

HLIB Research

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HOLD (Maintain)

Target Price: **RM0.75**

Previously: **RM0.75**

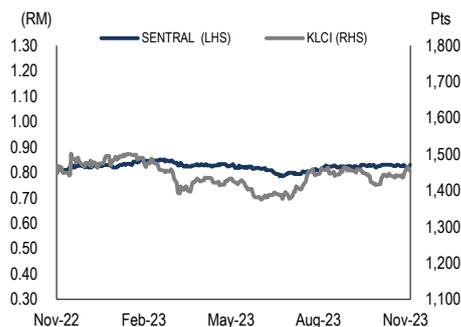
Current Price: **RM0.83**

Capital upside	-9.6%
Dividend yield	8.1%
Expected total return	-1.5%

Sector coverage: REIT

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

Share price



Historical return (%)	1M	3M	12M
Absolute	0.6	-1.2	-5.7
Relative	-0.6	-0.7	-5.8

Stock information

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	890
3-mth average volume ('000)	216
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	27.9%
EPF	12.0%
Tamasek Holdings Pte Ltd	10.9%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PAT – core (RM m)	73.6	72.5	78.6
EPU – core (sen)	6.9	6.8	7.3
P/E (x)	12.1	12.3	11.3

Sentral REIT

New tenant at Sentral Building 4

Sentral REIT's 3Q23 core net profit of RM18.2m (+3.2% QoQ, flat YoY) brought 9M23 core earnings to RM53.5m (-6.2% YoY). We deem the results to be within our expectations and consensus estimates at 73.8% and 75.5% respectively. Overall occupancy rate increased to 86% (2Q23: 77%) due to the leasing out of the entire NLA of Sentral Building 4 (QB2), which was vacant since 2Q22. Moreover, half of the 10% of total NLA due for expiry in 2023 has been renewed, with management optimistic on renewing the other half by end of the year. We retain our forecasts and HOLD call, with an unchanged TP of RM0.75 – downside to our TP is largely cushioned by its divvy yield of >8%.

In line. Sentral REIT's 3Q23 core net profit of RM18.2m (+3.2% QoQ, flat YoY) brought 9M23 core earnings to RM53.5m (-6.2% YoY). We deem the results to be within our expectations (73.8%) and consensus (75.5%).

Dividend. None declared, usually in 2Q and 4Q. (YTD: 3.19 sen vs SPLY: 3.40 sen)

QoQ. Revenue increased by 4.7% due to higher rental. However, property opex also increased (+7.5%), resulting in core net profit increasing by a lower margin of 3.2%.

YoY. Revenue increased by 11.7% due to higher rental contribution from Platinum Sentral, Menara Shell and Sentral Building 3 (QB3). Meanwhile, property opex increased by 32.4% due to higher utilities expenses for some of the REIT's properties. Coupled with higher finance costs (+19.4%), core net profit came in flat as compared to 3Q22.

YTD. Revenue increased by 3.5% largely due to higher rental contribution from Menara Shell and Platinum Sentral. However, as a result of higher property opex (+11.3%) and financing costs (+24.6%), core net profit declined by 6.2%.

Occupancy and gearing. With nine properties, the overall occupancy rate increased to 86% (2Q23: 77%) due to the leasing out of the entire NLA of Sentral Building 4 (QB2). As for gearing level, it increased slightly to 37.8% (2Q23: 37.5%).

Outlook. Sentral REIT has officially found a new tenant for Sentral Building 4 (QB2) following its vacancy since 2Q22. With this, occupancy rate improved to 86% from 77% in 3Q23. On another note, management has also successfully renewed half of the 10% of total NLA due for expiry in 2023, with management being optimistic about renewing the remaining half by year end. That said, we continue to remain cautious on office REITs due to the oversupply and intense competition in the office space. However, should management find a new tenant for Wisma Technip soon, and successfully complete the acquisition of Menara CelcomDigi, these could potentially be positives for Sentral REIT as rental contribution increases.

Forecast. Unchanged as results were in line.

Maintain HOLD, TP: RM0.75. We maintain our HOLD call with an unchanged TP of RM0.75. Our TP is based on FY24 forward DPU on targeted yield of 9.7%, which is derived from 5-year historical average yield spread between Sentral REIT and 10-year MGS. The downside to our TP is largely cushioned by its divvy yield of >8%.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	93.5	79.8	82.3	82.3	83.8
Receivables	5.6	6.2	6.8	7.0	7.1
Investment properties	2,081.0	2,060.7	2,062.7	2,063.7	2,063.7
PPE	0.1	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0	0.0
Assets	2,180.4	2,146.7	2,151.8	2,153.1	2,154.6
Payables	19.2	20.6	26.5	27.6	27.8
Debt	805.6	804.5	802.9	802.3	802.7
Security deposits	37.7	30.6	30.6	30.6	30.6
Derivatives	0.0	0.0	0.0	0.0	0.0
Liabilities	862.5	855.7	860.0	860.5	861.2
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	82.0	55.2	55.9	56.7	57.6
Equity	1,317.9	1,291.0	1,291.8	1,292.6	1,293.4
Total Liabilities & Equity	2,180.4	2,146.7	2,151.8	2,153.1	2,154.6

