

11 August 2023

Property | REITS

Sentral REIT (SENTRAL MK)

Neutral (Maintained)

Occupancy Rate Still Steady At 77%

Target Price (Return):	MYR0.89 (+5%)
Price (Market Cap):	MYR0.85 (USD199m)
ESG score:	3 (out of 4)
Avg Daily Turnover (MYR/USD)	0.17m/0.04m

- **Maintain NEUTRAL, new MYR0.89 TP from MYR0.92, 5% upside with c.8% yield.** Sentral REIT's 1H23 results are in line, with flattish QoQ earnings as 98% of its expiring leases have been renewed. With no new tenant secured for the still-vacant Quill Building 2 and Wisma Technip, we lower our earnings forecasts as we turn more conservative on long-term occupancy rate assumptions. That said, its handsome dividend yield should provide some near-term share price support.

- **Results in line.** The REIT's 2Q23 net profit of MYR17.6m (-0.2% QoQ, -4.4% YoY) brought 1H23 earnings to MYR35.3m (-9.1% YoY) – at 49% and 50% of our and consensus full-year estimates. On a YoY basis, revenue growth largely stemmed from higher contributions chalked by Menara Shell (positive rental reversion) and Platinum Sentral (higher occupancy rate). However, with 66% of SENTRAL's borrowings being on a floating rate, its interest expense shot up by 27% YoY (average cost of debt – 1H23: 4.4%, 1H22: 3.4%). Property operating expenses also ticked up by 2% YoY due to higher electricity tariff rates, but this should ease off in 2H23 with the lower imbalance cost pass-through or ICPT charge of 17 sen/kWh, vs 20 sen/kWh in 1H23. Management declared a semi-annual DPU of 3.19 sen (1H22: 3.4 sen).

- **Stable occupancy rates.** For FY23, 10% of its total NLA is up for renewal (FY24: 13%, FY25: 23%), and SENTRAL was able to renew 98% of the leases that expired in 1H23. This implies its 77% portfolio occupancy rate will be maintained. We believe that downside risks to the occupancy rate are limited, as the expiring leases mainly come from the REIT's stronger assets, ie Platinum Sentral and Menara Shell. However, the upside also appears limited, as the REIT has yet to announce any new tenants for its two vacant buildings. Upon signing any new lease agreements, it would also come with a rent-free period. As such, it is likely the two buildings would not contribute any income to the REIT, until FY24 at the least.

- **We trim FY23-25F earnings** by -1% to -3% as we lower our long-term occupancy rate assumptions to be more conservative. We have yet to input any contribution from Menara CelcomDigi, as we await the completion of the acquisition. Our new TP has a 0% ESG premium applied, as Sentral REIT's ESG score of 3 out of 4 is in line with the country median.

- **The key downside risk to our outlook** is the oversupply of office properties in the market affecting the REIT's occupancy and rental rates. Upside risks are higher-than-expected demand for its two vacant buildings and an improvement in rental reversions.

Analysts

Wan Muhammad Ammar Affan
+603 9280 8871
ammaraffan@rhbgroup.com



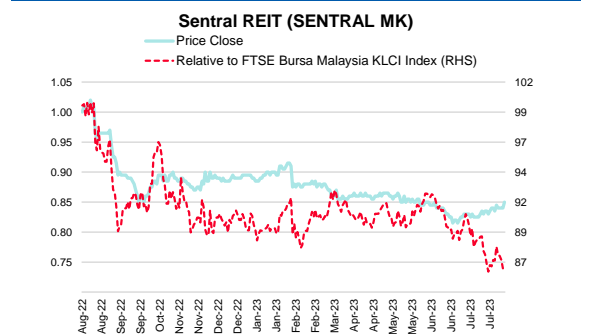
Loong Kok Wen, CFA

+603 9280 8861
loong.kok.wen@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.0)	2.4	(1.7)	(2.9)	(15.0)
Relative	(2.8)	(3.3)	(4.2)	(2.0)	(13.0)
52-wk Price low/high (MYR)	0.82 – 1.02				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	161	149	152	158	161
Net property income (MYRm)	124	116	118	122	124
Reported net profit (MYRm)	80.7	73.6	70.3	73.9	75.8
Total distributable income (MYRm)	80.7	73.6	70.3	73.9	75.8
DPS (MYR)	0.07	0.07	0.06	0.07	0.07
DPS growth (%)	(1.9)	(8.0)	(5.8)	5.1	2.6
P/B (x)	0.69	0.71	0.70	0.70	0.70
Dividend Yield (%)	8.7	8.0	7.6	7.9	8.2
Return on average equity (%)	6.1	5.6	5.4	5.7	5.9
Return on average assets (%)	3.7	3.4	3.3	3.4	3.5

