

21 Aug 2022

Hold

Price
RM1.01

Target Price
RM0.98

Bloomberg code
SENTRAL MK

Equity | Malaysia | REITs
Flashnote

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Sentral REIT

Softer 2Q; Decent yield still on the plate

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue	164.0	159.6	161.2	162.8	163.9
Net property income	126.1	122.6	123.9	125.1	126.0
Reported net profit	72.6	70.2	78.0	79.6	81.7
Normalised net profit	81.0	84.5	78.0	79.6	81.7
EPS (sen)	7.6	7.9	7.3	7.4	7.6
DPS (sen)	7.1	7.4	7.3	7.4	7.6
P/E (x)	11.9	11.4	12.4	12.1	11.8
ROE (%)	5.5	5.3	6.0	6.1	6.3
Net yield (%)	7.9	8.2	8.1	8.2	8.5
Net gearing (%)	37.9	37.0	37.4	37.4	37.5

Source: Company, KAF

- We maintain our Hold rating on SENTRAL REIT with an unchanged TP of RM0.98 based on DDM-valuation.
- For the 6-months period, NPI fell by -4% YoY from RM29m to RM27.9m, mainly stemmed from a -6% drop in revenue, bolstered by lower contributions from Wisma Technip, Menara Shell, QB2-HSBC, and QB3-BMW.
- Sentral's 1H22 core net profit rose by +1% YoY and was deemed in line with our expectation, accounting for 47%.
- The group's quarterly DPU was the same as the prior year, at 3.4sen.
- As of June 2022, the REIT's overall portfolio stood low at 78% level, (vs. 92% in 2Q21, -15% YoY).
- Approximately 189,900 sq.ft, or 8% of SENTRAL's total net lettable area (NLA), was up for renewal in 1H21. Despite the ongoing negotiations, management is optimistic on the remaining renewals in 2H.
- We anticipate that rent growth in the office segment would continue to be constrained and flattish, given the relatively abundant supply of office spaces. Nonetheless, the gradual transition to the endemic phase, full-fledged business operation, and labour market recovery will allow a moderate rebound for the REIT.
- Positively, management has alluded to implementing a few tactical countermeasures to address the stagnant office market, ie: i) Being competitive with rental terms and rates, ii) Extending marketing initiatives beyond office tenants, and iii) Repurposing the vacant building to accommodate the needs of other industries and tenants.
- Due to the fact that 66% of the financing cost was subject to a variable interest rate, we anticipate an impact on the overall financing cost.
- Nonetheless, management suggested that the moment was ripe to consider entering into an interest rate swap arrangement to stabilize the float and provide cost certainty moving forward.
- Management has alluded that capex is typically negligible, as most additions are periodic upkeep to preserve the building's appearance and quality.
- Elsewhere, gearing remained stable at approximately 37%, giving SENTRAL a healthy debt headroom for prospective acquisitions, assuming the SC's 60% gearing restriction.
- Given the result in line, we make no changes to our FY22-23 forecast.
- Overall, we reaffirm HOLD with an attractive yield of 8.2% and forecast DPU of 7.3sen.

Exhibit 1: Quarter Earnings Trend

(RM m) FYE 31 Dec	2Q21		3Q21		4Q21		1Q22		2Q22		Change			Cumulative			KAF	
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	% qoq	% yoy	6M21	6M22	% chg	2022F	6M/F						
Revenue	37.6	40.8	40.4	38.8	36.5	(6)	(3)	78.6	75.3	(4)	161.2	47						
Property operating expenses	(8.6)	(8.0)	(10.7)	(8.3)	(8.6)	4	(0)	(18.2)	(16.8)	(8)	(37.3)	45						
Net property income	29.0	32.5	29.7	30.5	27.9	(8)	(4)	60.4	58.4	(3)	123.9	47						
Interest income	0.5	0.6	1.0	0.5	0.4	(9)	(15)	1.0	0.9	(10)	2.7	33						
Trust expenses	(3.5)	(3.6)	(4.0)	(3.8)	(3.3)	(13)	(3)	(7.0)	(7.2)	3	(14.6)	49						
Borrowing costs	(7.8)	(7.7)	(7.9)	(7.3)	(7.1)	(3)	(9)	(15.4)	(14.4)	(7)	(33.9)	42						
Exceptional items	4.3	-	(15.7)	-	-	-	-	4.3	-	-	-	-						
Profit before tax	22.6	21.8	3.3	20.4	18.5	(9)	(19)	43.3	38.8	(10)	78.0	50						
Tax	-	-	1.5	-	-	-	-	-	-	-	-	-						
Net profit	22.6	21.8	4.8	20.4	18.5	(9)	(19)	43.3	38.8	(10)	78.0	50						
Normalized net profit	18.3	21.8	19.0	20.4	18.5	(9)	1	39.0	38.8	(0)	78.0	50						

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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