COMPANY RESULTS

Centurion Corp (CENT SP)

1H23: Strong Tailwinds Seen, Which Should Persist Well Into 2025

CENT's strong results in 1H23, with revenue up 8% yoy to $98m and PATMI up 16% to $38.3m, were driven by strong occupancies and positive rental revisions across both of its PBWA and PBSA segments. Going forward, we expect CENT to continue to see strong volume and rental growth with a strong pipeline of new contracts and robust demand. Maintain BUY. Target price: S$0.50.

1H23 RESULTS

12M to 31 Dec (S$m)	1H22	1H23	yoy	Remarks
Revenue	90.5	97.9	+8.18%	- Driven by strong occupancy and positive rental revisions
Gross profit	60.9	70.4	+15.6%	
Net FV gains	9.5	4.2	-55.8%	- Lower FV gain for Sg/M'sian PBWA assets compared
Pre-tax profit	48.9	49.1	0.0%	to UK and AU PBSA assets
PATMI	32.9	38.3	+16.4%	
Gross profit margin	67.3%	71.9%	+4.6ppt	
Pre-tax margin	54.0%	50.1%	-3.9ppt	
PATMI margin	36.3%	39.1%	+2.8ppt	- Helped by a favourable tax rate in 1H23

Source: Centurion corp, UOB Kay Hian

RESULTS

- **In line with expectations.** Centurion Corp (CENT) reported strong 1H23 revenue of S$98m (+8% yoy) and PATMI of S$38m (+16% yoy), as well as a 4.6ppt expansion in gross profit margin to nearly 72%, due to strong occupancies and positive rental revisions across all of its asset classes. We note that revenue and PATMI made up 52% and 59% respectively of our full-year estimates. An interim dividend of S$0.01 per share was declared (1H22: S$0.005/share), implying 2.3% yield.

- **Higher rentals cushioned the impact of higher interest rates.** The better-than-expected numbers were driven by better metrics across Singapore, Malaysia and Australia, and more importantly, were able to demonstrate CENT's ability to increase rentals to cushion the impact of higher finance expenses.

- **Robust growth in PBWA and PBSA segments with strong occupancies.** Both Purpose Built Workers' Accommodation **(**PBWA) and Purpose Built Students' Accommodation (PBSA) segments performed well with profit growths of 21% and 17% yoy respectively. Occupancy rates for PBWA in Singapore and Malaysia were strong at 98% and 94% respectively, while PBSA also had a significant occupancy increases, with Australia in particular witnessing a marked improvement to 86% in 1H23 (1H22: 58%).

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	143	180	192	200	203
EBITDA	79	118	128	121	124
Operating profit	76	115	117	108	110
Net profit (rep./act.)	53	71	67	68	70
Net profit (adj.)	53	71	67	68	70
EPS (S$ cent)	6.3	8.5	7.9	8.1	8.3
PE (x)	6.8	5.0	5.3	5.2	5.1
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	12.0	8.0	7.4	7.9	7.6
Dividend yield (%)	1.2	1.2	5.6	5.7	5.9
Net margin (%)	36.8	39.6	34.8	34.2	34.4
Net debt/(cash) to equity (%)	100.1	86.6	76.5	80.4	77.7
Interest cover (x)	3.5	4.2	3.5	4.7	4.8
ROE (%)	8.3	10.6	9.4	9.4	9.9
Consensus net profit	-	-	64	70	72
UOBKH/Consensus (x)	-	-	1.04	0.98	0.96

Source: Centurion corp, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$0.425
Target Price	S$0.500
Upside	+17.6%
(Previous TP	*S$0.430)*

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$m):	357.3
Market cap (US$m):	263.9
3-mth avg daily t'over (US$m):	0.2

Price Performance (%)

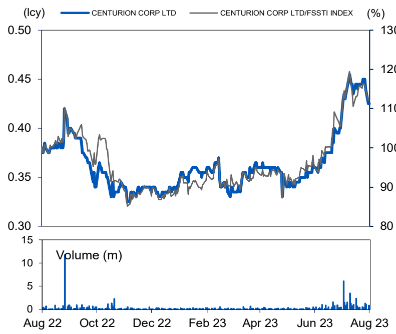
52-week high/low S$0.455/S$0.325

1mth	3mth	6mth	1yr	YTD
6.2	21.4	19.7	11.8	26.9

Major Shareholders	%
Centurion Properties P/L	50.6
Teo Peng Kwang	7.58
Loh Kim Kang	5.30

