

07 May 2021

Sentral REIT

1QFY21 Within Expectations

By Marie Vaz | msvaz@kenanga.com.my

1QFY21 RNI of RM20.7m came in within our and consensus expectations at 25% and 26% of full-year estimates, respectively. No dividend, as expected. Maintain FY21-22E CNP of RM82.1-82.4m on stable occupancy, mildly positive reversions and minimal lease expiries. Maintain OUTPERFORM and TP of RM0.975 as we roll valuation forward to FY22E GDU of 7.2 sen on unchanged spread and 10-year MGS target of 3.3%. A plus is its attractive gross yield of 8.0% vs. peers' average of 5.3% as its earnings are more resilient than retail players which are struggling during this pandemic.

1QFY21 realised net income (RNI) of RM20.7m came in well within our and consensus expectations at 25% and 26% of full-year estimates, respectively. No dividend announced, as expected.

Results' highlights. YoY, top-line was down slightly by 1.6% due to lower revenues from Plaza Mont Kiara, QB3-BMW and Wisma Technip. However, RNI was up by 4.6% mainly due to lower financing cost (-19.5%) on lower borrowing rates. **QoQ, RNI** was marginally up by 0.4% on the back of a marginally lower top-line by 1.8%, but offset by lower operating (-4.1%), financing cost (-10.5%) and expenditure (-5.9%) costs. Gearing remained stable at 0.38x which is below MREITs' gearing limit of 0.60x currently.

Outlook. FY21-22 will see minimal lease expiries of 22-16% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. Asset occupancy remains relatively stable at 89.0% (vs. 90.0% in 4QFY20). With minimal lease expiries and its track record of low single-digit positive reversions, we believe that SENTRAL would be able to at least see flattish earnings growth YoY. Meanwhile the Covid-19 situation has caused the group to be more diligent in managing cash flows and exercising financial discipline. This may help with attractive acquisition opportunities should the situation arise given the healthy balance sheet.

Maintain FY21-22E CNP of RM81.8-82.4m on stable occupancy and mildly positive reversions. Our FY21-22E GDU/NDPU of 7.2-7.2 sen / 6.5-6.5 sen imply attractive gross yield of 8.0% each (with net yield of 7.2%).

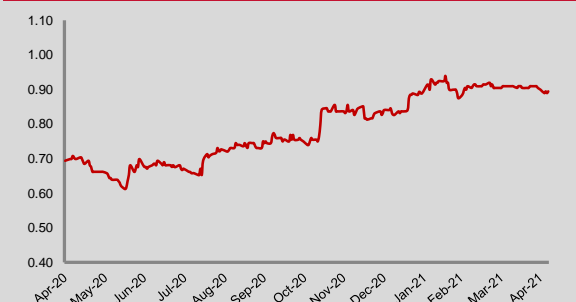
Maintain OUTPERFORM on an unchanged TP of RM0.975 post rolling valuation forward to FY22E on an unchanged spread of 4.1ppt @ average SD to our 10-year MGS target of 3.3%. We like SENTRAL REIT as its earnings have remained unscathed in FY20 despite the pandemic and it has proven to be more stable than its peers given that it operates within the office segment with more stable rental. Its FY21-22 prospects appear promising with minimal lease expiries, and superior attractive gross yields of 8.0% vs. other large cap MREITs peers of 4.7% to 7.0%.

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

OUTPERFORM ↔

Price: RM0.895
Target Price: RM0.975 ↔

Share Price Performance



KLCI 1,578.33
YTD KLCI chg -3.0%
YTD stock price chg 2.3%

Stock Information

| | |
|----------------------|------------|
| Shariah Compliant | No |
| Bloomberg Ticker | SENTRAL MK |
| Market Cap (RM m) | Equity |
| Shares Outstanding | 959.2 |
| 52-week range (H) | 1,071.8 |
| 52-week range (L) | 0.96 |
| 3-mth avg daily vol: | 0.66 |
| Free Float | 258,695 |
| Beta | 33% |
| | 0.9 |

Major Shareholders

| | |
|--|-------|
| Malaysian Resources Corporation Berhad | 27.8% |
| Employees Provident Fund Board | 12.1% |
| CapitaLand Limited | 10.9% |

Summary Earnings Table

| FY Dec (RM m) | 2020A | 2021E | 2022E |
|---------------------|-------------|-------------|-------------|
| Turnover | 165.7 | 170.6 | 175.1 |
| EBIT | 127.8 | 121.5 | 122.2 |
| PBT | 73.8 | 81.8 | 82.4 |
| Net Profit | 73.8 | 81.8 | 82.4 |
| Core NP* | 81.0 | 81.8 | 82.4 |
| Consensus (CNP) | n.a. | 79.4 | 80.2 |
| Earnings Revision | n.a. | n.a. | n.a. |
| Core EPS (sen) | 7.6 | 7.6 | 7.6 |
| Core EPS growth (%) | 12 | 0 | 0 |
| NDPS (sen) | 6.4 | 6.5 | 6.5 |
| BVPS (RM) | 1.23 | 1.27 | 1.28 |
| Core PER (x) | 11.8 | 11.8 | 11.8 |
| Price/BV (x) | 0.7 | 0.7 | 0.7 |
| Gearing (x) | 0.38 | 0.38 | 0.38 |
| Net Div. Yield (%) | 7.1 | 7.2 | 7.2 |

