which we believe was likely at marginally negative to flattish average rental reversions, supported by Menara Shell's improved occupancy rate of 99% (marginally positive rental reversions) with the entry of a new IT multinational company tenant in 2QFY22.

### Retain Hold rating with a lower TP; 6.7-7.5% dividend yields

We retain our Hold rating as the prospect of a declining portfolio occupancy rate could continue to cap upside to share price, which is supported by attractive FY22-24F dividend yields of 6.7-7.5% (highest in our M-REIT coverage). Despite rolling over to end-CY23F, our DDM-based TP is lowered to RM0.90 on a higher COE of 7.9% (7.5% previously) as we factor in a higher adjusted beta. Upside risks: improving occupancy rates and positive rental reversions. Downside risks: falling occupancy rates and no tenancy replacements.

### Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue (RMm)	164.0	159.6	146.9	149.2	157.4
Net Property Income (RMm)	126.1	122.6	114.3	115.7	123.2
Net Profit (RMm)	72.57	70.25	68.69	69.98	77.10
Distributable Profit (RMm)	75.88	79.42	63.35	64.54	71.09
DPS (RM)	0.071	0.074	0.059	0.060	0.066
Dividend Yield	8.04%	8.42%	6.72%	6.84%	7.54%
Asset Leverage	37.9%	37.0%	37.0%	36.9%	36.9%
BVPS (RM)	1.23	1.23	1.23	1.24	1.24
P/BV (x)	0.71	0.72	0.72	0.71	0.71
Recurring ROE	5.89%	6.13%	5.21%	5.28%	5.79%
% Change In DPS Estimates			0%	0%	0%
CGS-CIMB/Consensus DPS (x)			0.94	0.97	0.98

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results Comparison**

FYE Dec (RM m)	3QFY22	3QFY21	yoy % chg	2QFY22	qoq % chg	3QFY2 2 cum	3QFY2 1 cum	yoy % chg	Prev FY22F	Comments
Revenue	35.7	40.5	-11.9	36.5	-2.2	111.0	119.2	-6.9	146.9	Menara Shell occupancy rate recovered to 99%
Operating costs	(10.4)	(11.3)	-8.1	(11.4)	-8.7	(33.4)	(35.8)	-6.7	(46.7)	Absence of rental income from Wisma Technip and QB2
EBITDA	25.3	29.2	-13.4	25.2	0.7	77.6	83.4	-7.0	100.2	due to tenancy non-renewal (vacant assets)
<b>EBITDA margin (%)</b>	<b>70.9</b>	<b>72.1</b>		<b>68.9</b>		<b>69.9</b>	<b>70.0</b>		<b>68.2</b>	NPI margin flat yoy at 78% in 9MFY22
Depn & amort.	(0.0)	(0.0)	-33.3	(0.0)	-9.0	(0.1)	(0.1)	-39.7	(0.2)	
EBIT	25.3	29.2	-13.4	25.1	0.7	77.5	83.2	-6.9	100.0	
Interest expense	(7.6)	(7.7)	-1.2	(7.1)	7.6	(22.0)	(23.2)	-4.9	(35.4)	Total debt of RM804.7m as at end-Sep
Interest & invt inc	0.5	0.6	-15.6	0.4	31.1	1.4	1.6	-12.5	4.0	Cash & equivalents of RM62.1m at end-Sep
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Exceptionals & revaln	0.0	0.0	nm	0.0	nm	0.1	3.8	nm	-	None expected
<b>Pretax profit</b>	<b>18.2</b>	<b>22.1</b>	<b>-17.7</b>	<b>18.5</b>	<b>-1.3</b>	<b>57.0</b>	<b>65.5</b>	<b>-12.9</b>	<b>68.7</b>	
Tax	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Tax rate (%)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
<b>Net profit</b>	<b>18.2</b>	<b>22.1</b>	<b>-17.7</b>	<b>18.5</b>	<b>-1.3</b>	<b>57.0</b>	<b>65.5</b>	<b>-12.9</b>	<b>68.7</b>	
Core net profit	18.2	22.1	-17.7	18.5	-1.3	56.9	61.7	-7.8	68.7	9MFY22 core net profit made up 80-82% of our and
Distr profit	18.2	22.1	-17.7	18.5	-1.3	57.0	65.5	-12.9	63.4	consensus full-year forecasts
<b>DPU (sen)</b>	<b>1.7</b>	<b>2.1</b>	<b>-17.5</b>	<b>3.4</b>	<b>nm</b>	<b>5.3</b>	<b>6.1</b>	<b>(12.9)</b>	<b>5.9</b>	9MFY22 DPU at 90% of our full-year forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## ESG in a nutshell

Sentral REIT's sustainability initiatives are focused on 11 key areas: 1) sustainable business growth and financial performance, 2) quality of assets and services, 3) anti-corruption, 4) health and safety, 5) regulatory compliance, 6) employee management, 7) data privacy, 8) energy and carbon footprint, 9) water management, 10) waste management, and 11) community partnerships and activities.

