10 Aug 2023

Sentral REIT

Unfolding without surprises

Hold

Price
RM0.84

Target Price
RM0.85

Market Data

Bloomberg Code	SENTRAL MK
No. of shares (m)	1,071.8
Market cap (RMm)	900.3
52-week high/low (RM)	1.02 / 0.82
Avg daily turnover (RMm)	0.2
KLCI (pts)	1,445.2

Source: Bloomberg, KAF

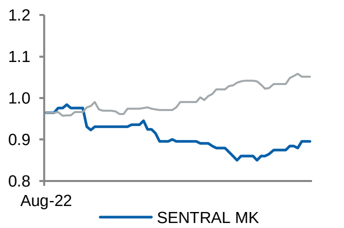
Major Shareholder (%)

MRCB	(27.8%)
EPF	(12.1%)
CapitaLand Ltd	(10.9%)
Free Float	347.8

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(1.8)	(8.2)	(14.7)
Rel Market (%)	(2.7)	(6.2)	(11.4)



Source: Bloomberg, KAF

Sentral REIT's 2Q23 NPI increased by +5% YoY to RM29.3m, propelled by higher contributions from Menara Shell and Platinum Sentral. The REIT's core net profit fell to RM17.6m, while cumulative net earnings decreased by -9% YoY. The occupancy rate remains unchanged at 77%, with 2 buildings remain vacant. This year, ~10% of the NLA is up for renewal, and management is optimistic in securing full tenancy. In addition, occupancy is anticipated to improve to ~81% by the end of 2023 following the conclusion of the acquisition of Menara CelcomDigi. While certain areas, such as KL Sentral, may suggest the possibility of a slightly improved rental reversion, the overall office market conditions continue to be challenging. Hence, we anticipate that the office market's rent growth will be flattish. Maintain Hold.

Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue	159.6	147.3	143.3	144.1	145.0
Net property income	122.6	114.7	111.5	112.2	112.9
Reported net profit	70.2	52.3	67.3	68.6	70.2
Normalised net profit	84.5	76.2	67.3	68.6	70.2
EPS (sen)	7.9	7.1	6.3	6.4	6.5
DPS (sen)	7.4	6.9	6.3	6.4	6.5
P/E (x)	11.4	12.7	14.3	14.1	13.7
ROE (%)	5.3	4.0	5.2	5.3	5.4
Net yield (%)	8.2	7.7	7.0	7.1	7.3
Net gearing (%)	37.0	37.5	37.5	37.5	37.5

Source: Company, KAF

1H23 within expectations

In 2Q23, NPI remained steady at RM29.3m, mirroring the preceding quarter's figure and reflecting a +5% YoY increase. This growth is attributed to augmented revenue contributions of RM38.2m (QoQ: +2%, YoY: +5%) from Menara Shell and Platinum Sentral. However, the core net profit declined to RM17.6m (QoQ: -0%, YoY: -4%), resulting in cumulative earnings of RM35.3m (YoY: -9%), primarily due to higher financing and utility costs.

For the quarter under review, a DPU of 3.2sen was declared (YoY: -6%). Overall, we deem this to be in line with ours and the street's estimates, making up 52% and 50% respectively.

Occupancy at 77%, with 2 vacant buildings

Presently, the occupancy rate maintains its steady course at 77%, maintaining since 3Q22. Note that 2 out of 9 buildings are presently vacant: the 1994-built Wisma Technip FMC and the 2003-built Quill Building 2.

This year, ~10% or 211k sq.ft of NLA is slated for renewal with ~50% already secured, and management remains optimistic in securing full tenancy.

Incorporation of Menara CelcomDigi to enhance occupancy

To recap, the REIT has put forth a proposition to acquire Menara CelcomDigi from its sponsor MRCB (MRC MK, TP: RM0.36). The building encompasses a GFA of ~1m sq.ft (~735k sq.ft excluding the car park). It is currently bound by a 15-year lease agreement with Celcom, featuring provisions for 2 automatic extensions of 3 years each (15+3+3) up until Dec 2040. The management hinted that the deal is expected to conclude in 3Q23. Envisioning full occupancy, we anticipate an improvement in the REIT's overall occupancy rate, reaching ~81% by year-end.

Unfavourable rental is here to stay

In light of the imminent incorporation of Menara CelcomDigi and the anticipated increase in occupancy, we maintain a relatively cautious stance as we anticipate that the office market's rent growth will be flattish and maintain a largely lackluster trajectory. This forecast accounts for the significant increase in available and upcoming office space. While certain areas, such

Analyst

Radin Fatin Shuhada
(603) 2171 0507
fatin@kaf.com.my

as KL Sentral, may suggest the possibility of a slightly improved rental reversion, the overall office market conditions continue to be challenging.

Maintain Hold, TP: RM0.85

Given that the result aligned with our estimates and pending the finalization of the acquisition, we have maintained our earnings forecast. Overall, we deemed the yield of 7% and a forecast DPU of 6.3sen to be fairly attractive. Maintain Hold with an unchanged TP of RM0.85.

Exhibit 1: Quarterly Earnings Trend

FYE December	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	%QoQ	%YoY	6M22	6M23	%chg	FY23F	6M/F
Revenue	36.5	35.7	36.4	37.5	38.2	1.9	4.6	75.3	75.7	1	143.3	53
Property operating cost	(8.6)	(7.3)	(8.5)	(8.2)	(8.9)	8.9	4.1	(16.8)	(17.1)	2	(31.7)	54
Net property income	27.9	28.4	27.8	29.3	29.3	(0.0)	4.8	58.4	58.5	0	111.5	52
Non-property operating cost	0.4	0.6	0.9	0.6	0.6	2.4	52.6	0.9	1.3	43	3.4	37
EBIT	(3.3)	(3.4)	(3.6)	(3.4)	(3.7)	10.9	11.1	(7.2)	(7.1)	(2)	(13.8)	51
Interest income	(7.1)	(7.6)	(8.8)	(9.1)	(9.2)	1.1	30.0	(14.4)	(18.3)	27	(33.9)	54
Finance cost	-	-	(23.7)	-							-	-
Exceptionals	18.5	17.9	(7.3)	17.7	17.6	(0.2)	(4.4)	38.8	35.3	(9)	67.3	52
Profit before tax	-	-	2.6	-	-						-	-
Tax	18.5	17.9	(4.7)	17.7	17.6	(0.2)	(4.4)	38.8	35.3	(9)	67.3	52
Net profit	18.5	17.9	16.3	17.7	17.6	(0.2)	(4.4)	38.8	35.3	(9)	67.3	52
Normalised net profit	36.5	35.7	36.4	37.5	38.2	1.9	4.6	75.3	75.7	1	143.3	53

Source: Company, KAF

Exhibit 2: Menara CelcomDigi

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.

Disclaimer

Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)