

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

2Q23: Results Within Expectations; Expect Largely Similar 2H Performance

While 1H23 recorded a flattish revenue (as the improved performance from Menara Shell and Platinum Sentral was offset by revenue loss from Wisma Technip and QB2), net profit was lower by 9% due to higher finance cost. We expect a largely similar performance for 2H23, where we forecast full-year 2023 earnings to decline by 3%. Acquisition of Menara CelcomDigi will start contributing in 2024, and will provide 5% earnings growth in 2024. Maintain HOLD. Target price: RM0.95

2Q23 RESULTS

Year to 31 Dec (RMm)	2Q23	1Q23	qoq % chg	yoy % chg	1H23	yoy % chg
Gross Revenue	38.4	37.7	1.7	3.6	76.1	(0.3)
Property Opex	(9.0)	(8.2)	9.6	4.8	(17.2)	2.1
Net Property Income	29.4	29.5	(0.4)	3.2	58.9	(1.0)
Finance Costs	(9.2)	(9.1)	1.1	30.0	(18.3)	27.3
PAT	17.6	17.7	(0.2)	(4.4)	35.3	(9.1)
EPU (sen)	1.6	1.6	(0.2)	(4.4)	3.3	(9.1)
DPU (sen)	3.2	0.0	n.m.	(6.2)	3.2	(6.2)
Margins (%):			ppt chg	ppt chg		ppt chg
NPI	76.6	78.3	(1.7)	(0.3)	77.4	(0.5)
PAT	45.9	46.8	(0.9)	(3.8)	46.4	(4.4)

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **Within expectations.** Sentral REIT (SENTRAL) reported 2Q23 revenue of RM38.4m (+1.7% qoq, +3.6% yoy) and core net profit of RM17.6m (-0.2% qoq, -4.4% yoy). Cumulative 1H23 core net profit of RM35.3m (-9.1%) accounted for 49% of our and 50.1% of consensus full-year forecasts. 1H23 recorded a flattish revenue (-0.3% yoy) as the improved performance from Menara Shell and Platinum Sentral was offset by revenue loss from Wisma Technip and QB2 (which were vacant since 2Q22). However, 1H23 earnings fell 9.1% yoy due to higher finance cost mainly on higher KLIBOR rate.
- No exceptional items were recorded in 1H23.
- **Declared 3.19 sen dividend for 1H23 (1H22: 3.4 sen).** This translates to a payout ratio of 97% and annualised yield of 7.6%

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	161	149	152	190	192
EBITDA	109	102	101	135	138
Operating profit	109	102	101	135	138
Net profit (rep./act.)	70	52	72	84	86
Net profit (adj.)	81	74	72	84	86
EPU (sen)	7.5	6.9	6.7	7.0	7.2
DPU (sen)	7.6	6.8	6.5	6.9	7.0
PE (x)	11.3	12.4	12.7	12.1	11.8
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	9.0	8.0	7.6	8.1	8.3
Net margin (%)	43.7	35.1	47.0	44.2	45.1
Net debt/(cash) to asset (%)	32.7	33.8	33.5	41.5	41.5
Interest cover (x)	3.8	3.6	3.4	2.6	2.7
ROE (%)	5.3	4.0	5.5	6.2	6.2
Consensus DPU (sen)	n.a.	n.a.	6.4	6.7	6.7
UOBKH/Consensus (x)	-	-	1.01	1.02	1.05

Source: Sentral REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.85
Target Price	RM0.95
Upside	+11.7%

COMPANY DESCRIPTION

Sentral REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SENTRAL MK
Shares issued (m):	1,071.8
Market cap (RMm):	911.0
Market cap (US\$m):	199.3
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

52-week high/low RM1.02/RM0.815

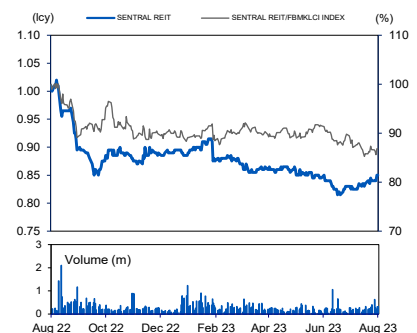
1mth	3mth	6mth	1yr	YTD
2.4	(1.7)	(2.9)	(15.0)	(5.0)

