

HLIB Research

PP 9484/12/2012 (031413)

Brian Chin Haoyan

brianchy@hlib.hongleong.com.my

(603) 2083 1717

HOLD (Maintain)

Target Price: RM0.75

Previously: RM0.81

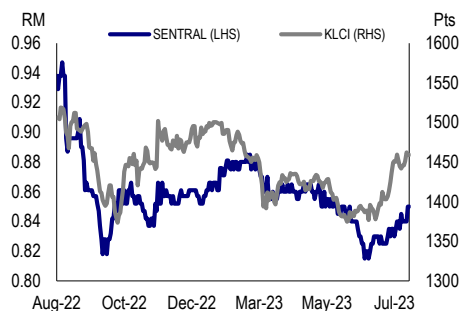
Current Price: RM0.85

Capital upside	-11.8%
Dividend yield	7.9%
Expected total return	-3.9%

Sector coverage: REIT

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

Share price



Stock information

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	911
3-mth average volume ('000)	214
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

MRCB	55.9%
Employees Provident Fund	12.0%
Tamasek Holdings Pte Ltd	10.9%

Earnings summary

FYE (Dec)	FY22f	FY23f	FY24f
PAT – core (RM m)	73.6	72.5	78.6
EPU – core (sen)	6.9	6.8	7.3
P/E (x)	12.4	12.6	11.6

Sentral REIT

Missed estimates

Sentral REIT's 2Q23 core net profit was below our estimates due to higher-than-expected property opex and finance costs. As office owners are grappling with intense competition in the office market, we believe rental rates for office space at Klang Valley will remain suppressed going forward. As heightened cost pressures were not able to be passed down to tenants via upward revision in rental rates, we see muted earnings for office REITs. On a positive note for Sentral, 10% of total NLA is due for expiry in 2023, half of which has been renewed and management does not foresee any major issues in renewing the balance. We also reiterate our optimism on the ongoing acquisition of Menara CelcomDigi due to its long-term single tenancy structure as well as attractive rental yield at 8%. Trim our FY23f/FY24f/FY25f forecasts by -7.0%/-6.6%/6.9%. Maintain HOLD with lower TP of RM0.75 (from RM0.84).

Below estimates. Sentral's 2Q23 core net profit of RM17.6m (-0.2% QoQ, -4.4% YoY) brought 1H23's sum to RM35.3m (-9.1% YoY). The results were below ours (45%) but within street estimates (50%) due to higher-than-expected property opex and finance costs.

Dividend. Declared DPU of 3.19 sen vs 3.40 sen SPLY. Ex-date: 24-Aug-23.

QoQ. Top-line was up 1.7% due to higher rental revenue. However, property opex rose at a greater quantum (+9.6%), resulting in a flattish core net profit compared against 1Q23.

YoY/YTD. Top line remained stable as higher rental contribution from Menara Shell and Platinum Sentral offset the decline in revenue from Wisma Technip and QB2. Meanwhile, property opex increased (+4.8% YoY, +2.1% YTD) no thanks to higher utilities expenses. Coupled with escalated finance costs (+30.0% YoY, +27.3% YTD), core bottom line contracted (-4.4% YoY, -9.1% YTD).

Occupancy and gearing. With nine properties, the overall occupancy rate stayed flattish at 77% vs 1Q23. Similarly, gearing level remained steady at 37.5%.

Outlook. As office owners are grappling with intense competition in the office market, we believe rental rates for office space at Klang Valley will remain suppressed going forward. Hence, we see muted earnings performance for office REITs as rising cost pressures were not able to be passed down to tenants via upward revision in rental rates. On a positive note for Sentral, 10% of total NLA is due for expiry in 2023, half of which has been renewed and management does not foresee any major issues in renewing the balance. Also, we reiterate our optimism on the ongoing acquisition of Menara CelcomDigi due to its long-term single tenancy structure as well as attractive rental yield (8%).

