

Sentral REIT (SENTRAL MK)

HOLD

1Q23: No surprises

Share Price MYR 0.86
 12m Price Target MYR 0.89 (+10%)
 Previous Price Target MYR 0.91

Maintain HOLD

1Q23 earnings were in-line. Revenue was down 4% YoY as Wisma Technip and QB2 remained vacant due to non-renewal by their anchor tenants. Notably, QoQ net property income improved (+5.1%). Bottom-line was however, dragged by higher financing costs. We lower FY23/24/25E core net profit by -2.2%/-2.2%/-2.1% respectively, after adjusting for higher interest cost. Our DDM-TP is down by 2sen to MYR0.89. SENTRAL now offers an above average 6.6% FY23E net DY (vs. sector's average of 5.6%).

Company Description

Sentral REIT (formerly known as MRCB-Quill REIT) engages in the investment in commercial properties which are mainly located in the Klang Valley.

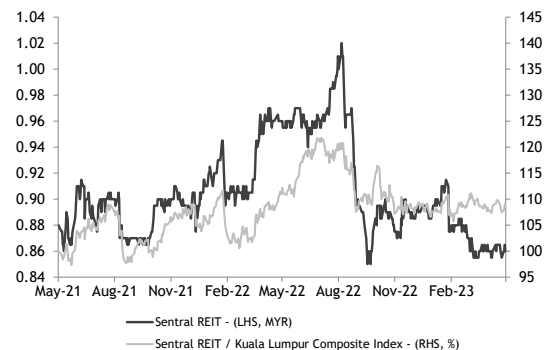
Statistics

52w high/low (MYR)	1.02/0.85
3m avg turnover (USDm)	0.0
Free float (%)	41.1
Issued shares (m)	1,072
Market capitalisation	MYR921.7M USD207M

Major shareholders:

Malaysian Resources Corp. Bhd.	27.9%
Employees Provident Fund	12.0%
CapitalLand Integrated Commercial Trust	10.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(2)	(10)
Relative to index (%)	1	2	(2)

Source: FactSet

Better QoQ net property income

1Q23 core net profit of MYR17.7m (-13% YoY, -8% QoQ) was 24% of our and consensus' FY23E. Revenue was down 4% YoY mainly due to vacancies at Wisma Technip and QB2 (since 2Q22). Earnings was also dragged by higher financing cost (+25% YoY) and utility expenses. QoQ, net property income (NPI) rose 5.1% from (i) step-up rental in Menara Shell and Lotus Building Penang, and (ii) a new tenant in Platinum Sentral. Portfolio occupancy rate remained stable QoQ at 77%. This was offset by (i) higher financing cost (+3.5% QoQ) and utility expenses, and (ii) absence of income tax credit.

Lowering forecasts

Our FY23-25E net profit forecasts are lowered by -2.2%/-2.2%/-2.1% respectively as we adjust for higher financing cost to 4.5% (from 4.3%). SENTRAL has successfully renewed 42% of its leases due for renewal in 1Q23, with a 99% renewal rate. Management is fairly confident on the renewal of the remaining tenancies for FY23, mainly at Platinum Sentral and Menara Shell. Meanwhile, the next refinancing is only due in FY25.

Focusing on improving occupancy

SENTRAL's strategies remain focused on improving occupancy and securing new tenants for its vacant properties. Management targets to secure some tenants at Wisma Technip and QB2 by this year end. For its overall portfolio, we understand that SENTRAL is not dismissing opportunistic divestment of its vacant properties and it continues to explore yield accretive acquisition opportunities.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	161	149	154	156	160
Net property income	124	116	119	120	121
Core net profit	82	76	72	73	74
Core EPU (sen)	7.7	7.1	6.7	6.8	6.9
Core EPU growth (%)	1.5	(7.3)	(5.9)	1.8	1.1
Net DPU (sen)	6.7	6.1	5.7	5.8	5.9
Net DPU growth (%)	4.7	(8.0)	(6.9)	1.8	1.1
P/NTA (x)	0.7	0.7	0.7	0.7	0.7
Net DPU yield (%)	7.4	6.9	6.6	6.8	6.8
ROAE (%)	5.3	4.0	5.5	5.6	5.7
ROAA (%)	3.7	3.5	3.3	3.4	3.4
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	6.6	7.0	7.2
MIBG vs. Consensus (%)	-	-	(13.0)	(17.1)	(18.2)

