

Centurion Corporation Limited

Oversold and underrated

SINGAPORE | REAL ESTATE | INITIATION

- Singapore's 2nd largest Purpose-Built Workers' Accommodation operator by number of beds and the only Purpose-Built Workers' Accommodation provider in Malaysia
- Exposure to rising demand of mobile student population in UK and Australia
- Initiate with **"Buy"** rating with **S\$0.42 TP**, implying an **upside 37.53%** (including dividends).

Investment Highlights

- Demand for workers' and students' accommodation is resilient.** We believe that demand for student and workers' accommodation remains resilient even in a weak economic environment. The accommodation business deals with the most rudimentary needs which provides for stable demand and a defensive business model. Centurion is the only listed pure play professional student and workers' accommodation in Singapore. In our initiation report we argue that policy changes and supply and demand dynamics in Singapore are favourable for Centurion's Purpose-Built Workers' Dormitories. The strong and growing demand from mobile students for Purpose-Built Student Accommodation in United Kingdom and Australia supports the top-line. And in Malaysia, Centurion's value proposition as the only Purpose-Built Worker Dormitory supports the supply of skilled labour.
- Concerns over high debt levels underrates the strong cash flow generated.** We believe that the high debt levels and concerns over the expiration of the land lease for Westlite Tuas in April 2017 have cast a pall on Centurion's share price. In our *Analysis and Forecast Assumptions* section, we show that even without the contributions from Westlite Tuas, Total Debt to EBITDA less dividend remains at a lower multiple than the remaining lease for ASPRI-Westlite Papan and Westlite Woodlands. This means cashflow after dividends are able to service total debt before the land lease on ASPRI-Westlite Papan and Westlite Woodlands expires. In addition, properties in United Kingdom, Australia and Malaysia are mostly freehold or have long leasehold period thus supporting a long runway to service debt.
- Board of Directors and Senior Management own substantial stakes in the Centurion Corporation Limited.** We believe that the substantial stakes owned by members of the Board of Directors and Executive Directors in the Senior Management team will help align corporate decisions to shareholders' interests.

Investment Actions

We initiate coverage on Centurion Corporation Limited with a **"Buy"** rating and a **target price of S\$0.42** based on discounted cash flow (DCF) methodology. This implies an **upside of 37.53%** (including dividends) from its last closing price.

23 November 2016

Buy (Initiation)

LAST TRADED PRICE	SGD 0.320
FORECAST DIV	SGD 0.0201
TARGET PRICE	SGD 0.420
TOTAL RETURN	37.53%

COMPANY DATA

O/S SHARES (MN) :	740
MARKET CAP (USD mn / SGD mn) :	166 / 237
52 - WK HI/LO (SGD) :	0.41/ 0.32
3M Average Daily T/O (mn) :	0.16

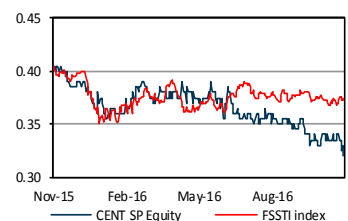
MAJOR SHAREHOLDERS (%)

Centurion Properties Pte Ltd	47.82%
Peng Kwang Teo	7.62%
Thinkpac Limited	6.08%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	-	(5.8)	(14.1)
STIRETURN	(0.21)	(0.48)	0.45

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16 F	FY 17 F
Revenue (SGD mn)	86	105	115	109
NPAT (SGD mn)	111	34	35	9
EPS (Cents)	14.70	4.51	4.79	1.11
P/E (x)	2.3	7.4	7.0	30.2
P/B (x)	0.6	0.6	0.6	0.6
DPS (Cents)	1.10	1.50	2.01	2.02
Dividend Yield (%)	3.3	4.5	6.0	6.0

Source: Bloomberg

Valuation Method: DCF

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Company Summary

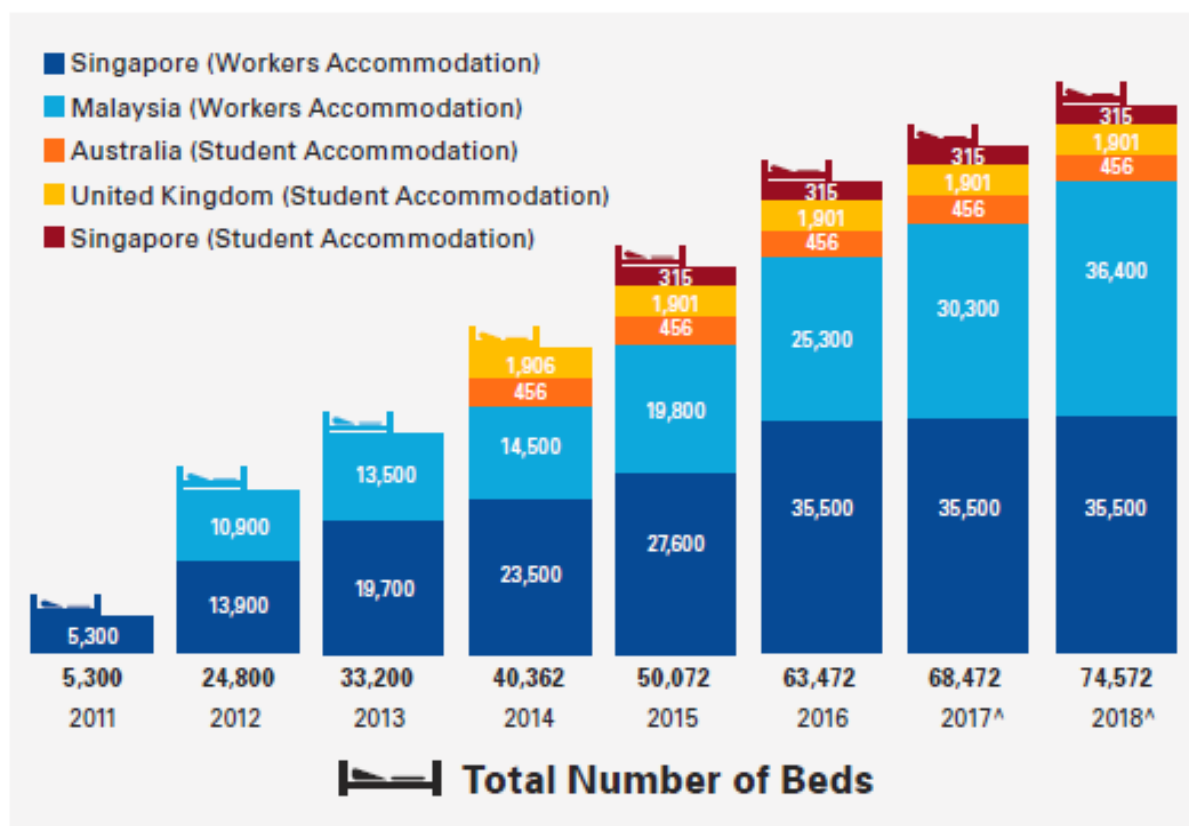
Company Overview

Centurion Corporation Limited was formerly known as SM Summit Holdings Limited. SM Summit Holdings Limited was primarily in the optical disc manufacturing and services industry. In August 2011, SM Summit Holdings completed a reverse takeover transaction that gave the group worker dormitory assets and on 17 October 2011, SM Summit Holdings resumed trading as Centurion Corporation Limited.

Centurion's revenue is derived from:

- (i) Provision of Purpose-Built Workers' Accommodation (PBWA) in Singapore and Malaysia through its Westlite brand. Centurion designs, develops, owns and manages the dormitory assets.
- (ii) Provision of Purpose-Built Students' Accommodation (PBSA) in Singapore, United Kingdom and Australia. Centurion owns and manages the dormitory assets except CSL Selegie student dormitory in Singapore which is recognised under an operating lease of 3+3+2 years with effect from 2015.
- (iii) Manufacture and sale of optical storage media. In 2011, optical sales comprise 56.8% of total sales but by 2015, optical sales comprise 4.8% of total sales.

Figure 1: Centurion's Accommodation Business growth profile



[^]Based on the assumption that the land lease of Westlite Tuas is renewed in April 2017

Source: Company FY15 Annual Report

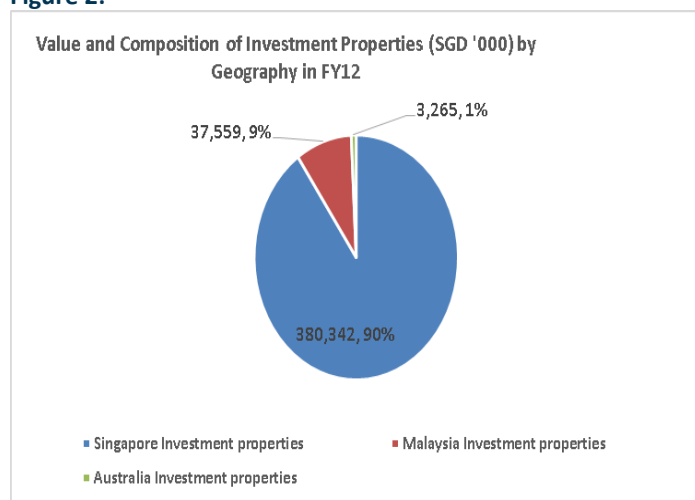
Business Segment Overview

Centurion had grown and diversified their accommodation business across geographies since 2012. Value of investment properties and rental income from Singapore was c.90% in 2012. By 2015, the percentage weightage had reduced to c.60% in terms of value and rental income. (See Figures 2, 3, 4 and 5)

In addition to the properties that are already operating, Centurion has 3 developments in the backlog.

