

COMPANY UPDATE

Centurion Corp (CENT SP)

1Q24: Firing On All Cylinders

Starting off the year strongly, Centurion reported a 30% yoy increase in 1Q24 revenue with robust contributions from both the PBWA and PBSA segments. The results were better than expected with 1Q24 revenue making up 30% of our full-year forecasts. With greater confidence in its near- to medium-term outlook, backed by continued high levels of construction spending in Singapore, we have raised 2024-26 earnings by 9-12%. Maintain BUY with a higher target price of S\$0.77.

1Q24 BUSINESS UPDATE

| 12M to 31 Dec (S\$ '000) | 1Q23 | 1Q24 | % yoy | Remarks |
|-----------------------------|--------|--------|--------|---|
| Total revenue | 47,142 | 61,122 | 29.7% | |
| <u>By business segment</u> | | | | |
| Workers accommodation | 35,237 | 46,229 | 31.2% | - Continuing strength in Singapore and Malaysia |
| Student accommodation | 11,725 | 14,696 | 25.3% | |
| Others | 180 | 197 | 9.4% | |
| <u>By geographical area</u> | | | | |
| Singapore | 30,472 | 41,600 | 36.5% | - Positive rental reversions |
| Malaysia | 4,945 | 4,826 | -2.4% | - Due to weakness in MYR vs SGD |
| United Kingdom | 3,156 | 3,930 | 24.5% | - Both the UK and Australia continue to see strong domestic & international demand for PBSA |
| Australia | 8,137 | 10,433 | 28.2% | |
| Others | 432 | 333 | -22.9% | |

Source: Centurion, UOB Kay Hian

WHAT'S NEW

- A strong start to the year due to PBWA assets.** Centurion Corp's (Centurion) positive 1Q24 business update saw its key purpose built workers' accommodation (PBWA, 76% of revenue) segment witnessing a 31% yoy revenue increase due to its Singapore assets which saw slightly higher occupancy rates (1Q24: 99%). Importantly, the company saw stronger accretion from healthy rental reversions witnessed in 4Q23. With its ability to pass on inflation and higher costs, it would appear that profit margins have easily been maintained or even expanded, in our view.
- Student accommodation – Full steam ahead.** Similar to its PBWA assets, the company's purpose built student accommodation (PBSA, 24% of revenue) segment saw a material 25% yoy increase due to the seasonality of student entries into its Australian assets. As a result, financial occupancy at its UK and Australian PBSA assets were 99% and 90% respectively. Both geographic segments continue to witness robust pre-bookings for the forward academic years, and rental increases have tracked at 8-10% yoy.

KEY FINANCIALS

| Year to 31 Dec (S\$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 180 | 207 | 221 | 230 | 234 |
| EBITDA | 118 | 209 | 134 | 139 | 141 |
| Operating profit | 115 | 205 | 131 | 136 | 138 |
| Net profit (rep./act.) | 71 | 153 | 81 | 87 | 89 |
| Net profit (adj.) | 71 | 153 | 81 | 87 | 89 |
| EPS (S\$ cent) | 8.5 | 18.2 | 9.7 | 10.4 | 10.6 |
| PE (x) | 6.3 | 2.9 | 5.5 | 5.2 | 5.1 |
| P/B (x) | 0.7 | 0.5 | 0.5 | 0.5 | 0.4 |
| EV/EBITDA (x) | 9.3 | 5.3 | 8.2 | 7.9 | 7.8 |
| Dividend yield (%) | 1.9 | 4.7 | 5.6 | 5.6 | 5.6 |
| Net margin (%) | 39.6 | 73.9 | 36.8 | 37.9 | 38.1 |
| Net debt/(cash) to equity (%) | 86.6 | 70.6 | 67.4 | 59.6 | 50.7 |
| Interest cover (x) | 4.2 | 5.6 | 4.5 | 5.3 | 5.4 |
| ROE (%) | 10.6 | 20.2 | 9.5 | 9.5 | 9.1 |
| Consensus net profit | - | - | 77 | 92 | 98 |
| UOBKH/Consensus (x) | - | - | 1.06 | 0.95 | 0.91 |

