MARKET NEWS

US stocks were higher after the close on Thursday, as gains in the technology, communication services and consumer discretionary sectors led shares higher. At the close of the NYSE, the DJIA rose 0.34%, while the S&P 500 index gained 0.94%, and the NASDAQ Composite index advanced 1.51%. Advancing stocks outnumbered falling ones on the NYSE by 1,738 to 1,203 and 127 ended unchanged; on the Nasdaq Stock Exchange, 2,343 advanced and 2,060 declined while 209 ended unchanged. (Source: WSJ, CNBC)

During the last trading session, the FSSTI index rose 8.71pt to 3,182.55. Among the top active stocks were Seatrium (+0.8%), Yangzijiang Shipbuilding (+3.2%), Genting Singapore (-1.0%), Rex International (+3.0%) and Thomson Medical (+1.6%). The FTSE ST Mid Cap index rose 0.6% while the FTSE ST Small Cap Index was up 1.3%. The broader market saw 326 gainers and 210 losers with total trading value of S$1.09b.

WHAT'S IN THE PACK

Singapore Result Update:

Prime US REIT - 1Q23: Resiliency from diversified tenant mix; bombed-out valuations.

(PRIME SP/BUY/US$0.21/Target: US$0.61)

We factor in potential valuation losses and the cost to reduce gearing to correctly appraise the valuation for PRIME…

Singapore Company Update:

Centurion Corp - 1Q23 business update showed continued recovery across all its asset classes with volume growth expected over the next 12-18 months. Maintain BUY.

(CENT SP/BUY/S$0.34/Target: S$0.43)

Centurion's 1Q23 business update was a solid one with revenue up 5% yoy to S$47m making up 25% of our full-year forecast…

Singapore Technical Analysis:

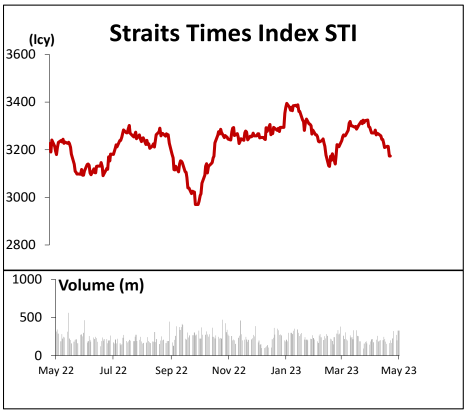
Singapore Tech Engineering (STE SP) - Trading BUY

Price broke out from a triangle continuation pattern, hinting at increased upward momentum. Conversion and base lines are moving higher after the bullish crossover…

Olam Group (OLG SP) - Trading BUY

Price rebounded with a bullish engulfing candlestick pattern after retracing to the Fibonacci 62% correction point. The MACD is trading near the zero line and is turning up…

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	33535.9	(1.3)	1.2
S&P 500	4198.1	1.0	9.3
FTSE 100	7742.3	(2.0)	3.9
AS30	7427.0	(1.8)	2.8
CSI 300	3956.1	(4.1)	2.2
FSSTI	3182.6	(4.3)	(2.1)
HSCEI	6715.6	(2.5)	0.2
HSI	19727.3	(3.1)	(0.3)
JCI	6663.1	(2.3)	(2.7)
KLCI	1428.0	0.2	(4.5)
KOSPI	2515.4	(2.3)	12.5
Nikkei 225	30573.9	6.9	17.2
SET	1526.7	(3.4)	(8.5)
TWSE	16101.9	2.1	13.9
BDI	1402	2.2	(7.5)
CPO (RM/mt)	3714	(10.6)	(8.3)
Brent Crude (US$/bbl)	76	(10.5)	(11.7)

Source: Bloomberg

TOP VOLUME

Company	Price (S$)	Chg (%)	Volume ('000s)
Seatrium	0.13	0.8	163,277
Yangzijiang Shipbuilding	1.29	3.2	41,523
Genting Singapore	1.01	(1.0)	37,019
CapitaLand Ascendas REIT	2.80	0.7	21,441
Keppel REIT	0.85	(0.6)	20,340

