

COMPANY RESULTS

Centurion Corp (CENT SP)

2023: Strong Results Across The Board With Bright Outlook Ahead

CENT reported strong 2023 results with higher occupancy rates and positive rental reversions across all its geographies and asset classes. Free cash flow generation remains strong, and with gearing at 0.38x and some capital recycling of its assets, the company has a decent war chest for its organic and inorganic ambitions. Stock liquidity remains an issue. Maintain BUY. Target price raised to S\$0.57.

2023 RESULTS

| Year to 31 Dec (S\$m) | 2022 | 2023 | % yoy | Remarks |
|-----------------------|--------|--------|----------|--|
| Revenue | 180.45 | 207.25 | 14.9% | - Strong occupancies and improved rental rates across all |
| Gross profit | 123.56 | 150.03 | 21.4% | assets |
| Net FV gain/(loss) | 18.98 | 84.79 | 346.7% | - fair value gains on investment properties |
| Pre-tax profit | 95.27 | 194.41 | 104.1% | |
| PATMI | 71.43 | 153.12 | 114.4% | |
| Core net profit | 63.49 | 76.30 | 20.2% | - Strength still seen in business when excluding one-off items |
| Gross profit margin | 68.5% | 72.4% | +3.9ppt | |
| Pre-tax margin | 52.8% | 93.8% | +41.0ppt | |
| Core net margin | 39.6% | 36.8% | -2.8ppt | |

Source: Centurion Corp, UOB Kay Hian

RESULTS

- Strong operational results boosted by one-off valuation gains.** Centurion Corp (CENT) reported a 114% yoy increase in PATMI to S\$153m aided by a valuation gain of S\$79m on its investment properties. However we note that even stripping this out, the company's operational results were strong with revenue rising by 15% yoy and core net profit (excluding one-off gains) up 20% yoy to S\$84m. Gross profit margin was 9% higher than our estimates, and rose nearly 4ppt to 72.4% on the back of strong occupancy rates and improved rental rates across all of the company's asset classes.
- A more solid balance sheet heading into 2024.** With S\$78m in free cash flow generated in 2023, CENT ended the year with a healthy S\$75m in cash and net debt/equity of 38% vs 43% at end-22. The company has an average long-term debt maturity profile of six years.
- Dividends normalising back to higher levels.** CENT declared a final DPS of S\$0.015 which, when added to the S\$0.01 interim dividend, results in a total DPS of S\$0.025 for 2023. This implies a payout ratio of 30% based on core EPS for 2023 (ie excluding one-off items). We forecast that the company will retain its S\$0.025 DPS for 2024 and 2025, implying 2024 dividend yield of 5.9% based on yesterday's closing share price.

KEY FINANCIALS

| Year to 31 Dec (S\$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 180 | 207 | 204 | 207 | 210 |
| EBITDA | 118 | 209 | 124 | 126 | 128 |
| Operating profit | 115 | 205 | 120 | 122 | 124 |
| Net profit (rep./act.) | 71 | 153 | 75 | 78 | 80 |
| Net profit (adj.) | 71 | 153 | 75 | 78 | 80 |
| EPS (S\$ cent) | 8.5 | 18.2 | 8.9 | 9.3 | 9.5 |
| PE (x) | 5.1 | 2.4 | 4.8 | 4.6 | 4.5 |
| P/B (x) | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| EV/EBITDA (x) | 8.1 | 4.6 | 7.8 | 7.7 | 7.5 |
| Dividend yield (%) | 2.3 | 5.8 | 5.8 | 5.8 | 5.8 |
| Net margin (%) | 39.6 | 73.9 | 36.8 | 38.0 | 38.1 |
| Net debt/(cash) to equity (%) | 86.6 | 70.6 | 61.9 | 53.6 | 45.8 |
| Interest cover (x) | 4.2 | 5.6 | 4.2 | 4.8 | 4.9 |
| ROE (%) | 10.6 | 20.2 | 8.8 | 8.6 | 8.3 |
| Consensus net profit | - | - | 81 | 84 | 82 |
| UOBKH/Consensus (x) | - | - | 0.92 | 0.93 | 0.97 |

Source: Centurion Corp, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|---------|
| Share Price | S\$0.43 |
| Target Price | S\$0.57 |
| Upside | +32.6% |
| (Previous TP) | S\$0.50 |

COMPANY DESCRIPTION

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

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Real Estate |
| Bloomberg ticker: | CENT SP |
| Shares issued (m): | 840.8 |
| Market cap (S\$m): | 361.5 |
| Market cap (US\$m): | 268.9 |
| 3-mth avg daily t'over (US\$m): | 0.1 |