Source: Centurion Corp, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

| | |
|---------------|----------|
| Share Price | S\$0.535 |
| Target Price | S\$0.770 |
| Upside | +43.9% |
| (Previous TP) | S\$0.570 |

COMPANY DESCRIPTION

Centurion is one of the largest providers of purpose-built workers' accommodations in Singapore and Malaysia and has exposure to student accommodation in UK and Australia.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Real Estate |
| Bloomberg ticker: | CENT SP |
| Shares issued (m): | 840.8 |
| Market cap (S\$m): | 449.8 |
| Market cap (US\$m): | 334.3 |
| 3-mth avg daily t'over (US\$m): | 0.2 |

Price Performance (%)

| | | | | |
|------------------|-------------------|-------------|------------|------------|
| 52-week high/low | S\$0.560/S\$0.340 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 16.3 | 27.4 | 30.5 | 55.1 | 32.1 |

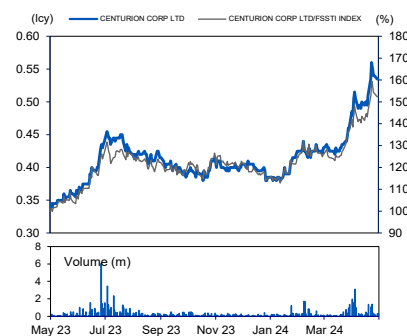
Major Shareholders

| | |
|--------------------------|------|
| Centurion Properties P/L | 50.6 |
| Teo Peng Kwang | 7.6 |
| Loh Kim Kang | 5.5 |

FY24 NAV/Share (S\$) 1.05

FY24 Net Debt/Share (S\$) 0.71

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
 +65 6590 6633
 adrianloh@uobkayhian.com

STOCK IMPACT

- Have bed rates peaked for Singapore's PBWA?** In our view, there may be low to mid-single-digit yoy increases over 2024-25 despite the material rental reversions for Centurion's Singapore PBWA assets since 2020. Although the Singapore government has reduced the dependency ratio ceiling from 1:7 to 1:5 (ie one local employee to five Work Permit/S-Pass holders) in the construction sector, thus potentially reducing demand for PBWAs, we highlight that Singapore's Building and Construction Authority has forecast higher construction spending over the 2024-28 period of S\$32b-38b vs prior years (see chart on RHS). Thus, demand for PBWA assets should remain robust in our view.
- New growth initiatives.** Centurion appears to have put in place several growth initiatives in the medium to long term, centering around its PBSA segment. These include: a) entry into Hong Kong via an asset-light master-lease format for up to 200 beds that was announced on 17 May 24, b) redevelopment of its dwell Melbourne asset that is pending approval by end-24, and c) an MOU with KEZAD Communities, a government-linked company in Dubai, for both the PBWA and PBSA segments. In addition, we note that the company's major shareholder Centurion Properties has purchased land in Sydney and thus any future development of PBSA assets could be sold to Centurion itself.
- Solid balance sheet.** As at end-23, Centurion had cash of S\$75m, cash and undrawn committed facilities of S\$186m and a net gearing of 38% (2022: 43%). With an interest cover ratio of 4.7x and average debt maturity of five years, we do not foresee any financial stress on Centurion. Its capex of S\$80m over the 2024-25 period should be easily funded in our view.

EARNINGS REVISION/RISK

- Earnings changes.** We have upgraded our earnings estimates for 2024-26 by 9-12% (see table on RHS) on the back of higher PBWA bed rates for both Singapore and Malaysia with the bulk of this upgrade for the former. With occupancy rates at the maximum of 99%, further earnings upgrades will be predicated on higher bed rates. We have also raised our dividend forecast to S\$0.03/share for 2024-26 or 31% payout ratio.