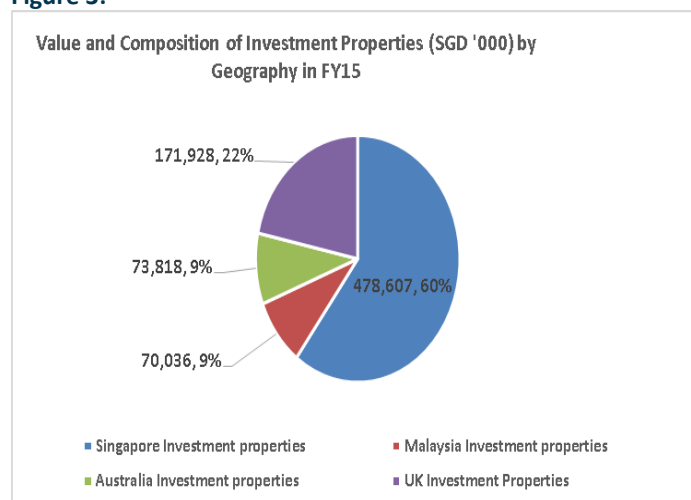
- 4,434sqm freehold land at Port Hedland, Australia. Centurion intends to develop a short stay accommodation and ancillary facilities catering to the Pilbara region and its mining industry. Currently undergoing rezoning approval.
- 7,220sqm 30 years leasehold land with effect from 2013 at Bekasi, Indonesia. Centurion is evaluating the development of an accommodation to house workers as well as middle-level executives working in the nearby industrial parks.
- 30,756sqm freehold land at Nusajaya, Johor. Centurion owns 49% of the land through a joint venture and land use conversion is currently in progress.

Figure 2:



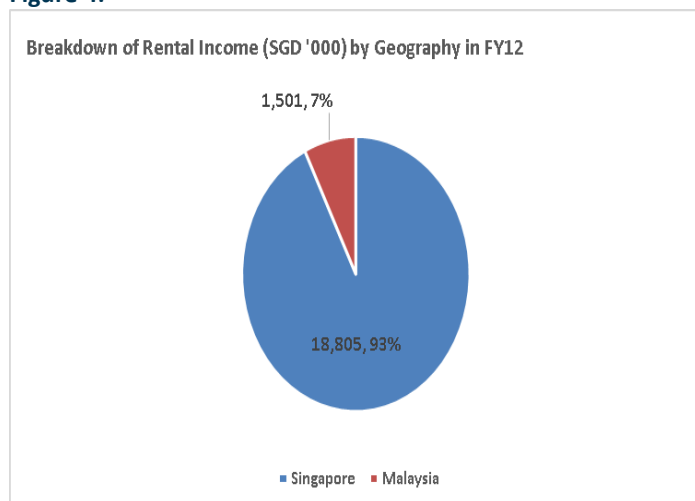
Source: Company, PSR estimates

Figure 3:



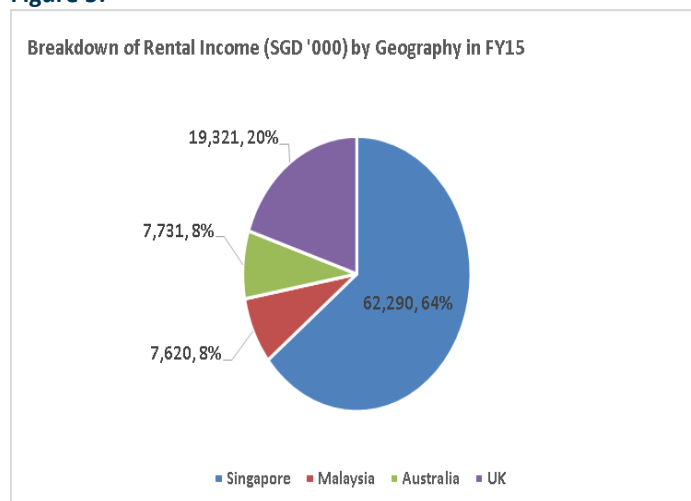
Source: Company, PSR estimates

Figure 4:



Source: Company, PSR estimates

Figure 5:



Source: Company, PSR estimates

Ownership Structure

The top 7 shareholders are on the Board of Directors and Senior Management of Centurion Corporation Ltd except Lian Beng Group which is a Building Construction and Development company listed on the Main Board of the Singapore Exchange. Thinkpac Ltd is a wholly-owned subsidiary of Centurion Properties Pte Ltd and Centurion Properties Pte Ltd's ultimate shareholders are Mr David Loh Kim Kang and Mr Han Seng Juan. Both Mr Loh and Mr Han are serving as Non-Executive Directors on the Board of Directors. Mr Teo Peng Kwang is the Chief Operating Officer and part of the senior management. He is responsible for the day-to-day operations and expansion of the Centurion Corporation Ltd's Accommodation Business. Mr Teo is the First Vice President of the Dormitory Association of Singapore Limited ("DASL") and a member of the Board of Trustees of the Migrant Workers' Assistance Fund, Migrant Workers' Centre. Mr Teo was the President of the DASL from Sept 2012 to June 2015. Mr Lee Kerk Chong is an executive director and part of the senior management. He is responsible for the management of the optical storage manufacturing operations of Centurion Corporation Ltd. He was also the founder of the SM Summit Holding Ltd.

The top 7 shareholders collectively make up 73.63% of total shareholdings.

Figure 6: Top 10 Shareholders as at 11 Nov 2016

Holder Name	No. of Shares Owned	% Shareholding	Filing Date
Centurion Properties Pte Ltd	353,869,206	47.82	03 Oct 2016
Peng Kwang Teo	56,537,664	7.62	18 Mar 2016
Thinkpac Ltd	45,000,000	6.08	03 Oct 2016
Lian Beng Group Ltd	38,000,000	5.14	16 Mar 2016
Kerk Chong Lee	28,716,271	3.88	28 Apr 2016
Kim Kang Loh	12,013,500	1.62	03 Oct 2016
Seng Juan Han	10,897,000	1.47	20 Oct 2016
AXA Rosenberg Management Ireland	2,310,000	0.31	31 Aug 2016
RHB Asset Management Sdn Bhd	1,513,000	0.20	31 Mar 2016
Fidelity Management & Research	927,500	0.13	30 Sept 2016

Source: Bloomberg, Company FY15 Annual Report

Investment Thesis

1. Demand and Supply dynamics favourable for Singapore Workers' Dormitory

60% of the existing supply of workers' accommodation in Singapore are temporary purpose-built. Land tenure for temporary purpose-built workers' accommodation is typically 6 to 9 years. The supply of temporary purpose-built dormitories allow policymakers flexibility to adjust the supply of dormitories according to demand for blue collar workers.

We estimate that by end of 2016 there will be 250,000 beds in the purpose built workers' accommodation market. But about 100,000 beds (40% of the 250,000 beds) are temporary purpose-built accommodation and they will face expiration in the near term and there is no visible new supply in 2017. This will potentially cause ready supply of beds to be low in the near future. Yet the interplay of various market forces including the weak outlook in the *offshore marine* and *manufacturing* sectors, government policies such as deferment of foreign workers' levy and growing Public-Private Partnerships in construction, had resulted in a steady population of Foreign Work Permit Holders (excluding foreign domestic workers) (See Figure. 7)

Figure 7: Foreign Work Permit Holder Population

Pass Type	Dec 2014	Dec 2015	Jun 2016
Total Work Permit Holders and Other Work Passes (excluding foreign domestic workers)	784,200	789,200	798,500
Work Permit (Construction)	322,700	326,000	326,700

Source: Ministry of Manpower, PSR

Blue collared foreign workers from *construction* and *offshore marine* sectors already add up to approximately 400,000. Of that number, the Ministry of Manpower (MOM) estimates that about 80,000 foreign workers are housed in Factory-Converted Dormitories (FCDs). Therefore, about 320,000 foreign workers will potentially vie for the 250,000 beds in purpose-built accommodation in 2017. In addition, the Marine Sector Dependency Ratio Ceiling (DRC) will only be adjusted to 1 local : 3.5 foreign workers from present ratio of 1 local : 4.5 foreign worker by Jan 2018. Thus demand for beds is expected to exceed supply in the near term.

2. Regulatory pressure to improve quality of foreign workers' dormitory adds traction for professionally managed purpose built dormitories and reduces price competition.

From 1 Jan 2017, Factory-Converted Dormitories (FCDs) must comply with four new conditions imposed by MOM when seeking approvals or renewals to use industrial premises to house foreign workers. The conditions are:

- A. Provision of feedback channel for workers to report issues related to the housing conditions of the FCD.
- B. Provision of personal locker for each worker.
- C. Provision of at least one sickbay on the FCD. Alternatively, the operator can develop a contingency plan to deal with cases of infectious diseases.
- D. Provision of Wi-Fi within the FCD

The new conditions will increase the operating costs therefore reducing FCDs' cost advantage and their competitiveness. Besides, capital expenditures will also increase as more *Addition and Alteration Works* (A&A Works) are required to improve the existing accommodation to comply with the higher standards of living conditions. The A&A works are necessary because FCDs had never been designed appropriately for accommodation. The additional cost challenges the FCD business model and makes it less economical to operate. As it is, Authorities allow factory owners to convert *equal*

or less than 49% of the GFA for workers' accommodation thus limiting the potential to scale the accommodation business. And the licence granted to FCDs lasts 1 to 3 years which crimps the return on investment.