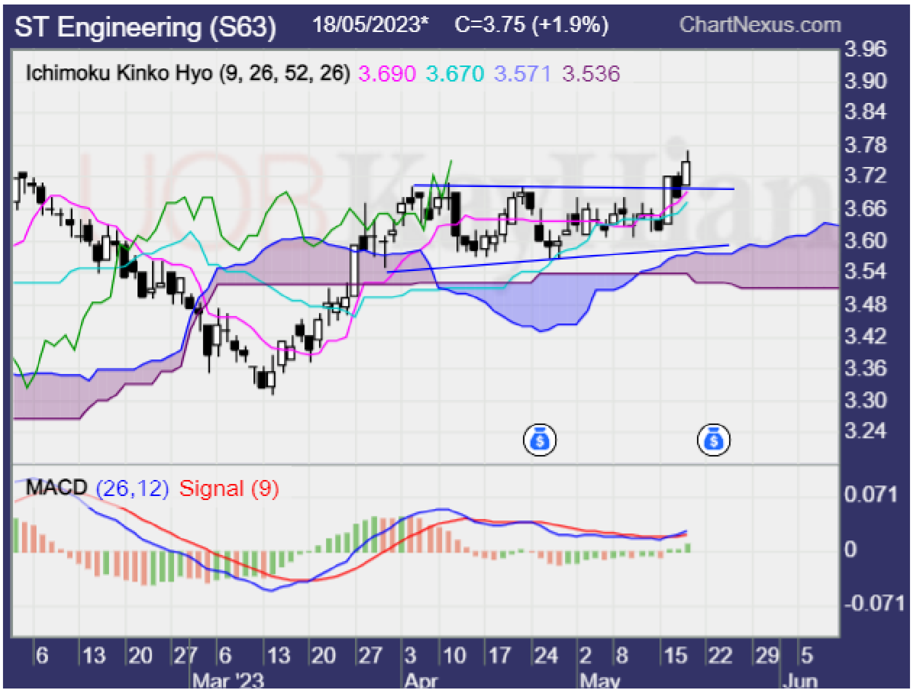
TOP GAINERS

Company	Price (S$)	Chg (%)	Volume ('000s)
Top Glove Corp	0.35	6.2	10,738
First Resources	1.48	5.0	4,918
Bumitama Agri	0.58	3.6	413
Yangzijiang Shipbuilding	1.29	3.2	41,523
Bukit Sembawang Estates	4.17	2.7	24

TOP LOSERS

Company	Price (S$)	Chg (%)	Volume ('000s)
Mandarin Oriental Intl	1.76	(2.2)	47
Wing Tai Holdings	1.50	(1.3)	135
Genting Singapore	1.01	(1.0)	37,019
Keppel DC REIT	2.09	(0.9)	6,863
CapitaLand China Trust	1.05	(0.9)	3,539

TRADERS' CORNER



Singapore Tech Engineering (STE SP)

