

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

4Q21: Results Within Expectations

Sentral REIT's results came in within our estimates, with full-year 2021 core earnings accounting for 98% of our full-year forecast. Operations remain fairly resilient and we believe SENTRAL will continue to report decent results moving forward, given that its tenants are mostly well-established MNCs. The stock offers an attractive dividend yield of at least 8% from 2022 onwards. Maintain BUY and target price of RM1.00.

4Q21 RESULTS

Year to 31 Dec	4Q21 (RMm)	3Q21 (RMm)	qoq % chg	yoy % chg	2021 (RMm)	yoy % chg
Gross revenue	40.6	40.8	(0.4)	(2.9)	160.6	(3.0)
Operating expenses	(10.7)	(8.0)	33.1	6.9	(37.0)	(2.5)
Net property income	29.9	32.7	(8.7)	(5.9)	123.7	(3.2)
Finance cost	(7.9)	(7.7)	2.5	(7.7)	(31.1)	(12.1)
Core Net Profit	19.0	22.1	(13.9)	(7.6)	80.7	(0.3)
EPU (sen)	1.8	2.1	(13.9)	(7.6)	7.5	(0.3)
DPU (sen)	4.0	0.0	n.m.	9.0	7.4	4.7
Margins	(%)	(%)	ppt chg	ppt chg	(%)	ppt chg
NPI	73.6	80.3	(6.6)	(2.4)	77.0	(0.1)
PAT	46.9	54.2	(7.3)	(2.4)	50.3	1.4

Source: Sentral REIT, UOB Kay Hian

RESULTS

- In line with expectations.** Sentral REIT (SENTRAL) reported 4Q21 revenue of RM40.6m (-0.4% qoq, -2.9% yoy) and core net profit of RM19.0m (-13.9% qoq, -7.9% yoy). 2021 core net profit of RM80.7m (-0.3% yoy) accounted for 98% and 99% of our and consensus full-year forecasts respectively. Core profit declined on a qoq basis due to higher expenses incurred; OPEX is usually high in 4Q and would come off in the next quarter.
- Declared 3.98 sen dividend for 2H21**, bringing full-year dividend to 7.4 sen (+4.7% yoy). This translates to a payout ratio of 94%.

STOCK IMPACT

- Business as usual.** 2021 core earnings remained steady (-0.3% yoy) with corresponding NPI margin of 77% (2020: 77.1%). SENTRAL was still providing rental assistance to some of their retail tenants (minimal in comparison to total revenue). 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.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	166	161	169	171	173
EBITDA	113	109	114	116	118
Operating profit	113	109	114	116	118
Net profit (rep./act.)	73	70	85	87	90
Net profit (adj.)	81	81	85	87	90
EPU (sen)	7.6	7.5	7.9	8.2	8.4
DPU (sen)	7.1	7.6	7.5	7.8	7.9
PE (x)	12.1	12.1	11.5	11.2	10.9
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	7.7	8.3	8.2	8.5	8.7
Net margin (%)	43.8	43.7	50.3	51.0	51.7
Net debt/(cash) to equity (%)	57.4	54.0	52.6	52.1	51.5
Interest cover (x)	3.5	3.8	3.9	4.0	4.1
ROE (%)	5.5	5.3	6.4	6.6	6.7
Consensus DPU (sen)	n.a.	n.a.	7.1	7.4	n.a.
UOBKH/Consensus (x)	-	-	1.06	1.05	-

Source: Sentral REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.92
Target Price	RM1.00
Upside	+9.3%

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):	980.7
Market cap (US\$m):	234.1
3-mth avg daily t'over (US\$m):	0.1

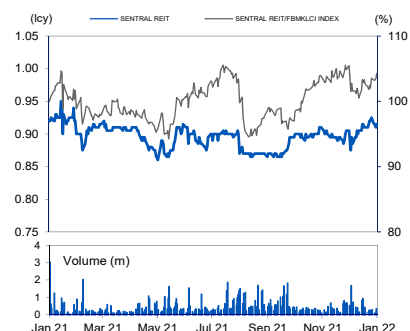
Price Performance (%)

52-week high/low			RM0.950/RM0.860	
1mth	3mth	6mth	1yr	YTD
1.1	2.2	1.7	(0.5)	1.1

Major Shareholders

Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
CapitaLand Ltd	10.9
FY22 NAV/Share (RM)	1.23
FY22 Net Debt/Share (RM)	0.65

PRICE CHART



Source: Bloomberg

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- **Stable occupancy rate.** On a portfolio basis, occupancy rate remained at 90% (3Q21: 91%, 4Q20: 90%), well above the average of 78% in 2020 for office buildings in Kuala Lumpur. Total leases due for renewals for 2022 and 2023 account for 16% and 6% of total NLA respectively. SENTRAL successfully renewed 66% of leases due in 2021. We gathered that rental reversions were flat on average and that the non-renewals were mainly from Wisma Technip. SENTRAL's weighted average lease expiry (WALE) is 3.78 years.
- **Gearing at 37%.** SENTRAL's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. The 60% gearing limit by the Securities Commissions (until Dec 22) will give SENTRAL debt headroom of about RM502m to fund future acquisitions (RM284m debt headroom to reach 50% gearing).

