

Malaysia

HOLD (previously ADD)

Consensus ratings*: Buy 5 Hold 3 Sell 0

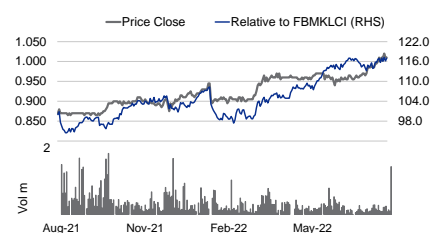
Current price:	RM1.01
Target price:	RM0.955
Previous target:	RM1.00
Up/downside:	-5.4%
CGS-CIMB / Consensus:	-1.8%

Reuters:	SENT.KL
Bloomberg:	SENTRAL MK
Market cap:	US\$241.8m
	RM1,083m
Average daily turnover:	US\$0.05m
	RM0.20m
Current shares o/s:	1,072m
Free float:	49.1%

*Source: Bloomberg

Key changes in this note

- FY22-24F EPS/DPU cut by 5-14%.
- TP reduced to RM0.96.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.2	5.8	12.2
Relative (%)	-0.1	8.7	12.9

Major shareholders

	% held
MRCB	27.8
Employees Provident Fund	12.1
CapitalCommercial Trust	11.0

Analyst(s)

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Sentral REIT

Facing occupancy headwinds in 2H22F

- 1HFY22 results were below expectations; core net profit fell 2% yoy.
- We have turned cautious on earnings outlook due to falling occupancy rate, suggesting that 2HFY22F earnings could be weaker hoh.
- Downgrade to Hold, TP cut to RM0.96 (5.9-6.6% yields are still attractive).

Cautious key takeaways from 1HFY22 portfolio performance

Post-1HFY22 results, we turn cautious on Sentral REIT's earnings outlook. Key negative surprises were: 1) Occupancy rate for Wisma Technip turned 0% in 2QFY22 (from 44% in 1QFY22) due to non-renewal of leases, i.e. oil and gas tenant, and 2) Quill Building 2 (QB2) is also vacant due to the same reason. Consequently, Sentral REIT's portfolio occupancy rate has sequentially fallen from 86% in 1QFY22 to 78% in 2QFY22. All in, we foresee revenue compression risks for Sentral REIT in 2HFY22F, as tenancy replacements for Wisma Technip and QB2 are unlikely to materialise so soon due to current market conditions — office oversupply and competition from new office buildings. A positive mitigating factor was Menara Shell's improved occupancy rate of 99% (with marginally positive rental reversions), with the entry of a new IT multinational company in 2QFY22. Menara Shell makes up c.60% of total group revenue. For FY22F, 28% (511k sq ft) of the group's total committed NLA are due for renewal (renewal rate: 15%).

1HFY22 results below expectations; 2H22F likely weaker hoh

Sentral REIT's 1HFY22 core net profit made up 47-49% of our and consensus' full-year forecasts. Due to the reasons above, we deem the performance as below expectations as 2H22F will likely be weaker hoh. 2QFY22 revenue slipped 3% yoy (-5.8% qoq), with lower occupancy rates offset by higher revenue from Menara Shell. Core net profit was fairly flat yoy (-9.4% qoq) on lower property expenses due to the vacancies at Wisma Technip and QB2. While 1HFY22 revenue fell 4.3% yoy and NPI contracted 3.3% yoy, NPI margin inched up 1% pt yoy to 78% (slightly higher than our forecasted 77%). This helped cushioned the impact on earnings, with 1HFY22 core net profit falling by 2% yoy. 1HFY22 DPU of 3.4 sen (flattish yoy) made up 49.5% of our full-year forecast of 6.9 sen.

FY22-24F EPS/DPU cut by 5-14%

We cut FY22-24F EPS/DPU by 5-14% as we impute weaker rental income to reflect lower occupancy rates. We assume a full-year's impact of the vacancy at Wisma Technip and QB2 in FY23F and assume partial tenancy replacements in FY24F. We impute 1HFY22's NPI margin of 78% into our numbers. Our revised FY22F core net profit RM68.7m suggests that 2HFY22F earnings could contract by 23% hoh.