Trading Buy Range: S$3.74-3.75

Last price: S$3.75

Target price: S$4.00

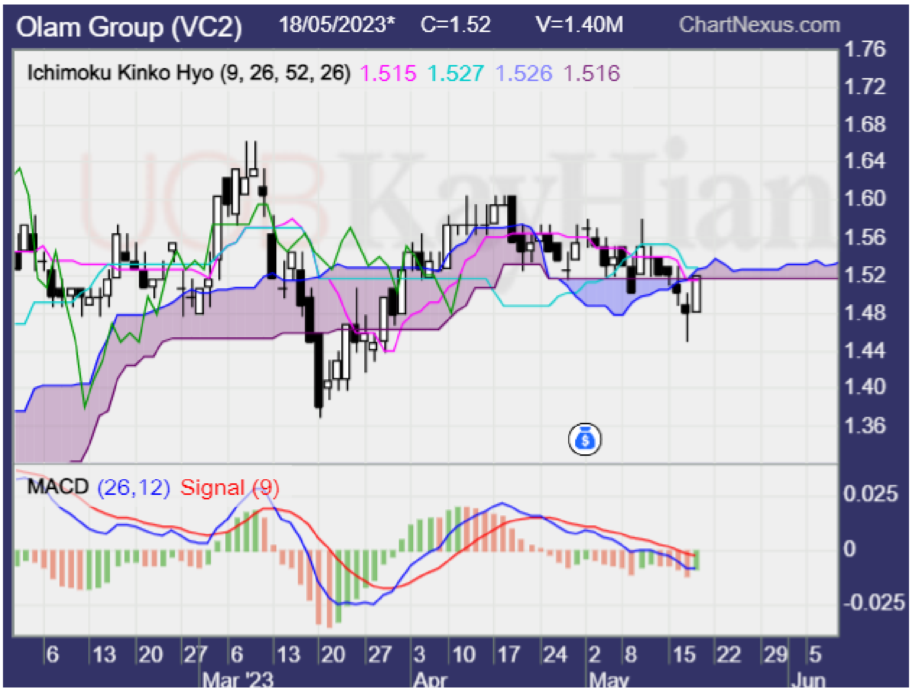
Protective stop: S$3.65

Price broke out from a triangle continuation pattern, hinting at increased upward momentum. Conversion and base lines are moving higher after the bullish crossover. The MACD is bullish and is rising. These could increase chances of the stock price moving higher.

The potential upside target is S$4.00. Stop-loss could be placed at S$3.65.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$4.00.



Olam Group (OLG SP)

Trading Buy Range: S$1.51-1.52

Last price: S$1.52

Target price: S$1.68

Protective stop: S$1.43

Price rebounded with a bullish engulfing candlestick pattern after retracing to the Fibonacci 62% correction point. The MACD is trading near the zero line and is turning up, hinting at potential upside ahead. These could increase chances of the stock price moving higher.

The potential upside target is S$1.68. Stop-loss could be placed at S$1.43.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

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FROM THE REGIONAL MORNING NOTES...

Prime US REIT (PRIME SP)

1Q23: Resiliency From Diversified Tenant Mix; Bombed-out Valuations

We factor in potential valuation losses and the cost to reduce gearing to correctly appraise the valuation for PRIME. We estimate fair value of investment properties to drop 10% and aggregate leverage to hit 48% at end-23. PRIME could raise US$145m through a 1,000:873 rights issue with issue price at US$0.14 (33% discount) to lower aggregate leverage to 38%. Valuation is attractive with 2024 distribution yield at 17.4% and P/NAV at 0.44x. Maintain BUY. Target price: US$0.61.

1Q23 RESULTS

Year to 31 Dec (US$m)	1Q23	yoy % Chg	Remarks
Gross Revenue	40.2	-1.7	Portfolio occupancy eased 1.3ppt yoy lower. 1Q22 boosted
Net Property Income (NPI)	23.6	-7.2	by termination income. Incurred higher property expenses.
Distributable Income	14.9	-28.8	Affected by higher interest expense.

