

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

4Q20: Steady Performance As Expected

Results came in slightly above our estimates amid an overall steady performance, boosted by lower expenses and finance costs. We believe SENTRAL will continue to report decent results moving forward, given a stable occupancy rate. The stock still offers an attractive dividend yield of at least 8% for 2021. Maintain BUY with a slightly higher target price of RM1.00.

4Q20 RESULTS

Year to 31 Dec	4Q20 (RMm)	qoq % chg	yoy % chg	2020 (RMm)	yoy % chg
Gross revenue	41.8	(0.6)	(0.4)	165.7	2.2
Operating expenses	(10.0)	7.7	(4.4)	(37.9)	(3.4)
Net property income	31.8	(2.9)	0.9	127.8	4.1
Finance cost	(8.6)	3.2	(16.4)	(35.4)	(10.7)
Core Net Profit	20.6	(4.0)	10.9	81.0	12.3
EPU (sen)	1.9	(4.0)	10.9	7.6	12.3
DPU (sen)	3.7	n.m.	8.3	7.1	4.1

Source: SENTRAL, UOB Kay Hian

RESULTS

- Slightly above expectations.** Sentral REIT (SENTRAL) reported 4Q20 revenue of RM41.8m (-0.6% qoq, -0.4% yoy) and core net profit of RM20.6m (-4.0% qoq, +10.9% yoy). Full-year 2020 core net profit of RM81.0m (+12.3% yoy) accounts for 104.8% of our and 104.4% of consensus' full-year forecasts. Earnings were boosted by lower expenses and finance costs.
- 3.65 sen dividend declared during the quarter.** This brings full-year dividend to 7.08 sen (+4.1% yoy), representing a payout ratio of 94% and an annual yield of 7.8%, in line with our expectations.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	162	166	169	171	172
EBITDA	108	113	113	113	115
Operating profit	108	113	113	113	115
Net profit (rep./act.)	29	73	82	85	88
Net profit (adj.)	72	81	82	85	87
EPU (sen)	6.7	7.6	7.7	7.9	8.1
DPU (sen)	6.8	7.1	7.5	7.8	8.0
PE (x)	13.5	12.0	11.8	11.5	11.2
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	7.5	7.8	8.3	8.6	8.7
Net margin (%)	18.0	43.8	48.7	49.9	51.1
Net debt/(cash) to equity (%)	58.4	57.4	54.8	51.7	50.0
Interest cover (x)	3.0	3.5	3.7	4.0	4.1
ROE (%)	2.2	5.5	6.2	6.4	6.6
Consensus DPU (sen)	n.a.	n.a.	6.9	7.0	n.a.
UOBKH/Consensus (x)	-	-	1.09	1.11	-

Source: SENTRAL, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.91
Target Price	RM1.00
Upside	+9.9%
(Previous TP)	RM0.97

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):	975.3
Market cap (US\$m):	240.8
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

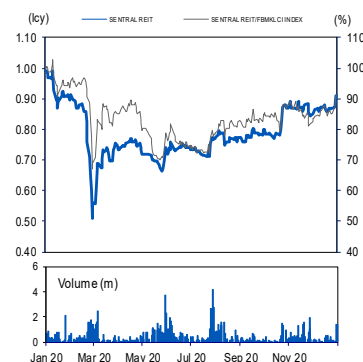
52-week high/low			RM0.990/RM0.510	
1mth	3mth	6mth	1yr	YTD
7.7	16.7	23.0	(9.0)	4.0

Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
CapitaLand Ltd	10.9

FY21 NAV/Share (RM)	1.24
FY21 Net Debt/Share (RM)	0.68

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Less impacted by rental assistance.** 2020 net profit improved 12.3% yoy, mainly due to lower operating expenses and finance cost. Net property income (NPI) margin improved to 77.1% vs 2019's 75.8%. On a sequential basis, earnings dipped 4% qoq, due to rental assistance given to retail tenants. Opex also increased 7.7% qoq due to some upgrading works in QB1 and QB4. Other than that, we understand that rental collections remained healthy and stable. Moving forward, we expect earnings to remain resilient as SENTRAL's tenants are mostly well-established MNCs and local businesses that are able to ride out the current situation.
- **Stable occupancy rate.** On a portfolio basis, occupancy rate remained steady at 90% (3Q20: 90.5%), well above the average of 77% in 2019 for office buildings in Kuala Lumpur. Total leases due for renewals for 2021 and 2022 account for 21% and 14% of total NLA respectively. Majority of the leases due in 2021 are in 2H21. We do not see any major risk as negotiations are already underway and there are no indications of non-renewals. SENTRAL's WALE is 4.51 years.
- **Gearing at 37.9%.** SENTRAL's current gearing ratio remains healthy (on a par with peers), which allows it to tap into debt and equity markets for future acquisitions. The recent increase in gearing limit by the Securities Commissions (from 50% to 60%) will give SENTRAL debt headroom of RM492m to fund future acquisitions.

