

Company Update

Sentral REIT



Bloomberg: SENTRAL MK | Reuters: SENTRAL.KL

Refer to important disclosures at the end of this report

AllianceDBS Research . Malaysia Equity

20 Jan 2021

BUY

Last Traded Price (19 Jan 2021): RM0.910 (KLCI : 1,601.88)
Price Target 12-mth: RM1.20 (32% upside) (Prev RM1.20)

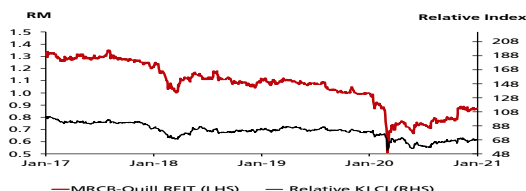
Analyst

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What's New

- 4QFY20 earnings were within expectations
- Revenue was slightly lower but earnings were boosted by lower finance costs
- Expect earnings to be supported by steady occupancy rate of c.90%
- Maintain BUY with TP of RM1.20; stock offers attractive yields

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2020A	2021F	2022F	2023F
Gross Revenue	166	171	176	181
Net Property Inc	128	125	126	126
Total Return	72.6	77.5	78.5	78.8
Distribution Inc	75.9	77.5	78.5	78.8
EPU (sen)	6.77	7.23	7.32	7.35
EPU Gth (%)	149	7	1	0
DPU (sen)	7.08	7.23	7.32	7.35
DPU Gth (%)	4	2	1	0
NAV per shr (sen)	123	123	123	123
PE (X)	13.4	12.6	12.4	12.4
Distribution Yield (%)	7.8	7.9	8.0	8.1
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	37.9	38.2	38.4	38.5
ROAE (%)	5.5	5.9	5.9	6.0

Distn. Inc Chng (%): 1 1 n/a
Consensus DPU (sen): 6.90 7.00 N/A
Other Broker Recs: B: 7 S: 0 H: 1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Strong player in the market

Investment Thesis

Reiterate BUY. We expect the group to register resilient earnings given its high-quality tenant base, strategically-located assets and long-term leases. This has helped the group successfully keep its portfolio occupancy rate high at 90.5%. Coupled with savings from lower interest expenses, SENTRAL registered solid 4QFY20 earnings.

Yields are attractive at this juncture. SENTRAL currently offers attractive yields at c.7.9% vs. our REIT universe average of 5.4%. The group is also trading at a 26% discount to NAV of RM1.23. We believe the stock is undervalued and offers an attractive buying opportunity.

Expiry profile is relatively manageable with 14%-21% of total NLA due for renewal in FY20-22F. Solid tenant list includes many multinational corporations (MNCs) requiring high-quality and well-managed assets.

Valuation:

Our DDM derived target price (TP) is RM1.20. Our TP factors in 7.4% cost of equity and 1.0% terminal growth.

Where we differ:

Solid tenant base underappreciated: We believe SENTRAL is oversold given its 26% discount to NAV. In our view, the stock should re-rate as it demonstrates its portfolio is relatively unaffected by the pandemic and delivers steady dividends.

Key Risks to Our View:

Delayed leasing could be a drag on earnings. The office sector faces challenges due to excess supply, especially in Kuala Lumpur and Cyberjaya where the REIT has exposure. Delayed leasing of released spaces may result in reduced earnings.

At A Glance

Issued Capital (m shrs)	1,072
Mkt. Cap (RMm/US\$m)	975 / 241
Major Shareholders (%)	
Malaysian Resources Corp	27.9
Quill group of companies	5.5
Capitaland Financial Ltd	10.9
Free Float (%)	41.0
3m Avg. Daily Val (US\$m)	0.09
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Sentral REIT

WHAT'S NEW

Steady amid challenging environment

4QFY20 results within expectations. Sentral REIT's (SENTRAL) 4QFY20 core earnings came in at RM20.6m (+10.9% y-o-y; -4.0% q-o-q). This brings FY20 earnings to RM80.9m, which is within our and consensus expectations. There was an exceptional item which was the change in fair value of properties which came up to a loss of RM7.2m.

The group declared a dividend of 3.65 sen for 2HFY20, bringing FY20 total dividend to 7.08 sen. This represents a payout ratio of 94%.

Despite the slightly lower revenue of RM41.8m (-0.4% y-o-y; -0.6% q-o-q) due to the adjustment to unrealised revenue, SENTRAL managed to record higher earnings from lower finance costs. Finance costs of RM8.6m in 4Q20 represent a decline of 16.4% y-o-y, as KLIBOR rates headed south. Portfolio occupancy remains steady at 90%, similar to 3Q20's.

Property operating expenses amounted to RM10.0m (-4.4% y-o-y; +7.7% q-o-q), as SENTRAL incurred less expenses for some properties. This resulted in a higher net property income (NPI) for the quarter of RM33.0m (+1.0% y-o-y; -1.3% q-o-q).

Outlook

Occupancy steady; more room to grow. SENTRAL's portfolio occupancy remained steady at 90% in 4Q20. We understand that there were higher occupancies for Platinum Sentral and Wisma Technip.