Downgrade to Hold, supported by 5.9-6.6% dividend yields

We downgrade from Add to Hold as we expect occupancy headwinds for vacant office assets to emerge as a key risk, likely capping further upside to share price. Despite the DPU downgrades, FY22-24F dividend yields remain fairly attractive at 5.9-6.6% (6.8-6.9% previously). Our DDM-based TP falls to RM0.96 on a lower COE of 7.5% (8.1% previously) as we update for lower adjusted Beta. Upside risk: improving occupancy rates and positive rental reversions. Downside risks: falling occupancy rates and no tenancy replacements.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue (RMm)	164.0	159.6	146.9	149.2	157.4
Net Property Income (RMm)	126.1	122.6	114.3	115.7	123.2
Net Profit (RMm)	72.57	70.25	68.69	69.98	77.10
Distributable Profit (RMm)	75.88	79.42	63.35	64.54	71.09
DPS (RM)	0.071	0.074	0.059	0.060	0.066
Dividend Yield	7.01%	7.34%	5.85%	5.96%	6.57%
Asset Leverage	37.9%	37.0%	37.0%	36.9%	36.9%
BVPS (RM)	1.23	1.23	1.23	1.24	1.24
P/BV (x)	0.82	0.82	0.82	0.81	0.81
Recurring ROE	5.89%	6.13%	5.21%	5.28%	5.79%
% Change In DPS Estimates			(13.9%)	(12.7%)	(5.3%)
CGS-CIMB/Consensus DPS (x)			0.83	0.81	0.86

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison


FYE Dec (RM m)	2QFY22	2QFY21	yoy % chg	1QFY22	qoq % chg	2QFY22 cum	2QFY21 cum	yoy % chg	Prev FY22F	Comments
Revenue	36.5	37.6	-3.0	38.8	-5.8	75.3	78.6	-4.3	163.0	Menara Shell occupancy rate recovered to 99%
Operating costs	(11.4)	(11.4)	-0.6	(11.5)	-1.5	(22.9)	(24.5)	-6.6	(51.6)	Absence of rental income from Wisma Technip and QB2 due to tenancy non-renewal (vacant assets)
EBITDA	25.2	26.2	-4.0	27.2	-7.6	52.4	54.1	-3.2	111.4	
EBITDA margin (%)	68.9	69.6		70.3		69.6	68.8		68.3	NPI margin up 1%pt yoy to 78% in 1HFY22
Depn & amort.	(0.0)	(0.1)	-45.5	(0.0)	0.0	(0.1)	(0.1)	-42.2	(0.2)	
EBIT	25.1	26.2	-3.9	27.2	-7.6	52.3	54.0	-3.2	111.2	
Interest expense	(7.1)	(7.8)	-8.5	(7.3)	-2.9	(14.4)	(15.4)	-6.8	(35.4)	Total debt of RM805m as at end-Jun
Interest & invt inc	0.4	0.5	-15.2	0.5	-9.3	0.9	1.0	-10.4	4.0	Cash & equivalents of RM87.7m at end-Jun
Associates' contrib	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Exceptionals & revaln	0.0	3.8	-100.0	0.0	nm	0.0	3.8	nm	-	None expected
Pretax profit	18.5	22.6	-18.5	20.4	-9.4	38.8	43.3	-10.4	79.8	
Tax	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Tax rate (%)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	
Minority interests	0.0	0.0	nm	0.0	nm	0.0	0.0	nm	-	None as expected
Net profit	18.5	22.6	-18.5	20.4	-9.4	38.8	43.3	-10.4	79.8	
Core net profit	18.5	18.9	-2.3	20.4	-9.4	38.8	39.6	-2.0	79.8	1HFY22 core net profit made up 47-49% of our and
Distr profit	18.5	22.6	-18.5	20.4	-9.4	38.8	43.3	-10.4	73.6	consensus full-year forecasts
DPU (sen)	3.4	3.4	-0.9	0.0	nm	3.4	3.4	(0.9)	6.9	1HFY22 DPU at 50% of our full-year forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

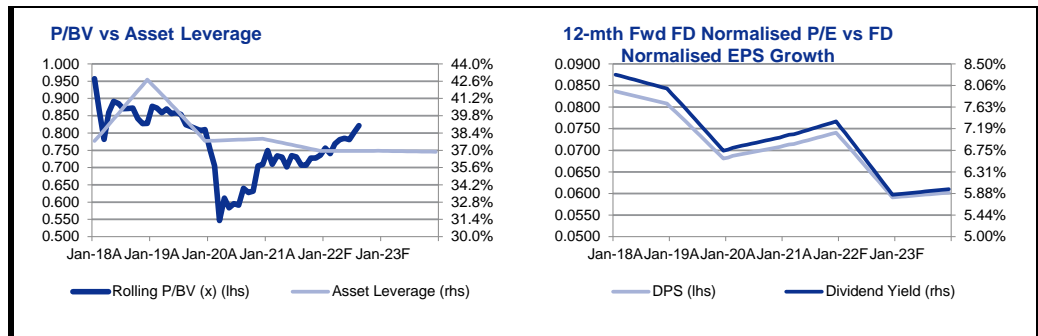
Figure 2: Changes in assumptions post-2QFY22 results