Forecast. We trim our FY23f/FY24f/FY25f forecasts by -7.0%/-6.6%/6.9% as we pencil in higher utilities and finance costs assumptions.

Maintain HOLD, TP: RM0.75. Post earnings revision, our TP falls to RM0.75 (from RM0.81). Our TP is based on FY24 forward DPU on targeted yield of 9.7%, which is derived from 5-year historical average yield spread between Sentral REIT and 10-Year MGS. Although Sentral REIT is grappling with intense competition in the Klang Valley office market, we think its portfolio occupancy would stabilize and gradually improve going forward. However, this comes at the expense on overall rental rates (downward pressure). Overall, we think Sentral's risk to reward profile is reasonably balanced at this juncture. If successful, we think the ongoing acquisition of Menara CelcomDigi would serve as a rerating catalyst for Sentral as the yield accretive deal offers steady rental stream and potentially enhances DPU.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	93.5	79.8	82.3	82.3	83.8
Receivables	5.6	6.2	6.8	7.0	7.1
Investment properties	2,081.0	2,060.7	2,062.7	2,063.7	2,063.7
PPE	0.1	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0	0.0
Assets	2,180.4	2,146.7	2,151.8	2,153.1	2,154.6
Payables	19.2	20.6	26.5	27.6	27.8
Debt	805.6	804.5	802.9	802.3	802.7
Security deposits	37.7	30.6	30.6	30.6	30.6
Derivatives	0.0	0.0	0.0	0.0	0.0
Liabilities	862.5	855.7	860.0	860.5	861.2
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	82.0	55.2	55.9	56.7	57.6
Equity	1,317.9	1,291.0	1,291.8	1,292.6	1,293.4
Total Liabilities & Equity	2,180.4	2,146.7	2,151.8	2,153.1	2,154.6

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	68.8	49.7	72.5	78.6	79.9
Finance costs	31.1	30.8	0.0	0.0	0.0
Depreciation	0.2	0.1	0.0	0.0	0.0
Fair value gain of assets	15.7	23.9	0.0	0.0	0.0
Interest income	-2.6	-2.4	0.0	0.0	0.0
Others	-2.7	-4.2	5.3	0.8	0.2
CFO	110.5	97.9	77.8	79.4	80.1
Capex	-0.7	-3.6	-2.0	-1.0	0.0
Disposal / (purchase)	0.0	0.0	0.0	0.0	0.0
Others	44.0	1.9	0.0	0.0	0.0
CFI	43.3	-1.7	-2.0	-1.0	0.0
Distribution paid	-75.9	-79.1	-74.3	-80.3	-81.6
Proceeds frm borrow'g	258.4	207.0	165.0	166.0	167.0
Repayment of borrow'g	-300.0	-207.0	-164.0	-164.0	-164.0
Others	-27.7	-30.9	0.0	0.0	0.0
CFF	-145.2	-110.0	-73.3	-78.3	-78.6
Net cash flow	8.6	-13.8	2.5	0.1	1.4
Beginning cash	85.0	93.5	79.8	82.3	82.3
Ending cash	93.5	79.8	82.3	82.3	83.8

Assumptions

FYE Dec	FY23f	FY24f	FY25f
Gross rental income			
Quill Building 1 - DHL 1	5.1	5.1	5.2
Quill Building 4 - DHL 2	5.4	5.5	5.5
Quill Building 2 - HSBC	3.8	5.7	5.7
Quill Building 3 - BMW	4.8	4.8	4.8
Wisma Technip	2.7	5.3	5.3
Part of Plaza Mont' Kiara	3.7	3.7	3.7
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.9	16.2	16.4
Platinum Sentral	55.6	56.2	56.7
Menara Shell	47.2	47.7	48.1
Total:	144.1	150.1	151.6

