

Malaysia

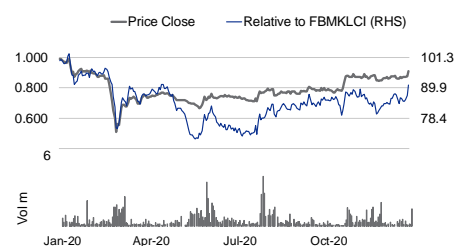
**ADD** (no change)

Consensus ratings\*: Buy 6 Hold 2 Sell 0

Current price:	RM0.91
Target price:	RM0.989
Previous target:	RM0.852
Up/downside:	8.7%
CGS-CIMB / Consensus:	3.1%
Reuters:	MQRE.KL
Bloomberg:	SENTRAL MK
Market cap:	US\$240.8m
	RM975.3m
Average daily turnover:	US\$0.09m
	RM0.36m
Current shares o/s:	1,072m
Free float:	49.1%
*Source: Bloomberg	

**Key changes in this note**

- FY21-22F EPS cut by 1% on lower occupancy rates of 90% (93% previously), and lower average rental reversion of 1% (2% previously), offset by higher NPI margin assumption of 77-78% (c.76% previously).
- FY21-22F DPS raised by 1.1-1.6% on higher payout ratio of 93% (vs. 90% previously).
- DDM-based TP raised to RM0.99.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	7.7	16.7	-9
Relative (%)	10.8	11.2	-9.4

<b>Major shareholders</b>	% held
MRCB	27.8
Employees Provident Fund	12.1
CapitalCommercial Trust	11.0

**Analyst(s)**



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# Sentral REIT

## FY20 driven by stronger NPI margin

- FY20 results were above expectations; core net profit rose 20% yoy.
- NPI margin of 77% for the full-year was stronger than expected.
- Add retained, with a higher TP; 7-7.2% dividend yield is the main appeal.

### FY20 above expectations; core net profit rose 20% yoy

Sentral REIT's (previously known as MRCB-Quill REIT) FY20 core net profit of RM79.4m (excluding RM7.2m negative revaluation on investment properties) was above expectations, at 108% of our full-year forecast and 103% of consensus. While revenue was in line, the main deviation came from higher-than-expected net property income (NPI) margin of 77% (compared with our full-year estimate of 75%). 4Q20 revenue drop of 2.9% yoy (-5.4% qoq) was reflective of the impact of the conditional movement control order (CMCO) period, dragged by weaker car park rental income and rental rebates/assistance for its retail tenants (no rental assistance was given in 3Q20). Overall FY20 core net profit grew 20.2% yoy, driven by lower property operating cost and lower interest expense (-10.7% yoy), due to lower average cost of debt on account of the previous OPR cuts. 4Q20 DPU of 3.7 sen brings total FY20 DPS to 7.1 sen (+4.1% yoy). This was also above our full-year forecast of 6.2 sen. Total DPS translates into a payout ratio of 94% (vs. our assumption of 90% for FY20F).

### Fairly healthy FY20 renewal rate of 85% and occupancy rate of 90%

Despite the various lockdown measures and the spike in Covid-19 cases in 4Q20, Sentral REIT ended the year with a fairly healthy portfolio performance, with FY20's average renewal rate of 85% and an average occupancy rate of 90%. FY20 average rental reversion was in positive territory, although we gathered that it was lower than our assumption of +1%. Going into FY21F, the group targets to maintain similar reversion levels, which would be prudent, taking into account the possibility of a prolonged second movement control order (MCO 2.0), which may extend beyond two weeks.

### MCO 2.0 risks; cutting revenue forecast but raising NPI margin

The two-week MCO 2.0 raises the risks of: 1) potential space reconfiguration by office tenants, 2) weaker car park income, and 3) extended rental assistance (4% of Sentral REIT's total portfolio NLA comprises retail/SMEs). We cut FY21-22F revenue by 6% on lower occupancy rates of 90% (93% previously) and lower rental reversion of 1% (2% previously) to reflect the impact of MCO 2.0, offset by a higher NPI margin of 77-78% (c.76% previously), with a resultant 1% cut in EPS. We introduce FY22F numbers.

### Reiterate Add; still appealing dividend yield of 7-7.2%

Our slightly higher FY21F/22F/23F DPS of 6.5/6.5/6.6 sen assumes a 93% payout ratio (90% previously) given minimal capex for asset enhancement initiatives (AEIs) in FY21F. We raise our DDM-based TP to RM0.99, pegged to a lower COE of 8.3% (8.9% previously) on account of the higher DPS and to reflect the stock's lower 5-year adjusted beta. Reiterate Add, supported by attractive dividend yields of 7-7.2%. Upside risks/potential catalysts: higher occupancy and stronger rental reversion. Downside risks: more-severe-than-expected impact from an extended MCO 2.0.

