

**HLIB Research**

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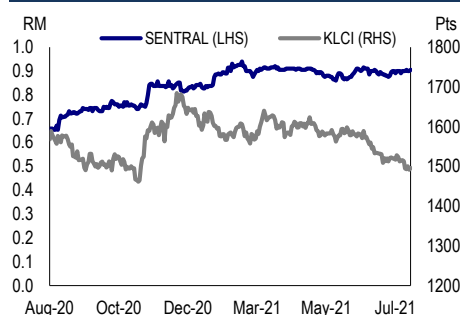
**BUY** (Maintain)

**Target Price:** **RM0.98**  
**Previously:** **RM0.98**  
**Current Price:** **RM0.905**

Capital upside	8.3%
Dividend yield	8.4%
Expected total return	16.7%

**Sector coverage:** REIT

**Company description:** Sentral REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	2.3	1.7	26.6
Relative	4.8	7.1	32.7

**Stock information**

Bloomberg ticker	SENTRAL MK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	970
3-mth average volume ('000)	418
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

**Major shareholders**

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	79.7	82.5	85.3
EPU – core (sen)	7.4	7.7	8.0
P/E (x)	12.2	11.8	11.4

# Sentral REIT

## Stable earnings showing

Sentral REIT's 1HFY21 core net profit of RM39.6m (+1.8% YoY) was within both ours and consensus estimates. Dividend of 3.43 sen per unit was declared. Top line fell (-3.2% YoY) mainly due to lower revenue received from 3 properties in Klang Valley and 1 in Cyberjaya. Lower total expenses (-12.1%) aided the slight increase in core net profit (+1.8% YoY). Occupancy increased to 91.7% while gearing dropped slightly to 37.9%. Maintain our forecasts, reiterate BUY with unchanged TP of RM0.98 based on based on FY22 DPU on targeted yield 7.9%. We like Sentral REIT for its attractive high dividend yield of 8.4% and resiliency amid Covid-19 given majority office exposure in its portfolio.

**Within expectation.** 2QFY21 core net profit of RM18.9m (-8.7% QoQ, -1.0% YoY) brought 1HFY21 core net profit to RM39.6m (+1.8% YoY). Core net profit is attained after removing gain on disposal of investment property of RM3.8m. The result was within both ours and consensus estimates, accounting for 48%-49% respectively.

**Dividend.** Declared semi-annual dividend of 3.43 sen per unit (2QFY20: 3.43 sen) going ex on 20 Aug 2021.

**QoQ.** Revenue reduced (-6.9%) to RM38.2m mainly due to rental rebates given to Platinum Sentral, Plaza Mont Kiara, and Menara Shell. Lower property operating expenses (-10.7%) was incurred for some of the properties. This followed with lower core net profit of RM18.9m (-8.7%), inline with lower top line.

**YoY.** Gross revenue fell (-4.8%) owing to lower revenue generated from Platinum Sentral, Plaza Mont Kiara, QB3-BMW and Wisma Technip. The decline in property operating expenses by 6.1% and lower total expenses (-9.8%) from lower finance cost (-13.0%), mitigated the drop in revenue and core net profit was flattish (-1.0%).

**YTD.** Top line fell (-3.2%) to RM79.2m mainly due to the drop in revenue generated from 4 properties mentioned above. Reduction in total expenses (-12.1%) was mainly driven by lower finance costs (-16.4%) on the back of lower interest rates. Thus core net profit of RM39.6m (+1.8%) was attained.

**Occupancy and gearing.** With 9 properties, the overall occupancy rate increased to 91.7% (1QFY21:89%). While gearing level reduced slightly to 37.9% (1QFY21: 38.3%) with majority of its borrowings being charged a floating interest rate (54%).

**Lease expiry.** In 2021, 22% of Sentral REIT's total net lettable area (NLA) or approximately 440k sq. ft. are due for renewal. Approximately 73% of leases due in 1HFY21 have been successfully renewed.

**Outlook.** Sentral REIT will be focusing on cost optimisation and tenant retention to overcome the challenging environment that stems from the Covid-19 pandemic. Furthermore, we believe Sentral REIT is relatively shielded from Covid-19 impact due to its large exposure to office (88% of portfolio), and miniscule exposure to retail unlike the other mall based REITs. Hence, we feel Sentral REIT will continue to register resilient earnings in 2H.

