

21 January 2022

# Sentral REIT

## FY21 Within Expectations

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FY21 RNI of RM84.5m came in within our and consensus' expectation at 103% and 104%, respectively. FY21 dividend of 7.41 sen is also within estimate (at 103%). Maintain FY22E CNP of RM82.4m and introduce FY23E CNP of RM83.0m on marginal organic growth and limited downsides from minimal lease expiries. However, we remain cautious of the office segment over the long run given oversupply concerns. Downgrade to MARKET PERFORM and lower TP to RM0.900 (from RM0.935) on a higher 10-year MGS target of 3.9% (from 3.6%).

FY21 realised net income (RNI) of RM84.5m came in within our and consensus' expectation at 103% and 104%, respectively. 2HFY21 GDPU of 3.98 sen per unit (which includes a non-taxable portion of 0.44 sen), brought FY21 GDPU to 7.41 sen which is also within expectation, at 103% of our FY21E GDPU of 7.2 sen, implying 8.1% gross yield.

**Results' highlights.** YoY, FY21 top-line was down slightly by 3% due to lower revenue from QB3-BMW, PMK and Platinum Sentral. However, RNI was up by 4% mainly on lower financing cost (-12%), lower operating cost (-2%) and gains on disposal of QB5 of RM3.8m which was completed in April 2021. QoQ, 4QFY21 top-line was down slightly by 0.4% but higher property expenses (+33%) caused RNI to decrease by 14%. Gearing remained stable at 0.37x.

**Outlook.** The Group's portfolio occupancy remains relatively stable at 90%. FY22-23 will see minimal lease expiries of 16-6% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. With minimal lease expiries, we believe that SENTRAL REIT would be able to at least see marginal organic growth. The group remains diligent in managing cash-flows and exercising financial discipline and on the lookout for accretive acquisition opportunities should the situation arise given its healthy balance sheet.

**Maintain FY22E CNP of RM82.4m and introduce FY23E CNP of RM83.0m.** Earnings are driven by stable organic growth and occupancy of c.90% on flattish-to-mildly positive reversions. Our FY22-23E GDPU/NDPU of 7.2-7.2 sen / 6.5-6.5 sen imply attractive gross yield of 7.9% each (net yield of 7.2%).

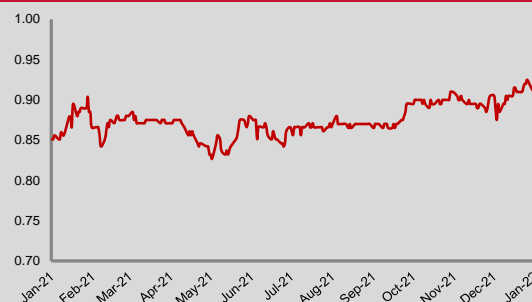
**Downgrade to MARKET PERFORM (from OUTPERFORM) and lower TP to RM0.900 (from RM0.935).** Our TP is based on an unchanged FY22E GDPU and 4.1ppt spread but on a higher 10-year MGS target of 3.90% (from 3.6%), in line with our in-house estimates. We favour SENTRAL REIT for its resilient earnings which have remained stable given its low financing cost. The office segment has also been faring better than the retail and hospitality segments. However, we are cautious of its long-term prospects given the oversupply of office space in the Klang Valley and viable work-from-home arrangements which may decrease demand for office spaces over the longer run, which has been factored in our valuations.

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

## MARKET PERFORM

Price: **RM0.915**  
Target Price: **RM0.900**

### Share Price Performance



KLCI 1,527.75  
YTD KLCI chg -2.5%  
YTD stock price chg 1.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity
Shares Outstanding	980.7
52-week range (H)	1,071.8
52-week range (L)	0.96
3-mth avg daily vol:	0.86
Free Float	342,835
Beta	33%
	0.9

### Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.0%
CapitaLand Limited	10.9%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	160.6	175.1	178.2
EBIT	123.7	122.2	122.7
PBT	68.8	82.4	83.0
<b>Net Profit</b>	<b>70.2</b>	<b>82.4</b>	<b>83.0</b>
<b>Core NP*</b>	<b>84.5</b>	<b>82.4</b>	<b>83.0</b>
Consensus (CNP)	n.a.	83.8	85.3
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.9	7.6	7.6
Core EPS growth (%)	8	-4	0
NDPS (sen)	6.7	6.5	6.5
BVPS (RM)	1.23	1.24	1.25
Core PER (x)	11.6	12.1	12.0
Price/BV (x)	0.7	0.7	0.7
Gearing (x)	0.37	0.38	0.38
Net Div. Yield (%)	7.3	7.1	7.1