Source: PRIME, UOB Kay Hian

RESULTS

- Prime US REIT (PRIME) provided key business & operational updates for 1Q23.
- **New policy reduces dilution for unitholders.** Gross revenue eased 1.7% yoy in 1Q23. NPI dropped 7.2% yoy due to higher property expenses to prepare for more employees returning to work at their offices. Finance expense increased by US$1.7m yoy. There was absence of amortised lease termination income of US$1.3m recorded in 1Q22. Prime US REIT (PRIME) has changed its policy to pay manager's base fees 100% in cash (previous policy: 80% in new units and 20% in cash). Thus, distributable income dropped by a hefty 28.8% yoy. Adjusting for the change in policy, distributable income would have dropped by a smaller 22.5% yoy.
- **Incurred negative rental reversion.** PRIME executed 64,400sf of leases and incurred negative rental reversion of 2.6% in 1Q23 due to two renewals with minimum capex for upfront tenant improvements. Excluding these two leases, rental reversion would be positive 3.2%. In-place rents remain below asking rents by 6.8%. Portfolio occupancy eased marginally by 1.3ppt yoy and 0.4ppt qoq to 88.6%. According to management, physical occupancy is 56% on a portfolio-wide basis.
- **Stress from rate hikes already over.** Aggregate leverage increased 1.6ppt qoq to 43.7% due to payment of 2H22 DPU. All-in weighted average interest rate increased 1.1ppt yoy and 0.5ppt qoq to 3.8%. Given that US Fed Funds Rate is likely to have peaked at 5.0%, we expect average interest rate to be about 3.9% for the rest of the financial year. About 79% of PRIME's borrowings is fixed rate (16%) or hedged to fixed rates (63%). About 62% of its borrowings is fixed or hedged till mid-26.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F	2025F
Net turnover	157	163	169	166	169
EBITDA	89	85	91	89	91
Operating profit	89	85	91	89	91
Net profit (rep./act.)	66	(30)	(82)	65	67
Net profit (adj.)	67	77	63	65	67
EPU (US$ cent)	6.1	6.5	5.3	2.9^	3.0^
DPU (US$ cent)	6.8	6.6	5.5	3.1^	3.2^
PE (x)	3.5	3.2	4.0	5.8*	5.7*
P/B (x)	0.2	0.3	0.3	0.4*	0.4*
DPU Yld (%)	32.3	31.2	26.4	17.4*	17.8*
Net margin (%)	42.3	(18.1)	(48.9)	39.4	39.4
Net debt/(cash) to equity (%)	62.1	73.2	89.6	60.7	62.5
Interest cover (x)	5.2	3.9	3.5	4.2	4.2
ROE (%)	7.0	n.a.	n.a.	8.0	7.5
Consensus DPU (US$ cent)	n.a.	n.a.	5.2	5.2	5.6
UOBKH/Consensus (x)	-	-	1.07	0.59	0.56

Source: Prime US REIT, Bloomberg, UOB Kay Hian
**Based on theoretical ex-rights unit price of US$0.1774. ^Fully diluted for 1,000:873 rights issue.*

- **Extension of maturity for term loans.** PRIME is in the process of extending the maturity of two term loans of US$400m and revolving credit facility of US$39m by one year to Jul 24. It does not have any refinancing obligations till Jul 24.

STOCK IMPACT

- **Class A offices benefit from flight to quality.** PRIME focuses on Class A office buildings, which are the best in class. Class A offices with amenities are well sought-after to attract employees to return to work at the office. Demand is skewed towards high-quality Class A office space. According to Cushman & Wakefield, Class A offices outperform in net absorption. Premium in rents commanded by newer Class A office buildings have also doubled during the COVID-19 pandemic.

- **18-hour and Super Sun Belt cities attract in-migration.** PRIME has sizeable exposure to 18-hour and Super Sun Belt cities, which attract an influx of companies and people. These high-growth cities have low or no state-level taxes, a highly educated workforce generated by renowned local universities, rich amenities and good infrastructure. 18-hour and Super Sun Belt cities accounted for 37.1% and 21.5% of PRIME's portfolio valuation respectively.

- **Losing Sodexo as an anchor tenant.** PRIME's second largest tenant Sodexo Operations is relocating its US headquarter to 915 Meeting Street in Northern Bethesda, Maryland. Sodexo currently occupies 190,698sf or 61% of NLA at PRIME's One Washingtonian Center located in Washington DC. Sodexo's lease accounted for 5.3% of PRIME's cash rental income and expires in Dec 23. The building is well located with lots of amenities nearby, which is attractive for potential replacement tenant. Fortunately, One Washingtonian Center is one of PRIME's smaller buildings and accounted for only 5.4% of portfolio valuation.

EARNINGS REVISION

- **Erosion in capital values.** Capital values for office properties have dropped 5.9% yoy as of Mar 23 based on RCA Commercial Property Price Index. We estimated fair value of PRIME's investment properties to drop 10% or US$145m (2022: US$144m) to US$1,316m at end-23 assuming: a) cap rate for PRIME's portfolio expand 50bp to 7.2%, and b) PRIME backfills one third of space vacated by Sodexo at One Washingtonian Center (occupancy: 42%). Thus, we expect aggregate leverage to increase and hit 48% at end-23.

- **Factoring in the cost to deleverage.** We have cut 2024 DPU forecast by 49.7% respectively due to: a) 1,000:873 rights issue with issue price at US$0.14 (33% discount to prevailing market unit prices) to raise US$145m and reduce aggregate leverage to 38%, b) change in policy to pay manager's base fees fully in cash, and c) lower income from One Washingtonian Center.

