

COMPANY UPDATE

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' accommodation (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 accommodation (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

BUY

(Maintained)

Share Price	S\$0.34
Target Price	S\$0.43
Upside	+26.5%

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):	285.9			
Market cap (US\$m):	212.5			
3-mth avg daily t'over (US\$m):	0.0			
Price Performance (%)				
52-week high/low	S\$0.420/S\$0.325			
1mth	3mth	6mth	1yr	YTD
(6.8)	(5.6)	4.6	(4.2)	1.5
Major Shareholders		%		
Centurion Properties P/L		50.6		
Teo Peng Kwang		7.6		
Han Seng Juan		5.3		
FY23 NAV/Share (S\$)		0.87		
FY23 Net Debt/Share (S\$)		0.66		

PRICE CHART



Source: Bloomberg

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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

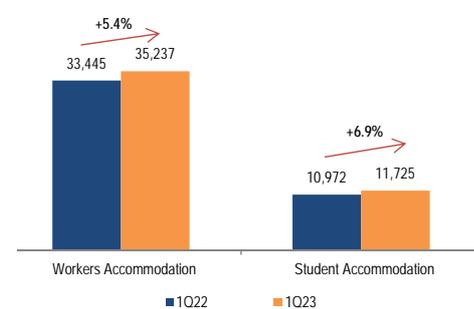
- Capacity expansions involving JVs which are more asset light and require less capital intensity.
- Evidence that overseas Chinese students have resumed international studies.
- Establishment of a dividend policy and better capital management.

FIVE YEAR P/B CHART



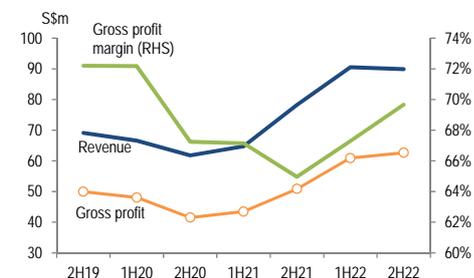
Source: Bloomberg, UOB Kay Hian

REVENUE GROWTH: 1Q23 VS 1Q22 (S\$ '000)



Source: Centurion

TREND IN HALF-YEARLY REVENUE AND GROSS PROFIT



Source: Centurion

CHANGES TO EARNINGS FORECASTS

S\$m	2023F	2024F	2025F
NPAT - was	58.9	66.7	68.1
NPAT - is	60.0	68.0	69.4
Change	1.8%	1.9%	1.8%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	180.5	186.9	192.4	195.5
EBITDA	118.4	112.8	117.5	121.0
Deprec. & amort.	3.7	10.8	12.5	14.3
EBIT	114.7	102.0	105.0	106.7
Associate contributions	8.9	8.3	8.5	8.6
Net interest income/(expense)	(28.3)	(33.3)	(25.9)	(25.9)
Pre-tax profit	95.3	77.1	87.6	89.4
Tax	(19.0)	(13.1)	(15.0)	(15.4)
Minorities	(4.9)	(4.1)	(4.6)	(4.7)
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	71.4	60.0	68.0	69.4
Net profit (adj.)	71.4	60.0	68.0	69.4

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	7.5	0.0	0.0	0.0
Other LT assets	1,448.5	1,450.7	1,437.3	1,437.3
Cash/ST investment	68.3	180.2	173.1	212.2
Other current assets	23.5	23.5	23.1	23.1
Total assets	1,547.8	1,654.3	1,633.5	1,672.7
ST debt	80.0	55.8	55.8	55.8
Other current liabilities	85.6	87.6	30.5	30.5
LT debt	583.1	683.3	683.3	683.3
Other LT liabilities	90.6	67.2	117.1	170.1
Shareholders' equity	686.9	734.9	721.3	707.4
Minority interest	21.6	25.6	25.6	25.6
Total liabilities & equity	1,547.8	1,654.3	1,633.5	1,672.7

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	103.0	101.3	59.1	105.6
Pre-tax profit	76.3	64.1	72.6	74.1
Tax	(7.2)	(13.1)	(15.0)	(15.4)
Deprec. & amort.	3.7	10.8	12.5	14.3
Associates	(8.9)	(8.3)	(8.5)	(8.6)
Working capital changes	12.0	1.5	(43.4)	0.0
Non-cash items	27.2	46.3	40.9	41.2
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(1.7)	(18.3)	(25.0)	(25.0)
Capex (growth)	(1.3)	(25.0)	(25.0)	(25.0)
Capex (maintenance)	(4.5)	0.0	0.0	0.0
Investments	3.6	6.7	0.0	0.0
Proceeds from sale of assets	0.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(100.2)	30.7	(39.5)	(39.7)
Dividend payments	(9.4)	(12.0)	(13.6)	(13.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	63.7	75.9	0.0	0.0
Loan repayment	(125.5)	0.0	0.0	0.0
Others/interest paid	(29.0)	(33.3)	(25.9)	(25.9)
Net cash inflow (outflow)	1.1	113.6	(5.4)	40.9
Beginning cash & cash equivalent	67.5	66.6	178.4	171.4
Changes due to forex impact	(0.3)	0.0	0.0	0.0
Ending cash & cash equivalent	68.3	180.2	173.1	212.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	65.6	60.4	61.1	61.9
Pre-tax margin	52.8	41.3	45.5	45.8
Net margin	39.6	32.1	35.3	35.5
ROA	4.6	3.7	4.1	4.2
ROE	10.6	8.4	9.3	9.7
Growth				
Turnover	26.2	3.6	2.9	1.6
EBITDA	49.6	(4.7)	4.2	2.9
Pre-tax profit	40.3	(19.0)	13.6	2.1
Net profit	35.6	(16.0)	13.3	2.1
Net profit (adj.)	35.6	(16.0)	13.3	2.1
EPS	35.6	(16.0)	13.3	2.1
Leverage				
Debt to total capital	48.3	49.3	49.7	50.2
Debt to equity	96.5	100.6	102.5	104.5
Net debt/(cash) to equity	86.6	76.0	78.5	74.5
Interest cover (x)	4.2	3.4	4.5	4.7

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