\*Core NP refers to RNI



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## Results Highlight

FYE 31 Dec (RM m)	4Q21	3Q21	QoQ	4Q20	YoY	FY20	FY21	YoY-Ytd
Gross revenue	40.6	40.8	-0.4%	41.8	-2.9%	165.7	160.6	-3%
Prop Opex	-10.7	-8.0	33.1%	-10.0	6.9%	-37.9	-37.0	-2%
<b>NPI excl unrealised rental income</b>	<b>29.9</b>	<b>32.7</b>	<b>-8.7%</b>	<b>31.8</b>	<b>-5.9%</b>	<b>127.8</b>	<b>123.7</b>	<b>-3%</b>
Interest Income	1.0	0.6	57.8%	1.2	-12.0%	2.9	2.6	-9%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.	0.0	3.8	n.a.
Surplus on revaluation	-15.7	0.0	n.a.	-7.2	118.8%	-7.2	-15.7	119%
<b>Total Trust Income</b>	<b>15.2</b>	<b>33.4</b>	<b>-54.4%</b>	<b>25.8</b>	<b>-40.9%</b>	<b>123.5</b>	<b>114.4</b>	<b>-7%</b>
Expenditure	-4.0	-3.6	11.4%	-3.8	5.5%	-14.4	-14.5	1%
Finance Cost	-7.9	-7.7	2.5%	-8.6	-7.7%	-35.4	-31.1	-12%
<b>Income Before Tax</b>	<b>3.3</b>	<b>22.1</b>	<b>-84.9%</b>	<b>13.4</b>	<b>-75.1%</b>	<b>73.8</b>	<b>68.8</b>	<b>-7%</b>
Tax	1.5	0.0	n.a.	0.0	n.a.	0.0	1.5	n.a.
Net Income	4.8	22.1	-78.3%	13.4	-64.3%	73.8	70.2	-5%
<b>Realised Net income (RNI)</b>	<b>19.0</b>	<b>22.1</b>	<b>-13.9%</b>	<b>20.6</b>	<b>-7.6%</b>	<b>81.0</b>	<b>84.5</b>	<b>4%</b>
Core EPU (sen)	1.78	2.06	-13.9%	1.92	-7.6%	7.55	7.88	4%
DPU (sen)	3.98	0.00	n.a.	3.65	9.0%	7.08	7.41	5%
NAV/unit (RM)	1.23	1.23		1.23		1.23	1.23	
Gearing (x)	0.37	0.37		0.38		0.38	0.37	
NPI Margins	73.6%	80.3%		76.0%		77.1%	77.0%	
RNI Margins	46.9%	54.2%		49.3%		48.9%	52.6%	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
<b><u>MREITs UNDER COVERAGE</u></b>																	
AXIS REIT	1.84	3,007.5	Y	12/2022	2.9%	3.4%	3.9%	3.7%	20.0	19.6	18.9	1.2	1.2	6.2%	4.8%	2.05	OP
CAPITALAND MALAYSIA TRUST	0.590	1,257.2	N	12/2021	-12.0%	42.3%	-33.9%	141.6%	19.7	29.5	11.8	0.5	0.5	2.6%	2.9%	0.580	MP
IGB REIT	1.54	5,500.7	N	12/2021	12.6%	1.8%	-12.0%	40.7%	22.0	25.7	19.3	1.4	1.4	6.2%	3.5%	1.70	OP
KLCCP STAPLED GROUP	6.34	11,445.8	Y	12/2021	-4.4%	17.4%	-1.0%	20.6%	21.1	21.1	17.6	0.9	0.9	5.4%	4.2%	7.35	OP
SENTRAL REIT	0.915	980.7	N	12/2022	9.0%	1.8%	-2.4%	0.7%	11.6	12.1	12.0	0.7	0.7	5.3%	7.1%	0.900	MP
PAVILION REIT	1.24	3,782.1	N	12/2021	9.1%	10.4%	-6.3%	83.2%	31.0	31.0	17.7	1.0	1.0	2.5%	2.8%	1.30	MP
SUNWAY REIT	1.40	4,794.7	N	12/2021	7.6%	5.0%	-21.3%	21.7%	17.5	28.0	17.5	0.9	0.9	5.4%	3.2%	1.35	MP
<b>Simple Average</b>					<b>3.5%</b>	<b>11.7%</b>	<b>-10.4%</b>	<b>44.6%</b>	<b>20.4</b>	<b>23.8</b>	<b>16.4</b>	<b>1.0</b>	<b>0.9</b>	<b>4.8%</b>	<b>4.1%</b>		

\* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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**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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