- **Rights issue does not dilute minorities.** There is execution risk associated with launching a rights issue. Nevertheless, a rights issue has the virtue of not diluting minority unitholders' interest.

VALUATION/RECOMMENDATION

- **Lucrative distribution yield.** Unit price of PRIME has succumbed to indiscriminate selling. PRIME provides attractive 2024 distribution yield of 17.4% and yield spread of 13.8%. The stock looks oversold with P/NAV at 0.44x.

- **Maintain BUY.** Our target price of US$0.61 based on DDM (cost of equity: 9.0%, terminal growth: 1.0%).

SHARE PRICE CATALYST

- Growth from Super Sun Belt and 18-hour cities driven by in-migration.

- Growth from continued positive rental reversion.

KEY OPERATING METRICS – PRIME

	1Q22	2Q22	3Q22	4Q22	1Q23	yoy % chg	qoq % chg*
DPU (US cents)	n.a.	3.52	n.a.	3.03	n.a.	n.a.	n.a.
Occupancy	89.9%	89.6%	89.6%	89.0%	88.6%	-1.3ppt	-0.4ppt
Aggregate Leverage	39.1%	37.8%	38.7%	42.1%	43.7%	4.6ppt	1.6ppt
Average Cost of Debt	2.8%	2.8%	3.1%	3.4%	3.7%	0.9ppt	0.3ppt
Weighted Debt Maturity (years)	2.7	2.5	2.2	2.0	1.7	-1yrs	-0.3yrs
% Borrowings on Fixed Rates	83%	86%	83%	82%	79%	-4.8%	-3.7%
WALE by NLA	4.2	4.0	4.1	4.1	3.9	-0.3yrs	-0.2yrs
Rental Reversion	3.4%	10.9%	10.1%	20.2%	-2.6%	-6ppt	-22.8ppt

*Source: PRIME, UOB Kay Hian * hoh % chg for DPU*

FROM THE REGIONAL MORNING NOTES...

Centurion Corp (CENT SP)

Continuing On Its Recovery Across All Asset Classes

Centurion's 1Q23 business update was a solid one with revenue up 5% yoy to S$47m making up 25% of our full-year forecast and thus in line with expectation. The key PBWA segment, which makes up three-quarters of its revenue, saw 5% yoy growth in its top-line while its PBSA segment was similarly robust, up 7% yoy. In the near to medium term, it appears that Centurion will continue to see incremental volume and rental growth. Maintain BUY. Target price: S$0.43.

1Q23 BUSINESS UPDATE

Year to 31 Dec (S$ '000)	1Q22	1Q23	yoy chg	Remarks
Total revenue	45,054	47,142	+4.6%	
By business segment				
Workers accommodation	33,445	35,237	+5.4%	Continuing strength in Singapore and Malaysia
Student accommodation	10,972	11,725	+6.9%	
Others	637	180	-71.7%	Due to sale of dwell Dongdaemun, South Korea
By geographical area				
Singapore	30,642	30,472	-0.6%	
Malaysia	3,440	4,945	+43.8%	Material improvement in occupancy rate for PBWA
United Kingdom	1,823	3,156	+73.1%	Strong domestic & international demand for PBSA
Australia	8,558	8,137	-4.9%	
Others	591	432	-26.9%	

Source: Centurion, UOB Kay Hian

WHAT'S NEW

- **Slowly but surely grinding higher.** Centurion Corp (Centurion) reported a positive 1Q23 business update with its key purpose built workers' accomodation (PBWA, 75% of revenue) segment witnessing a 5% yoy revenue increase due to: a) 2ppt yoy increase in occupancy rate to 98% in Singapore, and b) a significant increase in occupancy rate in Malaysia, up from 68% in 1Q22 to 93% in 1Q23. In addition, the company stated that rental reversions were healthy and with its ability to pass on inflation and higher costs, it would appear that profit margins have easily been maintained, in our view.

