

20 January 2023

## Sentral REIT

### Still Feeling The Oversupply Effects

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FY22 core net profit of RM73.6m (-13% YoY) is within expectations, coming in at 0.5%/1.8% above our/consensus full-year estimates. 4QFY22 DPU of 3.42 sen brought full-year DPU to 6.82 sen (versus our FY22F DPU of 6.5 sen). Remains 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.** Full-year gross revenue of RM147.4m (-8% YoY) led core net profit to decline by 13% YoY to RM73.6m, after adjusting for: (i) a reduction in fair value of investment properties of RM23.9m in FY22 versus RM15.7m in FY21, and (ii) a gain on divestment of investment property of RM3.8m that was previously recognised in FY21. This was 0.5%/1.8% above our/consensus forecasts. In tandem with the weaker topline (which was mainly dragged by lower contributions from Wisma Technip and QB2-HSBC) and lower property operating expenses (-12% to RM32.7m), net property income (NPI) fell 6% to RM114.7m. Following which, DPU of 3.42 sen was declared in 4QFY22, taking FY22 DPU to 6.82 sen (broadly meeting our/consensus DPU forecasts of 6.5 sen/6.4 sen).

**Outlook.** The persisting supply-demand imbalance of office space is expected to continue weighing on its earnings outlook. This has been the case as its overall portfolio occupancy rate has been sliding from 90% in end-December 2021, to 86% in end-March 2022, to 78% end-June and to 73% end-September 2022 before rising marginally to 77% end-December last year. The challenging economic and sector backdrop also suggests it may take time for SENTRAL to raise the occupancy rate back to the 2021 level. Of the ~511,000 sq ft or 28% of total committed net lettable area (NLA) up for renewal in 2022, a low renewal rate of 41% was achieved with non-renewal of leases coming mainly from Quill Building 2 and Wisma Technip. For 2023, there will be 162,000 sq ft (or 10% of NLA) of space due for renewal.

**Earnings update.** Post the results, our net profit projections stand at RM71.3m (unchanged) for FY23 and RM70.8m (new) for FY24. Our DPU estimates are set at 6.3 sen each for FY23 and FY24, which imply yields of 7.0%.

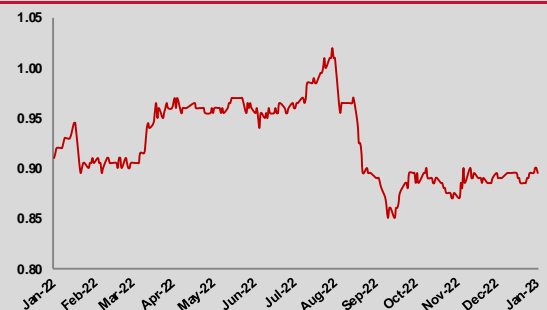
**Remains an UNDERPERFORM.** Amid the tough sector fundamentals, we maintain our TP at RM0.79 based on a target yield of 8.0% (which is derived from a 3.5% yield spread above our 10-year MGS assumption of 4.5%) on FY23F GDPU. This is to reflect its high exposure to the office space sector (which will be clouded 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: RM0.895  
Target Price: RM0.79 ↔

### Share Price Performance



KLCI	1,496.22
YTD KLCI chg	0.0%
YTD stock price chg	0.0%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK Equity
Market Cap (RM m)	959.2
Shares Outstanding	1,071.8
52-week range (H)	1.02
52-week range (L)	0.85
3-mth avg daily vol:	253,710
Free Float	31%
Beta	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)	2022A	2023F	2024F
Turnover	147.4	150.3	153.3
EBIT	100.5	100.5	102.2
PBT	49.7	71.3	70.8
<b>Net Profit (NP)</b>	<b>52.3</b>	<b>71.3</b>	<b>70.8</b>
<b>Core NP*</b>	<b>73.6</b>	<b>71.3</b>	<b>70.8</b>
Consensus (CNP)	72.3	72.5	77.0
Earnings Revision	-	-	new
Core EPS (sen)	6.9	6.7	6.6
Core EPS growth (%)	-12.9	-2.9	-1.5
GDPU (sen)	6.8	6.3	6.3
BVPS (RM)	1.20	1.20	1.20
Core PER (x)	13.0	13.4	13.6
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.37	0.37	0.37
Net Div. Yield (%)	7.6	7.0	7.0