EARNINGS REVISION/RISK

- **Adjust 2021-22 forecasts by +2.4%**, as we reduce our finance cost assumptions. We expect earnings to remain resilient on the back of stable occupancy. We introduce a 2023 net profit forecast of RM87m.

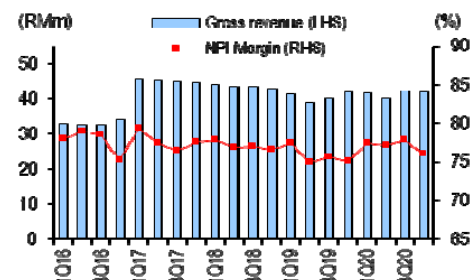
VALUATION/RECOMMENDATION

- **Maintain BUY with a slightly higher target price of RM1.00**, after earnings forecast adjustments. Our target price is based on a dividend discount model (required rate of return: 8.5%, terminal growth: 1.3%) and represents an implied dividend yield of 7.5% for 2021.
- We opine SENTRAL will continue to be appealing for its attractive and sustainable high dividend yields of at least 8% for 2021 onwards, backed by its property portfolio's stable occupancy.

SHARE PRICE CATALYST

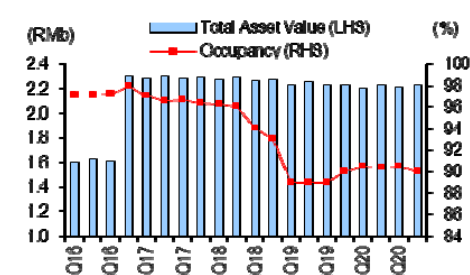
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



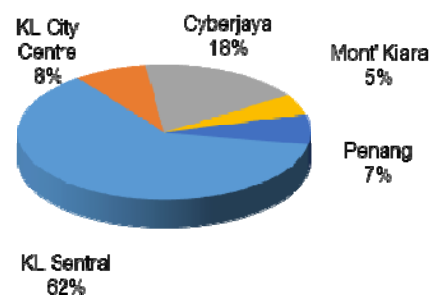
Source: SENTRAL, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



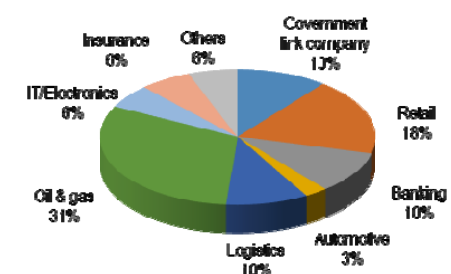
Source: SENTRAL, UOB Kay Hian

GEOGRAPHICAL DIVERSIFICATION (BY VALUATION)



Source: SENTRAL, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	166	169	171	172
EBITDA	113	113	113	115
Deprec. & amort.	0	0	0	0
EBIT	113	113	113	115
Net interest income/(expense)	(32)	(31)	(28)	(28)
Pre-tax profit	74	82	85	87
Tax	(1)	0	0	1
Net profit	73	82	85	88
Net profit (adj.)	81	82	85	87

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	2,097	2,099	2,101	2,103
Other LT assets	1	1	1	1
Cash/ST investment	85	88	70	70
Other current assets	45	5	5	5
Total assets	2,228	2,193	2,176	2,179
ST debt	218	203	173	163
Other current liabilities	30	22	64	83
LT debt	627	612	582	572
Other LT liabilities	29	31	31	31
Shareholders' equity	1,324	1,325	1,327	1,330
Total liabilities & equity	2,228	2,193	2,176	2,179

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	120	116	117	117
Pre-tax profit	74	82	85	87
Deprec. & amort.	0	0	0	0
Other operating cashflows	46	34	32	30
Investing	1	3	(2)	(2)
Capex (growth)	(1)	(2)	(2)	(2)
Proceeds from sale of assets	0	5	0	0
Others	2	0	0	0
Financing	(99)	(116)	(133)	(115)
Distribution to unitholders	(73)	(81)	(83)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	341	0	0	0
Loan repayment	(335)	(15)	(30)	(10)
Others/interest paid	(32)	(20)	(20)	(20)
Net cash inflow (outflow)	22	3	(19)	0
Beginning cash & cash equivalent	63	85	88	70
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	85	88	70	70

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	68.5	67.0	66.4	66.8
Pre-tax margin	44.5	48.7	49.9	50.5
Net margin	43.8	48.7	49.9	51.1
ROA	3.3	3.7	3.9	4.0
ROE	5.5	6.2	6.4	6.6
Growth				
Turnover	2.2	1.9	1.0	1.0
EBITDA	4.6	(0.3)	0.1	1.5
Pre-tax profit	108.7	11.5	3.4	2.2
Net profit	149.2	13.4	3.4	3.4
Net profit (adj.)	12.3	1.6	3.4	2.2
EPU	12.3	1.6	3.4	2.2
Leverage				
Debt to total capital	39.0	38.1	36.3	35.6
Debt to equity	63.8	61.5	56.9	55.3
Net debt/(cash) to equity	57.4	54.8	51.7	50.0
Interest cover (x)	3.5	3.7	4.0	4.1

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