FY23 NAV/Share (S$)	0.87
FY23 Net Debt/Share (S$)	0.67

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- **Positive demand and rental rates outlook for PBWAs.** Post COVID-19 pandemic, an increase in migrant worker population to address deferred projects have resulted in supply and demand imbalances, thus driving high occupancy rates for PBWAs at 98% in Singapore and 94% in Malaysia (up from 70% in 2021). Positive rental rate reversions that began in 4Q22 will continue to be priced into new leases expiring over the next few quarters. Singapore's Ministry of Manpower reported 434,000 foreign workers in Singapore (as at May 23) which is in excess of supply of 401,000 beds. As a result, CENT believes that it may take until 2025 for new PBWAs to cater to demand, assuming that demand remains static. Channel checks with dormitory users indicate that they are prepared for 8-10% rental reversions in the near to medium term.
- **Significant recovery in PBSA, and expected to remain at healthy levels.** Occupancy at CENT's Australian assets improved significantly to 86% in 1H23 (1H22: 58%) and is expected to remain high due to a lack of accommodation squeezing up rents following the removal of pandemic-related travel curbs. The resumption of demand from local and international students in the UK's higher education sector has led to firm demand for CENT's PBSA asset, and the company appears to be looking for new acquisitions to further build out its UK portfolio. The company guided for a strong level of pre-bookings for the new academic year starting in 3Q23.
- **Healthy pipeline of new PBWA contracts and expanding bed capacities.** CENT disclosed that it has secured a 10-year management contract for Westlite Cemerlang in Johor with a 2,196-bed PBWA to commence operations in 4Q23. CENT also continues to enlarge its portfolio bed capacity in Johor, Malaysia, with another 1,060 beds by 3Q23 and 2720 beds by 2024. CENT was also awarded a JTC tender to develop and operate a new Purpose Built Dormitory starting from 2025 in the east of Singapore. The company appears to have high expectations for occupancy rates due to a shortage of quality bed supply in east Singapore.
- **Solid balance sheet.** For 1H23, CENT had cash and banking facilities available totalling S$223.5m with a net gearing of 43%, interest coverage ratio of 3.4x and average debt maturity of six years.

EARNINGS REVISION/RISK

- **Upgrading earnings.** We upgraded our 2023 earnings forecast by 11.3% to take into account higher-than-expected occupancy rates at the company's PBWA assets in Malaysia as well as higher rental rates at its PBWA assets in Singapore. Our 2023 earnings forecast also includes fair value gains for its investment properties in Singapore and Malaysia as announced by the company. Our 2024-25 earnings estimates are largely unchanged.
- **Higher dividend payout.** We also highlight that, given the company's interim DPS of S$0.01, we have raised our full-year payout ratio from 20% to 30%, resulting in a new DPS estimate of S$0.02 (previously S$0.014) thus implying a 2023F yield of 5.2%.

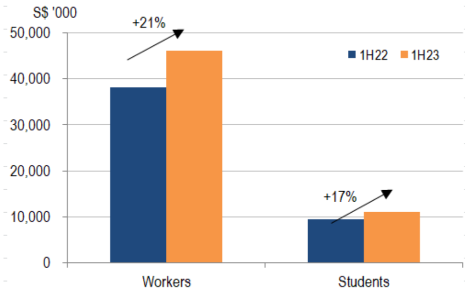
VALUATION/RECOMMENDATION

- **Maintain BUY with higher PE-based target price of S$0.50.** Our target PE multiple has been upgraded to 6.1x, which is 1.5SD above the company's average PE multiple since 2020, and applied to our 2024F EPS estimate. In our view, our prior target PE multiple of 5.8x, or 1SD above CENT's mean PE, is an inadequate reflection of the company's ability to continue to deliver earnings growth out to 2025. In addition, we believe that the company's current metrics are inexpensive, trading at 2023F PE of 5.3x and 0.5x P/B. Ytd, CENT's share price has easily outperformed the STI's -0.1% return and we expect continued outperformance in the next 12 months.

SHARE PRICE CATALYST

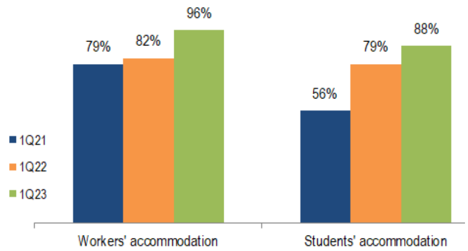
- Capacity expansions involving JVs which are more asset light and require less capital intensity; higher levels of dividends in the year-end results.

