

10 November 2023

Property | REITS

Sentral REIT (SENTRAL MK)

Neutral (Maintained)

Occupancy Improves To 86%

Target Price (Return):	MYR0.87 (4.8%)
Price (Market Cap):	MYR0.83 (USD190m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	0.17m/0.04m

- Maintain NEUTRAL, new MYR0.87 TP from MYR0.89, 5% upside with c.8% yield.** Sentral REIT's 9M23 results are in line with expectations, as revenue growth from improved occupancy and positive rental reversion was offset by higher utility and financing costs. The REIT signed a new tenancy for Sentral Building 4 (SB4) (formerly known as Quill Building 2) in August, thus increasing its portfolio occupancy to 86% from 77%. Rental contribution should begin in 1Q24 after a rental-free period.

- Results in line.** The REIT's 3Q23 net profit of MYR18.2m (+3% QoQ, flat YoY) brought 9M23 earnings to MYR53.5m (-6% YoY) – at 76% and 75% of ours and consensus' full-year estimates. In the quarter, the REIT's revenue growth from Platinum Sentral, Menara Shell, and Sentral Building 3 was able to offset the 33% higher operating expenses (mainly due to utility costs) and 19% higher finance costs (average cost of debt: 4.4%), leading to a flattish core profit YoY. However, on a YTD comparison, the rental contribution in 1H22 from Sentral Building 4 and Wisma Sentral Inai (formerly known as Wisma Technip FMC) before the buildings were vacated, led to the 6% decrease YoY.

- Improved occupancy rate.** In August, the REIT secured a tenant for the entirety of SB4. Reminder that the building had been left vacant since May 2022 following the expiry of its previous tenancy. Following a rental-free period, we expect rental contribution to begin in Jan 2024. The REIT's portfolio occupancy has now improved to 86% from 77% in the previous quarter, with only Sentral Building 3 (6% of portfolio NLA) and Wisma Sentral Inai (11% of portfolio NLA) having occupancy rates below 90%. In FY24, the REIT has 13% of its NLA up for renewal. Although we foresee minimal downside risks to occupancy as most of the expiring leases are from the REIT's premium assets, we are cautious of the risk of rental reversion turning negative as the office market remains challenging.

- We increase our FY24-25F earnings by 8% and 5% after adjusting our occupancy rate assumptions, but our TP is lowered to MYR0.87 as we adjusted our long-term rental reversion assumption downwards.** Any disposal opportunities for the vacant Wisma Sentral Inai provides a strong re-rating catalyst. We have yet to input any contribution from Menara CelcomDigi as we await the completion of the acquisition. Our TP has a 0% ESG premium applied. The key downside risk to our outlook is the oversupply of office properties in the market affecting the REIT's occupancy and rental rates. Upside risk is better-than-expected rental reversions.

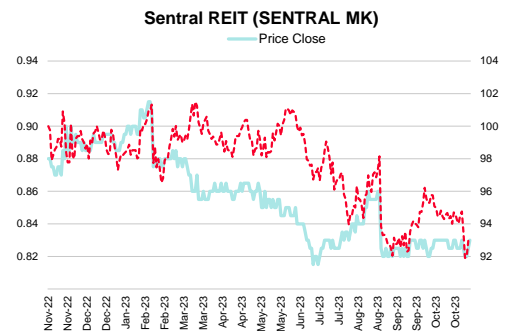
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.3)	0.6	(1.2)	(3.5)	(5.7)
Relative	(4.8)	(2.2)	(0.9)	(5.2)	(6.5)
52-wk Price low/high (MYR)	0.82 – 0.92				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	161	149	153	166	168
Net property income (MYRm)	124	116	118	128	129
Reported net profit (MYRm)	80.7	73.6	70.8	79.7	79.8
Total distributable income (MYRm)	80.7	73.6	70.8	79.7	79.8
DPS (MYR)	0.07	0.07	0.06	0.07	0.07
DPS growth (%)	(1.9)	(8.0)	(5.1)	12.6	0.2
P/B (x)	0.67	0.69	0.69	0.69	0.69
Dividend Yield (%)	8.9	8.2	7.8	8.8	8.8
Return on average equity (%)	6.1	5.6	5.5	6.2	6.2
Return on average assets (%)	3.7	3.4	3.3	3.7	3.7

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

Sentral REIT has reduced its overall GHG emissions and energy consumption by 4.9% in FY22, and targets a 2% YoY reduction moving forward. In FY23, the REIT is upgrading the air-condition system in Menara Shell, and upgrading car park lightings in Plaza Mont' Kiara.