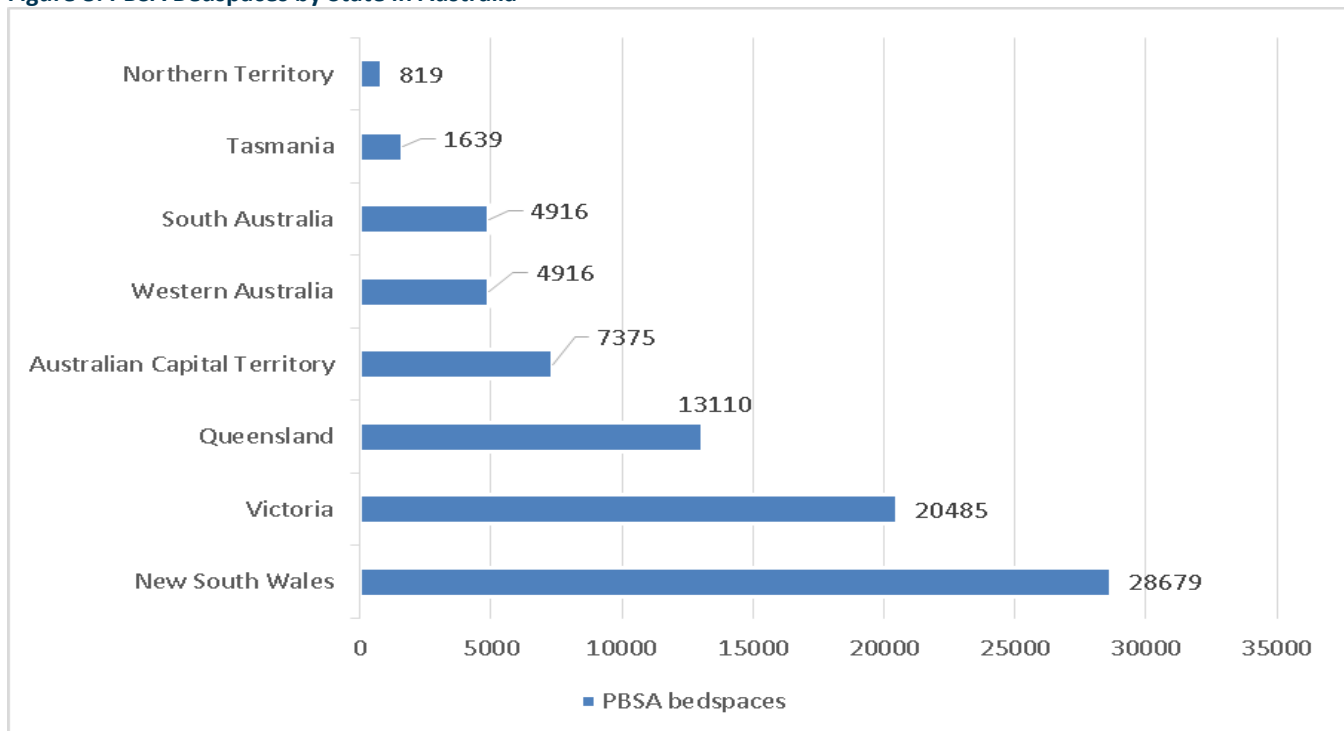
3. Undersupply of Purpose-Built Student Accommodation in Australia and its concomitant effects on city planning

As at end of December 2015, there were 81,939 Purpose-Built Student Accommodation (PBSA) bedspaces in Australia (See Figure. 8) while the Full-Time Higher Education (FT HE) student population in Australia has reached 972,336 in 2014. International FT HE student population alone reached 230,400 in 2014 academic year (See Figure. 9)

The undersupply of PBSA bedspaces has driven students to rent accommodation privately at apartments or share houses close to City Centres and transport nodes thus competing with workers and low-cost housing occupants in major cities in Australia. Therefore it is becoming an active concern for city planners and educational institutions to participate in developing the supply of high quality and affordable PBSA. For educational institutions, it would mean lowering the overall costs for student mobility and that could enhance enrolments. And for city planners, the supply of PBSA provides an avenue to redirect existing housing supply to cater for workers and low-cost housing occupants.

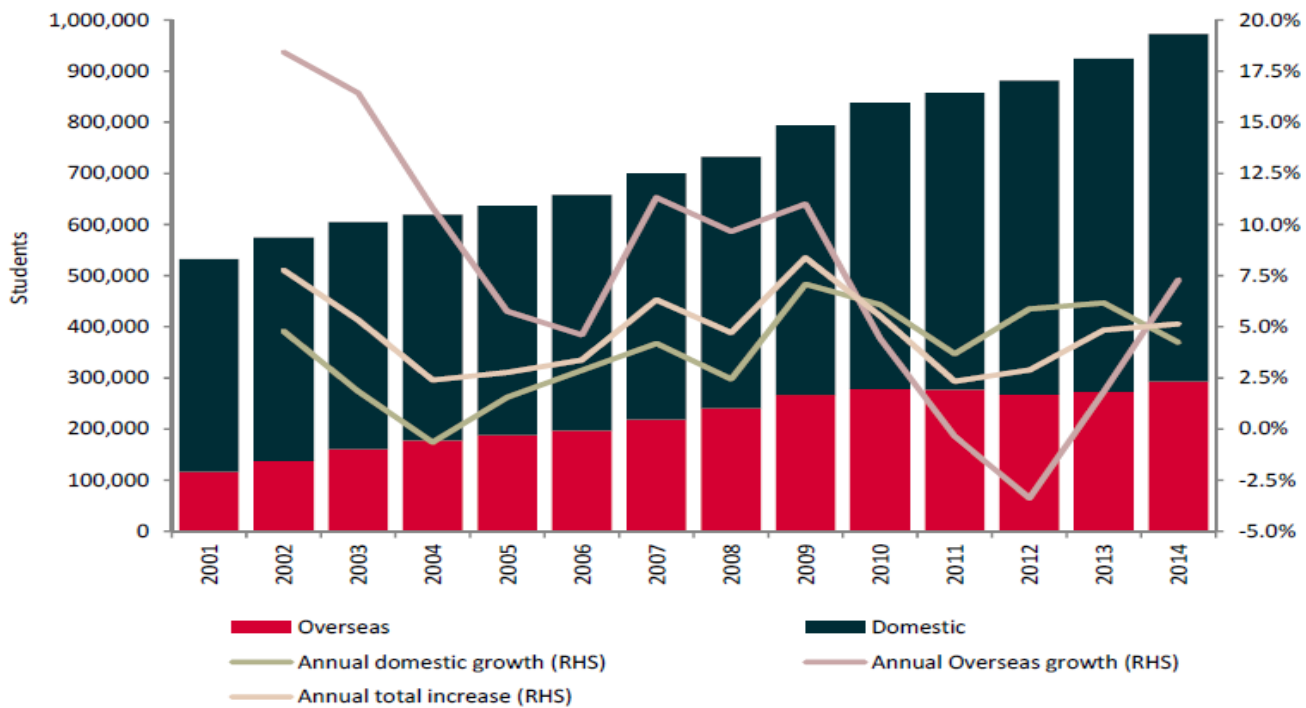
The majority of the student accommodation undersupply is across Melbourne, Perth, Brisbane and Adelaide (See Figure. 10). Given the huge undersupply in these cities and the nascent focus on PBSA by stakeholders, the huge growth potential is palpable and untapped. Currently Centurion operates 456 beds at RMIT village in Melbourne, a city in the state of Victoria which is a region experiencing undersupply. The state of Victoria has 20,845 beds while Melbourne alone has about 230,910 full-time higher education students.

Figure 8: PBSA Bedspaces by State in Australia



Source: Knight Frank Research. Report titled "Australian Purpose Built Student Accommodation", April 2016; PSR estimates

Figure 9: Growth in Full Time Higher Education Students



Source: Knight Frank Research, Department of Education and Training. Report titled "Australian Purpose Built Student Accommodation", April 2016

Figure 10: Student Bedspace Headroom Comparisons

	Total FT HE Students	FT HE Students living in PBSA	Headroom - % unable to access PBSA	Potential Pipeline
Melbourne	230,910	17,273	92.5%	7,302
Sydney	216,335	17,430	91.9%	4,475
Brisbane	106,571	7,399	93.1%	9,293
Perth	81,273	4,773	94.1%	245
Adelaide	63,108	4,688	92.6%	1,615

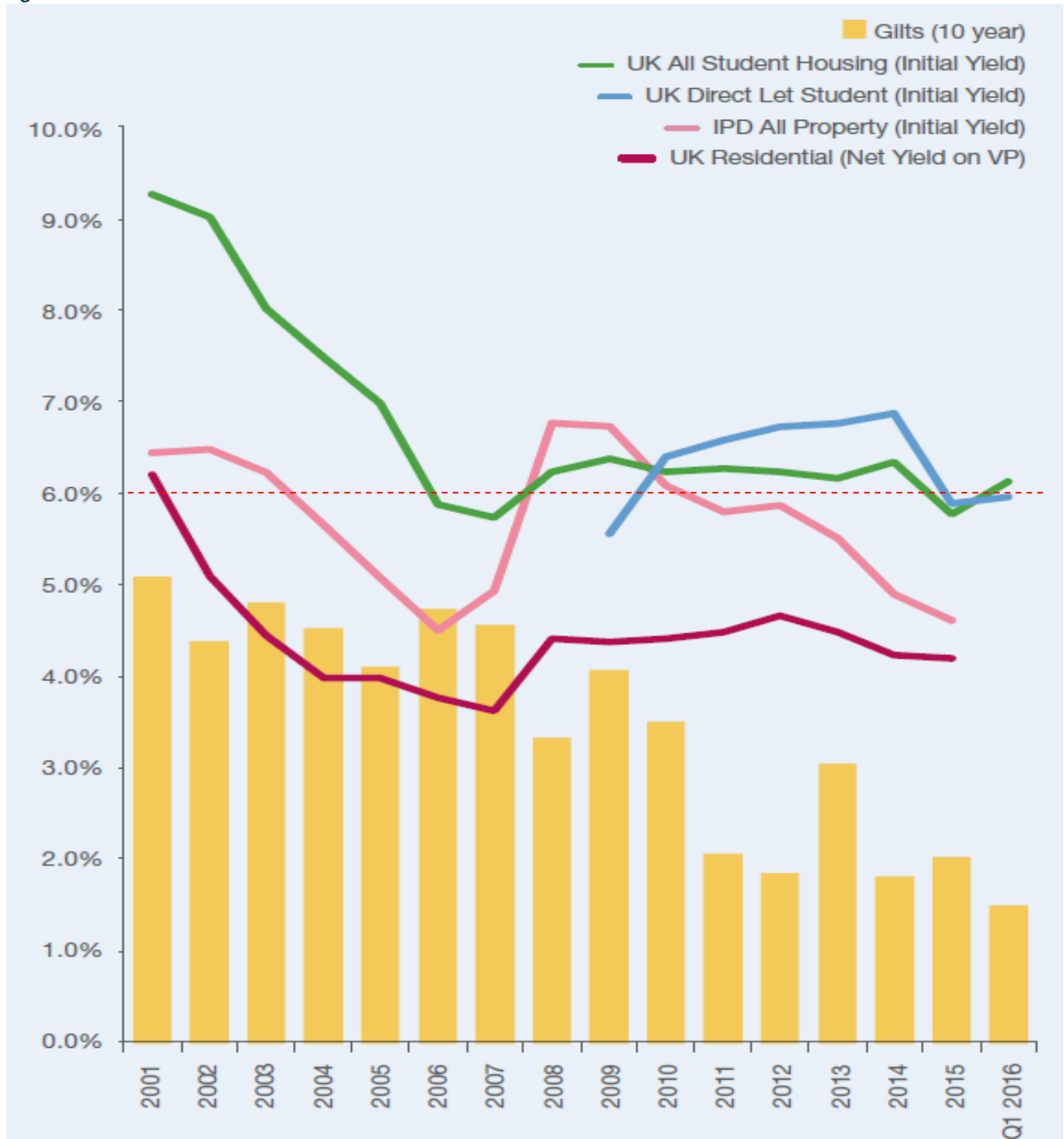
Source: Knight Frank Research, Company presentation dated 9 Sept 2016

4. UK Student Accommodation industry is maturing but continues to present an attractive return on investment with stable growth

The UK Student Accommodation industry is maturing because of heavy investing activity driven by institutional investors, public listed entities and private equity. Owing to large inflow of investments in 2015, yields on student accommodation across all locations and lease types compressed by 50 to 75 basis points (excluding portfolio premiums of up to 75 basis points). Despite the compressions, investment yields for UK student housing remains attractively high (See Figure. 11). And with an investment yield of close to 6%, it is also higher than FTSE Straits Times Real Estate Investment Trust yield of 5.6%.