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly				
	1QFY23	1QFY22	% YoY	4QFY22	% QoQ
Gross revenue	37.7	39.3	(4.0)	36.6	3.0
Net property income	29.5	31.0	(4.9)	28.1	5.1
Interest income	0.6	0.5	35.1	0.9	(33.9)
Fair value gains/(loss)	-	-	NA	(23.9)	(100.0)
Finance costs	(9.1)	(7.3)	24.8	(8.8)	3.5
Other expenses/gains	(3.4)	(3.8)	(12.7)	(3.6)	(7.6)
Pretax profit	17.7	20.4	(13.2)	(7.3)	<-100
Tax	-	-	NA	2.6	(100.0)
Net profit	17.7	20.4	(13.2)	(4.7)	<-100
Net profit ex-EI	17.7	20.4	(13.2)	19.2	(7.8)
EPU ex-EI (sen)	1.6	1.9	(13.2)	1.8	(7.8)
Gross DPU (sen)	-	-	NA	3.4	(100.0)
	1QFY23	1QFY22	+/- ppt	3QFY22	+/- ppt
<i>Net property margin (%)</i>	78.3	79.0	(0.7)	76.7	1.6
<i>Net income ex-EI margin (%)</i>	46.8	51.8	(5.0)	52.3	(5.5)

Source: Trust, Maybank IBG Research

Risk statement

There are several risks factors for our earnings estimates, target price and rating for SENTRAL REIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for SENTRAL. 10% of SENTRAL's total NLA is due for lease renewal in 2023, while 66% of SENTRAL's total debt is based on floating rates. Another earnings risk would be the resurgence of COVID-19 affecting tenancy renewals.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Price/DPU(x)	13.6	14.6	15.0	14.8	14.6
P/BV (x)	0.7	0.7	0.7	0.7	0.7
P/NTA (x)	0.7	0.7	0.7	0.7	0.7
DPU yield (%)	8.2	7.6	7.4	7.5	7.6
FCF yield (%)	11.2	9.9	11.6	11.7	11.9
INCOME STATEMENT (MYR m)					
Revenue	160.6	148.9	154.4	156.4	159.8
Net property income	123.7	116.3	118.7	120.1	120.8
Management and trustee fees	(14.5)	(14.2)	(13.3)	(13.5)	(13.6)
Net financing costs	(28.4)	(28.5)	(33.7)	(33.6)	(33.5)
Exceptionals	(11.9)	(23.9)	0.0	0.0	0.0
Pretax profit	68.8	49.7	71.7	73.0	73.8
Income tax	1.5	2.6	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	70.2	52.3	71.7	73.0	73.8
Core net profit	82.2	76.2	71.7	73.0	73.8
Distributable inc to unitholders	84.5	73.6	71.7	73.0	73.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	93.5	79.8	83.9	87.3	92.3
Accounts receivable	5.4	6.1	6.4	6.4	6.6
Property, Plant & Equip (net)	0.1	0.0	1.2	1.7	1.9
Investment properties	2,065.9	2,047.2	2,047.2	2,047.2	2,047.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	15.4	13.6	14.0	14.0	14.0
Total assets	2,180.4	2,146.7	2,152.6	2,156.6	2,161.9
ST interest bearing debt	130.0	0.0	0.0	0.0	0.0
Accounts payable	19.2	20.6	22.5	22.9	24.5
LT interest bearing debt	675.7	804.5	804.5	804.5	804.5
Other liabilities	37.7	30.6	30.6	30.6	30.6
Total Liabilities	862.5	855.7	857.6	858.0	859.6
Shareholders Equity	1,317.9	1,291.0	1,294.6	1,298.3	1,302.0
Minority Interest	0.0	0.0	0.3	0.3	0.3
Total shareholder equity	1,317.9	1,291.0	1,295.0	1,298.6	1,302.3
Total liabilities and equity	2,180.4	2,146.7	2,152.6	2,156.6	2,161.9
CASH FLOW (MYR m)					
Cash flow from operations	109.0	95.3	107.1	107.6	109.8
Acquisitions & investments	(0.7)	(3.6)	(1.2)	(1.2)	(1.2)
Disposal of FA & investments	41.9	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(1.1)	5.9	2.5	2.6	2.7
CF from investing activities	40.0	2.2	1.3	1.4	1.5
Dividends paid	(75.9)	(79.1)	(68.1)	(69.3)	(70.1)
Interest expense	(27.1)	(30.0)	(36.2)	(36.2)	(36.2)
Change in debt	(41.6)	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(0.6)	(0.9)	0.0	0.0	0.0
CF from financing activities	(145.2)	(110.0)	(104.3)	(105.5)	(106.3)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	3.9	(12.4)	4.1	3.4	5.0