Source: Company data, RHB

Overall ESG Score: 3 (out of 4)

E: GOOD

Sentral REIT reduced its overall GHG emissions and energy consumption by 4.9% YoY in FY22, and is targeting a 2% YoY decrease moving forward. In FY23, the REIT is upgrading its air-conditioning system in Menara Shell, and upgrading the car park lighting in Plaza Mont' Kiara

S: GOOD

70% of Sentral REIT's workforce are women. It also provides sufficient training to employees through MRCB Training Academy, MRCB Learning Zone and conducting industrial practical training. It also holds health and safety improvement activities with external parties like the fire brigade.

G: EXCELLENT

We are positive on its policy on giving and receiving gifts, as well as its commitment to the corruption-free pledge by the Malaysian Anti-Corruption Commission. Directors' tenures range 4-6 years on average.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS (MYR)	0.08	0.07	0.07	0.07	0.07
Property	EPS (MYR)	0.08	0.07	0.07	0.07	0.07
Sentral REIT	DPS (MYR)	0.07	0.07	0.06	0.07	0.07
SENTRAL MK	BVPS (MYR)	1.23	1.20	1.21	1.21	1.21
Neutral	Return on average equity (%)	6.1	5.6	5.4	5.7	5.9
	Weighted avg adjusted shares (m)	1,071.78	1,071.78	1,071.78	1,071.78	1,071.78
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DDM	Recurring P/E (x)	11.28	12.38	12.97	12.33	12.02
	P/E (x)	11.28	12.38	12.97	12.33	12.02
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	9.3	7.2	7.2	7.5	7.7
	Dividend Yield (%)	8.7	8.0	7.6	7.9	8.2
	EV/EBITDA (x)	(4.20)	(4.16)	(4.13)	(4.01)	(3.96)
	EV/EBIT (x)	(4.20)	(4.16)	(4.13)	(4.01)	(3.96)
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Higher-than-expected demand for office space;	Total turnover	161	149	152	158	161
ii. Inorganic growth opportunities from its sponsors.	EBITDA	109	102	103	107	109
	Operating profit	109	102	103	107	109
	Net interest	(28)	(28)	(33)	(33)	(33)
	Pre-tax profit	81	74	70	74	76
	Recurring net profit	81	74	70	74	76
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Downside risks include the oversupply of office properties, which might affect the portfolio's office property occupancy and rental rates. Upside risks are better-than-expected occupancy rates and rental reversion.	Change in working capital	0	(4)	(4)	(5)	(5)
	Cash flow from operations	43	69	67	71	72
	Capex	41	(4)	(2)	(2)	(2)
	Cash flow from investing activities	41	(4)	(2)	(2)	(2)
	Dividends paid	(76)	(79)	(71)	(71)	(73)
	Cash flow from financing activities	(22)	46	(71)	(71)	(73)
	Cash at beginning of period	85	94	80	82	84
	Net change in cash	62	112	(6)	(2)	(3)
	Ending balance cash	147	205	74	80	81
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Sentral REIT is a mid-cap M-REIT that focuses on office/commercial assets. Its properties are largely concentrated in the Klang Valley and Cyberjaya.	Total cash and equivalents	94	80	82	84	86
	Total investments	2,081	2,061	2,061	2,061	2,061
	Total assets	2,180	2,147	2,149	2,151	2,153
	Short-term debt	130	0	0	0	0
	Total long-term debt	676	804	804	804	804
	Total liabilities	862	856	856	857	857
	Shareholders' equity	1,318	1,291	1,292	1,294	1,295
	Total equity	1,318	1,291	1,292	1,294	1,295
	Net debt	712	725	723	721	719
	Total liabilities & equity	2,180	2,147	2,149	2,151	2,153
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(3.0)	(7.3)	1.9	3.9	2.1
	Recurrent EPS growth (%)	(0.3)	(8.8)	(4.5)	5.1	2.6
	Operating EBITDA margin (%)	68.0	68.5	68.1	67.8	67.6
	Net profit margin (%)	50.3	49.4	46.3	46.8	47.1
	Dividend payout ratio (%)	98.4	99.3	98.0	98.0	98.0
	Capex/sales (%)	(25.6)	2.4	1.3	1.3	1.2
	Interest cover (x)	3.51	3.31	2.92	3.02	3.07