**Financial Summary**

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Gross Property Revenue (RMm)	161.1	164.0	156.8	157.3	158.1
Net Property Income (RMm)	121.8	126.1	121.2	122.1	122.5
Net Profit (RMm)	29.22	72.57	75.13	76.20	76.54
Distributable Profit (RMm)	72.88	75.88	69.19	70.17	70.49
DPS (RM)	0.068	0.071	0.065	0.065	0.066
Dividend Yield	7.48%	7.78%	7.09%	7.19%	7.23%
Asset Leverage	37.8%	37.9%	37.2%	37.1%	37.1%
BVPS (RM)	1.23	1.23	1.24	1.24	1.24
P/BV (x)	0.74	0.74	0.73	0.73	0.73
Recurring ROE	4.34%	5.89%	5.66%	5.73%	5.75%
% Change In DPS Estimates			1.13%	1.64%	
CGS-CIMB/Consensus DPS (x)			0.94	0.94	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results comparison**

FYE Dec (RM m)	4QFY20	4QFY19	yoy % chg	3QFY20	qoq % chg	4QFY20 cum	4QFY19 cum	yoy % chg	Prev FY20F	Comments
Revenue	39.5	40.6	-2.9	41.7	-5.4	164.0	161.0	1.9	162.5	Minimal rental assistance impacted 4Q20
Operating costs	(11.4)	(12.8)	-11.5	(12.5)	-9.0	(50.7)	(52.1)	-2.8	(52.2)	NPI margin of 77% in FY20 was above our
EBITDA	28.1	27.8	1.1	29.2	-3.9	113.3	108.9	4.1	110.2	forecast of 75%
<b>EBITDA margin (%)</b>	<b>71.2</b>	<b>68.4</b>		<b>70.1</b>		<b>69.1</b>	<b>67.6</b>		<b>67.8</b>	
Depn & amort.	(0.1)	(0.0)	23.4	(0.1)	-0.8	(0.2)	(0.2)	36.8	(0.1)	
EBIT	28.0	27.7	1.1	29.2	-3.9	113.1	108.7	4.0	110.1	
Interest expense	(8.6)	(10.3)	-16.4	(8.3)	3.2	(35.4)	(39.6)	-10.7	(37.6)	Total debt of RM845m as at end-Dec
Interest & invt inc	1.2	1.1	2.8	0.6	83.2	2.9	3.2	-9.6	0.7	Total cash and deposits of RM85m as at end-Dec
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Exceptionals & revaln	(7.2)	(36.7)	-80.5	0.0	nm	(6.9)	(37.0)	nm	-	
<b>Pretax profit</b>	<b>13.4</b>	<b>(18.1)</b>	<b>174</b>	<b>21.5</b>	<b>-37.4</b>	<b>73.8</b>	<b>35.4</b>	<b>109</b>	<b>73.2</b>	
Tax	(1.2)	(6.2)	nm	0.0	nm	(1.2)	(6.2)	nm	-	Tax expense related to RPGT
Tax rate (%)	9.0	(34.4)	nm	0.0	nm	1.6	17.6	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
<b>Net profit</b>	<b>12.2</b>	<b>(24.4)</b>	<b>150</b>	<b>21.5</b>	<b>-43.1</b>	<b>72.6</b>	<b>29.1</b>	<b>149</b>	<b>73.2</b>	
Core net profit	19.4	12.4	57.1	21.5	-9.7	79.4	66.1	20.2	73.2	FY20 core net profit made up 108% of our full-year
Distr profit	20.7	18.6	11.0	21.5	-3.8	81.0	73.0	10.9	66.0	forecast and was 3% above consensus
<b>DPU (sen)</b>	<b>3.7</b>	<b>3.4</b>	<b>8.3</b>	<b>0.0</b>	<b>nm</b>	<b>7.1</b>	<b>6.8</b>	<b>4.1</b>	<b>6.2</b>	