Though UK university and college fees were increased in 2012/13, the student to PBSA bed ratio continues to be high thus providing ample headroom to expand capacity to meet demand (See Figure. 12). Centurion currently operates PBSA in Manchester, Bristol, Liverpool and Newcastle.

Figure 11: Investment Yields



Source: IPD & Savills Research. Report titled "Upsizing in Student Housing", 2016

Figure 12: Student Demand Across UK in 2016



Source: Savills Research, HESA. Report titled "Upsizing in Student Housing", 2016

Investment Merits

1. One of the leading Purpose Built Worker Dormitory providers in Singapore

(i) 2nd largest Dormitory Operator by number of beds

The Westlite brand of dormitories owned by Centurion operates 34,692 beds in 5 locations in Singapore. Centurion is the 2nd largest dormitory operator in Singapore and is ahead of the 3rd largest dormitory operator by a wide margin of more than 9000 beds. (See Figure. 13)

(ii) Dormitories are strategically located and have long land tenures

The 34,692 beds are spread across 5 locations. The dormitories are strategically located to reduce travelling time for workers. Each dormitory has sufficient capacity to capture demand across the island yet it is not overburdened with too many beds when competition becomes keener. Besides Westlite Tuas, the other 4 dormitories have long land tenure (See Figure. 14).

(iii) Westlite's operations enjoy economies of scale and it couldn't have come at a better time

Being the 2nd largest dormitory operator by number of beds, Westlite's operations enjoy economies of scale. And with that, the resources to add value and provide high quality accommodation. We believe that having economies of scale could not have come a better time because of the nascent regulatory requirements to improve quality and enhance value to workers' accommodation. The increasing regulatory oversight on workers' accommodation as a result of the Little India Riot in 2013 may likely shake up the remaining 19.1% (80.9% controlled by Top 10 Operators) of the market. The patchwork of small and fragmented operators may not be able to keep up with the increased costs associated with the regulatory requirements and this will inadvertently enhance the competitive advantage of Westlite. Within the remaining 19.1% market, we estimate there are another 12 dormitory operators operating an average of 4,000 to 5,000 beds each.

Figure 13: Top 10 Dormitory Operators by number of rooms in Singapore

Dormitory	Background	No. of Locations	No. of Rooms
Vobis Enterprise	Wholly owned subsidiary of Aik Chuan Construction	7	39,500
Westlite	Centurion Corporation Ltd, listed on SGX	5	34,692
ST-Lodge	-	1	25,000
MES Group	Family business of Mr Mohamed Abdul Jaleel	3	24,000
Averic Capital Management	Founded by Mr Vernon Chua	4	23,000
CDPL	Affiliation of Eng Seng Lee Construction Co Pte Ltd	2	19,968
S11 capital	Founded by Mr Jonathan Cheah and Mr Lawrence Lee	2	18,000
Tuasview Dormitory	Owned by Active System Engineering Pte Ltd which is 60% owned by Wee Hur Domitory Pte Ltd, 20% owned by TS management Services, 10% owned by WM Pte Ltd and 10% owned by Lucrum Capital	1	16,800
Tuas South Dormitory	Owned by TA Corp (Tiong Aik), 62% and King Wan Corp, 38%	1	9,200
North Coast Lodge	Owned by Crest Capital Asia, a fund founded by Mr Peter Chan	1	9,000

Source: Ministry of Manpower, PSR estimates

Total Rooms of Top 10 Workers' Dormitory Business in Singapore	219,160
Estimated Total Number of PBWA Rooms in Singapore as of 6 Nov 2015	271,958
% Market Share controlled by Top 10 Workers' Dormitory Owners	80.6%

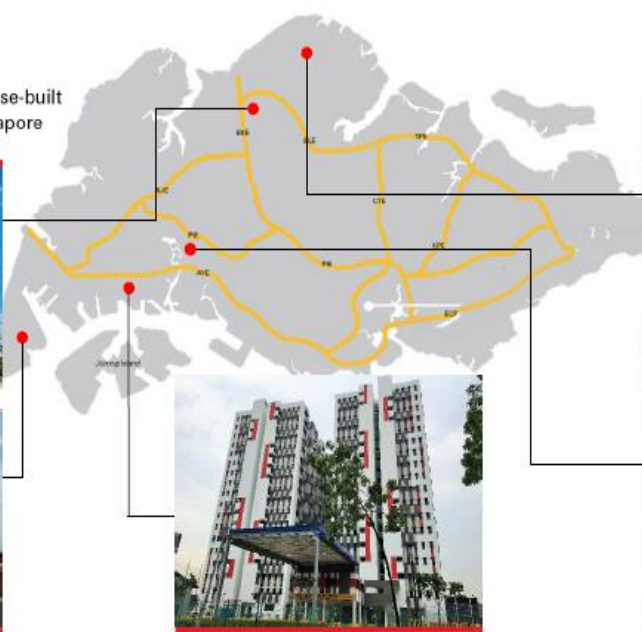
Figure 14: Westlite Dormitories in Singapore

Westlite Mandai (45% owned)

- 6,300 beds
- Land tenure: Freehold
- Land area: 8,000 sqm
- One of the largest freehold purpose-built workers accommodation in Singapore

**Westlite Tuas**

- 8,600 beds
- Land tenure: 3+3+3 years (wef 2008)
- Land area: 37,870 sqm
- BCA Green Mark Gold Award Winner

**Westlite Woodlands**

- 4,100 beds
- Land tenure: 30 years (wef 2013)
- Land area: 9,542 sqm
- Caters to the workers from the marine, process and manufacturing industries.

**ASPRI-Westlite Papan (51% owned)**

- 7,900 beds
- Land tenure: 23 years (wef 2015)
- Land area: 14,817 sqm
- First-of-its-kind workers accommodation in Singapore that incorporates a training centre
- TOP received in May 2016

Westlite Toh Guan

- 8,600 beds (Under clarification with URA)
- Land tenure: 60 years (wef 1997)
- Land area: 11,685 sqm
- Conveniently located in the Jurong locality to cater to workers from all industries.

Source: Company2Q FY16 Financial Results Presentation, 12 Aug 2016

2. Only Purpose Built Worker Dormitory provider in Malaysia

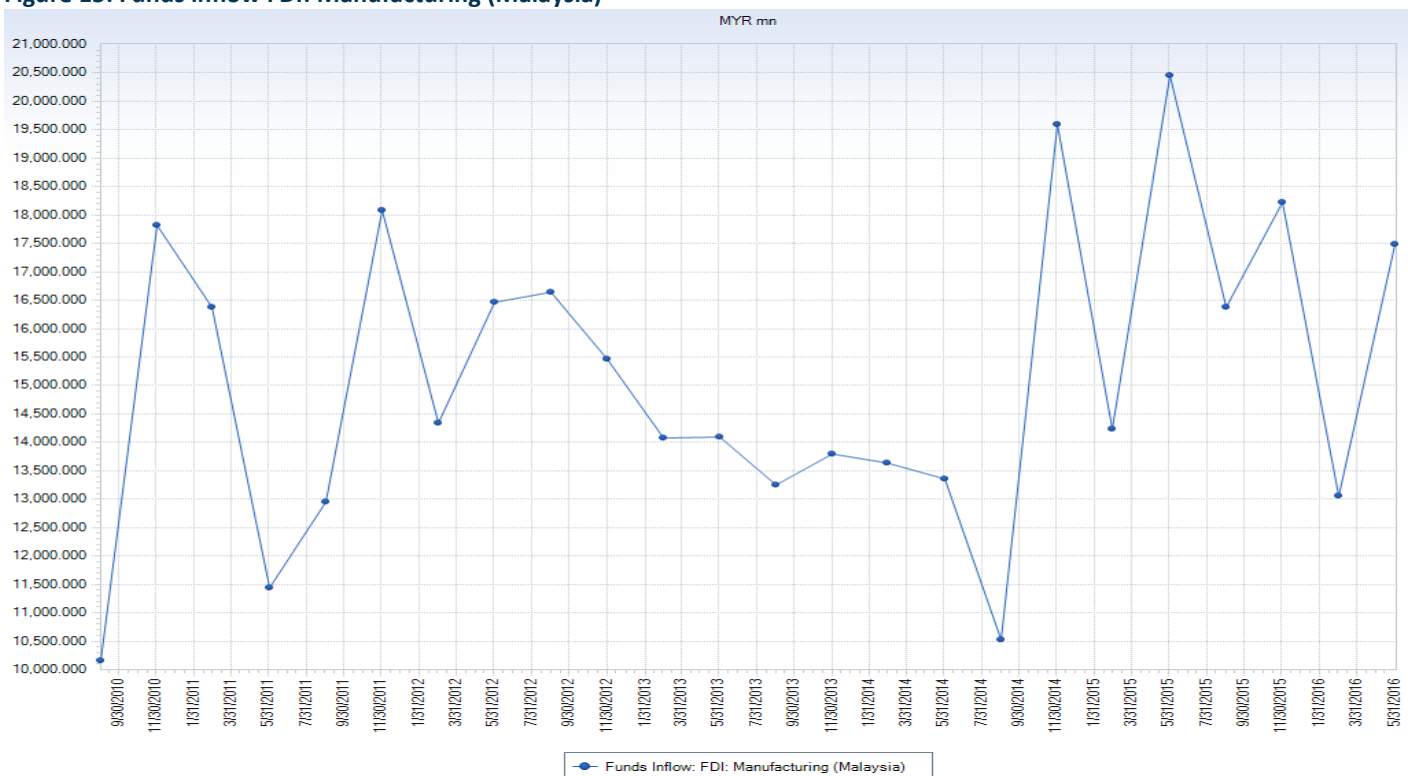
(i) More approved Foreign Direct Investments (FDIs) drives demand for reliable accommodation for Foreign workers