	Previous			Revised			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(RM m)	(%)	(%)	(%)
Revenue	163.0	163.9	164.7	146.9	149.2	157.4	-9.9%	-9.0%	-4.5%
NPI	125.8	126.2	127.7	114.3	115.7	123.2	-9.1%	-8.3%	-3.5%
Net profit	79.8	80.2	81.5	68.7	70.0	77.1	-14.0%	-12.7%	-5.4%
DPS	6.9	6.9	7.0	5.9	6.0	6.6	-13.9%	-12.7%	-5.3%
Dividend yield	6.8%	6.8%	6.9%	5.9%	6.0%	6.6%	-0.9%	-0.9%	-0.4%
NPI margin	77%	77%	77%	78%	78%	78%	0.6%	0.5%	0.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

	
ESG in a nutshell	
<p>Sentral REIT’s sustainability initiatives are focused on 11 key areas: 1) sustainable business growth and financial performance, 2) quality of assets and services, 3) anti-corruption, 4) health and safety, 5) regulatory compliance, 6) employee management, 7) data privacy, 8) energy and carbon footprint, 9) water management, 10) waste management, and 11) community partnerships and activities.</p>	
Keep your eye on	Implications
<p>In view of the impact of Covid-19 and greater adoption of work-from-home (WFH) protocols, data privacy has gained importance among Sentral REIT’s office tenants. This is in view of the widespread adoption of technology during the pandemic period since early-2020. Some initiatives include protection of all data, information and intellectual property against cyber security breaches and safeguarding the privacy of tenant, organisational and visitor information.</p>	<p>Potentially supportive of tenant retention initiatives, on top of ongoing tenancy negotiation, with flattish rental reversion guided for FY22F.</p>
ESG highlights	Implications
<p>Some achievements in 2020 include installing Building Automated Systems (BAS) to allow real-time monitoring of energy consumption. The group achieved a 15% reduction in electricity consumption and carbon emissions and an 11% decline in water consumption. In the technology space, the group has implemented facial recognition readers and temperature scanning at Menara Shell as part of its health and safety initiatives.</p>	<p>No major expenditure relating to building automation and technology enhancements expected in the foreseeable future as the group maintains its cash retention strategy due to the Covid-19 pandemic. Asset enhancement initiatives (AEI)-related capex would also be minimal in FY22F.</p>
Trends	Implications
<p>Under sustainable business growth, the group will continue to practice proactive leasing strategies to ensure stabilisation of portfolio occupancy rates and rental income, ongoing cost management and ensuring quality of all office assets (supply chain management), potentially considering new acquisitions when feasible and when market conditions are accommodative.</p>	<p>Leasing strategies remain more oriented towards retaining tenants. Portfolio occupancy rate of 86% at end-1QFY22 remains decent.</p>
<small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small>	

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Rental Revenues	145.1	142.1	130.2	132.1	139.9
Other Revenues	19.0	17.5	16.7	17.1	17.4
Gross Property Revenue	164.0	159.6	146.9	149.2	157.4
Total Property Expenses	(37.9)	(37.0)	(32.6)	(33.4)	(34.2)
Net Property Income	126.1	122.6	114.3	115.7	123.2
General And Admin. Expenses	(0.4)	(0.7)	(0.8)	(0.9)	(1.0)
Management Fees	(12.8)	(12.6)	(12.1)	(12.2)	(12.4)
Trustee's Fees	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Other Operating Expenses	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBITDA	111.7	108.1	100.2	101.5	108.6
Depreciation And Amortisation	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	111.7	108.0	100.0	101.3	108.5
Net Interest Income	(32.5)	(28.4)	(31.4)	(31.4)	(31.4)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	(5.4)	(10.7)	0.0	0.0	0.0
Pre-tax Profit	73.8	68.8	68.7	70.0	77.1
Taxation	(1.2)	1.5	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Net Profit	72.6	70.2	68.7	70.0	77.1
Distributable Profit	75.9	79.4	63.4	64.5	71.1