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Gross rental income	146.6	132.0	144.1	150.1	151.6
Car park income	9.5	10.2	10.2	10.4	10.7
Other revenue	3.5	5.2	6.1	6.2	6.3
Total revenue	159.6	147.3	160.4	166.8	168.6
Property opex	-37.0	-32.7	-42.0	-43.7	-44.2
Net property income	122.6	114.7	118.5	123.1	124.5
Other income	-8.3	-20.0	2.0	2.1	2.1
Net invest income	114.4	94.7	120.5	125.1	126.5
Manager's fee	-12.6	-12.2	-12.2	-12.4	-12.4
Trustee's fee	-0.7	-0.6	-0.7	-0.7	-0.7
Finance costs	-31.1	-30.8	-33.7	-32.1	-32.1
Other non opex	-1.2	-1.3	-1.4	-1.5	-1.5
Profit before tax	68.8	49.7	72.5	78.6	79.9
Taxation	1.5	2.6	2.6	2.6	2.6
Profit after tax	70.2	52.3	75.1	81.1	82.5
Core net profit	84.5	73.6	72.5	78.6	79.9
Distributable income	84.5	73.6	72.5	78.6	79.9

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	7.9	6.9	6.8	7.3	7.5
P/E (x)	10.8	12.4	12.6	11.6	11.4
EBITDA	115.8	104.5	106.2	110.7	112.0
EBIT	115.6	104.4	106.2	110.7	112.0
EV	1,623.1	1,635.7	1,631.7	1,631.0	1,630.0
EV/EBITDA (x)	14.0	15.6	15.4	14.7	14.6
DPU (sen)	7.4	6.8	6.8	7.3	7.4
Dividend yield	8.7	8.0	7.9	8.6	8.7
NTA/ share (sen)	123.0	120.5	120.5	120.6	120.7
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.20	1.21	1.21	1.21
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	72.5%	70.9%	66.2%	66.4%	66.4%
EBIT margin	72.4%	70.9%	66.2%	66.3%	66.4%
PBT margin	43.1%	33.7%	45.2%	47.1%	47.4%
Net margin	52.9%	49.9%	45.2%	47.1%	47.4%
ROE	6.4%	5.7%	5.6%	6.1%	6.2%
ROA	3.9%	3.4%	3.4%	3.6%	3.7%
Net gearing	33.76%	33.74%	33.49%	33.44%	33.37%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
Gross Revenue	37.1	37.7	38.4	1.7%	3.6%	76.4	76.1	-0.3%
Property operating expenses	-8.6	-8.2	-9.0	9.6%	4.8%	-16.8	-17.2	2.1%
Net Property Income	28.5	29.5	29.4	-0.4%	3.2%	59.5	58.9	-1.0%
Interest income	0.4	0.6	0.6	2.4%	52.6%	0.9	1.3	43.4%
Net Investment Income	28.9	30.1	30.0	-0.4%	3.9%	60.4	60.2	-0.4%
Finance costs	-7.1	-9.1	-9.2	1.1%	30.0%	-14.4	-18.3	27.3%
Valuation fees	-0.1	-0.1	-0.1	16.9%	-2.7%	-0.2	-0.1	-9.7%
Administrative expenses	-0.0	-0.0	0.1	-478.1%	-656.5%	-0.5	0.1	-122.8%
Total Expenses	-10.4	-12.5	-12.4	-0.6%	18.7%	-21.6	-24.9	15.2%
Core PBT	18.5	17.7	17.6	-0.2%	-4.4%	38.8	35.3	-9.1%
Core PAT	18.5	17.7	17.6	-0.2%	-4.4%	38.8	35.3	-9.1%
Distributable income	18.5	17.7	17.6	-0.2%	-4.4%	38.8	35.3	-9.1%
EPU (realised)	1.72	1.65	1.65	-0.2%	-4.4%	3.62	3.29	-9.1%
DPU (sen)	3.40	0.00	3.19	N.A.	-6.2%	3.40	3.19	-6.2%

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 11 August 2023, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 11 August 2023, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.