Foreign investments in the manufacturing sector in the first six months of 2016 totalled MYR12.5bn and this made up 63.8% of the total approved investments in the manufacturing sector in that period. The lack of quality accommodation should not serve as a disincentive to attract labour so by providing quality and professionally run accommodation, Centurion had built an established track record with MNCs in Malaysia. Westlite dormitories adhere to Electronic Industry Citizenship Coalition (EICC) standards thus adding credibility to both workers and employers. We believe that Centurion, as the only professionally run accommodation provider in Malaysia, has the first mover advantage to support the supply of skilled workers in search of better paying jobs provided by MNCs. We believe that Centurion provides a value proposition by narrowing the supply and demand gap for skilled labour and help facilitate growth of FDIs in Malaysia.

(ii) Strategically located near multinational corporations (MNCs) in Johor

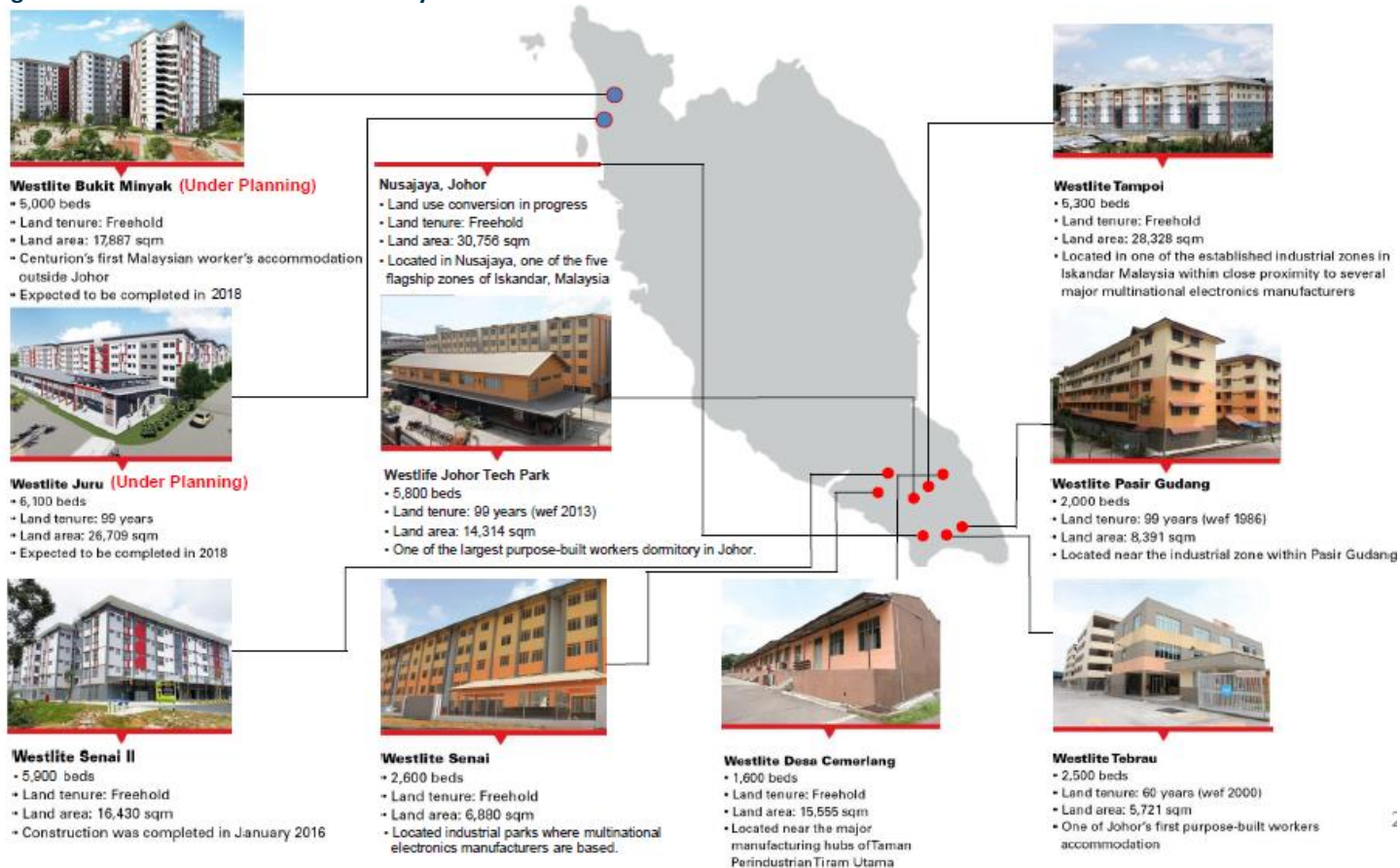
Westlite dormitories in Malaysia, Johor are located close to customers who are mostly MNCs. We believe that MNCs have an incentive to operate over the long term in Malaysia therefore providing reliable demand for Westlite dormitories. The permanence of these MNCs in Johor is an outcome of close collaboration between the federal government and the Johor state government to maintain the momentum of Johor's economic expansion and job creation. This is part of a larger plan to make Malaysia a high-income nation by 2020. From 2011 to 2016, 81.4% of total approved manufacturing projects in Johor had been successfully implemented. This represents a total of 720 projects implemented.

Figure 15: Funds inflow FDI: Manufacturing (Malaysia)



Source: CEIC, Phillip Securities Research (Singapore)

Figure 16: Westlite Dormitories in Malaysia



Source: Company2Q FY16 Financial Results Presentation, 12 Aug 2016

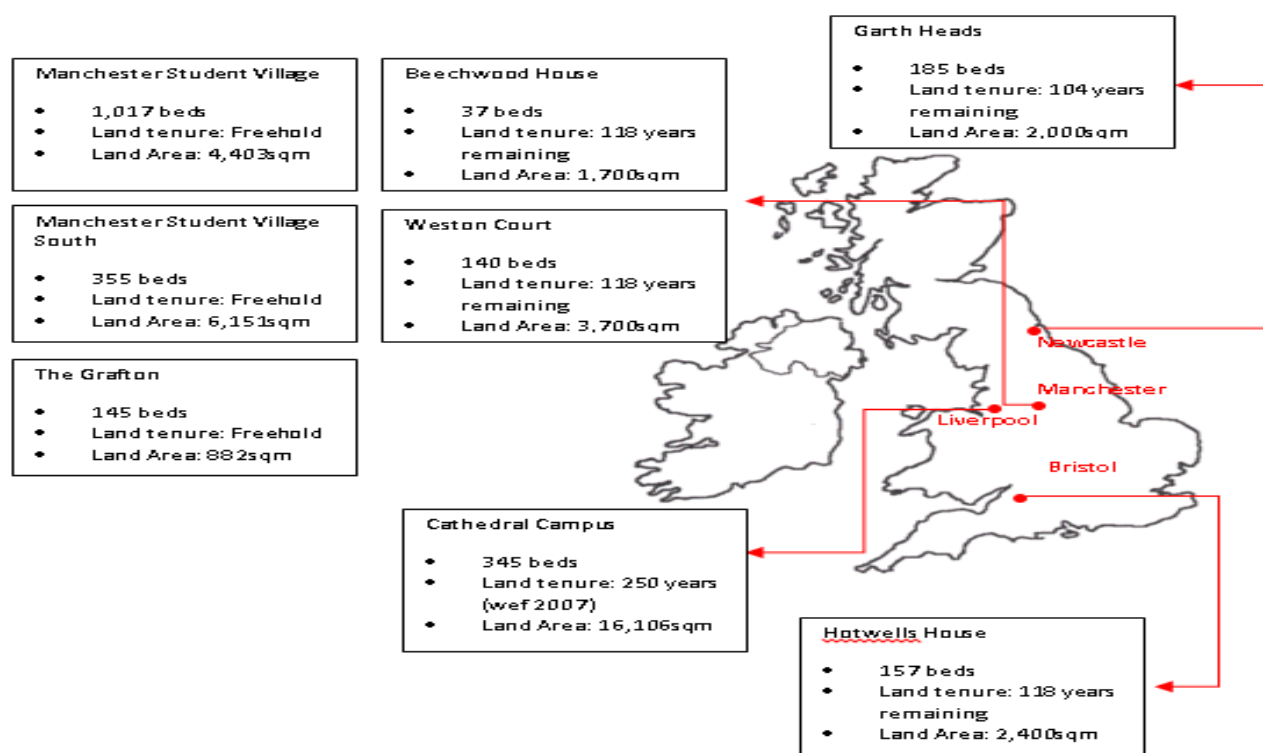
3. Well-located Student Dormitories in UK and Australia

- (i) **RMIT Village (AUS):** located close to Melbourne's CBD. It is about 1.0km away from University of Melbourne and is about 1.3km away from Royal Melbourne Institute of Technology.
- (ii) **Garth Heads, Newcastle (UK):** Located near the River Tyne. It is about 1.6km walk away from Newcastle University.
- (iii) **Hotswells House, Bristol (UK):** It is about 3.5km walk away from Trinity College, Bristol and about 1.6km walk away from University of Bristol.
- (iv) **Cathedral Campus, Liverpool (UK):** It is about 1.3km walk away from the city centre, 1.3km walk away from University of Liverpool, 1km walk away from Liverpool School of Art and Design and 0.3km walk away from Liverpool Institute for Performing Arts.
- (v) **Manchester Student Village, Manchester (UK):** It is 0.5km walk away from Manchester Metropolitan University (MMU), 1km walk away from the University of Manchester (UoM) and 1.1km walk away from British and Irish Modern Music Institute (BIMM).
- (vi) **Manchester Student Village South, Manchester (UK):** It is 1.8km walk away from MMU, 1.3km walk away from UoM and 2.9km walk away from BIMM.
- (vii) **The Grafton, Manchester (UK):** It is 1.1km walk away from MMU, 0.64km walk away from UoM and 2.3km walk away from BIMM.
- (viii) **Beechwood House, Manchester (UK):** It is 3.9km walk away from MMU, 3.4km walk away from UoM and 5km walk away from BIMM.
- (ix) **Weston Court, Manchester (UK):** It is 3.1km walk away from MMU, 2.6km walk away from UoM and 4.2km walk away from BIMM.

