

12 May 2023

Property | REITS

Sentral REIT (SENTRAL MK)

Neutral (Maintained)

Stable Amid Higher Costs

- **Maintain NEUTRAL and MYR0.92 TP, 7% upside.** 1Q23 results came in line with expectations, as higher financing and operating costs were offset by higher rental income QoQ, and a YoY decline in earnings due to the lack of contributions from the vacant Wisma Technip and QB2 buildings. Management is encouraged by the enquiries and site visits conducted by prospective tenants, and we expect minimal non-renewal risks for the leases up for expiry this year.
- **Results review.** 1Q23 net profit of MYR17.7m (+6.3% QoQ, -13.2% YoY) was in line with estimates, at 24% of our and consensus full year forecasts. Revenue was 4% lower YoY due to lower occupancy rate, but improved 3% QoQ. Despite the electricity tariff surcharge, operating expenses were lower QoQ by only 4% (-0.6% YoY) mainly due to timing differences as more repairs and maintenance work were recorded in 4Q22. Interest expense increased sharply (+3.5% QoQ, +24.8% YoY) following the interest rate hikes as 66% of the REIT's loans are on a floating rate basis.
- **Occupancy rate maintained at 77%.** In FY23F, 162k sqf or 10% of Sentral REIT's total NLA will be up for renewal, and the 67.5k sqf due in 1Q23 were almost fully renewed at flattish rental reversion. The balance leases up for expiry mainly comes from Platinum Central, hence we think the risk of non-renewal is minimal as it is one of the REIT's stronger assets.
- **Awaiting updates on Wisma Technip and QB2.** Having been vacant since 2Q22, we still await new updates on the two buildings as management continues to ramp up leasing efforts, as well as being open to disposal opportunities. We understand that management is encouraged by the interest from prospective tenants, but upon signing of any lease agreement, it could potentially come with a rental-free period to allow time for the tenants to conduct renovations and move in.
- **We keep our earnings forecasts unchanged** as results are in line. Securing new tenants for the vacant buildings are the biggest upside risks to our forecasts as we have only imputed minimal contributions from the two buildings, while lower occupancy reflects the downside risks. Our TP includes a 0% ESG premium as the REIT's ESG score of 3.0 is in line with the country median.
- **ESG framework update.** As there is now greater focus on the E pillar due to critical climate change issues, we have tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note titled [Envisioning a Better Future](#).

Target Price (Return):	MYR0.92 (+7%)
Price (Market Cap):	MYR0.86 (USD207m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	0.19m/0.04m

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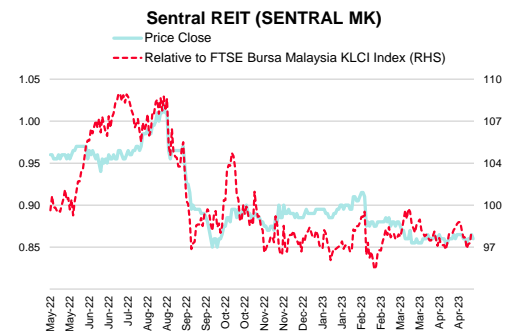


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.9)	0.0	(1.7)	(1.7)	(10.4)
Relative	0.8	0.7	1.6	1.2	(2.0)
52-wk Price low/high (MYR)	0.85 – 1.02				



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Sentral REIT has managed to reduce their overall GHG emissions and energy consumption by 4.9% in FY22, and targeting 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 they provide sufficient training to its employees through MRCB Training Academy, MRCB Learning Zone and Industrial Practical Trainings. To ensure health and safety, they also conduct activities with external parties such as BOMBA.

G: EXCELLENT

We view positively their 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 range between 4-6 years on average.

Note:

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	161	149	147	150	153
Net property income (MYRm)	124	116	114	116	118
Reported net profit (MYRm)	80.7	73.6	72.4	74.8	76.1
Total distributable income (MYRm)	80.7	73.6	72.4	74.8	76.1
DPS (MYR)	0.07	0.07	0.07	0.07	0.07
DPS growth (%)	(1.9)	(8.0)	(3.0)	3.4	1.8
P/B (x)	0.70	0.71	0.71	0.71	0.71
Dividend Yield (%)	8.6	7.9	7.7	8.0	8.1
Return on average equity (%)	6.1	5.6	5.6	5.8	5.9
Return on average assets (%)	3.7	3.4	3.4	3.5	3.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Property | REITS