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

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**Results Highlights**

FYE 31 Dec (RM m)	4Q22	4Q21	YoY	3Q22	QoQ	FY22	FY21	YoY
<b>Gross revenue</b>	<b>36.4</b>	<b>40.4</b>	<b>-10%</b>	<b>35.7</b>	<b>2%</b>	<b>147.4</b>	<b>159.6</b>	<b>-8%</b>
Property operating expenses	-8.5	-10.7	-21%	-7.3	17%	-32.7	-37.0	-12%
<b>Net property income</b>	<b>27.9</b>	<b>29.7</b>	<b>-6%</b>	<b>28.4</b>	<b>-2%</b>	<b>114.7</b>	<b>122.6</b>	<b>-6%</b>
Interest income & other income	1.2	1.2	-2%	0.8	46%	3.9	3.7	7%
Finance costs	-8.8	-7.9	11%	-7.6	15%	-30.8	-31.1	-1%
Other non-operating expenses	-3.6	-4.0	-8%	-3.4	8%	-14.2	-14.5	-2%
Gain on disposal of invmt prop	0.0	0.0	-	0.0	-	0.0	3.8	n.m.
Change in FV of invmt prop	-23.9	-15.7	52%	0.0	n.m.	-23.9	-15.7	52%
<b>Pretax profit</b>	<b>-7.3</b>	<b>3.3</b>	<b>n.m.</b>	<b>18.2</b>	<b>-140%</b>	<b>49.7</b>	<b>68.8</b>	<b>-28%</b>
Taxation	2.6	1.5	78%	0.0	n.m.	2.6	1.5	78%
<b>Net profit</b>	<b>-4.7</b>	<b>4.8</b>	<b>n.m.</b>	<b>18.2</b>	<b>-126%</b>	<b>52.3</b>	<b>70.2</b>	<b>-26%</b>
<b>Realised / core net income</b>	<b>16.6</b>	<b>19.0</b>	<b>-13%</b>	<b>18.2</b>	<b>-9%</b>	<b>73.6</b>	<b>84.5</b>	<b>-13%</b>
<b>Income distribution</b>	<b>36.7</b>	<b>42.7</b>	<b>-14%</b>	<b>0.0</b>	<b>-</b>	<b>73.1</b>	<b>79.4</b>	<b>-8%</b>
EPU (sen)	-0.44	0.45	n.m.	1.70	n.m.	4.88	6.55	-25%
DPU (sen)	3.42	3.98	-14%	0.00	-	6.82	7.41	-8%
<b>Key Operating Metrics:</b>								
Occupancy rate# (eop)	77.0%	90.0%	-	73.0%	-	77.0%	90.0%	-
Gearing (eop)	37.5%	37.0%	-	37.4%	-	37.5%	37.0%	-
Net property income margin	76.6%	73.5%	-	79.6%	-	77.8%	76.8%	-

Source: Company, Kenanga Research

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## 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 (%)	Gross Div. (sen)	Gross 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.
<b>Stocks Under Coverage</b>																	
AXIS REIT	MP	1.88	1.89	0.53%	3,273.2	Y	12/2023	10.5	10.9	9.4%	3.8%	17.9	17.2	1.2	6.8%	10.4	5.5%
IGB REIT	MP	1.77	1.65	-6.78%	6,348.8	N	12/2023	9.5	9.8	1.1%	3.2%	18.6	18.1	1.7	8.8%	9.9	5.5%
KLCCP STAPLED GROUP	MP	6.91	6.60	-4.49%	12,474.9	Y	12/2022	37.6	40.2	5.9%	6.9%	17.1	15.5	1.0	5.2%	33.1	4.8%
SENTRAL REIT	UP	0.895	0.790	-11.73%	959.2	N	12/2023	6.7	6.6	-2.9%	-1.5%	13.4	13.6	0.7	5.4%	6.3	7.0%
PAVILION REIT	OP	1.29	1.42	10.08%	3,941.9	N	12/2022	7.6	8.1	85.9%	6.8%	16.9	15.8	1.0	6.0%	7.9	6.1%
<b>SECTOR AGGREGATE</b>					<b>33,612.0</b>							<b>17.0</b>	<b>16.2</b>	<b>1.0</b>	<b>5.9%</b>		<b>6.0%</b>

Source: Kenanga Research, Bloomberg

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**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	☆	
	Community Investment	★	★	☆	
	Workers Safety & Wellbeing	★	★	★	
	Corporate Governance	★	★	★	★
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	☆	
<b>SPECIFIC</b>	Effluent/Waste Management	★	★	★	
	Water Management	★	★	★	
	Energy Efficiency	★	★	★	
	Green Buildings	★	★	★	☆
	Tenant Management	★	★	★	
	Supply Chain Management	★	★	☆	
<b>OVERALL</b>		★	★	★	

☆ 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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