Sentral REIT

FY20 Within Expectations

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OUTPERFORM ↑

Price: **RM0.910**

Target Price: **RM0.935 ↑**

FY20 RNI of RM81m came in within our and consensus expectations at 103% each. FY20 dividend is also within estimate (at 103%). Maintain FY21E CNP of RM81.8m and introduce FY22E CNP of RM82.4m on stable occupancy and mildly positive reversions. Upgrade to OP (from MP) with a higher TP of RM0.935 (from RM0.825) upon lowering our spread to 4.6ppt (from 5.7ppt) on solid earnings, minimal downsides in FY21 and attractive gross yield of 7.9% vs. peers' average of 5.3% despite its earnings being more resilient than retail players which are struggling amidst the pandemic.

FY20 realised net income (RNI) of RM81.0m came in within our and consensus expectations at 103% each. 2HFY20 GDPU of 3.65 sen per unit (which includes a non-taxable portion of 0.09 sen), brought FY20 GDPU to 7.08 sen which is also within, at 103% of our FY20E GDPU of 6.9 sen, implying 7.8% gross yield.

Results' highlights. YoY-Ytd, top-line was up by 2% on higher revenue generated from Menara Shell, Wisma Technip, and Tesco. As a result of lower property operating expense (-3%) and finance cost (-11%), RNI was up by 12% but DPU was only up by 4% at 7.08 sen as the group is maintaining prudent cash management in light of Covid-19 uncertainties. **QoQ,** top-line was flattish (-0.6%) while higher property opex (+8%) resulted in RNI declining by 4%. Gearing remained stable at 0.38x which is below MREITs' gearing limit of 0.60x currently.

Outlook. FY21-22 will see minimal lease expiries of 21-14% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. Positively, the group has renewed 85% of the 19% of leases up for renewal in FY20 while asset occupancy remains stable at 90.0% (vs. 90.5% in 3QFY20). Going forward, given minimal lease expiries and its track record of low single-digit positive reversions, we believe that SENTRAL would be able to see flattish earnings growth YoY. Meanwhile the Covid-19 situation has caused the group to be more diligent in exercising financial discipline, but on the upside, this may help with attractive acquisition opportunities should the situation arise with a healthy balance sheet. *Note that the Group has recently changed its name from MRCB-Quill REIT to Sentral REIT.*

Maintain FY21E CNP of RM82m on stable occupancy and mildly positive reversions, and introduce FY22E CNP of RM82.4m (+0.8% YoY). Our FY21-22E GDPU/NDPU of 7.2-7.2 sen / 6.5-6.5 sen imply attractive gross yield of 7.9% each (with net yield of 7.1%).

Upgrade to OUTPERFORM (from MARKET PERFORM) on a higher Target Price of RM0.935 (from RM0.825) based on a lower spread of 4.6ppt @ +0.5SD (from 5.7ppt @ +1.0SD) to an unchanged FY21E GDPU of 7.2 sen and 10-year MGS target of 3.1%. We believe MQREIT warrants lower spreads as it was relatively unscathed in FY20 despite the pandemic, while its FY21 prospects appear promising with minimal expiries while we also expect FY21 to be a recovery year with impending vaccinations and lockdowns that are more lenient. Gross yields are attractive at 7.9%, well above MREITs under our coverage (large cap retail and office MREITS) with an average of 5.3%, while MQREIT has proven to be more stable than its peers given that it operates within the office segment with more stable rental.

Risks to our call include bond yield expansions and weaker-than-expected rental reversions.

Share Price Performance



KLCI	1,601.88
YTD KLCI chg	-1.6%
YTD stock price chg	4.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK Equity
Market Cap (RM m)	975.3
Shares Outstanding	1,071.8
52-week range (H)	1.00
52-week range (L)	0.50
3-mth avg daily vol:	419,137
Free Float	32%
Beta	0.9

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.1%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	165.7	170.6	175.1
EBIT	127.8	121.5	122.2
PBT	73.8	81.8	82.4
Net Profit	**73.8**	**81.8**	**82.4**
Core NP*	**81.0**	**81.8**	**82.4**
Consensus (CNP)	n.a.	78.9	79.8
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.6	7.6	7.6
Core EPS growth (%)	12	0	0
NDPS (sen)	6.4	6.5	6.5
BVPS (RM)	1.23	1.27	1.28
Core PER (x)	12.0	12.0	12.0
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.38	0.38	0.38
Net Div. Yield (%)	7.0	7.1	7.1