S: GOOD

70% of Sentral REIT's workforce are females, and it provides sufficient training to employees through MRCB Training Academy, MRCB Learning Zone, and Industrial Practical Trainings. To ensure health and safety, it also conducts activities with external parties, eg Bomba.

G: EXCELLENT

We view positively the establishment of a "Policy on Giving and Receiving Gifts" and the commitment to the Corruption-Free Pledge by the Malaysian Anti-Corruption Commission. Directors' tenure ranges between 4-6 years on average.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS (MYR)	0.08	0.07	0.07	0.07	0.07
Property	EPS (MYR)	0.08	0.07	0.07	0.07	0.07
Sentral REIT	DPS (MYR)	0.07	0.07	0.06	0.07	0.07
SENTRAL MK	BVPS (MYR)	1.23	1.20	1.21	1.21	1.21
Neutral	Return on average equity (%)	6.1	5.6	5.5	6.2	6.2
	Weighted avg adjusted shares (m)	1,071.78	1,071.78	1,071.78	1,071.78	1,071.78
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Dividend discount model	Recurring P/E (x)	11.02	12.09	12.57	11.16	11.14
	P/E (x)	11.02	12.09	12.57	11.16	11.14
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	9.5	7.3	7.4	8.4	8.4
	Dividend Yield (%)	8.9	8.2	7.8	8.8	8.8
	EV/EBITDA (x)	- 4.39	- 4.37	- 4.32	- 3.98	- 3.99
	EV/EBIT (x)	- 4.39	- 4.37	- 4.32	- 3.98	- 3.99
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Higher-than-expected demand of office space and inorganic growth opportunities from its sponsor.	Total turnover	161	149	153	166	168
	EBITDA	109	102	104	113	114
	Operating profit	109	102	104	113	114
	Net interest	(28)	(28)	(33)	(33)	(34)
	Pre-tax profit	81	74	71	80	80
	Recurring net profit	81	74	71	80	80
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Downside risk is the oversupply of office properties which might affect the portfolio's office property occupancy and rental rates. Upside risks are better-than-expected occupancy rates and rental reversion.	Change in working capital	0	(4)	(4)	(5)	(5)
	Cash flow from operations	43	69	68	77	77
	Capex	41	(4)	(2)	(2)	(2)
	Cash flow from investing activities	41	(4)	(2)	(2)	(2)
	Dividends paid	(76)	(79)	(71)	(74)	(78)
	Cash flow from financing activities	(34)	22	(71)	(74)	(78)
	Cash at beginning of period	85	94	80	82	92
	Net change in cash	51	88	(5)	1	(4)
	Ending balance cash	135	181	74	83	88
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Sentral REIT is a mid-cap MREIT that focuses on office/commercial assets. Assets are largely concentrated in the Klang Valley and Cyberjaya areas.	Total cash and equivalents	94	80	82	92	102
	Total investments	2,081	2,061	2,061	2,061	2,061
	Total assets	2,180	2,147	2,149	2,159	2,169
	Short-term debt	130	0	0	0	0
	Total long-term debt	676	804	804	813	821
	Total liabilities	862	856	856	865	873
	Shareholders' equity	1,318	1,291	1,292	1,294	1,296
	Total equity	1,318	1,291	1,292	1,294	1,296
	Net debt	712	725	723	721	718
	Total liabilities & equity	2,180	2,147	2,149	2,159	2,169
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(3.0)	(7.3)	3.0	8.5	0.9
	Recurrent EPS growth (%)	(0.3)	(8.8)	(3.8)	12.6	0.2
	Operating EBITDA margin (%)	68.0	68.5	67.7	68.0	67.6
	Net profit margin (%)	50.3	49.4	46.1	47.9	47.5
	Dividend payout ratio (%)	98.4	99.3	98.0	98.0	98.0
	Capex/sales (%)	(25.6)	2.4	1.3	1.2	1.2
	Interest cover (x)	3.51	3.31	2.93	3.16	3.15

Source: Company data, RHB

Emissions And ESG

Trend analysis

Total emissions has reduced YoY from effective energy management. Sentral REIT is aiming to establish its Energy Management Policy by 2024 to act as a formal guidance for energy conservation across its portfolio.