- **Student accommodation taking slightly longer to recover after COVID-19.** As opposed to its PBWA assets, the company's purpose built student accomodation (PBSA) segment has taken slightly longer to recover its occupancy rates given the seasonality of student entries into UK and Australian universities. As a result, occupancy at UK and Australian PBSA assets were 90% and 80% respectively, although it should be noted that both geographic segments have witnessed robust pre-bookings for the forward academic years, and rental reversions have tracked at 8-10% yoy increase.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	143	180	187	192	195
EBITDA	79	118	113	118	121
Operating profit	76	115	102	105	107
Net profit (rep./act.)	53	71	60	68	69
Net profit (adj.)	53	71	60	68	69
EPS (S$ cent)	6.3	8.5	7.1	8.1	8.3
PE (x)	5.4	4.0	4.8	4.2	4.1
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	11.0	7.4	7.7	7.4	7.2
Dividend yield (%)	1.5	1.5	4.2	4.8	4.9
Net margin (%)	36.8	39.6	32.1	35.3	35.5
Net debt/(cash) to equity (%)	100.1	86.6	76.0	78.5	74.5
Interest cover (x)	3.5	4.2	3.4	4.5	4.7
ROE (%)	8.3	10.6	8.4	9.3	9.7
Consensus net profit	-	-	60	65	67
UOBKH/Consensus (x)	-	-	1.00	1.04	1.04

Source: Centurion, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Volume growth underpins earnings in the next three years.** We highlight that Centurion has volume growth in Singapore in 2023 with the Jurong Town Council allowing for higher bed count at its Quick Build Dormitories while Malaysia will see an increase of 290 beds at Tampoi, plus the new Westlite Cemerlang asset coming onstream in 3Q23 with 1,650 beds. In addition, the company could also look to add new PBWA assets in Malaysia in the near to medium term given the dearth of quality supply in the country.

- **Looking forward to higher dividend payout.** We note that Centurion does not have a fixed dividend policy at present, however during pre-COVID-19 years it paid out >38% of its net profits. In our view, management's stance in wanting to conserve its cash resources may be overly conservative and it could instead enunciate a payout ratio which would attract more investor interest. We have used a payout ratio of 20% for 2023-25.

- **Sale of Korean asset and exiting the market.** In Apr 23, Centurion announced that it had sold its dwell Dongdaemun asset in South Korea to Ganghwa County of Incheon Metropolitan City for KRW21.25b (S$21.4m). The company did not see any growth potential for PBSA assets in Korea and thus elected to exit the market and will look to instead redeploy its capital to other geographies with PBWA assets in Malaysia a likely target. The sale price for dwell Dongdaemun equated to 1x P/B based on Centurion's audited financial statements as at 31 Dec 22, and was a healthy increase vs its purchase price of KRW13b in 3Q18.

- **Solid balance sheet.** As at end-1Q23, Centurion had total borrowings of S$0.7b, cash and undrawn committed facilities totalling S$222m, and 44% net gearing (net debt/net debt + equity). With an interest cover ratio of 3.4x and average debt maturity of around six years, we do not foresee any financial stress on Centurion.

EARNINGS REVISION/RISK

- **Upgrades to earnings.** Changes to our earnings forecasts for 2023-25 incorporate: a) the sale of dwell Dongdaemun, b) higher occupancy rates for PBWA assets in Singapore and Malaysia, and c) new contribution from Westlite Cemerlang from 3Q23 onwards. We highlight that there could be earnings upside from the extension of leases at Centurion's Quick Build Dormitories in Singapore which we have not accounted for yet.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged PE and P/B based target price of S$0.43.** Our PE target multiple of 5.8x is 1SD above Centurion's past five-year average of 4.8x (excluding 2020 which was impacted by COVID-19) and results in a valuation of S$0.42 while our P/B target multiple of 0.5x (in line with its past five-year average P/B) is S$0.44. We like the company for its ability to pass on higher costs to its customers in both its PBWA and PBSA business segments, and with Singapore and Malaysia's structural undersupply of workers' accommodation unlikely to abate in the near to medium term, the likelihood of positive rental reversions is high in our view.

SHARE PRICE CATALYST

- Capacity expansions involving JVs which are more asset light and require less capital intensity.

- Evidence that overseas Chinese students have resumed international studies.

- Establishment of a dividend policy and better capital management.

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