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	0.07	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	5.6	5.8	5.9
	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)	11.42	12.52	12.74	12.33	12.11
	P/E (x)	11.42	12.52	12.74	12.33	12.11
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	9.2	7.1	7.3	7.6	7.7
	Dividend Yield (%)	8.6	7.9	7.7	8.0	8.1
	EV/EBITDA (x)	(4.10)	(4.06)	(3.32)	(3.26)	(3.20)
	EV/EBIT (x)	(4.10)	(4.06)	(3.32)	(3.26)	(3.20)
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 arising from MRCB and Quill Group.	Total turnover	161	149	147	150	153
	EBITDA	109	102	104	106	108
	Operating profit	109	102	104	106	108
	Net interest	(28)	(28)	(31)	(31)	(32)
	Pre-tax profit	81	74	72	75	76
	Recurring net profit	81	74	72	75	76
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Downside risks oversupply of office properties 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	69	72	73
	Capex	41	(4)	(2)	(2)	(2)
	Cash flow from investing activities	41	(4)	(2)	(2)	(2)
	Dividends paid	(76)	(79)	(72)	(72)	(74)
	Cash flow from financing activities	(22)	46	(72)	(72)	(74)
	Cash at beginning of period	85	94	80	10	11
	Net change in cash	62	112	(5)	(2)	(3)
	Ending balance cash	147	205	75	7	8
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Sentral REIT is a mid-cap M-REIT that focuses on office/commercial assets. Assets are largely concentrated in the Klang Valley and Cyberjaya areas.	Total cash and equivalents	94	80	10	11	12
	Total investments	2,081	2,061	2,061	2,061	2,061
	Total assets	2,180	2,147	2,149	2,151	2,153
	Short-term debt	130	0	0	0	0
	Total long-term debt	676	804	804	804	804
	Total liabilities	862	856	856	857	857
	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	795	793	792
	Total liabilities & equity	2,180	2,147	2,149	2,151	2,153
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(3.0)	(7.3)	(1.0)	1.9	1.8
	Recurrent EPS growth (%)	(0.3)	(8.8)	(1.7)	3.4	1.8
	Operating EBITDA margin (%)	68.0	68.5	70.4	70.7	70.8
	Net profit margin (%)	50.3	49.4	49.1	49.7	49.7
	Dividend payout ratio (%)	98.4	99.3	98.0	98.0	98.0
	Capex/sales (%)	(25.6)	2.4	1.4	1.3	1.3
	Interest cover (x)	3.51	3.31	3.07	3.14	3.13

Source: Company data, RHB

Results At a Glance

Figure 1: Sentral REIT's results summary

FYE Dec (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
Revenue	39.3	36.6	37.7	3.0	(4.0)	Declined YoY, due to the loss of tenants in QB2 and Wisma Technip
Net property income (NPI)	31.0	28.1	29.5	5.1	(4.9)	
Interest expense	(7.3)	(8.8)	(9.1)	3.5	24.8	Higher interest expense from the interest rate hikes
Interest income	0.5	0.9	0.6	(33.9)	35.1	
Associates	0.0	0.0	0.0	nm	nm	
EI	0.0	(23.9)	0.0	nm	nm	
Others	(3.8)	(3.6)	(3.4)	(7.6)	(12.7)	
Pretax profit	20.4	(7.3)	17.7	(341.2)	(13.2)	
Tax	0.0	2.6	0.0	nm	nm	
Minority Interest	0.0	2.6	0.0	nm	nm	
Net Profit	20.4	(4.7)	17.7	(472.5)	(13.2)	
Core Profit	20.4	16.6	17.7	6.3	(13.2)	In line with expectations
Core earnings per unit (sen)	1.9	1.6	1.7	6.5	(13.2)	
Dividends per unit (sen)	0.0	3.4	0.0	nm	nm	
<i>NPI Margin (%)</i>	<i>79.0</i>	<i>76.7</i>	<i>78.3</i>			
<i>Pretax Margin (%)</i>	<i>51.8</i>	<i>(20.0)</i>	<i>46.8</i>			
<i>Net Margin (%)</i>	<i>51.8</i>	<i>45.3</i>	<i>46.8</i>			

Source: Company data, RHB

Recommendation Chart

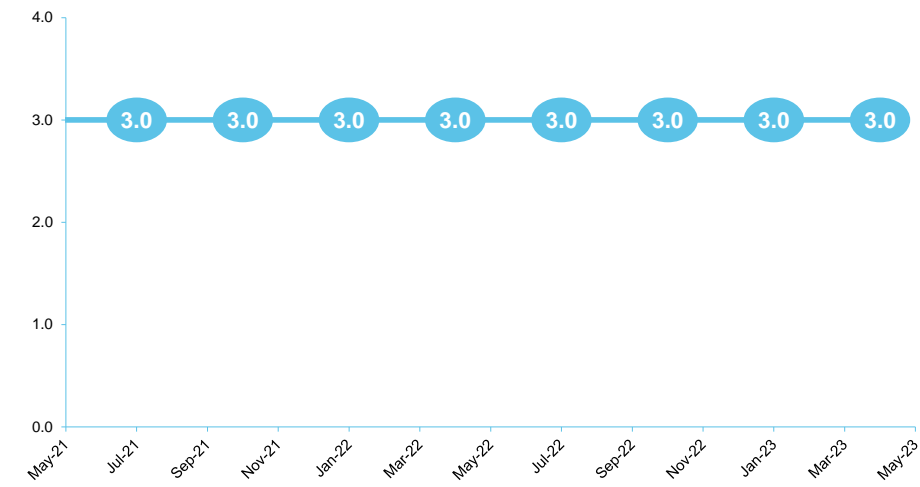


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-18	Buy	0.78	0.71
2020-04-06	Neutral	0.78	0.74
2020-01-20	Neutral	0.97	1.00

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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