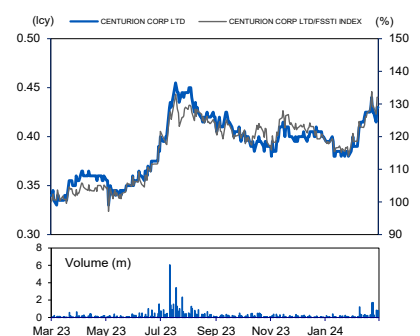
Price Performance (%)

| | | | | |
|------------------|-------------------|-------------|------------|------------|
| 52-week high/low | S\$0.455/S\$0.330 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 11.7 | 7.5 | 2.4 | 26.5 | 6.2 |

Major Shareholders

| | |
|---------------------------|------|
| Centurion Properties P/L | 50.6 |
| FY24 NAV/Share (S\$) | 1.05 |
| FY24 Net Debt/Share (S\$) | 0.65 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- PBWA remains the pillar.** CENT's purpose-built workers' accommodation (PBWA) remains the pillar of the company's profit and growth, accounting for 83% of the company's segmental profits in 2023. The PBWA segment's net profit grew 27% yoy vs that of its purpose-built students' accommodation (PBSA) which grew by 18% yoy. CENT continues to enjoy robust demand for its PBWA in both Singapore and Malaysia as inflows of foreign and migrant workers remain at high levels. At the same time, supply has been restricted as newly implemented regulatory controls have arguably taken out the lower quality dormitory beds, thus benefitting CENT's high-quality assets. As a result, the company's Singapore assets saw a 1ppt increase in occupancy rates to 98% with positive rental reversions. Importantly, the company noted that these rental reversions will only fully play out in 2024.
- Demand-led growth for PBSA assets.** CENT's PBSA assets across the UK and Australia saw 3ppt and 15ppt growth in occupancy rates respectively to 93% and 88%. Note that the company experiences seasonality in its PBSA segment given the difference in academic years with lull periods during July-September for its UK assets and November-January for its Australian assets. Both countries remain strong magnets for international students with the company commenting that it has experienced strong pre-bookings for academic year 2024/25 for its UK assets, while occupancies are likely to continue to edge upwards in Australia.

EARNINGS REVISION/RISK

- Raising 2024 and 2025 earnings estimates.** We have raised our 2024 and 2025 net profit estimates by 10% and 12% respectively on the back of higher average bed rates for PBSA in Singapore and Malaysia, and higher utilisation rates for PBSA in Australia and the UK. We highlight that there is upside potential to our earnings as we have yet to include some of the company's growth projects in our estimates at present.

VALUATION/RECOMMENDATION

- Maintain BUY with PE-based target price of S\$0.57 (previously S\$0.50).** Our target PE multiple is 6.9x, which is in line with the company's average PE multiple over the past five years. We believe that the company's current metrics are inexpensive as it trades at a 2024F PE of 4.8x and 0.4x 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 CENT's share price has risen 26.5% in the past 12 months and easily outperformed the STI's 3.9% fall in the same period. We remain confident that the stock can maintain its absolute and relative outperformance in 2024.

SHARE PRICE CATALYSTS

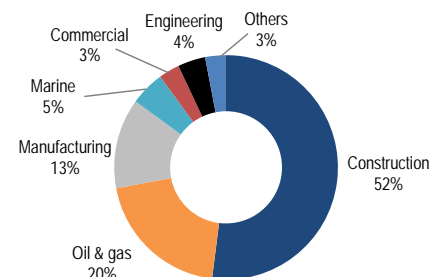
- Successful capital recycling efforts or capacity expansions involving JVs which could result in a more asset-light business model that thus requires less capital intensity.
- Higher-than-expected dividend payout across 2024.

