

HLIB Research

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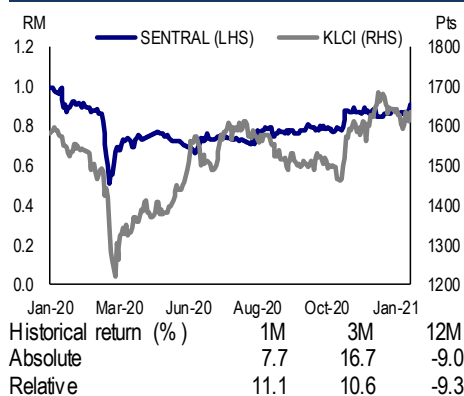
BUY (Maintain)

Target Price: RM0.96
Previously: RM0.96
Current Price: RM0.91

Capital upside	5.5%
Dividend yield	7.8%
Expected total return	13.3%

Sector coverage: REIT

Company description: MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

Share price

Stock information

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	975
3-mth average volume ('000)	419
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	81.0	79.5	81.9
EPU – core (sen)	7.6	7.4	7.6
P/E (x)	12.0	12.3	11.9

Sentral REIT

FY20 wrapped up within expectation

Sentral REIT (fka MRCB-Quill REIT) FY20 core profit of RM81.0 (+12.3% YoY) was within our expectations and consensus. The improvement was driven by better revenue contribution (+2.2%) especially from Menara Shell, Wisma Technip and Tesco, alongside decrease in property operating expenses (-3.4%) and finance costs (-10.7%). Overall occupancy remain stable at 90% while gearing stood at 37.9%. Sentral REIT will be focussing on cost optimisation and tenant retention in FY21 to overcome the challenging environment. We maintain our forecast; reiterate BUY call and sector top pick, with unchanged TP of RM0.96 based on targeted yield of 7.6% on FY21 DPU.

Within expectations. 4Q20 core net profit of RM20.6m (-4.0% QoQ, +10.9% YoY) brought full year FY20 sum to RM81.0m (+12.3% YoY). The results were within both ours and consensus full year estimates, at 102% and 104% respectively.

Dividend. Declared dividend of 3.65 sen, going ex on 4 Feb 2021. This brought FY20 dividend to 7.08 sen (FY19: 6.80 sen).

QoQ. Total revenue was flat (-0.6%) at RM41.8m. Core net profit fell slightly by 4% to RM20.6m, owing to the increase in property operating expenses (+7.7%) and finance costs (+3.2%).

YoY. Top line remained flat (-0.4%) while property operating expense fell by 4.4%. Together with lower finance costs (-16.4%), bottom line showed an increase of 10.9%.

FY20. Revenue for FY20 was up 2.2% to RM165.7m on the back of higher contribution from Menara Shell, Wisma Technip and Tesco. Lower property operating expenses (-3.4%) as well as finance cost (-10.7%) pushed up core net profit to RM81.0m (+12.3%).

Occupancy and gearing. Overall occupancy rate remain stable at 90%. As for gearing level, it reduced slightly to 37.9% (3Q20: 38.2%) with a majority of its total borrowings being charged a floating interest rate (54%).

Outlook. Sentral REIT has completed renewals that were due in 2020 with 85% renewal rate. Approximately 440k sq.ft. or 22% of NLA is due for renewal in 2021, and Sentral REIT has initiated early renewal negotiations for some tenancies. Main focus going forward into 2021 would be on cost optimisation and tenant retention to overcome the challenging environment that stem from Covid-19 pandemic.

Forecast. Maintain as the results were inline.

Maintain BUY, TP: RM0.96. We maintain our BUY call with an unchanged TP of RM0.96 based on FY21 forward DPU on targeted yield of 7.6% on FY21 DPU, which is derived from 2 years historical average yield spread of Sentral REIT and 10-year MGS. We like Sentral REIT for its attractive dividend yield of 7.8% (highest among REITs in our universe), and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike mall REITs.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY17	FY18	FY19	FY20	FY21f	FY22f
Revenue	181.5	173.4	162.1	165.7	168.7	169.8
Core PBT	88.1	84.7	72.1	81.0	79.5	81.9
Core PAT	88.1	84.7	72.1	81.0	79.5	81.9
Core EPU (sen)	8.2	7.9	6.7	7.6	7.4	7.6
P/E (x)	11.1	11.5	13.5	12.0	12.3	11.9
DPU (sen)	8.4	8.1	6.8	7.1	7.3	7.5
Dividend yield (%)	9.2	8.9	7.5	7.8	8.0	8.2
BVPS (RM/share)	1.30	1.28	1.23	1.24	1.24	1.24
P/B (x)	0.7	0.7	0.7	0.7	0.7	0.7
ROE (%)	5.0%	5.3%	5.4%	5.9%	6.0%	6.2%
Net Gearing (%)	34.0%	33.8%	37.8%	37.9%	34.7%	34.7%

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Gross revenue	42.0	42.1	41.8	-0.6%	-0.4%	162.1	165.7	+2.2%
Property operating expenses	-10.5	-9.3	-10.0	+7.7%	-4.4%	-39.2	-37.9	-3.4%
Net property income	31.5	32.7	31.8	-2.9%	+0.9%	122.8	127.8	+4.1%
Interest income	1.1	0.6	1.2	+83.2%	+2.8%	3.2	2.9	-9.6%
Net investment income	32.6	33.4	25.8	-22.8%	-21.0%	126.0	123.5	-2.0%
Finance costs	-10.3	-8.3	-8.6	+3.2%	-16.4%	-39.6	-35.4	-10.7%
Valuation fees	-0.1	-0.1	-0.0	-54.8%	-26.0%	-0.3	-0.3	-1.4%
Administrative expenses	-0.3	-0.0	-0.3	+857%	-2.3%	-0.4	-0.4	-7.8%
Total expenses	-14.0	-11.9	-12.3	+3.7%	-12.1%	-54.0	-54.0	-2.7%
Core PBT	18.6	21.5	20.6	-4.0%	+10.9%	72.1	81.0	+12.3%
Core PAT	18.6	21.5	20.6	-4.0%	+10.9%	72.1	81.0	+12.3%
Distributable adjustments	0.0	0.0	0.0	N.M	N.M	0.9	0.0	-100%
Distributable income	18.6	21.5	20.6	-4.0%	+10.9%	73.0	81.0	+10.9%
Core EPU (sen)	1.7	2.0	1.9	-4.0%	+10.5%	6.7	7.6	+12.2%
DPU (sen)	3.4	0.0	3.7	N.M	+8.3%	6.8	7.1	+4.1%

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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