Major Shareholders

	%
Malaysian Resources Corp	55.9
Employees Provident Fund	12.0
CapitaLand Singapore Ltd	10.9

FY23 NAV/Share (RM)	1.21
FY23 Net Debt/Share (RM)	0.67

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Steady earnings and margin.** 2Q23 revenue grew 1.7% qoq and 3.6% yoy mainly due to stronger contribution from Menara Shell on higher rental reversion (around +5%) and higher occupancy from part of Plaza Mont Kiara (2Q23: 94%; 1Q23: 92%; 2Q22: 92%). 2Q23 net property income (NPI) margin was slightly lower by 1.7ppt qoq (higher opex on some properties in portfolio) and dropped by 0.3 ppt yoy (higher utilities), but was within its historical pre-pandemic level of 76-78%.
- **Occupancy rate unchanged at 77% qoq on portfolio basis,** lower than historical average of 89-91% on vacant occupancy at QB2 and Wisma Technip (since 2Q22). We understand that enquiries on the building were encouraging, hence management is optimistic on future improvement in occupancy, moving forward. However, we have not imputed any contribution from QB2 and Wisma Technip at this juncture, pending more concrete development. At 100% occupancy, QB2 and Wisma Technip previously contributed around RM9m and RM15m respectively (collectively 12-13% to 2024 revenue and net profit as well as upside of 0.9 sen to DPU on fully diluted basis).
- Total leases due for renewals for 2023 and 2024 account for 10% (half has been renewed at rental escalation of +3% to +5%, while the rest are expected to have flattish reversion) and 13% (mostly on Menara Shell, which should remain intact thanks to its quality and location) of total NLA respectively. SENTRAL's weighted average lease expiry is 3.13 years.
- **Acquisition of Menara CelcomDigi will start contributing in 2024.** Based on gross rental income of RM36.0m and RM450m purchase consideration (to be funded by private placement and borrowings), the building translates to 8% rental yield, higher than SENTRAL's portfolio yield of 7.7%. Furthermore, we estimate monthly rental psf to be RM6.70, which is on the higher end of average monthly rentals ranging from RM5.50 to RM7.00 psf in Petaling Jaya area, based on our channel check. We expect 2024 net profit to grow 17% yoy after the acquisition but EPU is expected to grow only 5% yoy due to dilution from private placement (share base is expected to increase by 12%).
- **Gearing at 37.5% as of 2Q23.** After the acquisition of Menara CelcomDigi, we estimate net gearing to be around 42%, still below the 50% gearing limit.

EARNINGS REVISION/RISK

- **We keep 2023 EPU at 6.7 sen but increase 2024 EPU by 5% to 7 sen** as we include the new contribution from Menara CelcomDigi. We introduce 2025 EPU at 7.2 sen.

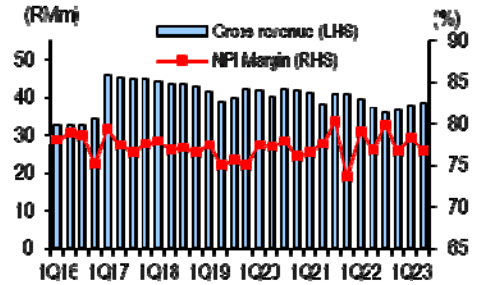
VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM0.95.** Our target price is based on a Dividend Discount model (required rate of return: 8.8%, terminal growth: 1%) and represents an implied dividend yield of 6.8%. Despite us increasing our earnings for 2024, we keep our target price unchanged as we assume lower terminal growth of 1% (from 1.3% as we think supply glut may hinder rental reversion growth). SENTRAL's forward yield spread to MGS of 3.7ppt has narrowed to below 1SD to its five-year historical mean (5.57ppt).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