FIVE-YEAR P/B CHART



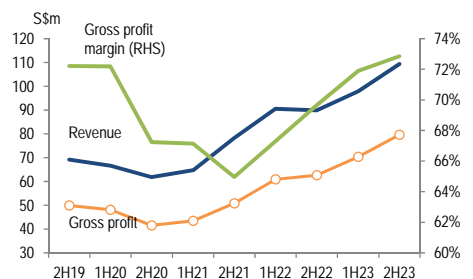
Source: Bloomberg, UOB Kay Hian

WORKERS' ACCOMMODATION BY INDUSTRY IN 2023



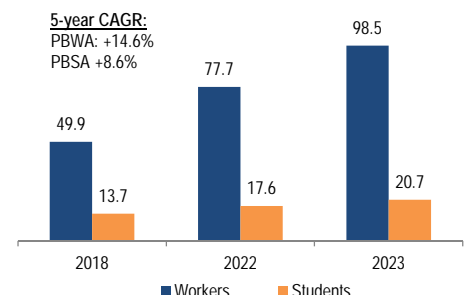
Source: Centurion

TREND IN HALF-YEARLY REVENUE AND GROSS PROFIT



Source: Centurion

SEGMENTAL PROFIT: COMPARING 2023 VS 2018



Source: Centurion

PROFIT & LOSS

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|--------|--------|--------|--------|
| Net turnover | 207.2 | 203.7 | 206.7 | 210.3 |
| EBITDA | 208.7 | 123.8 | 125.6 | 127.7 |
| Deprec. & amort. | 3.5 | 3.5 | 3.5 | 3.5 |
| EBIT | 205.1 | 120.3 | 122.1 | 124.2 |
| Associate contributions | 27.4 | 9.0 | 8.7 | 8.8 |
| Net interest income/(expense) | (37.1) | (29.6) | (26.2) | (26.2) |
| Pre-tax profit | 195.4 | 99.7 | 104.6 | 106.8 |
| Tax | (19.5) | (13.6) | (14.4) | (14.7) |
| Minorities | (22.8) | (11.2) | (11.7) | (11.9) |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 153.1 | 74.9 | 78.5 | 80.2 |
| Net profit (adj.) | 153.1 | 74.9 | 78.5 | 80.2 |

CASH FLOW

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|--------|--------|--------|--------|
| Operating | 122.8 | 108.8 | 112.4 | 114.4 |
| Pre-tax profit | 175.9 | 86.1 | 90.2 | 92.1 |
| Tax | (10.7) | (13.6) | (14.4) | (14.7) |
| Deprec. & amort. | 3.5 | 3.5 | 3.5 | 3.5 |
| Associates | (27.4) | (9.0) | (8.7) | (8.8) |
| Working capital changes | 9.9 | (1.4) | 1.2 | 1.4 |
| Non-cash items | (28.5) | 43.2 | 40.6 | 40.9 |
| Other operating cashflows | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing | (45.3) | (18.0) | (25.0) | (19.4) |
| Capex (growth) | (3.5) | (25.0) | (25.0) | (26.0) |
| Capex (maintenance) | (57.9) | 0.0 | 0.0 | 0.0 |
| Investments | 12.8 | 7.0 | 0.0 | 6.6 |
| 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 | 40.3 | 40.2 | 47.8 |
| Beginning cash & cash equivalent | 66.6 | 73.0 | 111.6 | 150.1 |
| Changes due to forex impact | 2.8 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 74.7 | 113.3 | 151.8 | 197.9 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 7.6 | 7.6 | 7.6 | 7.6 |
| Other LT assets | 1,553.7 | 1,569.7 | 1,592.6 | 1,609.2 |
| Cash/ST investment | 74.7 | 113.3 | 151.8 | 197.9 |
| Other current assets | 89.1 | 89.1 | 89.1 | 89.1 |
| Total assets | 1,725.1 | 1,779.7 | 1,841.0 | 1,903.7 |
| ST debt | 58.9 | 58.9 | 55.8 | 55.8 |
| Other current liabilities | 115.0 | 106.8 | 108.0 | 109.4 |
| LT debt | 598.5 | 598.5 | 598.5 | 598.5 |
| Other LT liabilities | 81.1 | 78.8 | 72.9 | 63.1 |
| Shareholders' equity | 825.8 | 879.7 | 937.1 | 996.3 |
| Minority interest | 45.9 | 57.0 | 68.7 | 80.6 |
| Total liabilities & equity | 1,725.1 | 1,779.7 | 1,841.0 | 1,903.7 |

KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|-------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 100.7 | 60.8 | 60.8 | 60.7 |
| Pre-tax margin | 94.3 | 48.9 | 50.6 | 50.8 |
| Net margin | 73.9 | 36.8 | 38.0 | 38.1 |
| ROA | 9.4 | 4.3 | 4.3 | 4.3 |
| ROE | 20.2 | 8.8 | 8.6 | 8.3 |
| Growth | | | | |
| Turnover | 14.8 | (1.7) | 1.5 | 1.7 |
| EBITDA | 76.3 | (40.7) | 1.5 | 1.7 |
| Pre-tax profit | 105.1 | (49.0) | 4.9 | 2.2 |
| Net profit | 114.4 | (51.1) | 4.8 | 2.2 |
| Net profit (adj.) | 114.4 | (51.1) | 4.8 | 2.2 |
| EPS | 114.4 | (51.1) | 4.8 | 2.2 |
| Leverage | | | | |
| Debt to total capital | 43.0 | 41.2 | 39.4 | 37.8 |
| Debt to equity | 79.6 | 74.7 | 69.8 | 65.7 |
| Net debt/(cash) to equity | 70.6 | 61.9 | 53.6 | 45.8 |
| Interest cover (x) | 5.6 | 4.2 | 4.8 | 4.9 |

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