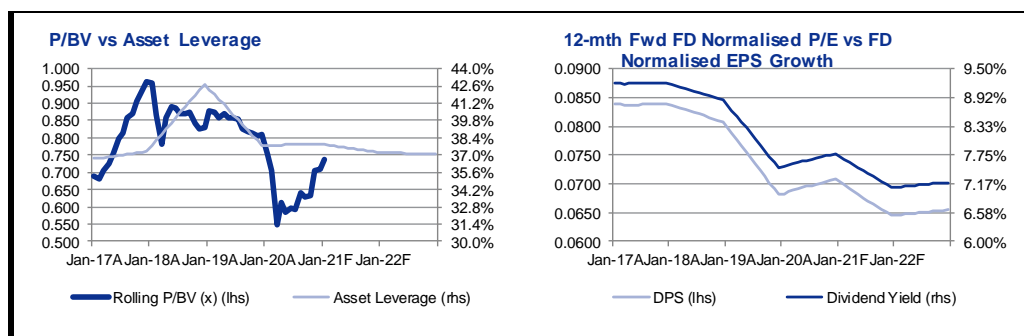
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Changes in assumptions post-4Q20 results**

	Previous			Revised			% chg		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(%)	(%)	(%)
Revenue	166.3	167.2	na	156.8	157.3	158.1	-6%	-6%	na
NPI	127.1	128.1	na	121.2	122.1	122.5	-5%	-5%	na
Net profit	75.9	76.6	na	75.1	76.2	76.5	-1%	-1%	na
DPS	6.4	6.4	na	6.5	6.5	6.6	1%	2%	na
Dividend yield	7.0%	7.1%	na	7.1%	7.2%	7.2%	0.1%	0.1%	na
NPI margin	76.4%	76.6%	na	77.3%	77.6%	77.5%	0.9%	1.0%	na

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Rental Revenues	159.0	145.1	145.9	146.3	146.8
Other Revenues	2.1	19.0	10.9	11.1	11.3
<b>Gross Property Revenue</b>	<b>161.1</b>	<b>164.0</b>	<b>156.8</b>	<b>157.3</b>	<b>158.1</b>
Total Property Expenses	(39.2)	(37.9)	(35.6)	(35.2)	(35.6)
<b>Net Property Income</b>	<b>121.8</b>	<b>126.1</b>	<b>121.2</b>	<b>122.1</b>	<b>122.5</b>
General And Admin. Expenses	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Management Fees	(12.8)	(12.8)	(12.3)	(12.4)	(12.4)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
<b>EBITDA</b>	<b>107.5</b>	<b>111.7</b>	<b>107.3</b>	<b>108.1</b>	<b>108.4</b>
Depreciation And Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>EBIT</b>	<b>107.4</b>	<b>111.7</b>	<b>107.2</b>	<b>108.0</b>	<b>108.3</b>
Net Interest Income	(36.4)	(32.5)	(32.1)	(31.8)	(31.8)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	(35.6)	(5.4)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>35.5</b>	<b>73.8</b>	<b>75.1</b>	<b>76.2</b>	<b>76.5</b>
Taxation	(6.2)	(1.2)	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>29.2</b>	<b>72.6</b>	<b>75.1</b>	<b>76.2</b>	<b>76.5</b>
<b>Distributable Profit</b>	<b>72.9</b>	<b>75.9</b>	<b>69.2</b>	<b>70.2</b>	<b>70.5</b>

### Cash Flow

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>Pre-tax Profit</b>	<b>35.5</b>	<b>73.8</b>	<b>75.1</b>	<b>76.2</b>	<b>76.5</b>
Depreciation And Non-cash Adj.	36.4	32.5	32.1	31.9	31.9
Change In Working Capital	(0.2)	4.5	1.1	(0.3)	(0.7)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	36.7	7.2	0.0	0.0	0.0
<b>Cashflow From Operations</b>	<b>108.4</b>	<b>118.0</b>	<b>108.4</b>	<b>107.8</b>	<b>107.7</b>
Capex	(2.1)	(1.2)	(1.5)	(1.5)	(2.5)
Net Investments And Sale Of FA	4.8	4.9	5.0	5.0	5.0
Other Investing Cashflow	3.2	2.9	3.3	0.0	0.0
<b>Cash Flow From Investing</b>	<b>5.9</b>	<b>6.6</b>	<b>6.8</b>	<b>3.5</b>	<b>2.5</b>
Debt Raised/(repaid)	(19.0)	6.0	0.0	0.0	0.0
Equity Raised/(Repaid)	0.0	0.0	0.0	0.0	1.0
Dividends Paid	(78.0)	(72.9)	(69.2)	(70.2)	(70.5)
Cash Interest And Others	(36.4)	(32.5)	(32.1)	(31.8)	(31.8)
<b>Cash Flow From Financing</b>	<b>(133.4)</b>	<b>(99.3)</b>	<b>(101.2)</b>	<b>(102.0)</b>	<b>(101.3)</b>
Total Cash Generated	(19.0)	25.3	14.0	9.3	8.9
Free Cashflow To Firm	117.6	127.5	118.5	114.9	113.8
Free Cashflow To Equity	59.0	98.1	83.1	79.5	78.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Investments	2,125	2,081	2,176	2,177	2,180
Intangible Assets	0	0	0	0	0
Other Long-term Assets	19	17	17	17	17
Total Non-current Assets	2,144	2,098	2,193	2,194	2,197
Total Cash And Equivalents	63	85	74	79	76
Inventories	0	0	0	0	0
Trade Debtors	6	5	4	4	4
Other Current Assets	1	40	0	0	0
<b>Total Current Assets</b>	<b>70</b>	<b>130</b>	<b>78</b>	<b>84</b>	<b>81</b>
Trade Creditors	16	19	20	20	19
Short-term Debt	333	218	218	218	218
Other Current Liabilities	6	11	11	11	11
<b>Total Current Liabilities</b>	<b>354</b>	<b>248</b>	<b>249</b>	<b>249</b>	<b>248</b>
Long-term Borrowings	503	627	627	627	627
Other Long-term Liabilities	33	29	29	29	29
Total Non-current Liabilities	536	656	656	656	656
Shareholders' Equity	1,323	1,324	1,330	1,330	1,332
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0	0	36	43	43
<b>Total Equity</b>	<b>1,323</b>	<b>1,324</b>	<b>1,366</b>	<b>1,373</b>	<b>1,375</b>