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.0)	(7.3)	3.7	1.2	2.2
Net property income growth	(3.2)	(6.0)	2.1	1.1	0.6
Core net profit growth	1.5	(7.3)	(5.9)	1.8	1.1
Distributable income growth	4.4	(12.9)	(2.7)	1.8	1.1
Profitability ratios (%)					
Net property income margin	77.0	78.1	76.9	76.8	75.6
Core net profit margin	51.2	51.2	46.4	46.7	46.2
Payout ratio	101.8	125.8	85.5	85.5	85.5
DuPont analysis					
Total return margin (%)	43.7	35.1	46.4	46.7	46.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.3	4.0	5.5	5.6	5.7
ROAA (%)	3.7	3.5	3.3	3.4	3.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	54.0	56.1	55.6	55.2	54.7
Net interest cover (x)	3.8	3.6	3.1	3.2	3.2
Debt/EBITDA (x)	7.4	7.9	7.6	7.5	7.4
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	712.1	724.7	720.6	717.2	712.2
Debt/Assets (x)	0.37	0.37	0.37	0.37	0.37

Source: Company; Maybank IBG Research

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Malaysia

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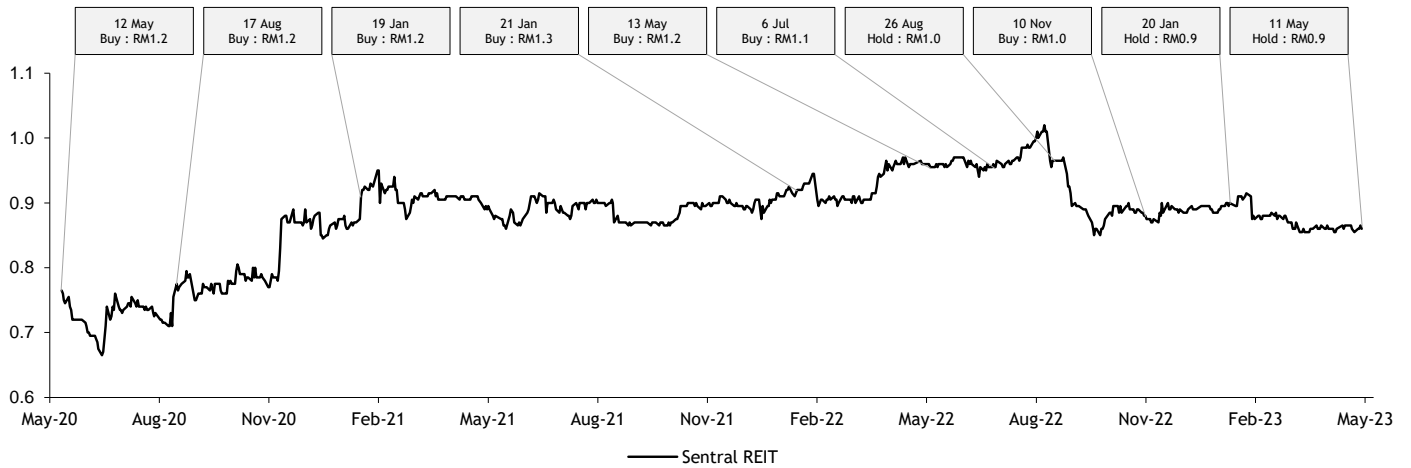
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