About 19.0% of SENTRAL's total NLA expired in FY20. A renewal rate of 85% was achieved for FY20. For FY21, 21% of total NLA is due for renewal with negotiations currently on-going. We expect rental reversions to be flattish, as SENTRAL prioritises tenant retention to cope with a challenging operating environment.

Valuation and Recommendation

We maintain our BUY call with a TP of RM1.20. Its current valuation offers an attractive yield of 7.9%; the highest among its peers. We believe the negatives of an office supply glut have been overly priced in at its current valuation level. Despite factoring in conservative assumptions for SENTRAL, the stock still offers ample upside with attractive distribution yields.

Company Background

Sentral REIT is a real estate investment trust that focuses on office properties. Its largest asset is Platinum Sentral with 445k-sq-ft NLA in the Kuala Lumpur Sentral transport hub. Its other assets include five office assets in Cyberjaya, one retail/commercial asset, one industrial asset and one hypermarket.

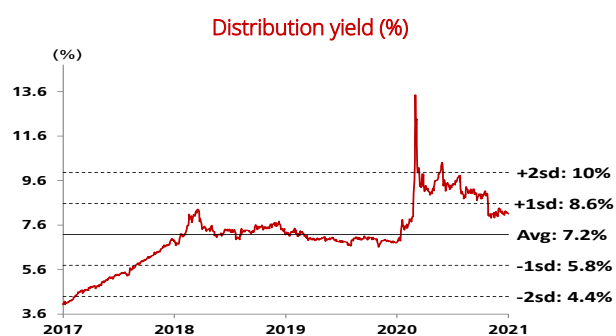
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Quarterly Income Statement (RMm)

FY Dec	4Q2019	3Q2020	4Q2020	% chg yoy	% chg qoq
Gross revenue	42.0	42.1	41.8	(0.4)	(0.6)
Property expenses	(10.5)	(9.3)	(10.0)	(4.4)	7.7
Net Property Income	31.5	32.8	31.8	0.9	(2.9)
Other Operating expenses	(3.8)	(3.6)	(3.8)	(0.5)	4.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	N/A	N/A
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(9.1)	(7.7)	(7.4)	18.8	3.4
Exceptional Gain/(Loss)	(43.0)	0.0	(8.4)	N/A	N/A
Net Income	(24.4)	21.5	12.2	N/A	(43.1)
Tax	0.0	0.0	0.0	N/A	N/A
Minority Interest	0.0	0.0	0.0	N/A	N/A
Net Income after Tax	(24.4)	21.5	12.2	nm	(43.1)
Total Return	(24.4)	21.5	12.2	nm	(43.1)
Non-tax deductible Items	(36.7)	0.0	(7.2)	(80.5)	nm
Net Inc available for Dist.	18.6	21.5	20.6	10.9	(4.0)
Ratio (%)					
Net Prop Inc Margin	75.0	77.9	76.0		
Dist. Payout Ratio	49.5	90.6	79.4		

Source of all data: Company, AllianceDBS

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

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Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Portfolio NLA (k sq ft)	2,214.8	2,214.8	2,214.8	2,214.8	2,214.8
Agg. occupancy rate (%)	90%	90%	90%	90%	90%

Income Statement (RMm)

FY Dec	2019A	2020A	2021F	2022F	2023F
Gross revenue	162	166	171	176	181
Property expenses	(39.2)	(37.9)	(46.6)	(50.2)	(54.1)
Net Property Income	123	128	125	126	126
Other Operating expenses	(14.4)	(14.4)	(13.3)	(13.3)	(13.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(36.4)	(32.5)	(34.0)	(34.0)	(34.3)
Exceptional Gain/(Loss)	(43.0)	(8.4)	0.0	0.0	0.0
Net Income	29.1	72.6	77.5	78.5	78.8
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	29.1	72.6	77.5	78.5	78.8
Total Return	29.1	72.6	77.5	78.5	78.8
Non-tax deductible Items	(43.8)	(3.3)	0.0	0.0	0.0
Net Inc available for Dist.	72.9	75.9	77.5	78.5	78.8
Growth & Ratio					
Revenue Gth (%)	(6.5)	2.2	3.4	2.8	2.5
N Property Inc Gth (%)	(8.1)	4.1	(2.4)	0.8	0.5
Net Inc Gth (%)	(60.2)	149.2	6.8	1.3	0.4
Dist. Payout Ratio (%)	101.1	93.7	100.0	100.0	100.0
Net Prop Inc Margins (%)	75.8	77.1	72.8	71.5	70.0
Net Income Margins (%)	18.0	43.8	45.2	44.6	43.6
Dist to revenue (%)	45.0	45.8	45.2	44.6	43.6
Managers & Trustee's fees	8.9	8.7	7.7	7.6	7.4
ROAE (%)	2.2	5.5	5.9	5.9	6.0
ROA (%)	1.3	3.3	3.5	3.5	3.5
ROCE (%)	4.9	5.2	5.1	5.1	5.1
Int. Cover (x)	3.0	3.5	3.3	3.3	3.3