**Core NP refers to RNI*

Results Highlight

FYE 31 Dec (RM m)	4Q20	3Q20	QoQ	4Q19	YoY	FY19	FY20	YoY-Ytd
Gross revenue	41.8	42.1	-0.6%	42.0	-0.4%	162.1	165.7	2%
Prop Opex	-10.0	-9.3	7.7%	-10.5	-4.4%	-39.2	-37.9	-3%
NPI excl unrealised rental income	**31.8**	**32.7**	**-2.9%**	**31.5**	**0.9%**	**122.8**	**127.8**	**4%**
Interest Income	1.2	0.6	83.2%	1.1	2.8%	3.2	2.9	-10%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Surplus on revaluation	-7.2	0.0	n.a.	-36.7	-80.5%	-36.7	-7.2	-80%
Total Trust Income	**25.8**	**33.4**	**-22.8%**	**-4.1**	**-729.0%**	**89.3**	**123.5**	**38%**
Expenditure	-3.8	-3.6	4.8%	-3.8	-0.5%	-14.4	-14.4	0%
Finance Cost	-8.6	-8.3	3.2%	-10.3	-16.4%	-39.6	-35.4	-11%
Income Before Tax	**13.4**	**21.5**	**-37.4%**	**-18.1**	**-174.1%**	**35.4**	**73.8**	**109%**
Tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Income	13.4	21.5	-37.4%	-18.1	-174.1%	35.4	73.8	109%
Realised Net income (RNI)	**20.6**	**21.5**	**-4.0%**	**18.6**	**10.8%**	**72.1**	**81.0**	**12%**
Core EPU (sen)	1.92	2.00	-4.0%	1.74	10.8%	6.73	7.55	12%
DPU (sen)	3.65	0.00	n.a.	3.37	8.3%	6.80	7.08	4%
NAV/unit (RM)	1.23	1.22		1.23		1.23	1.23	
Gearing (x)	0.38	0.38		0.38		0.38	0.38	
NPI Margins	76.0%	77.9%		75.0%		75.8%	77.1%	
RNI Margins	49.3%	51.1%		44.3%		44.5%	48.9%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
MREITs UNDER COVERAGE																	
AXIS REIT	2.00	2,884.7	Y	12/2020	1.8%	6.1%	12.2%	8.7%	24.9	22.3	20.6	1.4	1.4	6.2%	4.0%	2.15	MP
CAPITALAND MALAYSIA MALL TRUST	0.620	1,279.6	N	12/2020	-21.3%	17.1%	-54.7%	65.0%	10.0	22.1	13.4	0.5	0.5	2.6%	4.8%	0.565	MP
IGB REIT	1.63	5,803.7	N	12/2020	-25.1%	26.7%	-31.7%	33.7%	18.3	27.0	20.3	1.5	1.6	6.2%	4.3%	1.60	MP
KLCCP STAPLED GROUP	7.02	12,673.4	Y	12/2020	-10.2%	8.4%	-17.1%	10.6%	17.6	20.6	19.0	1.0	1.0	5.4%	4.2%	8.20	OP
SENTRAL REIT	0.910	975.3	N	12/2021	3.0%	2.6%	1.0%	0.8%	12.0	12.0	12.0	0.7	0.7	6.1%	6.5%	0.935	OP
PAVILION REIT	1.42	4,324.3	N	12/2020	-28.7%	37.8%	-60.2%	131.7%	17.4	44.0	19.0	1.1	1.1	2.5%	2.8%	1.40	MP
SUNWAY REIT	1.39	4,760.5	N	12/2021	1.5%	12.2%	-10.5%	24.4%	14.5	16.2	13.8	0.9	0.9	5.4%	5.0%	1.10	UP
Simple Average					**-12.3%**	**15.8%**	**-23.9%**	**39.8%**	**16.3**	**23.6**	**16.8**	**1.0**	**1.0**	**4.8%**	**4.6%**		

** Core NP and Core PER*

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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