SEGMENTAL PROFIT FOR ACCOMMODATION BUSINESS



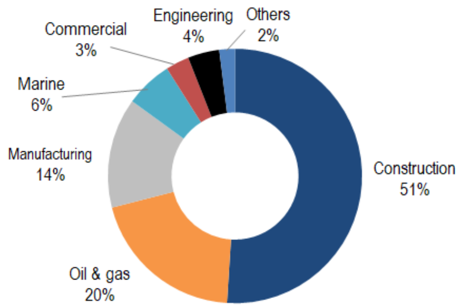
Source: CENT

OCCUPANCY RATES IN PBWAS AND PBSAS



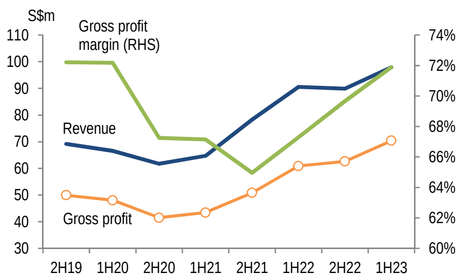
Source: CENT

CUSTOMER BASE FOR WORKERS ACCOMODATION BUSINESS



Source: CENT

REVENUE AND GROSS PROFIT VS GROSS PROFIT MARGIN



Source: CENT

PROFIT & LOSS

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Net turnover	180.5	191.7	199.6	203.0
EBITDA	118.4	128.2	120.5	124.1
Deprec. & amort.	3.7	10.8	12.5	14.3
EBIT	114.7	117.4	108.0	109.8
Associate contributions	8.9	8.2	8.5	8.6
Net interest income/(expense)	(28.3)	(37.0)	(25.9)	(25.9)
Pre-tax profit	95.3	88.7	90.6	92.6
Tax	(19.0)	(14.5)	(14.8)	(15.1)
Minorities	(4.9)	(7.4)	(7.6)	(7.7)
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	71.4	66.8	68.2	69.7
Net profit (adj.)	71.4	66.8	68.2	69.7

BALANCE SHEET

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Fixed assets	7.5	0.0	0.0	0.0
Other LT assets	1,448.5	1,451.0	1,437.3	1,437.3
Cash/ST investment	68.3	177.4	165.6	201.1
Other current assets	23.5	23.5	23.1	23.1
Total assets	1,547.8	1,651.9	1,626.0	1,661.5
ST debt	80.0	55.8	55.8	55.8
Other current liabilities	85.6	89.0	30.5	30.5
LT debt	583.1	683.3	683.3	683.3
Other LT liabilities	90.6	61.2	114.3	170.7
Shareholders' equity	686.9	733.7	713.2	692.3
Minority interest	21.6	29.0	29.0	29.0
Total liabilities & equity	1,547.8	1,651.9	1,626.0	1,661.5

CASH FLOW

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Operating	103.0	110.3	61.2	109.0
Pre-tax profit	76.3	74.2	75.8	77.5
Tax	(7.2)	(14.5)	(14.8)	(15.1)
Deprec. & amort.	3.7	10.8	12.5	14.3
Associates	(8.9)	(8.2)	(8.5)	(8.6)
Working capital changes	12.0	2.6	(44.5)	0.0
Non-cash items	27.2	45.4	40.7	41.0
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(1.7)	(18.4)	(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	6.6	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)	18.9	(46.3)	(46.8)
Dividend payments	(9.4)	(20.0)	(20.5)	(20.9)
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)	(37.0)	(25.9)	(25.9)
Net cash inflow (outflow)	1.1	110.9	(10.1)	37.2
Beginning cash & cash equivalent	67.5	66.6	175.7	163.9
Changes due to forex impact	(0.3)	0.0	0.0	0.0
Ending cash & cash equivalent	68.3	177.4	165.6	201.1

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	65.6	66.9	60.4	61.1
Pre-tax margin	52.8	46.3	45.4	45.6
Net margin	39.6	34.8	34.2	34.4
ROA	4.6	4.2	4.2	4.2
ROE	10.6	9.4	9.4	9.9
Growth				
Turnover	26.2	6.2	4.1	1.7
EBITDA	49.6	8.3	(6.0)	3.0
Pre-tax profit	40.3	(6.9)	2.2	2.2
Net profit	35.6	(6.5)	2.2	2.2
Net profit (adj.)	35.6	(6.5)	2.2	2.2
EPS	35.6	(6.5)	2.2	2.2
Leverage				
Debt to total capital	48.3	49.2	49.9	50.6
Debt to equity	96.5	100.7	103.6	106.8
Net debt/(cash) to equity	86.6	76.5	80.4	77.7
Interest cover (x)	4.2	3.5	4.7	4.8

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