

19 January 2023

Hold

Price
RM0.90

Target Price
RM0.93

Bloomberg code
SENTRAL MK

Equity | Malaysia | REITs
Flashnote

Sentral REIT

FY22: In line with expectations

Financial Highlights

FYE Dec	2020	2021	2022	2023F	2024F
Revenue	164.0	159.6	145.8	147.1	148.0
Net property income	126.1	122.6	112.0	113.1	113.7
Reported net profit	72.6	70.2	70.1	68.9	71.0
Normalised net profit	81.0	84.5	70.1	68.9	71.0
EPS (sen)	7.6	7.9	6.5	6.4	6.6
DPS (sen)	7.1	7.4	6.3	6.2	6.4
P/E (x)	11.9	11.4	13.8	14.0	13.6
ROE (%)	5.5	5.3	5.4	5.3	5.5
Net yield (%)	7.9	8.2	7.0	6.9	7.1
Net gearing (%)	37.9	37.0	37.4	37.4	37.4

Source: Company, KAF

FY22 Snapshot

For the 12-month period, NPI fell by -6% YoY from RM122.6m to RM114.7m, mainly stemming from a -8% drop in revenue, bolstered by lower contributions from Wisma Technip, Menara Shell, QB2-HSBC, and QB3-BMW.

Sentral's FY22 core net profit rose by +1% YoY and was deemed in line with ours's and the street's estimates, accounting for 104% and 101% respectively.

For the quarter under review, the REIT declared a DPU of 1.6sen. This brings the cumulative DPU to 6.8sen (-8% YoY as compared to 7.4sen last year). All in, Sentral's FY22 financial performance came in within our's and the Street's estimates, making up 104% and 97%, respectively.

Continuing to face occupancy pressures

Despite completing renewals due in 2022 with a 41% renewal rate (due to non-renewals of tenants in Wisma Technip and QB2), ~121,000 sq. ft. of new spaces was leased successfully in 2022, resulting in an improvement in SENTRAL's portfolio occupancy rate from 73% in 3Q2022 to 77% in 4Q2022.

Approximately 162,000 sq.ft, or 8% of SENTRAL's total net lettable area (NLA), was up for renewal this year. As the occupancy rate has already reached its lowest level by the end of 3Q22, we expect it to remain constant.

Given the relatively plentiful supply of office spaces, we estimate that rent growth in the office market will remain restricted and largely flat. However, there is still hope for a better rental reversion in select locations, such as KL Sentral.

A decent yield; Maintain Hold

Positively, management has alluded to implementing a few tactical countermeasures to address the stagnant office market, ie: i) Being competitive with rental terms and rates, ii) Extending marketing initiatives beyond office tenants, and iii) Repurposing the vacant building to accommodate the needs of other industries and tenants.

Elsewhere, gearing remained stable at approximately 37%, giving SENTRAL a healthy debt headroom for prospective acquisitions, assuming the SC's 50% gearing restriction.

Overall, we reaffirm HOLD with an unchanged TP of RM0.93sen.

Analyst

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Exhibit 1: Quarter Earnings Trend

FYE December	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	%QoQ	%YoY	12M21	12M22	%chg	FY22F	12M/F
Revenue	40.4	38.8	36.5	35.7	36.4	2	(10)	159.6	147.3	(8)	145.8	101
Property operating expenses	(10.7)	(8.3)	(8.6)	(7.3)	(8.5)	17	(20)	(37.0)	(32.7)	(12)	(33.8)	97
Net property income	29.7	30.5	27.9	28.4	27.8	(2)	(6)	122.6	114.7	(6)	112.0	102
Interest income	1.0	0.5	0.4	0.6	0.9	69	(8)	2.6	2.4	(10)	2.7	89
Trust expenses	(4.0)	(3.8)	(3.3)	(3.4)	(3.6)	7	(8)	(14.5)	(14.2)	(2)	(13.2)	107
Borrowing costs	(7.9)	(7.3)	(7.1)	(7.6)	(8.8)	15	11	(31.1)	(30.8)	(1)	(33.9)	91
Exceptional items	(15.7)	-	-	-	(23.7)	-	51	(11.4)	(23.7)	108	-	-
Profit before tax	3.3	20.4	18.5	17.9	(7.3)	(141)	(322)	68.7	49.4	(28)	67.6	73
Tax	1.5	-	-	-	2.6	-	78	1.5	2.6	78	-	-
Net profit	4.8	20.4	18.5	17.9	(4.7)	(126)	(200)	70.2	52.0	(26)	70.1	74
Normalized net profit	19.0	20.4	18.5	17.9	16.3	(9)	(14)	80.1	73.1	(9)	70.1	104

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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