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	68.8	49.7	72.5	78.6	79.9
Finance costs	31.1	30.8	0.0	0.0	0.0
Depreciation	0.2	0.1	0.0	0.0	0.0
Fair value gain of assets	15.7	23.9	0.0	0.0	0.0
Interest income	-2.6	-2.4	0.0	0.0	0.0
Others	-2.7	-4.2	5.3	0.8	0.2
CFO	110.5	97.9	77.8	79.4	80.1
Capex	-0.7	-3.6	-2.0	-1.0	0.0
Disposal / (purchase)	0.0	0.0	0.0	0.0	0.0
Others	44.0	1.9	0.0	0.0	0.0
CFI	43.3	-1.7	-2.0	-1.0	0.0
Distribution paid	-75.9	-79.1	-74.3	-80.3	-81.6
Proceeds frm borrow'g	258.4	207.0	165.0	166.0	167.0
Repayment of borrow'g	-300.0	-207.0	-164.0	-164.0	-164.0
Others	-27.7	-30.9	0.0	0.0	0.0
CFF	-145.2	-110.0	-73.3	-78.3	-78.6
Net cash flow	8.6	-13.8	2.5	0.1	1.4
Beginning cash	85.0	93.5	79.8	82.3	82.3
Ending cash	93.5	79.8	82.3	82.3	83.8

Assumptions

FYE Dec	FY23f	FY24f	FY25f
Gross rental income			
Quill Building 1 - DHL 1	5.1	5.1	5.2
Quill Building 4 - DHL 2	5.4	5.5	5.5
Quill Building 2 - New tenant	3.8	5.7	5.7
Quill Building 3 - BMW	4.8	4.8	4.8
Wisma Technip	2.7	5.3	5.3
Part of Plaza Mont' Kiara	3.7	3.7	3.7
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.9	16.2	16.4
Platinum Sentral	55.6	56.2	56.7
Menara Shell	47.2	47.7	48.1
Total:	144.1	150.1	151.6

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Gross rental income	146.6	132.0	144.1	150.1	151.6
Car park income	9.5	10.2	10.2	10.4	10.7
Other revenue	3.5	5.2	6.1	6.2	6.3
Total revenue	159.6	147.3	160.4	166.8	168.6
Property opex	-37.0	-32.7	-42.0	-43.7	-44.2
Net property income	122.6	114.7	118.5	123.1	124.5
Other income	-8.3	-20.0	2.0	2.1	2.1
Net invest income	114.4	94.7	120.5	125.1	126.5
Manager's fee	-12.6	-12.2	-12.2	-12.4	-12.4
Trustee's fee	-0.7	-0.6	-0.7	-0.7	-0.7
Finance costs	-31.1	-30.8	-33.7	-32.1	-32.1
Other non opex	-1.2	-1.3	-1.4	-1.5	-1.5
Profit before tax	68.8	49.7	72.5	78.6	79.9
Taxation	1.5	2.6	2.6	2.6	2.6
Profit after tax	70.2	52.3	75.1	81.1	82.5
Core net profit	84.5	73.6	72.5	78.6	79.9
Distributable income	84.5	73.6	72.5	78.6	79.9

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	7.9	6.9	6.8	7.3	7.5
P/E (x)	10.5	12.1	12.3	11.3	11.1
EBITDA	115.8	104.5	106.2	110.7	112.0
EBIT	115.6	104.4	106.2	110.7	112.0
EV	1,601.7	1,614.3	1,610.2	1,609.6	1,608.5
EV/EBITDA (x)	13.8	15.4	15.2	14.5	14.4
DPU (sen)	7.4	6.8	6.8	7.3	7.4
Dividend yield	8.9	8.2	8.1	8.8	9.0
NTA/ share (sen)	123.0	120.5	120.5	120.6	120.7
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.20	1.21	1.21	1.21
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	72.5%	70.9%	66.2%	66.4%	66.4%
EBIT margin	72.4%	70.9%	66.2%	66.3%	66.4%
PBT margin	43.1%	33.7%	45.2%	47.1%	47.4%
Net margin	52.9%	49.9%	45.2%	47.1%	47.4%
ROE	6.4%	5.7%	5.6%	6.1%	6.2%
ROA	3.9%	3.4%	3.4%	3.6%	3.7%
Net gearing	33.76%	33.74%	33.49%	33.44%	33.37%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Gross Revenue	35.9	38.4	40.2	4.7%	11.7%	112.3	116.3	3.5%
Property operating expenses	-7.3	-9.0	-9.7	7.5%	32.5%	-24.1	-26.8	11.3%
Net Property Income	28.7	29.4	30.5	3.8%	6.5%	88.2	89.4	1.4%
Interest income	0.6	0.6	0.7	7.0%	22.3%	1.4	1.9	35.2%
Net Investment Income	29.2	30.0	31.2	3.9%	6.8%	89.6	91.4	1.9%
Finance costs	-7.6	-9.2	-9.1	-1.1%	19.4%	-22.0	-27.4	24.6%
Valuation fees	-0.1	-0.1	-0.1	0.0%	-2.7%	-0.2	-0.2	-7.4%
Administrative expenses	-0.0	0.1	-0.5	-432.9%	1202.9%	-0.5	-0.4	-25.6%
Total Expenses	-11.0	-12.4	-13.0	4.9%	18.0%	-32.6	-37.9	16.1%
Core PBT	18.2	17.6	18.2	3.2%	0.0%	57.0	53.5	-6.2%
Core PAT	18.2	17.6	18.2	3.2%	0.0%	57.0	53.5	-6.2%
Distributable income	18.2	17.6	18.2	3.2%	0.0%	57.0	53.5	-6.2%
EPU (realised)	1.70	1.65	1.70	3.2%	0.0%	5.32	4.99	-6.2%
DPU (sen)	0.00	3.19	0.00	-100.0%	N.A.	3.40	3.19	-6.2%

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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