**Key Ratios**

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Gross Property Revenue Growth	(6.64%)	1.83%	(4.41%)	0.34%	0.50%
NPI Growth	(8.27%)	3.53%	(3.89%)	0.74%	0.34%
Net Property Income Margin	75.6%	76.9%	77.3%	77.6%	77.5%
DPS Growth	(15.7%)	3.9%	(8.8%)	1.4%	0.5%
Gross Interest Cover	2.71	3.16	3.03	3.05	3.06
Effective Tax Rate	17.6%	1.6%	0.0%	0.0%	0.0%
Net Dividend Payout Ratio	249%	105%	92%	92%	92%
Current Ratio	0.20	0.52	0.31	0.34	0.33
Quick Ratio	0.20	0.52	0.31	0.34	0.33
Cash Ratio	0.18	0.34	0.30	0.32	0.31
Return On Average Assets	1.30%	3.27%	3.34%	3.35%	3.36%

**Key Drivers**

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Average rental reversion (%)	3.4%	1.0%	0.3%	1.3%	2.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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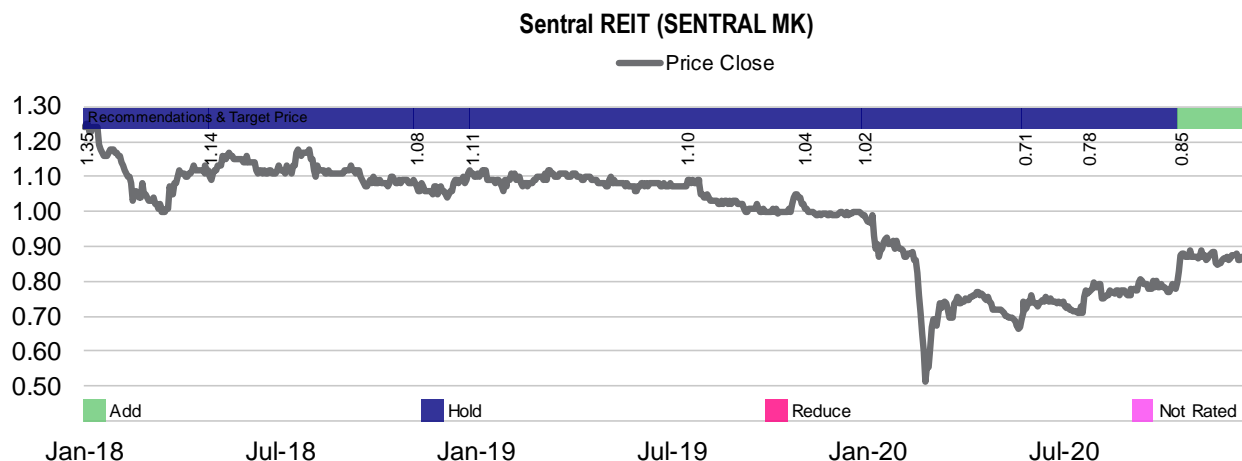
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### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

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1 CG Score 2020 from Thai Institute of Directors Association (IOD)

2 AGM Level 2019 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2019" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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**Recommendation Framework****Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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