The educational institutes in Manchester are located close to the city centre. Therefore the hostels in Manchester are not only located close to the educational institutes but also located close to amenities and lifestyle hubs. This makes the hostel portfolio in Manchester as a whole a superior collection.

Though online reviews have been poor for Manchester Student Village, the same reviews also highlight the hostel's superior location and affordability compared to peers in Manchester.

Figure 17: Centurion Student Accommodation in UK



Source: Company presentation dated 9 Sept 2016, PSR

4. Burgeoning Chinese Student population seeking education in UK and Australia

Figure 18, Figure 19 and Figure 20 show the high percentage and still growing number of Chinese students seeking education in UK and Australia. Centurion has deepened their engagement with Chinese Students through sales offices in China. Centurion aims to provide end-to-end services such as administration services and logistical planning for students seeking to travel to UK or Australia to study. We believe that Centurion Corporation's Singaporean brand is propitious to connect with the Chinese student community and by providing end-to-end services, it will enhance the brand stickiness amongst Chinese students.

Figure 18: Visas granted to Foreign Students to UK

	Year ending June 2015	Year ending June 2016	Change	Percentage change
Study-related visas granted excluding Short-term students (1)	216,707	204,859	-11,848	-5%
of which (Top 5):				
China	68,286	70,194	+1,908	+3%
United States	13,820	14,245	+425	+3%
India	11,863	10,664	-1,199	-10%
Malaysia	10,691	9,478	-1,213	-11%
Hong Kong	9,293	9,069	-224	-2%
Short-term study visas (1) (main applicants only)	64,152	82,318	+18,166	+28%

Source: <https://www.gov.uk/government/publications/immigration-statistics-april-to-june-2016/study#study-immigration-latest-trends>

Figure 19a: Enrolments by Students studying in Australia on a student visa

Month	(All)				
Nationality	(All)				
State	(All)				
	Data	Year			
	Sum of DATA YTD Enrolments				
Sector		2013	2014	2015	2016
Higher Education		2,406,551	2,567,590	2,801,292	1,683,533
VET		1,214,271	1,312,626	1,494,561	803,444
Schools		184,471	187,641	210,782	126,992
ELICOS		870,725	1,062,019	1,142,066	526,107
Non-award		246,750	301,524	339,461	176,304
Grand Total		4,922,768	5,431,400	5,988,162	3,316,380

Source: https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2016.aspx#Pivot_Table

Figure 19b: Enrolments by Chinese Students studying in Australia on a student visa

Month	(All)			
Nationality	China			
State	(All)			
	Data	Year		
	Sum of DATA YTD Enrolments			
Sector	2013	2014	2015	2016
Higher Education	898,663	919,788	996,929	619,513
VET	112,893	111,874	118,107	59,606
Schools	75,523	83,101	104,808	67,519
ELICOS	207,221	244,885	292,610	143,014
Non-award	55,045	72,575	99,910	63,307
Grand Total	1,349,345	1,432,223	1,612,364	952,959

Source: https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2016.aspx#Pivot_Table

Figure 20: Chinese Students Enrolments as a percentage of Total Enrolments to study in Australia

YTD Enrolments	2013	2014	2015	July 2016
Total Enrolments (mn)	4.92	5.43	5.99	3.32
Chinese Students Enrolments (mn)	1.35	1.43	1.61	0.95
Chinese Students Enrolments to Total Enrolments (%)	27.4	26.3	26.9	28.6

Source: https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2016.aspx#Pivot_Table, PSR estimates

Investment Risks

1. **Reduction in number of beds.** Westlite Toh Guan's capacity will be reduced from 8,600 to 7,792 owing to URA's decision and the land lease for Westlite Tuas is slated to expire by April 2017. If the land lease on Westlite Tuas is not renewed, the number of beds in the portfolio will be reduced by 8,600. Despite the potential reduction of beds in Westlite Tuas, Centurion will continue to be the 2nd largest dormitory operator in Singapore.
2. **Negative impacts from weak currency.** A weak currency is a disincentive for foreign workers to earn wages in the country therefore it may negatively affect the demand for PBWA. In Malaysia, the weak ringgit has become a disincentive for foreign workers to seek employment in Malaysia. However, better paying jobs provided by MNCs higher up in the value chain may provide an incentive to offset the weak currency.
3. **Unfavourable change in government policies.** The accommodation business is highly affected by regulations. Inasmuch as government policies can serve as an advantage, it can also become a risk to the business. Immigration restriction on student visas and workers' permit, planning restrictions on land use and unfavourable parliamentary decisions on workers' levies and setting thresholds on education fees all serve as risks to the accommodation business.
4. **Competition from new entrants.** The business model depends primarily on the ability to acquire and own assets and the operational know-how. Therefore competition will come from competitors with larger capital, stronger balance sheet and experience. But we believe this also serves as an entry barrier because existing professionally run accommodation business is still a niche market.
5. **Other risks:** Ability to secure credit facility to roll over debt, execution risks, licensing requirements and brand reputation.

Other Catalysts

1. Lifting of ban on Foreign Workers in Malaysia

In May 2016, the Malaysian government had partially lifted a ban on the hiring of low-skilled foreign workers two months after halting their intake. Employers could bring in the migrant workers again after June 2016 if they can prove that they cannot find Malaysians for the job. This would be easy for employers who hire blue-collar workers to do jobs shunned by most Malaysians. Most of these jobs are concentrated in the manufacturing sector where 80 to 90 per cent are already made up of foreign labour. The lifting of the ban assures a steady demand for Centurion's Westlite dormitories.

2. Removing the cap on UK students numbers

From 2015, English Universities no longer face limitations to how many students they can enrol. The lifting of the cap increases student mobility within UK and raises demand for student accommodation from UK students who travel out of their home town to study.

Analysis and Forecast Assumptions

1. Lease on land for Westlite Tuas will not be renewed

The land lease for Westlite Tuas will expire in Apr 2017. In our model, we assumed zero value on the property and the property will cease to operate by then. So we assumed a fair value loss in FY17F in this scenario.

2. Contributions from Nusajaya (Malaysia), Bekasi District (Indonesia) and Port Hedland (Australia) not included in forecast. Westlite Minyak, Penang and Westlite Juru, Penang assumed to start operations at beginning of 2019

We assume no contributions from the land in Nusajaya, Bekasi District and Port Hedland because planning is still in progress and there is no visibility to the potential the properties that will be built on the land can yield. Though Westlite Minyak and Westlite Juru is slated for completion in 2018, we assume it will only contribute to revenue in 2019.

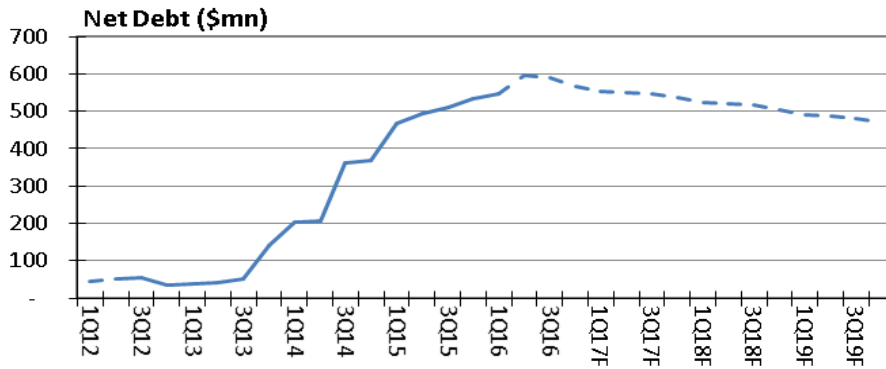
3. No further debt raising while capital investments are limited to internal financing

We estimate Centurion's Net Debt to Equity has reached 150% in 3Q16 and we believe this is unsustainable. Moving ahead, we assume that Centurion will not be stretching themselves further by limiting further acquisitions to internal financing. Figure 21 and Figure 22 show Net Debt profile and Net Debt to Equity profile. Owing to strong operating cash flow from existing properties, we expect net debt to reduce by c.SGD100mn by end of 2019. We also expect a stable interest coverage ratio of slightly above 3 times (See Figure 23)

4. Dividends payout ratio sustainable at c.40% to attract investors' interest

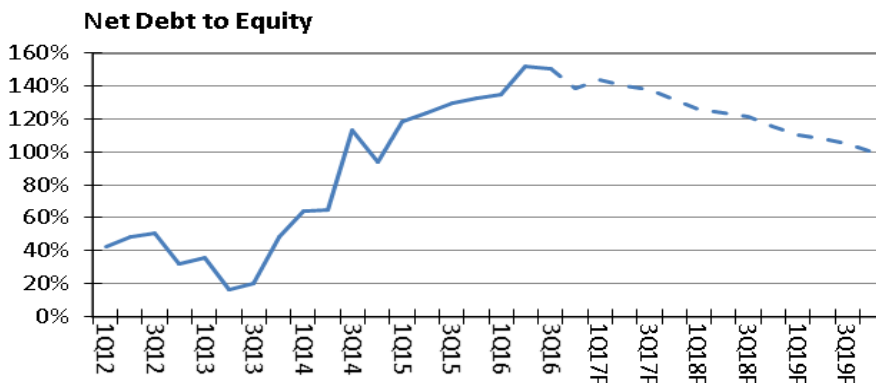
We believe that Centurion could comfortably maintain the dividend pay-out ratio of c.40%. With a pay-out ratio of c.40%, **dividend yield can settle in a range of 4.8% to 6% based on a share price range of S\$0.335 to S\$0.42**. In our forecast, we maintain a dividend of 2.02 cents and tabulated the Total Debt / EBITDA after dividends paid (TTM) shown in Figure 24. We expect The Total Debt / EBITDA after dividends paid ratio to start moving below 12 as early as 2Q17F. This means the annual operating cash flow after dividends is able to accrue to the value of the total debt in less than 12 years. Since we have excluded Westlite Tuas from our cash flow projections, the 12 years' time frame is lower than Centurion's 2nd shortest land lease of 22 years remaining as of 2016 for the ASPRI-Westlite Papan dormitory, followed by 27 years remaining as of 2016 for Westlite Woodlands dormitory. So maintaining the dividend pay-out will not reduce Centurion's debt servicing ability.