**Forecast.** Maintain as the results were in line.

**Maintain BUY, TP: RM0.98.** Maintain BUY with unchanged TP of RM0.98. Our TP is based on FY22 forward DPU on targeted yield of 7.9%, which is derived from 2 years historical average yield spread of Sentral REIT and 10-year MGS. We like Sentral REIT for its attractive dividend yield of 8.4% (highest among REITs in our universe), and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike mall REITs.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	63.3	85.0	86.3	86.4	87.1
Receivables	6.3	5.1	5.3	5.3	5.4
Investment properties	2,143.0	2,097.0	2,099.0	2,101.0	2,103.0
PPE	0.4	0.3	0.1	0.0	0.0
Others	0.8	40.3	40.3	40.3	40.3
<b>Assets</b>	<b>2,213.7</b>	<b>2,227.7</b>	<b>2,231.0</b>	<b>2,233.1</b>	<b>2,235.8</b>
Payables	15.7	19.1	19.8	19.2	19.2
Debt	835.7	845.0	846.0	847.0	848.0
Security deposits	38.5	40.1	40.1	40.1	40.1
Derivatives	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>889.9</b>	<b>904.2</b>	<b>905.8</b>	<b>906.2</b>	<b>907.2</b>
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	87.6	87.6	89.3	91.0	92.7
<b>Equity</b>	<b>1,323.5</b>	<b>1,323.5</b>	<b>1,325.2</b>	<b>1,326.9</b>	<b>1,328.6</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,213.7</b>	<b>2,227.7</b>	<b>2,231.0</b>	<b>2,233.1</b>	<b>2,235.8</b>

### Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Gross rental income	144.1	148.0	153.8	154.7	155.5
Car park income	13.0	11.8	11.8	11.8	11.8
Other revenue	3.9	4.2	4.8	5.5	6.3
<b>Total revenue</b>	<b>161.0</b>	<b>164.0</b>	<b>170.4</b>	<b>172.0</b>	<b>173.7</b>
Property opex	-39.2	-37.9	-39.2	-38.0	-38.0
<b>Net property income</b>	<b>121.7</b>	<b>126.1</b>	<b>131.2</b>	<b>134.0</b>	<b>135.7</b>
Other income	-32.4	-2.6	3.6	3.6	3.6
<b>Net invest income</b>	<b>89.3</b>	<b>123.5</b>	<b>134.8</b>	<b>137.6</b>	<b>139.3</b>
Manager's fee	-12.8	-12.8	-13.0	-13.1	-13.1
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-39.6	-35.4	-37.6	-37.7	-37.7
Other non opex	-0.9	-0.9	-0.9	-0.9	-0.9
Profit before tax	<b>35.4</b>	<b>73.8</b>	<b>82.5</b>	<b>85.3</b>	<b>86.8</b>
Taxation	-6.2	-1.2	0.0	0.0	0.0
<b>Profit after tax</b>	<b>29.1</b>	<b>72.6</b>	<b>82.5</b>	<b>85.3</b>	<b>86.8</b>
<b>Core net profit</b>	<b>72.1</b>	<b>79.7</b>	<b>82.5</b>	<b>85.3</b>	<b>86.8</b>
<b>Distributable income</b>	<b>73.0</b>	<b>81.0</b>	<b>82.5</b>	<b>85.3</b>	<b>86.8</b>
Consensus core net profit			80.8	82.3	82.9
HLIB/ Consensus			102%	104%	105%

### Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	35.4	73.8	82.5	85.3	86.8
Finance costs	39.6	35.4	0.0	0.0	0.0
Depreciation	0.2	0.2	0.2	0.1	0.0
Fair value gain of assets	36.7	7.2	0.0	0.0	0.0
Interest income	-3.2	-2.9	0.0	0.0	0.0
Others	2.2	4.7	0.5	-0.6	0.0
<b>CFO</b>	<b>110.9</b>	<b>118.4</b>	<b>83.3</b>	<b>84.7</b>	<b>86.8</b>
Capex	-2.1	-1.2	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.1	0.0	0.0	0.0
Others	2.7	2.2	0.0	0.0	0.0
<b>CFI</b>	<b>0.4</b>	<b>0.9</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>
Distribution paid	-78.0	-72.9	-80.9	-83.6	-85.1
Proceeds frm borrow'g	35.0	341.0	165.0	165.0	165.0
Repayment of borrow'g	-54.0	-335.0	-164.0	-164.0	-164.0
Others	-36.8	-30.7	0.0	0.0	0.0
<b>CFF</b>	<b>-133.8</b>	<b>-97.5</b>	<b>-79.9</b>	<b>-82.6</b>	<b>-84.1</b>
<b>Net cash flow</b>	<b>-22.5</b>	<b>21.7</b>	<b>1.3</b>	<b>0.1</b>	<b>0.7</b>
Beginning cash	85.8	63.3	85.0	86.3	86.4
Ending cash	63.3	85.0	86.3	86.4	87.1

### Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPU (sen)	6.7	7.4	7.7	8.0	8.1
P/E (x)	13.5	12.2	11.8	11.4	11.2
EBITDA	111.8	116.5	120.4	123.0	124.6
EBIT	111.7	116.3	120.2	123.0	124.6
EV	1,742.4	1,730.0	1,729.6	1,730.5	1,730.8
EV/EBITDA (x)	15.6	14.8	14.4	14.1	13.9
DPU (sen)	6.8	7.1	7.6	7.9	8.0
Dividend yield	7.5	7.8	8.4	8.7	8.8
NTA/ share (sen)	123.5	123.5	123.6	123.8	124.0
P/ NTA	0.7	0.7	0.7	0.7	0.7
BVPS (RM)	1.23	1.23	1.24	1.24	1.24
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	69.5%	71.1%	70.6%	71.5%	71.7%
EBIT margin	69.4%	70.9%	70.5%	71.5%	71.7%
PBT margin	22.0%	45.0%	48.4%	49.6%	50.0%
Net margin	44.8%	48.6%	48.4%	49.6%	50.0%
ROE	2.2%	5.5%	6.2%	6.4%	6.5%
ROA	3.3%	3.6%	3.7%	3.8%	3.9%
Netgearing	34.89%	34.12%	34.05%	34.06%	34.03%