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Pre-tax Profit	73.8	68.8	68.7	70.0	77.1
Depreciation And Non-cash Adj.	32.5	28.6	31.5	31.5	31.5
Change In Working Capital	4.5	(0.6)	1.8	(0.7)	(0.7)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Others	7.2	9.7	0.0	0.0	0.0
Cashflow From Operations	118.0	106.5	102.0	100.8	107.9
Capex	(1.2)	(0.7)	(1.5)	(2.5)	(2.5)
Net Investments And Sale Of FA	4.9	46.8	5.0	5.0	5.0
Other Investing Cashflow	2.9	(0.6)	0.0	0.0	0.0
Cash Flow From Investing	6.6	45.5	3.5	2.5	2.5
Debt Raised/(repaid)	6.0	231.3	0.0	0.0	0.0
Equity Raised/(Repaid)	0.0	0.0	0.0	1.0	2.0
Dividends Paid	(72.9)	(75.9)	(63.4)	(64.5)	0.0
Cash Interest And Others	(32.5)	(28.4)	(31.4)	(31.4)	(31.4)
Cash Flow From Financing	(99.3)	126.9	(94.7)	(94.9)	(29.4)
Total Cash Generated	25.3	279.0	10.8	8.4	81.1
Free Cashflow To Firm	127.5	154.7	109.5	107.3	114.4
Free Cashflow To Equity	98.1	354.8	74.1	71.9	79.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Investments	2,081	2,066	2,177	2,180	2,182
Intangible Assets	0	0	0	0	0
Other Long-term Assets	17	15	15	15	15
Total Non-current Assets	2,098	2,081	2,193	2,195	2,198
Total Cash And Equivalents	85	94	89	91	90
Inventories	0	0	0	0	0
Trade Debtors	5	5	4	4	4
Other Current Assets	40	0	0	0	0
Total Current Assets	130	99	94	96	95
Trade Creditors	19	19	20	19	19
Short-term Debt	218	130	218	218	218
Other Current Liabilities	11	13	13	13	13
Total Current Liabilities	248	162	250	250	249
Long-term Borrowings	627	676	627	627	627
Other Long-term Liabilities	29	25	25	25	25
Total Non-current Liabilities	656	701	652	652	652
Shareholders' Equity	1,324	1,318	1,318	1,332	1,333
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds	0		67	58	59
Total Equity	1,324	1,318	1,384	1,390	1,392

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue Growth	1.83%	(2.69%)	(7.96%)	1.55%	5.49%
NPI Growth	3.53%	(2.75%)	(6.81%)	1.25%	6.43%
Net Property Income Margin	76.9%	76.8%	77.8%	77.6%	78.3%
DPS Growth	3.9%	4.7%	(20.2%)	1.9%	10.1%
Gross Interest Cover	3.16	3.47	2.83	2.86	3.07
Effective Tax Rate	1.64%	0.00%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	105%	113%	92%	92%	92%
Current Ratio	0.52	0.61	0.37	0.38	0.38
Quick Ratio	0.52	0.61	0.37	0.38	0.38
Cash Ratio	0.34	0.58	0.36	0.37	0.36
Return On Average Assets	3.27%	3.19%	3.08%	3.06%	3.36%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Average rental reversion (%)	1.0%	0.3%	1.3%	2.3%	2.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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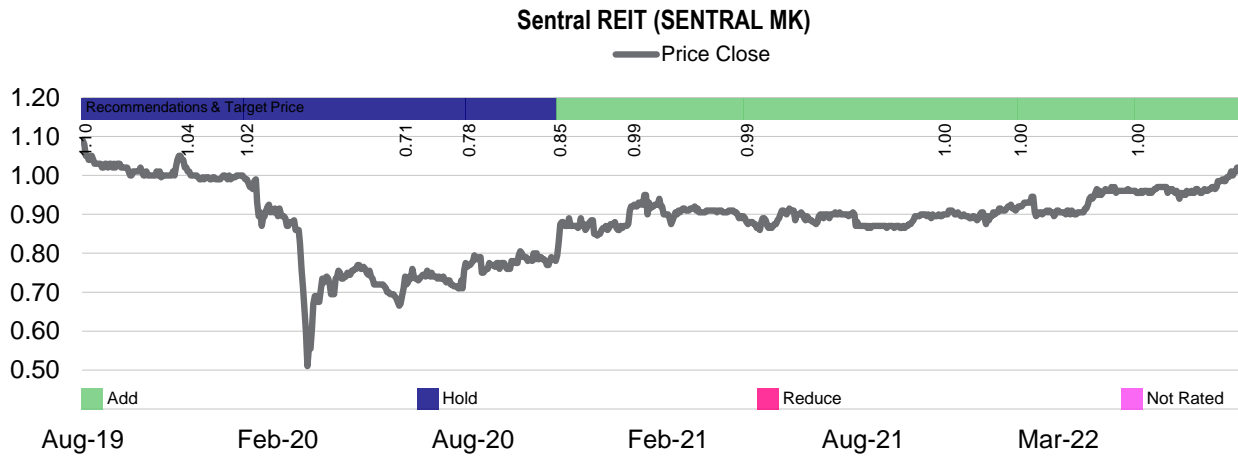
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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