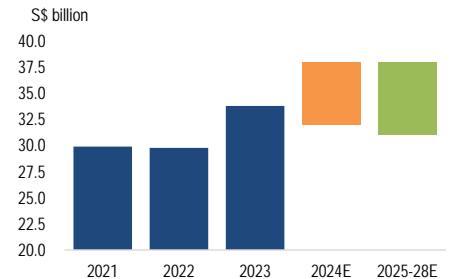
VALUATION/RECOMMENDATION

- Maintain BUY with a higher PE-based target price of S\$0.77** (previously S\$0.57) due to the earnings changes above as well as our move to a higher target PE multiple. Our new target PE multiple of 7.9x (previously 6.9x, or 1.5SD above its five-year average) is based on the company's 10-year PE multiple, which we view as reasonable. We believe that the company's current metrics are inexpensive as it trades at a 2024F PE of 5.5x and 0.5x P/B. In our view, this can be partly attributed to the company's low daily trading liquidity, which management is aware of, and has been trying to solve for some time now. Perhaps a leaf could be taken out of PropNex's book given that its bonus share issue in 2023 has led to a meaningful increase in its average daily trading volume.
- Strong share price returns.** We highlight that Centurion's share price has risen 32.1% ytd and easily outperformed the STI's 2.3% over the same period. We remain confident that the stock can maintain its absolute and relative outperformance in 2024.
- Looking forward to higher dividends.** For 2023, Centurion paid a total DPS of S\$0.025, implying a payout ratio of 30% based on core EPS for 2023 (ie excluding one-off items). We note that the company does not have a fixed dividend policy; however, during pre-COVID-19 years it paid out >38% of its net profits. Our EPS changes detailed above and the resultant higher DPS forecasts now imply a 2024 dividend yield of 5.6% based on yesterday's closing share price.

SHARE PRICE CATALYSTS

- Successful capital recycling efforts or capacity expansions involving JVs could result in a more asset-light business model that thus requires less capital intensity.**
- Higher-than-expected dividend payout in 2024**

HISTORICAL AND FORECAST CONSTRUCTION SPENDING IN SINGAPORE



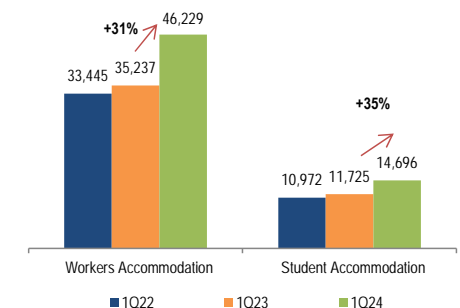
Source: Building and Construction Authority

FIVE YEAR P/B CHART



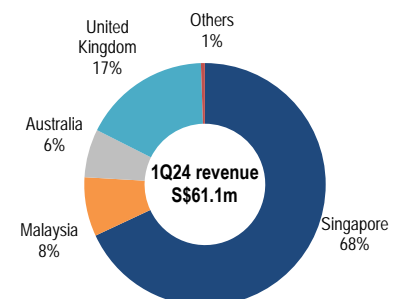
Source: Bloomberg, UOB Kay Hian

QUARTERLY REVENUE GROWTH: 1Q22-1Q24 (\$'000)



Source: Centurion

SPLIT OF 1Q24 REVENUE BY GEOGRAPHY



Source: Centurion

CHANGES TO EARNINGS FORECASTS

| S\$m | 2024F | 2025F | 2026F |
|------------|-------|-------|-------|
| NPAT – was | 75 | 78 | 80 |
| NPAT – is | 81 | 87 | 89 |
| Change | 8.5% | 11.7% | 11.2% |

Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 207.2 | 221.2 | 229.6 | 233.5 |
| EBITDA | 208.7 | 134.2 | 139.1 | 141.5 |
| Deprec. & amort. | 3.5 | 3.5 | 3.5 | 3.5 |
| EBIT | 205.1 | 130.7 | 135.6 | 137.9 |
| Associate contributions | 27.4 | 9.6 | 9.3 | 9.4 |
| Net interest income/(expense) | (37.1) | (29.6) | (26.2) | (26.2) |
| Pre-tax profit | 195.4 | 110.7 | 118.7 | 121.2 |
| Tax | (19.5) | (17.2) | (18.6) | (19.0) |
| Minorities | (22.8) | (12.1) | (13.0) | (13.2) |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 153.1 | 81.4 | 87.1 | 88.9 |
| Net profit (adj.) | 153.1 | 81.4 | 87.1 | 88.9 |