Source: Company data, RHB

Results At a Glance

Figure 1: Sentral REIT's results summary

FYE Dec (MYRm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	Comments
Revenue	37.1	37.7	38.4	1.7	3.6	76.4	76.1	(0.3)	YoY increase in revenue from Menara Shell and Platinum Sentral.
Net property income (NPI)	28.5	29.5	29.4	(0.4)	3.2	59.5	58.9	(1.0)	QoQ higher expenses from more maintenance works done.
Interest expense	(7.1)	(9.1)	(9.2)	1.1	30.0	(14.4)	(18.3)	27.3	Higher interest expense stemming from interest rate hikes.
Interest income	0.4	0.6	0.6	2.4	52.6	0.9	1.3	43.4	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Others	(3.3)	(3.4)	(3.2)	(5.3)	(5.2)	(7.2)	(6.5)	(9.2)	
Pretax profit	18.5	17.7	17.6	(0.2)	(4.4)	38.8	35.3	(9.1)	
Tax	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net Profit	18.5	17.7	17.6	(0.2)	(4.4)	38.8	35.3	(9.1)	
Core Profit	18.5	17.7	17.6	(0.2)	(4.4)	38.8	35.3	(9.1)	In line with expectations.
Core earnings per unit (sen)	1.7	1.7	1.7	0.0	(4.1)	3.6	3.3	(8.8)	
Dividends per unit (sen)	3.4	0.0	3.2	nm	(6.2)	3.4	3.2	(6.2)	
NPI Margin (%)	76.9	78.3	76.6			78.0	77.4		
Pretax Margin (%)	49.8	46.8	45.9			50.8	46.4		
Net Margin (%)	49.8	46.8	45.9			50.8	46.4		

Source: Company data, RHB

Recommendation Chart

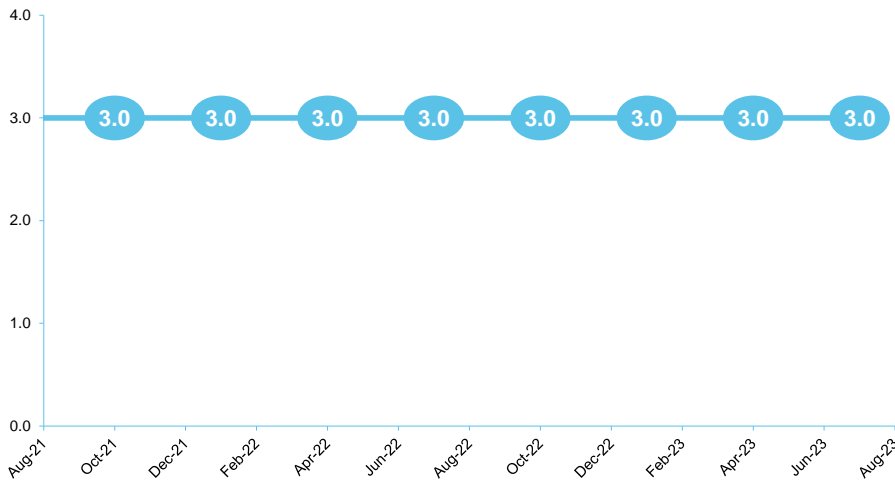


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-26	Neutral	0.92	0.84
2023-05-12	Neutral	0.92	0.85
2023-01-20	Neutral	0.92	0.90
2022-11-11	Neutral	0.94	0.88
2022-08-23	Neutral	0.97	0.96
2022-05-13	Neutral	1.00	0.96
2022-01-21	Buy	1.02	0.92
2021-11-11	Buy	1.02	0.90
2021-08-06	Buy	1.00	0.90
2021-01-19	Buy	1.00	0.91
2020-12-09	Buy	0.95	0.87
2020-11-13	Buy	0.87	0.88
2020-11-12	Buy	0.87	0.83
2020-08-17	Buy	0.83	0.78
2020-06-18	Buy	0.78	0.71

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470