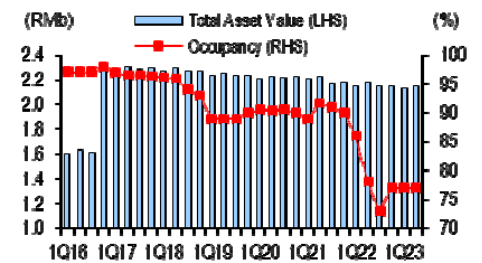
<p>• Environmental</p> <ul style="list-style-type: none"> - Currently developing its Energy Management Policy, with the intent to roll out the policy to all buildings by 2024.
<p>• Social</p> <ul style="list-style-type: none"> - Its Health and Safety Policy guides management on all health and safety issues, complying with the relevant laws and regulations such as the Occupational Safety and Health Act 1994 by the Department of Occupational Safety and Health.
<p>• Governance</p> <ul style="list-style-type: none"> - Aligned to the Malaysian Code on Corporate Governance issued by Securities Commission Malaysia. - Adopts a zero-tolerance approach against all forms of bribery and corruption and has instituted measures to guard against any unethical behaviour.

REVENUE AND NPI MARGIN



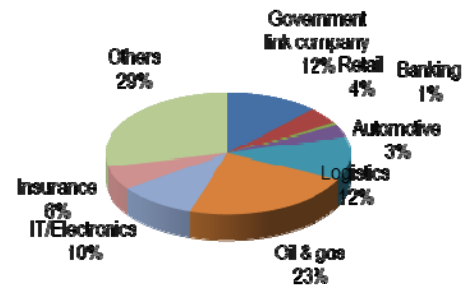
Source: SENTRAL, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



Source: SENTRAL, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	149	152	190	192
EBITDA	102	101	135	138
Deprec. & amort.	0	0	0	0
EBIT	102	101	135	138
Net interest income/(expense)	(28)	(30)	(51)	(51)
Pre-tax profit	50	72	84	86
Tax	3	0	0	0
Net profit	52	72	84	86
Net profit (adj.)	74	72	84	86

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	98	107	136	140
Pre-tax profit	50	72	84	86
Deprec. & amort.	0	0	0	0
Other operating cashflows	48	36	52	54
Investing	2	(2)	(457)	(2)
Capex (growth)	(4)	(2)	(457)	(2)
Proceeds from sale of assets	0	0	0	0
Others	6	0	0	0
Financing	(110)	(99)	319	(138)
Distribution to unitholders	(79)	(69)	(82)	(84)
Issue of shares	0	0	93	0
Proceeds from borrowings	207	120	362	0
Loan repayment	(30)	(117)	0	0
Others/interest paid	(208)	(32)	(54)	(54)
Net cash inflow (outflow)	(10)	7	(2)	1
Beginning cash & cash equivalent	94	80	86	84
Changes due to forex impact	(4)	0	0	0
Ending cash & cash equivalent	80	86	84	85

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,061	2,063	2,520	2,522
Other LT assets	0	0	0	0
Cash/ST investment	80	86	84	85
Other current assets	6	6	8	8
Total assets	2,147	2,155	2,612	2,614
ST debt	0	3	3	3
Other current liabilities	26	29	29	29
LT debt	804	804	1,166	1,166
Other LT liabilities	25	25	25	25
Shareholders' equity	1,291	1,293	1,388	1,390
Total liabilities & equity	2,147	2,155	2,612	2,614

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	68.5	66.5	71.1	71.8
Pre-tax margin	33.4	47.0	44.2	45.1
Net margin	35.1	47.0	44.2	45.1
ROA	2.4	3.3	3.5	3.3
ROE	4.0	5.5	6.2	6.2
Growth				
Turnover	(7.3)	2.2	24.6	1.1
EBITDA	(6.5)	(0.8)	33.1	2.0
Pre-tax profit	(27.8)	44.0	17.1	3.2
Net profit	(25.6)	36.8	17.1	3.2
Net profit (adj.)	(8.8)	(2.8)	17.1	3.2
EPU	(8.9)	(2.8)	5.0	3.2
Leverage				
Debt to total capital	38.4	38.4	45.7	45.7
Debt to asset	37.5	37.5	44.8	44.7
Net debt/(cash) to asset	33.8	33.5	41.5	41.5
Interest cover (x)	3.6	3.4	2.6	2.7

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