CASH FLOW

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|---|---------------|---------------|---------------|---------------|
| Operating | 122.8 | 122.4 | 123.8 | 124.0 |
| Pre-tax profit | 175.9 | 93.5 | 100.1 | 102.2 |
| Tax | (10.7) | (17.2) | (18.6) | (19.0) |
| Deprec. & amort. | 3.5 | 3.5 | 3.5 | 3.5 |
| Associates | (27.4) | (9.6) | (9.3) | (9.4) |
| Working capital changes | 9.9 | 5.4 | 3.2 | 1.5 |
| Non-cash items | (28.5) | 46.8 | 44.8 | 45.2 |
| Other operating cashflows | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing | (45.3) | (77.3) | (42.6) | (18.4) |
| Capex (growth) | (3.5) | (25.0) | (25.0) | (26.0) |
| Capex (maintenance) | (57.9) | (60.0) | (25.0) | 0.0 |
| Investments | 12.8 | 7.7 | 7.4 | 7.6 |
| Proceeds from sale of assets | 3.3 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | (72.2) | (50.6) | (47.2) | (47.2) |
| Dividend payments | (12.6) | (21.0) | (21.0) | (21.0) |
| Issue of shares | 1.5 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 55.5 | 0.0 | 0.0 | 0.0 |
| Loan repayment | (77.1) | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (39.3) | (29.6) | (26.2) | (26.2) |
| Net cash inflow (outflow) | 5.4 | (5.5) | 34.0 | 58.3 |
| Beginning cash & cash equivalent | 66.6 | 73.0 | 65.7 | 98.0 |
| Changes due to forex impact | 2.8 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 74.7 | 67.5 | 99.7 | 156.3 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 7.6 | 7.6 | 7.6 | 7.6 |
| Other LT assets | 1,553.7 | 1,571.0 | 1,617.9 | 1,643.9 |
| Cash/ST investment | 74.7 | 67.5 | 99.7 | 156.3 |
| Other current assets | 89.1 | 89.1 | 89.1 | 89.1 |
| Total assets | 1,725.1 | 1,735.1 | 1,814.3 | 1,896.9 |
| ST debt | 58.9 | 58.9 | 55.8 | 55.8 |
| Other current liabilities | 115.0 | 113.6 | 116.8 | 118.3 |
| LT debt | 598.5 | 598.5 | 598.5 | 598.5 |
| Other LT liabilities | 81.1 | 20.0 | 20.0 | 20.0 |
| Shareholders' equity | 825.8 | 886.1 | 952.2 | 1,020.1 |
| Minority interest | 45.9 | 58.0 | 70.9 | 84.2 |
| Total liabilities & equity | 1,725.1 | 1,735.1 | 1,814.3 | 1,896.9 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|-------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 100.7 | 60.7 | 60.6 | 60.6 |
| Pre-tax margin | 94.3 | 50.0 | 51.7 | 51.9 |
| Net margin | 73.9 | 36.8 | 37.9 | 38.1 |
| ROA | 9.4 | 4.7 | 4.9 | 4.8 |
| ROE | 20.2 | 9.5 | 9.5 | 9.0 |
| Growth | | | | |
| Turnover | 14.8 | 6.8 | 3.8 | 1.7 |
| EBITDA | 76.3 | (35.7) | 3.7 | 1.7 |
| Pre-tax profit | 105.1 | (43.4) | 7.3 | 2.1 |
| Net profit | 114.4 | (46.9) | 7.1 | 2.1 |
| Net profit (adj.) | 114.4 | (46.9) | 7.1 | 2.1 |
| EPS | 114.4 | (46.9) | 7.1 | 2.1 |
| Leverage | | | | |
| Debt to total capital | 43.0 | 41.0 | 39.0 | 37.2 |
| Debt to equity | 79.6 | 74.2 | 68.7 | 64.1 |
| Net debt/(cash) to equity | 70.6 | 66.6 | 58.2 | 48.8 |
| Interest cover (x) | 5.6 | 4.5 | 5.3 | 5.4 |

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