

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

1Q21: Displays Resilience Against The Pandemic

Results came in within our estimates, accounting for 25% of our full-year forecast. Core net earnings improved on the back of stable earnings and lower 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 8-9% for 2021-23. Maintain BUY and target price of RM1.00.

1Q21 RESULTS

Year to 31 Dec	1Q21 (RMm)	4Q20 (RMm)	qoq % chg	yoy % chg
Gross revenue	41.0	41.8	(1.8)	(1.6)
Operating expenses	(9.6)	(10.0)	(4.1)	2.1
Net property income	31.4	31.8	(1.1)	(2.7)
Finance cost	(7.7)	(8.6)	(10.5)	(19.5)
Core Net Profit	20.7	20.6	0.4	4.6
EPU (sen)	1.9	1.9	0.4	4.6
DPU (sen)	0.0	3.7	n.m.	n.m.
Margins	(%)	(%)	+/- ppt chg	+/- ppt chg
NPI	76.6	76.0	0.5	(0.8)
PAT	50.4	49.3	1.1	3.0

Source: SENTRAL, UOB Kay Hian

RESULTS

- In line with expectations.** Sentral REIT (SENTRAL) reported 1Q21 revenue of RM41m (-1.8% qoq, -1.6% yoy) and core net profit of RM20.7m (+0.4% qoq, +4.6% yoy). Core net profit accounts for 25% of our and 26% of consensus' full-year forecasts. The 4.6% yoy earnings improvement despite revenue marginal decline of 1.6% can be attributed to lower finance costs.
- No dividend**, as SENTRAL typically declares dividends in the second and final quarters.

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)	13.3	11.8	11.6	11.3	11.0
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	7.6	7.9	8.4	8.7	8.9
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	7.1	7.0
UOBKH/Consensus (x)	-	-	1.09	1.10	1.14

Source: Sentral REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.90
Target Price	RM1.00
Upside	+11.8%

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):	959.2
Market cap (US\$m):	232.7
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low RM0.950/RM0.665

1mth	3mth	6mth	1yr	YTD
(1.6)	(3.8)	14.0	16.2	2.3

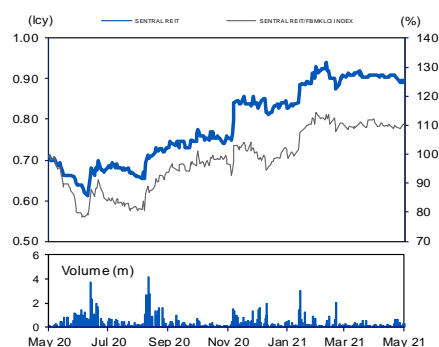
Major Shareholders

	%
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

- **Resilient against COVID-19.** Net profit improved 4.6% yoy, even though revenue declined marginally, due to stable occupancy rate as well as lower finance cost. NPI margin improved to 76.6% (4Q20: 76.0%, 1Q20: 77.4%). 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 89% (4Q20: 90%), well above the average of 78% in 2020 for office buildings in Kuala Lumpur. Total leases due for renewals for 2021 and 2022 account for 22% and 16% of total NLA respectively, with the majority of the leases due in 2021 taking place in 2H21. SENTRAL successfully renewed 96% of leases due in 1Q21. We do not see any major risk as negotiations are already underway and there are no indications of non-renewals. SENTRAL's WALE is 4.36 years.
- **Gearing at 37.9%.** 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 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

- No change to our earnings forecasts.

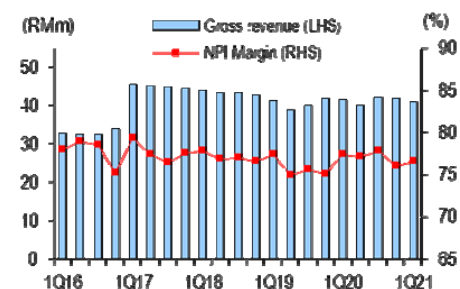
VALUATION/RECOMMENDATION

- **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 7.3% for 2021.
- We opine SENTRAL will continue to be appealing for its attractive and sustainable high dividend yields of 8-9% for 2021-23, backed by its property portfolio's stable occupancy.

SHARE PRICE CATALYST

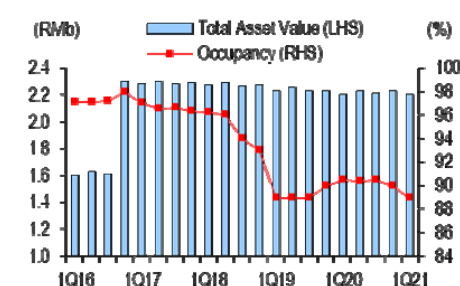
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



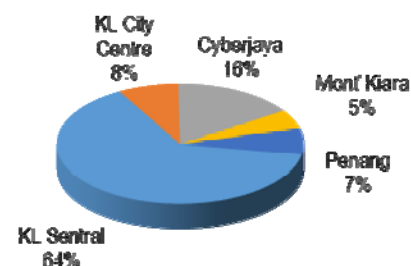
Source: SENTRAL, UOB Kay Hian

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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