### Keep your eye on

In view of the impact of Covid-19 and greater adoption of work-from-home (WFH) protocols, data privacy has gained importance among Sentral REIT's office tenants. This is in view of the widespread adoption of technology during the pandemic period since early-2020. Some initiatives include protection of all data, information and intellectual property against cyber security breaches and safeguarding the privacy of tenant, organisational and visitor information.

### Implications

Potentially supportive of tenant retention initiatives, on top of ongoing tenancy negotiation, with flattish rental reversion guided for FY22F.

### ESG highlights

Some achievements in 2020 include installing Building Automated Systems (BAS) to allow real-time monitoring of energy consumption. The group achieved a 15% reduction in electricity consumption and carbon emissions and an 11% decline in water consumption. In the technology space, the group has implemented facial recognition readers and temperature scanning at Menara Shell as part of its health and safety initiatives.

### Implications

No major expenditure relating to building automation and technology enhancements expected in the foreseeable future as the group maintains its cash retention strategy due to the Covid-19 pandemic. Asset enhancement initiatives (AEI)-related capex would also be minimal in FY22F.

### Trends

Under sustainable business growth, the group will continue to practice proactive leasing strategies to ensure stabilisation of portfolio occupancy rates and rental income, ongoing cost management and ensuring quality of all office assets (supply chain management), potentially considering new acquisitions when feasible and when market conditions are accommodative.

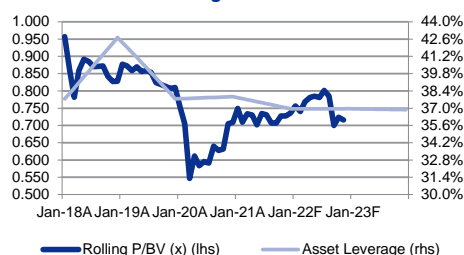
### Implications

Leasing strategies remain more oriented towards retaining tenants. Portfolio occupancy rate of 86% at end-1QFY22 remains decent.

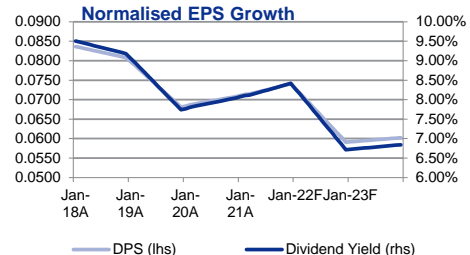
SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS

**P/BV vs Asset Leverage**



**12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth**



### Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Rental Revenues	145.1	142.1	130.2	132.1	139.9
Other Revenues	19.0	17.5	16.7	17.1	17.4
<b>Gross Property Revenue</b>	<b>164.0</b>	<b>159.6</b>	<b>146.9</b>	<b>149.2</b>	<b>157.4</b>
Total Property Expenses	(37.9)	(37.0)	(32.6)	(33.4)	(34.2)
<b>Net Property Income</b>	<b>126.1</b>	<b>122.6</b>	<b>114.3</b>	<b>115.7</b>	<b>123.2</b>
General And Admin. Expenses	(0.4)	(0.7)	(0.8)	(0.9)	(1.0)
Management Fees	(12.8)	(12.6)	(12.1)	(12.2)	(12.4)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
<b>EBITDA</b>	<b>111.7</b>	<b>108.1</b>	<b>100.2</b>	<b>101.5</b>	<b>108.6</b>
Depreciation And Amortisation	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
<b>EBIT</b>	<b>111.7</b>	<b>108.0</b>	<b>100.0</b>	<b>101.3</b>	<b>108.5</b>
Net Interest Income	(32.5)	(28.4)	(31.4)	(31.4)	(31.4)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	(5.4)	(10.7)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>73.8</b>	<b>68.8</b>	<b>68.7</b>	<b>70.0</b>	<b>77.1</b>
Taxation	(1.2)	1.5	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>72.6</b>	<b>70.2</b>	<b>68.7</b>	<b>70.0</b>	<b>77.1</b>
<b>Distributable Profit</b>	<b>75.9</b>	<b>79.4</b>	<b>63.4</b>	<b>64.5</b>	<b>71.1</b>

### Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Pre-tax Profit</b>	<b>73.8</b>	<b>68.8</b>	<b>68.7</b>	<b>70.0</b>	<b>77.1</b>
Depreciation And Non-cash Adj.	32.5	28.6	31.5	31.5	31.5
Change In Working Capital	4.5	(0.6)	1.8	(0.7)	(0.7)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	7.2	9.7	0.0	0.0	0.0
<b>Cashflow From Operations</b>	<b>118.0</b>	<b>106.5</b>	<b>102.0</b>	<b>100.8</b>	<b>107.9</b>
Capex	(1.2)	(0.7)	(1.5)	(2.5)	(2.5)
Net Investments And Sale Of FA	4.9	46.8	5.0	5.0	5.0
Other Investing Cashflow	2.9	(0.6)	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>6.6</b>	<b>45.5</b>	<b>3.5</b>	<b>2.5</b>	<b>2.5</b>
Debt Raised/(repaid)	6.0	231.3	0.0	0.0	0.0
Equity Raised/(Repaid)	0.0	0.0	0.0	1.0	2.0
Dividends Paid	(72.9)	(75.9)	(63.4)	(64.5)	0.0
Cash Interest And Others	(32.5)	(28.4)	(31.4)	(31.4)	(31.4)
<b>Cash Flow From Financing</b>	<b>(99.3)</b>	<b>126.9</b>	<b>(94.7)</b>	<b>(94.9)</b>	<b>(29.4)</b>
Total Cash Generated	25.3	279.0	10.8	8.4	81.1
Free Cashflow To Firm	127.5	154.7	109.5	107.3	114.4
Free Cashflow To Equity	98.1	354.8	74.1	71.9	79.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Investments	2,081	2,066	2,177	2,180	2,182
Intangible Assets	0	0	0	0	0
Other Long-term Assets	17	15	15	15	15
Total Non-current Assets	2,098	2,081	2,193	2,195	2,198
Total Cash And Equivalents	85	94	89	91	90
Inventories	0	0	0	0	0
Trade Debtors	5	5	4	4	4
Other Current Assets	40	0	0	0	0
<b>Total Current Assets</b>	<b>130</b>	<b>99</b>	<b>94</b>	<b>96</b>	<b>95</b>
Trade Creditors	19	19	20	19	19
Short-term Debt	218	130	218	218	218
Other Current Liabilities	11	13	13	13	13
<b>Total Current Liabilities</b>	<b>248</b>	<b>162</b>	<b>250</b>	<b>250</b>	<b>249</b>
Long-term Borrowings	627	676	627	627	627
Other Long-term Liabilities	29	25	25	25	25
Total Non-current Liabilities	656	701	652	652	652
Shareholders' Equity	1,324	1,318	1,318	1,332	1,333
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0		67	58	59
<b>Total Equity</b>	<b>1,324</b>	<b>1,318</b>	<b>1,384</b>	<b>1,390</b>	<b>1,392</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue Growth	1.83%	(2.69%)	(7.96%)	1.55%	5.49%
NPI Growth	3.53%	(2.75%)	(6.81%)	1.25%	6.43%
Net Property Income Margin	76.9%	76.8%	77.8%	77.6%	78.3%
DPS Growth	3.9%	4.7%	(20.2%)	1.9%	10.1%
Gross Interest Cover	3.16	3.47	2.83	2.86	3.07
Effective Tax Rate	1.64%	0.00%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	105%	113%	92%	92%	92%
Current Ratio	0.52	0.61	0.37	0.38	0.38
Quick Ratio	0.52	0.61	0.37	0.38	0.38
Cash Ratio	0.34	0.58	0.36	0.37	0.36
Return On Average Assets	3.27%	3.19%	3.08%	3.06%	3.36%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Average rental reversion (%)	1.0%	0.3%	1.3%	2.3%	2.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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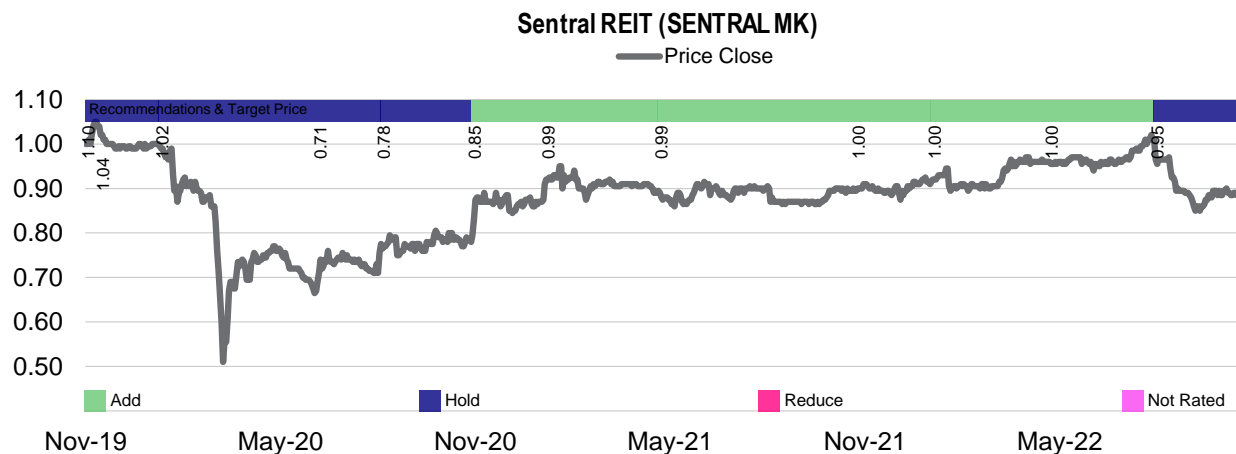
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646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

## Spitzer Chart for stock being researched ( 2 year data)



### Recommendation Framework

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Definition:

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