EARNINGS REVISION/RISK

- No change to our earnings forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.00.** 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 7.6% for 2022. Forward yield spread with 10-year Malaysia Government Securities (MGS) is close to +1SD, indicating that the high yield of 8-9% has priced in some expectations of rising MGS.
- SENTRAL continues to be appealing for its attractive and sustainable high dividend yields of 8-9% from 2022 onwards, backed by its property portfolio's stable occupancy.

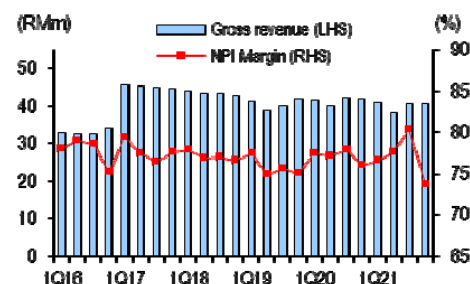
SHARE PRICE CATALYST

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

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

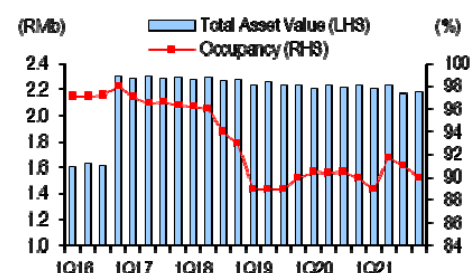
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Currently developing their Energy Management Policy, with the intent to roll out the policy to all buildings by 2022.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Their Health and Safety Policy guides management on all health and safety issues, complying with the relevant laws and regulations such as the Occupational Safety and Health Act 1994 by the Department of Occupational Safety and Health.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Aligned to the Malaysian Code on Corporate Governance issued by Securities Commission Malaysia. - Adopts a zero-tolerance approach against all forms of bribery and corruption and has instituted measures to guard against any unethical behaviour.

REVENUE AND NPI MARGIN



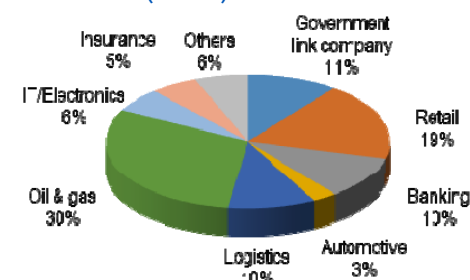
Source: SENTRAL, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



Source: SENTRAL, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	161	169	171	173
EBITDA	109	114	116	118
Deprec. & amort.	0	0	0	0
EBIT	109	114	116	118
Net interest income/(expense)	(28)	(29)	(29)	(29)
Pre-tax profit	69	85	87	90
Tax	1	0	0	0
Net profit	70	85	87	90
Net profit (adj.)	81	85	87	90

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	2,081	2,083	2,085	2,087
Other LT assets	0	0	0	0
Cash/ST investment	94	115	123	133
Other current assets	6	6	6	6
Total assets	2,180	2,204	2,214	2,227
ST debt	130	135	138	143
Other current liabilities	32	47	49	52
LT debt	676	676	676	676
Other LT liabilities	25	25	25	25
Shareholders' equity	1,318	1,322	1,326	1,331
Total liabilities & equity	2,180	2,204	2,214	2,227

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	110	119	120	122
Pre-tax profit	69	85	87	90
Deprec. & amort.	0	0	0	0
Other operating cashflows	41	34	33	33
Investing	40	(2)	(2)	(2)
Capex (growth)	(1)	(2)	(2)	(2)
Proceeds from sale of assets	0	0	0	0
Others	41	0	0	0
Financing	(145)	(96)	(110)	(110)
Distribution to unitholders	(76)	(81)	(83)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	258	175	120	120
Loan repayment	(27)	(170)	(117)	(115)
Others/interest paid	(301)	(20)	(30)	(30)
Net cash inflow (outflow)	5	21	8	10
Beginning cash & cash equivalent	85	94	115	123
Changes due to forex impact	3	0	0	0
Ending cash & cash equivalent	94	115	123	133

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	68.0	67.5	67.8	68.2
Pre-tax margin	42.8	50.3	51.0	51.7
Net margin	43.7	50.3	51.0	51.7
ROA	3.2	3.9	4.0	4.0
ROE	5.3	6.4	6.6	6.7
Growth				
Turnover	(3.0)	5.3	1.2	1.2
EBITDA	(3.7)	4.6	1.7	1.7
Pre-tax profit	(6.8)	23.7	2.7	2.5
Net profit	(3.2)	21.1	2.7	2.5
Net profit (adj.)	(0.3)	5.4	2.7	2.5
EPU	(0.3)	5.4	2.7	2.5
Leverage				
Debt to total capital	37.9	38.0	38.0	38.1
Debt to equity	61.1	61.3	61.3	61.5
Net debt/(cash) to equity	54.0	52.6	52.1	51.5
Interest cover (x)	3.8	3.9	4.0	4.1

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