Figure 21:



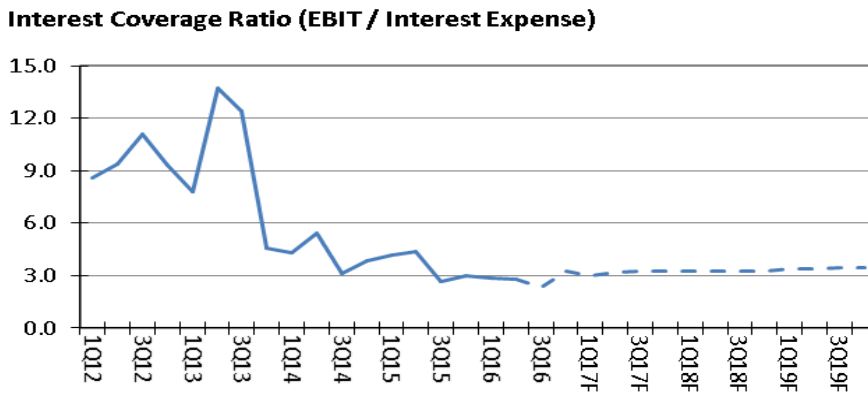
Source: Company, PSR estimates

Figure 22:



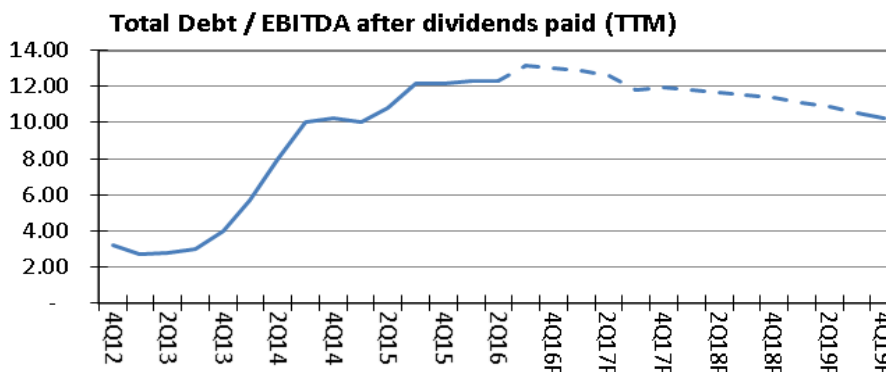
Source: Company, PSR estimates

Figure 23:



Source: Company, PSR estimates

Figure 24:



Source: Company, PSR estimates

Valuation

We think that Centurion has a resilient top line that ensures a reliable and steady cash flow.

1. Owing to finite leases for Singapore properties, we have excluded the cash flow from Singapore properties in the DCF model. Singapore contribution to total gross rental income is 64%. Therefore for simplicity, we have reduced the OCF by 64%
2. Maintaining the payout ratio at c.40% could translate to c.6% yield in FY17F at current share price of S\$0.355 or c.4.8% yield at share price of S\$0.42
3. There are 74,792,734 warrants outstanding. Each warrant carries the right to subscribe for one new ordinary share in the capital of the Company at an exercise price of S\$0.50 for each ordinary share. Our target price is lower than the exercise price so we do not expect any negative impact on our target price due to warrants being exercised.

We initiate coverage on Centurion Corporation Limited with a **“Buy”** rating with a **target price of S\$0.42** based on discounted cash flow (DCF) methodology. This implies an **upside of 37.53%** (with dividend) from its last done price.

Figure 26: Valuation

Item	WACC	Target
A	Share price (as of 7-Nov-16)	0.335
B	No. of shares ('000)	739,964
AxB=C	Market capitalisation (S\$ '000)	247,888
D	Total Debt (S\$ '000)	710,181
C+D=E	Total Market Value (S\$ '000)	958,069
C / E	Equity Ratio	26%
D / E	Debt Ratio	74%
Cost of Debt		
	Interest Rate	3.06%
	Tax Rate, t	19%
	After-tax interest	2.47%
Cost of Equity		
	Risk free rate	2.00%
	Market risk premium	14.05%
	Beta	0.592
	Cost of Equity	10.32%
	WACC	4.50%
	Terminal Growth Rate	0.75%

Item	Financials (S\$ '000)	Cash Flow (S\$'000)				
	Year	FY17e	FY18e	FY19e	FY20e	FY21e
	OCF before WC	48,593	50,189	54,395	59,132	62,271
	OCF before WC, adj. for SG properties	17,494	18,068	19,582	21,287	22,417
	Capex	-3,981	-4,021	-4,021	-4,021	-4,021
	Interest expense*(1-t)	15,350	15,662	15,892	15,644	15,325
	FCFF	28,862	29,710	31,454	32,911	33,721
	Terminal value (S\$ '000)					905,804
	PV (S\$ '000)	27,619	27,206	27,562	27,597	753,897
F	Firm Value	905,804				
G	Add: Net Cash / (Debt)	-596,645				
H	Less: Minority Interest	332				
F + G - H = I	Equity Value	308,827				
J	No. of shares ('000)	739,964				
I / J	Fair Value / share (S\$)	0.42				
	Book value / share (S\$)	0.53				
	Discount to Book Value	21%				

DCF Sensitivity

WACC%	Assumed Perpetual Growth %		
	0.50%	0.75%	1.00%
3.50%	\$0.72	\$0.86	\$1.04
4.50%	\$0.34	\$0.42	\$0.51
5.50%	\$0.11	\$0.16	\$0.22

Peer Comparison

Centurion's business model resembles closely to UK listed property investment firms. Since Centurion's Singaporean peers are not listed so we have compared Centurion Corporation with UK listed property investment firms that have interest in accommodation business and have similar market capitalisation.

Figure 27: Peer Comparison

Company	Ticker	Mkt Cap (SGD mn)	Currency Adjusted EV (SGD mn)	Curr EV/T12M EBITDA	P/E P/E	P/E: FY1	P/E: FY2	Dividend Yld	Debt/ Equity	ROE:Y	ROA:Y
CENTURION CORP LTD	CENT SP Equity	251.59	855.14	14.43	7.73	6.94	6.94	3.85	166.69	8.61	3.39
U AND I GROUP PLC	UAI LN Equity	337.16	602.89	10.92	24.17	11.82	7.06	2.91	58.70	5.42	2.98
HELICAL PLC	HLCL LN Equity	527.27	1838.73	24.14	2.68	18.19	8.70	2.12	150.98	12.97	4.83
CONYGAR INVESTMENT CO PLC	CIC LN Equity	199.64	184.63	25.96	131.30	78.13	41.12	1.05	22.34	3.82	2.50
INLAND HOMES PLC	INL LN Equity	203.05	274.57	7.04	4.09	8.44	7.47	1.52	48.85	13.99	6.68
URBAN & CIVIC PLC	UANC LN Equity	500.11	503.11	32.25	36.36	17.39	12.99	0.99	3.28	2.06	1.89
Simple Average (Excl. Centurion)		353.4	680.8	20.1	39.7	26.8	15.5	1.7	56.8	7.7	3.8