### Assumptions

FYE Dec	FY21f	FY22f	FY23f
<b>Gross rental income</b>			
Quill Building 1 - DHL 1	5.0	5.1	5.1
Quill Building 4 - DHL 2	5.4	5.5	5.6
Quill Building 2 - HSBC	10.0	10.0	10.1
Quill Building 3 - BMW	5.8	5.8	5.8
Wisma Technip	8.5	8.6	8.6
Part of Plaza Mont' Kiara	3.5	3.5	3.5
Quill Building 5 - IBM	0.0	0.0	0.0
Tesco Building - Penang	15.2	15.2	15.3
Platinum Sentral	51.8	52.1	52.4
Menara Shell	48.6	48.9	49.1
Total:	153.8	154.7	155.5

### Quarterly financial summary

FYE Dec	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)
Gross Revenue	40.1	41.0	38.20	-6.9%	-4.8%
Property operating expen	-9.1	-9.6	(8.58)	-10.7%	-6.1%
Net Property Income	31.0	31.4	29.61	-5.8%	-4.4%
Interest income	0.5	0.5	0.49	1.0%	-9.9%
Net Investment Income	31.5	31.9	33.86	6.1%	7.4%
Total Expenses	-12.4	-11.2	(11.21)	-0.1%	-9.8%
Normalised PBT	19.1	20.7	18.89	-8.7%	-1.0%
Normalised PAT	19.1	20.7	18.89	-8.7%	-1.0%
Distributable income	19.1	20.7	18.89	-8.7%	-1.0%
EPU (realised)	1.8	1.9	1.76	-8.7%	-1.0%
DPU (sen)	3.43	0.0	3.43	NM	NM

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
<b>Gross Revenue</b>	<b>40.1</b>	<b>41.0</b>	<b>38.2</b>	<b>-6.9%</b>	<b>-4.8%</b>	<b>81.8</b>	<b>79.2</b>	<b>-3.2%</b>
Property operating expenses	-9.1	-9.6	-8.6	-10.7%	-6.1%	-18.6	-18.2	-2.0%
<b>Net Property Income</b>	<b>31.0</b>	<b>31.4</b>	<b>29.6</b>	<b>-5.8%</b>	<b>-4.4%</b>	<b>63.3</b>	<b>61.0</b>	<b>-3.5%</b>
Interest income	0.5	0.5	0.5	+1.0%	-9.9%	1.1	1.0	-13.2%
<b>Net Investment Income</b>	<b>31.5</b>	<b>31.9</b>	<b>33.9</b>	<b>+6.1%</b>	<b>+7.4%</b>	<b>64.4</b>	<b>65.8</b>	<b>+2.2%</b>
Finance costs	-8.9	-7.7	-7.8	+0.8%	-13.0%	-18.5	-15.4	-16.4%
Valuation fees	-0.1	-0.1	-0.1	-0.2%	-6.4%	-0.2	-0.2	-6.3%
Administrative expenses	-0.0	-0.1	-0.0	-25.3%	-4.9%	-0.1	-0.1	+20.5%
<b>Total Expenses</b>	<b>-12.4</b>	<b>-11.2</b>	<b>-11.2</b>	<b>-0.1%</b>	<b>-9.8%</b>	<b>-25.5</b>	<b>-22.4</b>	<b>-12.1%</b>
<b>Core PBT</b>	<b>19.1</b>	<b>20.7</b>	<b>18.9</b>	<b>-8.7%</b>	<b>-1.0%</b>	<b>38.9</b>	<b>39.6</b>	<b>+1.8%</b>
<b>Core PAT</b>	<b>19.1</b>	<b>20.7</b>	<b>18.9</b>	<b>-8.7%</b>	<b>-1.0%</b>	<b>38.9</b>	<b>39.6</b>	<b>+1.8%</b>
Distributable income	19.1	20.7	18.9	-8.7%	-1.0%	38.9	39.6	+1.8%
<b>EPU (realised)</b>	<b>1.78</b>	<b>1.93</b>	<b>1.76</b>	<b>-8.7%</b>	<b>-1.0%</b>	<b>3.63</b>	<b>3.69</b>	<b>+1.8%</b>
<b>DPU (sen)</b>	<b>3.43</b>	<b>0.0</b>	<b>3.43</b>	<b>N.M.</b>	<b>+0.0%</b>	<b>3.43</b>	<b>3.43</b>	<b>+0.0%</b>

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

### Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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