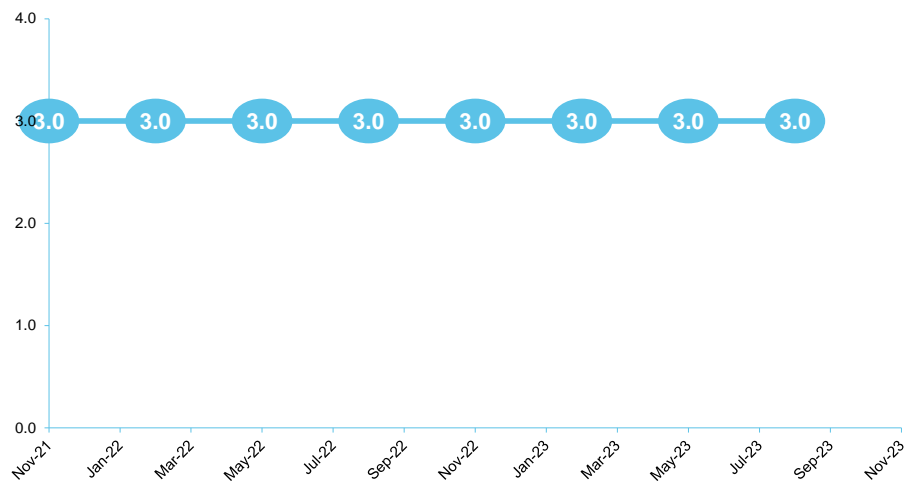
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	-	-	-
Scope 2	14,514	12,232	11,632
Scope 3	-	-	-
Total emissions	14,514	12,232	11,632

Source: Company data, RHB

Latest ESG-Related Developments

- Sentral REIT is acquiring Menara CelcomDigi, which is a certified LEED Gold Green Building.
- The REIT currently has two green certified buildings in its portfolio – Menara Shell and Platinum Sentral.

ESG Rating History



Source: RHB

Results At a Glance

Figure 1: Sentral REIT's results summary

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	35.9	38.4	40.2	4.7	11.7	112.3	116.3	3.5	YoY increase in revenue from Menara Shell and Platinum Sentral
Net property income (NPI)	28.7	29.4	30.5	3.8	6.5	88.2	89.4	1.4	QoQ higher expenses mainly from higher utility costs
Interest expense	(7.6)	(9.2)	(9.1)	(1.1)	19.4	(22.0)	(27.4)	24.6	QoQ lower KLIBOR rates led to slightly lower interest expense
Interest income	0.6	0.6	0.7	7.0	22.3	1.4	1.9	35.2	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Others	(3.4)	(3.2)	(3.9)	22.3	15.0	(10.6)	(10.4)	(1.5)	
Pretax profit	18.2	17.6	18.2	3.2	(0.0)	57.0	53.5	(6.2)	
Tax	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net profit	18.2	17.6	18.2	3.2	(0.0)	57.0	53.5	(6.2)	
Core profit	18.2	17.6	18.2	3.2	(0.0)	57.0	53.5	(6.2)	In line with expectations
Core earnings per unit (sen)	1.7	1.7	1.7	3.0	0.0	5.3	5.0	(6.0)	
Dividends per unit (sen)	0.0	3.2	0.0	nm	nm	3.4	3.2	(6.2)	
NPI margin (%)	79.7	76.6	76.0			78.5	76.9		
Pretax margin (%)	50.6	45.9	45.3			50.8	46.0		
Net margin (%)	50.6	45.9	45.3			50.8	46.0		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-10	Neutral	0.89	0.85
2023-07-26	Neutral	0.92	0.84
2023-05-12	Neutral	0.92	0.85
2023-01-20	Neutral	0.92	0.90
2022-11-11	Neutral	0.94	0.88
2022-08-23	Neutral	0.97	0.96
2022-05-13	Neutral	1.00	0.96
2022-01-21	Buy	1.02	0.92
2021-11-11	Buy	1.02	0.90
2021-08-06	Buy	1.00	0.90
2021-01-19	Buy	1.00	0.91
2020-12-09	Buy	0.95	0.87
2020-11-13	Buy	0.87	0.88
2020-11-12	Buy	0.87	0.83
2020-08-17	Buy	0.83	0.78

Source: RHB, Bloomberg

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