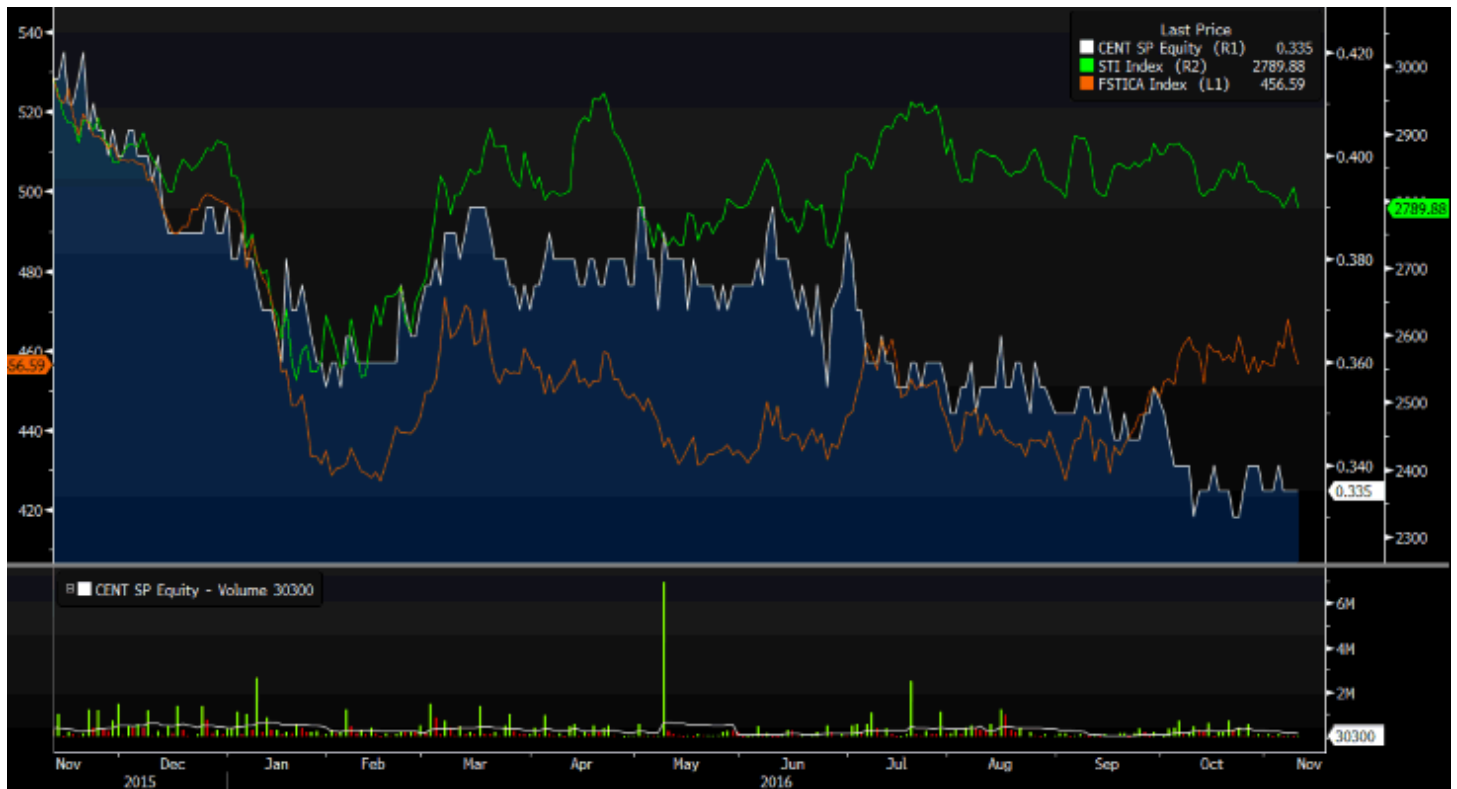
Source: Bloomberg, PSR estimates

Figure 28: 3 Years Historical PER



Source: Bloomberg, PSR

Figure 29: 1-Year historical performance relative to STI Index and Catalist Index



Source: Bloomberg, PSR

SWOT Analysis

Strengths

- 2nd largest workers' dormitory operator in Singapore
- Only Purpose Built Workers Dormitory operator in Malaysia
- Well located Student Dormitories in UK and Australia
- Strong brand name and management experience
- Student and Workers' accommodation demand is less affected by economic cycles

Opportunities

- Direction of regulatory oversight on Singapore Workers' Dormitories is favourable for Purpose-Built Workers' Accommodation operators
- Undersupply of Purpose-Built Student Accommodation in Australia
- Strong student migration from China to UK

Weaknesses

- High Net Debt to Equity
- Upside of the business is limited by bed capacity
- Capital intensive business

Threats

- Unfavourable changes in regulation that could reduce foreign workers' population and mobile student population faster than available supply
- Regulation changes could raise operating costs and capital expenditure
- Competition from construction firms that will prioritise own-run dormitories over Centurion's Westlite brand of dormitories

Financials

Income Statement

Y/E Dec, SGD'000	FY14	FY15	FY16F	FY17F	FY18F
Revenue	86,283	104,538	114,550	108,828	110,453
Cost of Sales	30,256	36,202	40,317	36,806	35,790
Gross Profit	56,027	68,336	74,232	72,023	74,664
Other gains - miscellaneous	926	1,549	1,483	1,642	1,834
Expenses	25,081	37,172	38,796	34,169	34,151
- Distribution	1,439	1,470	1,336	1,113	1,082
- Administration	14,730	19,762	16,154	14,122	13,732
- Finance	8,912	15,940	21,306	18,935	19,337
Share of profit of assoc. co. and JV	45,332	5,986	5,918	6,222	6,284
Fair value gain on group's investment properties	40,308	3,550	0	-34,200	-486
Profit Before Tax	117,512	42,249	42,837	11,517	48,144
Taxation	6,502	8,270	7,957	2,117	8,936
Total Profit	111,010	33,979	34,880	9,401	39,207

Per share data (SG Cents)

Y/E Dec, SG Cents	FY14	FY15	FY16F	FY17F	FY18F
EPS, reported	14.70	4.51	4.79	1.11	5.14
EPS, diluted	14.41	4.49	4.79	1.11	5.14
DPS	1.10	1.50	2.01	2.02	2.02
BVPS	51.73	53.59	60.56	60.81	64.88

Cashflow Statements (SGD mn)

Y/E Dec, SGD'000	FY14	FY15	FY16F	FY17F	FY18F
CFO					
Net Profit	111,150	33,979	34,880	9,401	39,207
Depreciation & Amortisation	6,895	7,230	7,954	5,434	4,258
Others	-75,833	19,214	23,030	48,418	21,660
WC changes	7,767	560	8,348	886	170
Cash generated from ops	49,979	60,983	74,212	64,139	65,296
Taxes paid, net	-6,450	-6,459	-9,245	-2,019	-8,913
Cashflow from operations	43,529	54,524	64,966	62,120	56,383
CFI					
CAPEX, net	-267,659	-195,862	-47,977	-3,981	-4,021
Loan repaid by / (disbursed to) JV, associate co.	-668	-450	0	0	0
Dividend and Interest received	13,970	5,018	8,105	13,818	14,021
Others	-3,200	-19	-1,254	0	0
Cashflow from investments	-257,557	-191,313	-41,127	9,837	10,001
CFF					
Loans, net of repayments and interest paid	232,596	170,482	-53,569	-60,329	-24,338
Dividends	-8,325	-11,353	-14,979	-15,901	-15,920
Share buyback	0	-2,107	-4,391	0	0
Loans provided by NCI and associate co.	5,100	56,180	4,900	0	0
Others	405	-84	0	0	0
Cashflow from financing	229,776	213,118	-68,040	-76,230	-40,258
Effect of FX fluctuations on cash held	-182	-1,057	-1,323	0	0
Net change in cash	15,566	75,272	-45,523	-4,273	26,126
CCE, end	59,116	134,388	88,865	84,592	110,718

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD'000	FY14	FY15	FY16F	FY17F	FY18F
Trade and other receivables	604	148	0	0	0
Other assets	265	265	265	265	265
Available-for-sale financial assets	2,314	2,196	2,180	2,180	2,180
Investments in assoc.co. / JV	85,789	83,097	82,209	82,590	83,032
Investments in subsidiaries	0	0	0	0	0
Investment properties	684,437	891,471	939,448	905,248	904,761
PPE	6,385	9,709	9,994	9,506	8,578
Deferred income tax assets	60	19	5	5	5
Intangible assets	11,733	6,793	1,856	207	207
Non-current assets	791,587	993,698	1,035,957	1,000,000	999,029
Cash and cash equivalents	63,144	138,435	88,865	84,592	110,718
Trade and other receivables	4,993	5,659	5,514	5,545	5,561
Inventories	643	381	287	208	211
Other assets	13,666	3,819	5,304	5,304	5,304
Assets held for sales	0	45	0	0	0
Current assets	82,446	148,339	99,970	95,649	121,793
Total Assets	874,033	1,142,037	1,135,927	1,095,649	1,120,822
Trade and other payables	40,545	55,510	48,068	47,230	47,042
Current income tax liabilities	7,064	9,454	7,398	7,543	7,811
Current Borrowings	23,379	133,304	130,477	121,901	120,865
Other liabilities	0	0	0	0	0
Current liabilities	70,988	198,268	185,942	176,674	175,718
Non-current Borrowings	408,081	538,289	499,347	466,528	462,563
Other liabilities	276	202	504	537	539
Deferred income tax liabilities	3,128	2,382	2,046	1,948	1,925
Non-current liabilities	411,485	540,873	501,897	469,012	465,027
Total Liabilities	482,473	739,141	687,839	645,686	640,745
Equity attributable to owners of the Com	390,630	402,116	409,125	405,937	436,291
Non-controlling interests	930	780	-56	181	423
Total equity	391,560	402,896	409,181	405,756	435,868

Valuation Ratios

Y/E Dec, SGD'000	FY14	FY15	FY16F	FY17F	FY18F
P/E (X)	2.3	7.4	7.0	30.2	6.5
P/B (X)	0.6	0.6	0.6	0.6	0.5
Dividend Yield (%)	3.3	4.5	6.0	6.0	6.0

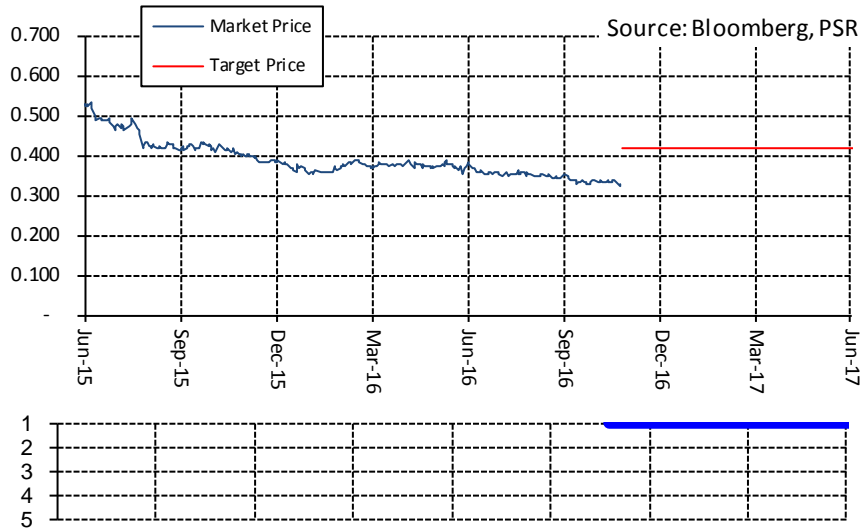
Growth & Margins (%)

Growth					
Revenue	30.0%	21.2%	9.6%	-5.0%	9.6%
PATMI, adj.	153.7%	-56.9%	16.5%	-76.9%	362.6%
Margins					
PATMI margin, adj.	82.2%	29.3%	31.1%	7.5%	34.4%
Operating profit margin	36.9%	31.3%	32.2%	36.3%	38.3%

Key Ratios

ROE (%)	28.4%	8.4%	8.5%	2.3%	9.0%
ROA (%)	12.7%	3.0%	3.1%	0.9%	3.5%
Dividend Payout ratio	7.5%	33.3%	41.8%	182.0%	39.3%
Dividend Yield (%)	3.3%	4.5%	6.0%	6.0%	6.0%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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