*Core NP refers to RNI

07 May 2021

Results Highlight

| FYE 31 Dec (RM m) | 1Q21 | 4Q20 | QoQ | 1Q20 | YoY |
|---|-------------|-------------|--------------|-------------|--------------|
| Gross revenue | 41.0 | 41.8 | -1.8% | 41.7 | -1.6% |
| Prop Opex | -9.6 | -10.0 | -4.1% | -9.4 | 2.1% |
| NPI excl. unrealised rental income | 31.4 | 31.8 | -1.1% | 32.3 | -2.7% |
| Interest Income | 0.5 | 1.2 | -58.1% | 0.6 | -16.3% |
| Gain on divestment prop | 0.0 | 0.0 | n.a. | 0.0 | n.a. |
| Surplus on revaluation | 0.0 | -7.2 | n.m. | 0.0 | n.a. |
| Total Trust Income | 31.9 | 25.8 | 23.8% | 32.9 | -2.9% |
| Expenditure | -3.5 | -3.8 | -5.9% | -3.5 | -0.1% |
| Finance Cost | -7.7 | -8.6 | -10.5% | -9.5 | -19.5% |
| Income Before Tax | 20.7 | 13.4 | 54.0% | 19.8 | 4.6% |
| Tax | 0.0 | 0.0 | n.a. | 0.0 | n.a. |
| Net Income | 20.7 | 13.4 | 54.0% | 19.8 | 4.6% |
| Realised Net income (RNI) | 20.7 | 20.6 | 0.4% | 19.8 | 4.6% |
| Core EPU (sen) | 1.93 | 1.92 | 0.4% | 1.85 | 4.6% |
| DPU (sen) | 0.00 | 3.65 | n.m. | 0.00 | n.a. |
| NAV/unit (RM) | 1.22 | 1.23 | | 1.22 | |
| Gearing (x) | 0.38 | 0.38 | | 0.38 | |
| NPI Margins | 76.6% | 76.0% | | 77.4% | |
| RNI Margins | 50.4% | 49.3% | | 47.4% | |

Source: Company, Kenanga Research

This section is intentionally left blank

07 May 2021

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) | |
| MREITs UNDER COVERAGE | | | | | | | | | | | | | | | | | |
| AXIS REIT | 1.96 | 2,835.1 | Y | 12/2021 | 3.6% | 2.5% | 11.9% | 1.6% | 21.8 | 19.6 | 19.6 | 1.5 | 1.5 | 6.2% | 4.4% | 2.30 | OP |
| CAPITALAND MALAYSIA MALL TRUST | 0.635 | 1,337.4 | N | 12/2021 | 17.3% | 6.9% | 42.2% | 12.5% | 21.2 | 15.9 | 12.7 | 0.5 | 0.5 | 2.6% | 6.0% | 0.605 | MP |
| IGB REIT | 1.73 | 6,170.2 | N | 12/2021 | 12.6% | 1.8% | 21.7% | 1.7% | 24.7 | 21.6 | 21.6 | 1.6 | 1.6 | 6.2% | 4.2% | 1.90 | OP |
| KLCCP STAPLED GROUP | 6.90 | 12,456.8 | Y | 12/2021 | 4.9% | 6.9% | 8.2% | 10.3% | 23.0 | 20.9 | 19.2 | 1.0 | 0.9 | 5.4% | 4.2% | 8.15 | OP |
| SENTRAL REIT | 0.895 | 959.2 | N | 12/2021 | 3.0% | 2.6% | 1.0% | 0.7% | 11.8 | 11.8 | 11.8 | 0.7 | 0.7 | 5.3% | 6.9% | 0.975 | OP |
| PAVILION REIT | 1.37 | 4,175.4 | N | 12/2021 | 9.1% | 7.9% | 51.7% | 13.1% | 34.3 | 22.8 | 19.6 | 1.1 | 1.1 | 2.5% | 4.0% | 1.40 | MP |
| SUNWAY REIT | 1.47 | 5,034.5 | N | 12/2021 | 1.5% | 12.2% | -10.5% | 24.4% | 14.7 | 16.3 | 14.7 | 1.0 | 0.9 | 5.4% | 4.8% | 1.15 | UP |
| Simple Average | | | | | 7.4% | 5.8% | 18.0% | 9.2% | 21.5 | 18.6 | 16.9 | 1.1 | 1.0 | 4.8% | 4.9% | | |

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

07 May 2021

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