Source: Company, AllianceDBS

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Quarterly Income Statement (RMm)

FY Dec	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Gross revenue	42.0	41.7	40.1	42.1	41.8
Property expenses	(10.5)	(9.4)	(9.1)	(9.3)	(10.0)
Net Property Income	31.5	32.3	31.0	32.8	31.8
Other Operating	(3.8)	(3.5)	(3.5)	(3.6)	(3.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.1)	(9.0)	(8.4)	(7.7)	(7.4)
Exceptional Gain/(Loss)	(43.0)	0.0	0.0	0.0	(8.4)
Net Income	(24.4)	19.8	19.1	21.5	12.2
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	(24.4)	19.8	19.1	21.5	12.2
Total Return	(24.4)	19.8	19.1	21.5	12.2
Non-tax deductible Items	(36.7)	0.0	0.0	0.0	(7.2)
Net Inc available for Dist.	18.6	19.8	19.1	21.5	20.6
Growth & Ratio					
Revenue Gth (%)	5	(1)	(4)	5	(1)
N Property Inc Gth (%)	4	2	(4)	6	(3)
Net Inc Gth (%)	(238)	(181)	(4)	13	(43)
Net Prop Inc Margin (%)	75.0	77.4	77.2	77.9	76.0
Dist. Payout Ratio (%)	49.5	0.0	94.6	90.6	79.4

Balance Sheet (RMm)

FY Dec	2019A	2020A	2021F	2022F	2023E
Investment Properties	2,144	2,097	2,106	2,114	2,121
Other LT Assets	0.36	0.27	0.27	0.27	0.27
Cash & ST Invt	63.3	125	126	127	128
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	6.31	5.10	5.27	5.42	5.56
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	2,214	2,228	2,238	2,247	2,255
ST Debt	333	218	227	235	242
Creditor	15.7	19.1	20.1	21.1	22.1
Other Current Liab	5.72	11.3	11.3	11.3	11.3
LT Debt	503	627	627	627	627
Other LT Liabilities	33.1	28.8	28.8	28.8	28.8
Unit holders' funds	1,323	1,324	1,324	1,324	1,324
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,214	2,228	2,238	2,247	2,255
Non-Cash Wkg. Capital	(15.1)	(25.3)	(26.1)	(27.0)	(27.9)
Net Cash/(Debt)	(772)	(720)	(728)	(735)	(741)
Ratio					
Current Ratio (x)	0.2	0.5	0.5	0.5	0.5
Quick Ratio (x)	0.2	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	37.8	37.9	38.2	38.4	38.5
Z-Score (X)	0.7	0.7	0.7	0.7	0.7

Source: Company, AllianceDBS

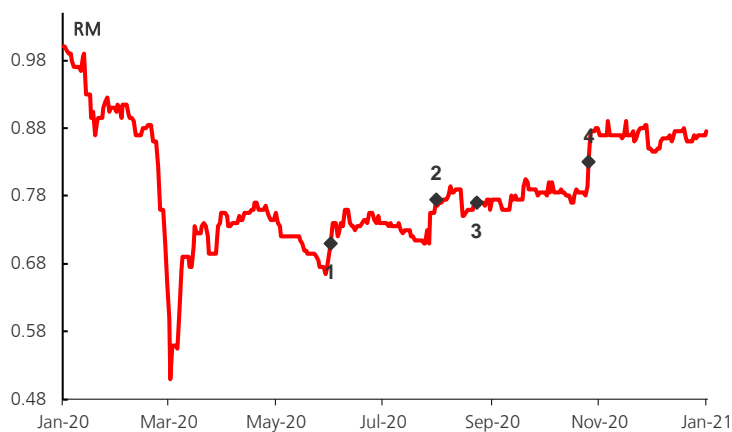
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Cash Flow Statement (RMm)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Income	35.4	73.8	77.5	78.5	78.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	3.97	6.12	0.78	0.86	0.92
Other Operating CF	36.4	32.5	34.0	34.0	34.3
Net Operating CF	75.7	112	112	113	114
Net Invt in Properties	(2.1)	(1.2)	(9.0)	(8.0)	(7.0)
Other Invt (net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	2.72	2.16	3.40	3.77	3.80
Net Investing CF	0.59	0.99	(5.6)	(4.2)	(3.2)
Distribution Paid	(78.0)	(72.9)	(77.5)	(78.5)	(78.8)
Chg in Gross Debt	(19.0)	6.00	9.00	8.00	7.00
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(38.5)	(32.0)	(37.4)	(37.8)	(38.1)
Net Financing CF	(136)	(98.9)	(106)	(108)	(110)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(59.2)	14.4	0.78	0.86	0.92
Operating CFPS (sen)	6.69	9.91	10.4	10.5	10.5
Free CFPS (sen)	6.86	10.4	9.64	9.83	9.98

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jun 20	0.71	1.10	BUY
2:	17 Aug 20	0.78	1.10	BUY
3:	09 Sep 20	0.77	1.10	BUY
4:	12 Nov 20	0.83	1.20	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

Sentral REIT

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Wong Ming Tek, Executive Director

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