

13 May 2022

Sentral REIT

1QFY22 Well Within Expectations

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1QFY22 RNI of RM20.4m came in within our and consensus' expectation at 25% each. No dividend, as expected. Maintain FY22-23E CNP of RM82.4-83.0m on minimal lease expiries and flattish organic growth. However, we remain cautious of the office segment over the long run given oversupply concerns. Maintain MARKET PERFORM and lower TP to RM0.870 (from RM0.900) on a higher 10-year MGS target of 4.4% (from 3.9%).

1QFY22 realised net income (RNI) of RM20.4m came in within our and consensus' expectation at 25% each. No dividends, as expected.

Results' highlights. YoY, top-line was down slightly by 4.2% due to lower revenue from Wisma Technip, Menara Shell and QB3-BMW. However, RNI was only down by 1.6% on lower property operating cost (-14%) and lower financing cost (-5%). QoQ, top-line was down by 3.2% likely due to similar reasons mentioned above but RNI increased by 7% on lower property operating cost (-23%), lower finance cost (-7.8%) and lower expenditure (-2.8%). Gearing remained stable at 0.37x.

Outlook. FY22-23 will see minimal lease expiries of 28-8% of net lettable assets (NLA) while the issue of oversupply of office spaces in the Klang Valley remains. The Group's portfolio occupancy declined slightly to 86% (from 90%). We believe that SENTRAL REIT would be able to at least see flattish organic growth. The group remains diligent in managing cash-flows and exercising financial discipline, and is on the lookout for accretive acquisition should the opportunity arise given its healthy balance sheet.

Maintain FY22-23E CNP of RM82.4-83.0m. Earnings are driven by flattish organic growth and occupancy of 88-90%. Our FY22-23E GDPU/NDPU of 7.2-7.2 sen / 6.5-6.5 sen imply attractive gross yield of 7.5% each (net yield of 6.8%).

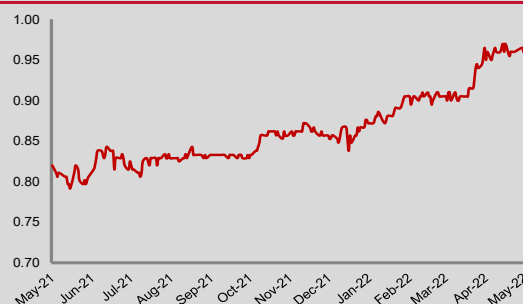
Maintain MARKET PERFORM but on a lower TP to RM0.870 (from RM0.900). Our TP is lowered post rolling forward valuation base to FY23E GDPU of 7.2 sen and 3.9ppt spread, but on a higher 10-year MGS target of 4.4% (from 3.9%) in line with our in-house estimates. We favour SENTRAL REIT for its resilient earnings which have remained stable throughout the pandemic. However, we are cautious on the office segment's long-term prospects given the oversupply situation in the Klang Valley and viable work-from-home arrangements which may decrease demand for office spaces - already factored in our valuations.

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

MARKET PERFORM ↔

Price: RM0.960
Target Price: RM0.870 ↓

Share Price Performance



KLCI 1,538.80
YTD KLCI chg -1.8%
YTD stock price chg 6.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SENTRAL MK
Market Cap (RM m)	Equity
Shares Outstanding	1,028.9
52-week range (H)	1,071.8
52-week range (L)	0.98
3-mth avg daily vol:	0.86
Free Float	269,725
Beta	31%
	0.4

Major Shareholders

Malaysian Resources Corporation Berhad	27.8%
Employees Provident Fund Board	12.0%
CapitaLand Limited	10.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	160.6	175.1	178.2
EBIT	123.7	122.2	122.7
PBT	68.8	82.4	83.0
Net Profit	70.2	82.4	83.0
Core NP*	84.5	82.4	83.0
Consensus (CNP)	n.a.	83.2	84.2
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.9	7.6	7.6
Core EPS growth (%)	8	-4	0
NDPS (sen)	6.7	6.5	6.5
BVPS (RM)	1.23	1.24	1.25
Core PER (x)	12.2	12.7	12.6
Price/BV (x)	0.8	0.8	0.7
Gearing (x)	0.37	0.38	0.38
Net Div. Yield (%)	6.9	6.8	6.8

*Core NP refers to RNI



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Results Highlight					
FYE 31 Dec (RM m)	1Q22	4Q21	QoQ	1Q21	YoY
Gross revenue	39.3	40.6	-3.2%	41.0	-4.2%
Prop Opex	-8.3	-10.7	-23.0%	-9.6	-14.2%
NPI excl unrealised rental income	31.0	29.9	3.8%	31.4	-1.2%
Interest Income	0.5	1.0	-55.0%	0.5	-5.5%
Gain on divestment prop	0.0	0.0	n.a.	0.0	n.a.
Surplus on revaluation	0.0	-15.7	n.m.	0.0	n.m.
Total Trust Income	30.4	15.2	99.9%	31.9	-4.7%
Expenditure	-3.8	-4.0	-2.8%	-3.5	8.9%
Finance Cost	-7.3	-7.9	-7.8%	-7.7	-5.0%
Income Before Tax	19.3	3.3	476.5%	20.7	-6.8%
Tax	0.0	1.5	n.m.	0.0	n.m.
Net Income	19.3	4.8	302.1%	20.7	-6.8%
Realised Net income (RNI)	20.4	19.0	7.0%	20.7	-1.6%
Core EPU (sen)	1.90	1.78	7.0%	1.93	-1.6%
DPU (sen)	0.00	3.98	n.m.	0.00	n.m.
NAV/unit (RM)	1.21	1.23		1.22	
Gearing (x)	0.37	0.37		0.38	
NPI Margins	79.0%	73.6%		76.6%	
RNI Margins	51.8%	46.9%		50.4%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.			
<u>MREITs UNDER COVERAGE</u>																		
AXIS REIT	1.90	3,105.6	Y	12/2022	8.7%	9.1%	10.4%	9.9%	23.8	21.1	19.0	1.2	1.2	6.2%	4.4%	2.10	OP	
CAPITALAND MALAYSIA TRUST	0.575	1,239.2	N	12/2022	46.1%	2.5%	150.3%	3.3%	28.8	11.5	11.5	0.5	0.5	2.6%	7.3%	0.560	MP	
IGB REIT	1.64	5,870.3	N	12/2022	33.5%	2.0%	46.6%	2.0%	27.3	20.5	20.5	1.5	1.5	6.2%	4.5%	1.55	MP	
KLCCP STAPLED GROUP	6.73	12,149.9	Y	12/2022	-4.4%	17.4%	-1.0%	20.6%	22.4	22.4	18.7	0.9	0.9	5.4%	4.0%	6.90	OP	
SENTRAL REIT	0.960	1,028.9	N	12/2022	9.0%	1.8%	-2.5%	0.7%	12.2	12.7	12.6	0.8	0.8	5.3%	6.8%	0.870	MP	
PAVILION REIT	1.36	4,151.8	N	12/2022	25.0%	2.0%	91.4%	2.2%	34.0	17.0	17.0	1.1	1.1	6.0%	5.4%	1.45	OP	
SUNWAY REIT	1.47	5,034.5	N	12/2022	7.6%	5.0%	-21.3%	21.7%	18.4	29.4	18.4	1.0	1.0	5.4%	3.0%	1.35	MP	
Simple Average					17.9%	5.7%	39.1%	8.6%	23.8	19.2	16.8	1.0	1.0	5.3%	5.1%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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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.**

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