

12 May 2023

Sentral REIT

Still Unexciting Earnings Outlook

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1QFY23 net profit of RM17.7m (-13% YoY) met expectations. Earnings outlook remains unexciting amid the persisting supply-demand imbalance of office space. As we roll over our valuation window to FY24, we keep our TP at RM0.79 after applying an unchanged target yield of 8.0% (which implies a 3.5% yield spread above our 10-year MGS yield assumption of 4.5%). Upgrade to MARKET PERFORM based on total expected return of negative 0.8%.

Results' highlights. 1QFY23 core net profit of RM17.7m (-13% YoY), which represented 25%/24% of our/consensus full-year forecast, is within expectations. This comes as gross revenue stood at RM37.5m (-3% YoY, mainly attributable to reduced income generated from QB2 and Wisma Technip) while property operating expenses dipped 1% YoY to RM8.2m, which led net property income (NPI) to RM29.3m (-4% YoY). Gearing ratio inched up to 37.9% in 1QFY23 (from 37.5% in 4QFY22) while finance costs rose 25% YoY to RM9.1m. No income distribution was declared in 1QFY23 since SENTRAL typically pays income distribution on a half yearly basis.

Outlook. While its overall portfolio occupancy rate, which was previously on the decline (from 90% in end-December 2021 to 86% in end-March 2022, to 78% end-June, and to 73% end-September 2022 before inching back to 77% as of end-December 2022 and end-March 2023), has somewhat stabilised, it may take time for SENTRAL to find tenants to fill up the existing vacant space against the overhang of office space and challenging economic backdrops. After achieving a low renewal rate of 41% (out of the ~511,000 sq ft of net lettable area (NLA) that were up for renewal) last year, another 162,000 sq ft (or 10% of NLA) of space are due for renewal in 2023. During the quarter, SENTRAL has renewed 99% of the leases for 67,500 sq ft of NLA that were due for renewal in 1QFY23.

Earnings update. Post results, we are keeping our net profit forecasts at RM71.3m for FY23 and RM70.8m for FY24. Our corresponding DPU estimates remain at 6.3 sen each for FY23 and FY24, which imply yield of 7.3%.

Upgrade to MARKET PERFORM. As we roll over our valuation window to FY24, we maintain our TP at RM0.79 based on an unchanged target yield of 8.0% (which is derived from a 3.5% yield spread above our 10-year MGS yield assumption of 4.5%) on our FY24F GDPU. This is to reflect its high exposure to the office space sector amid the tough industry dynamics that is still clouded by the persistent supply overhang. With total expected return of minus 0.8% (comprising share price downside risk of -8.1% and FY23F yield of 7.3%), we upgrade SENTRAL to MARKET PERFORM. 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.

MARKET PERFORM ↑

Price: RM0.86
Target Price: RM0.79 ↔

Share Price Performance



KLCI 1,425.18
YTD KLCI chg -4.7%
YTD stock price chg -3.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity
Shares Outstanding	921.7
52-week range (H)	1,071.8
52-week range (L)	1.02
3-mth avg daily vol:	0.85
Free Float	232,659
Beta	3%
	0.4

Major Shareholders

Malaysian Resources Corporation Berhad	55.9%
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
Net Profit (NP)	52.3	71.3	70.8
Core NP*	73.6	71.3	70.8
Consensus (CNP)	-	73.5	76.9
Earnings Revision	-	-	-
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	1.17	1.17
Core PER (x)	12.5	12.8	13.0
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.37	0.38	0.38
Net Div. Yield (%)	7.9	7.3	7.3

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

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Results Highlights

FYE Dec (RM m)	1Q23	1Q22	YoY	4Q22	QoQ
Gross revenue	37.5	38.8	-3%	36.4	3%
Property operating expenses	-8.2	-8.3	-1%	-8.5	-4%
Net property income	29.3	30.5	-4%	27.9	5%
Interest income & other income	0.9	1.0	-14%	1.2	-27%
Finance costs	-9.1	-7.3	25%	-8.8	3%
Other non-operating expenses	-3.4	-3.8	-13%	-3.6	-8%
Change in FV of invmt prop	0.0	0.0	-	-23.9	n.m.
Pretax profit	17.7	20.4	-13%	-7.3	n.m.
Taxation	0.0	0.0	-	2.6	n.m.
Net profit	17.7	20.4	-13%	-4.7	n.m.
Realised / core net income	17.7	20.4	-13%	16.6	6%
Income distribution	0.0	0.0	-	36.7	-
EPU (sen)	1.65	1.90	-13%	-0.44	n.m.
DPU (sen)	0.00	0.00	-	3.42	-
Key Operating Metrics:					
Occupancy rate# (eop)	77.0%	86.0%	-	77.0%	-
Gearing (eop)	37.9%	37.4%	-	37.5%	-
Net property income margin	78.1%	78.6%	-	76.6%	-

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.				
Stocks Under Coverage																	
AXIS REIT	MP	1.87	1.84	-1.60%	3,255.8	Y	12/2023	9.3	10.2	-3.1%	9.7%	20.1	18.3	1.2	6.4%	9.3	5.0%
CAPITALAND MALAYSIA MALL TRUST	MP	0.505	0.530	4.95%	1,362.5	N	12/2023	3.9	4.0	-4.9%	2.6%	12.9	12.6	0.5	4.5%	3.9	7.7%
IGB REIT	MP	1.77	1.80	1.69%	6,361.8	N	12/2023	10.1	10.4	7.4%	3.0%	17.5	17.0	1.6	9.5%	10.5	5.9%
KLCCP STAPLED GROUP	MP	7.00	6.60	-5.71%	12,637.3	Y	12/2023	40.2	41.6	5.0%	3.5%	17.4	16.8	1.0	5.2%	36.3	5.2%
SENTRAL REIT	MP	0.860	0.790	-8.14%	921.7	N	12/2023	6.7	6.6	-2.9%	-1.5%	12.9	13.0	0.7	5.4%	6.3	7.3%
PAVILION REIT	OP	1.32	1.47	11.36%	4,037.6	N	12/2023	8.0	8.5	1.2%	6.2%	16.5	15.5	1.0	6.1%	8.2	6.2%
SECTOR AGGREGATE					34,056.5					10.5%	5.5%	16.6	15.7	0.9	6.2%		6.1%

Source: Kenanga Research, Bloomberg

Stock ESG Ratings:

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

☆ 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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