



Centurion Corporation Limited

Opportunities in Penang

SINGAPORE | REAL ESTATE | SITE VISIT NOTE

14 February 2019

We were hosted by Centurion Corporation Limited to attend the completion ceremony of their Westlite Bukit Minyak facility – Penang’s maiden worker dormitory facility – on 29 January 2019. Westlite Bukit Minyak is the first of eight Centralised Accommodation Transit (CAT), also known as Purpose-Built Workers Accommodations (PBWA), to be built in Penang. We also visited the two industrial parks in Batu Kawan, which is home to the manufacturing arms of several MNCs in the medical devices, automobile and electronics and engineering (E&E) sectors.

Company Background

Centurion Corporation Limited (Centurion) owns, develops and manages purpose-built worker accommodations in Singapore and Malaysia, and student accommodations in Singapore, Australia, United Kingdom and the United States. Initially listed on the SGX Mainboard in 1995 as an audio cassette tape and optical disc manufacturer, the company pivoted into the accommodation business via a reverse takeover in 2011. Worker and student accommodations account for c.73% and c.26% of their revenue respectively, with c.71% of revenue stemming from Singapore.

Site Visit Highlights

1. Government support and policies in favour of worker dormitories

- Seven more CATs to be built – two on Penang Island and five on the mainland. Currently six projects have been approved and one still under review.
- The Malaysia Government is drafting an amendment to the Employment Act 1955 (Act 265) to require employers to provide adequate housing for foreign workers in all sectors, as well as amendments to the Housing Development (Control and Licensing) Act 1966 to outlaw the rental of low-cost (LC) and low-medium cost (LMC) units to foreign workers.

2. Established track record in Malaysia

- Centurion has 15 years of experience building and operating PBWAs, and currently manages 11 PBWAs totalling 56,400 beds across Singapore (26,100) and Malaysia (30,300).
- Westlite Bukit Minyak is the seventh PBWA in Malaysia. The other six PBWAs are located in Johor.

3. Captive demand from medical device, automobile and E&E manufacturers

- Workforce of 97,000 registered foreign workers in Penang currently housed in LC and LMC residential accommodations meant for Malaysians, with c.20 workers sharing one unit
- Impending amendments to laws that mandate housing of foreign workers in dormitories, low supply of completed dormitories, and new factories under construction will drive demand for worker accommodations.
- Bukit Minyak CAT aims to target companies located in the Batu Kawan Industrial Park such as Flextron, Inari, Western Digital, Ibiden and Hotayi.

Investment Actions

No stock rating or price target provided, as we do not have coverage on Centurion.

Comparables

The Singapore PBWA market is an oligopolistic one shared by Centurion, MES, Averic and Capital Development. Figure 1 breaks down the number of beds owned by each developer-operator.

SITE VISIT

 LAST DONE PRICE SGD 0.40

COMPANY DATA

BLOOMBERG CODE:	CENT SP Equity
O/S SHARES (MN) :	841
MARKET CAP (USD mn / SGD mn) :	248 / 336
52 - WK HI/LO (SGD) :	0.51 / 0.4
3M Average Daily T/O (mn) :	0.22

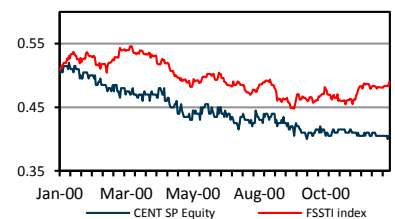
MAJOR SHAREHOLDERS (%)

CENTURION PROPERTIES	53.0%
TEO PENG KWANG	7.6%
LIAN BENG GROUP	4.5%
HAN SENG JUAN	4.2%
LOH KIM MANG	35.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.0	0.0	(15.3)
STI RETURN	2.6	3.9	-2.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY14	FY15	FY16	FY17
Revenue (SGD mn)	84.4	104.5	120.5	137.1
Net Profit (SGD mn)	111.2	34.0	34.8	37.6
EPS, adj (Cents)	14.43	4.52	3.86	4.17
DPS, adj (Cents)	1.10	1.50	2.00	2.00
P/E Ratio	3.50	8.63	8.55	12.59
Distribution Yield, %	2.2%	3.8%	6.1%	3.8%

Source: Company Data, Bloomberg

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Revenue by Sector

The Singapore workers' accommodation segment is the most profitable segment accounting for c71% of the group's revenue in FY17. However the closure of the 8,600-bed Westlite Tuas PBWA in January 2018 reduced revenue by c.\$22.5mn and significantly decreased the proportion of revenue sourced from Singapore.

Purpose-Built Worker Accommodations (PBWA) Segment

New land up for tender in Singapore is on much shorter leases (3+3+3years) compared to the other assets in Centurion's portfolio (shortest lease in portfolio is 18 years), offering a much shorter-lived revenue stream. Of the 220,000 beds in Singapore, c.49% (107,000 beds) have long-term leases between 30-60 years, with the remaining supply having 3+3+3 year leases.

The workers' accommodation segment in Malaysia, on the other hand, offers lower margins but is comparably a more attractive market to expand in with the recent government support for worker's accommodations in Penang.

Purpose-Built Student Accommodations (PBSA) Segment

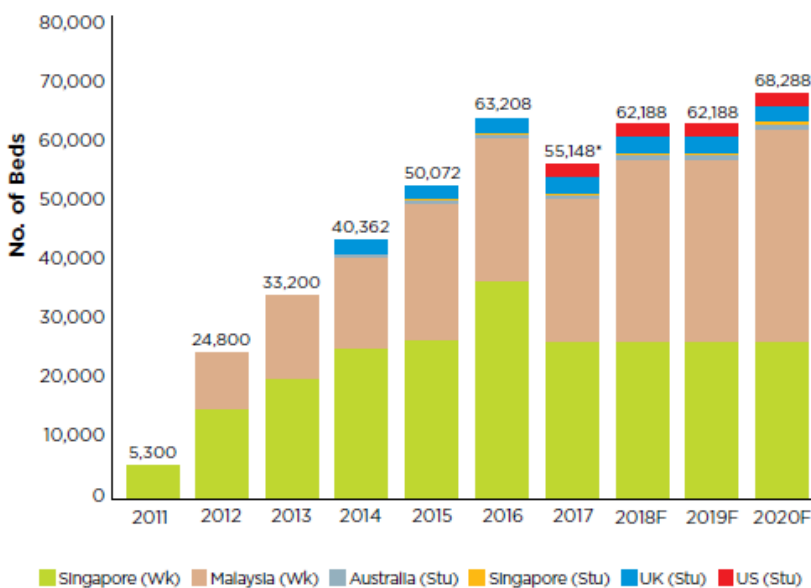
Centurion's student accommodations portfolio comprises c.5,400 beds and a pipeline of c.400 beds spanning Australia, United Kingdom, United States and recently acquired an asset in Korea.

Track record in Malaysia to put Centurion in good standing

Centurion won the tender to build a worker's accommodation facility in Juru, Penang. This 6,100-bed project is currently in its town planning stage and is expected to be completed by early 2021. It aims to service companies in the Prai Industrial Park.

With six other sites up for tender, the company's experience and track record in operating PBWAs in Singapore and Malaysia will give them a first mover advantage in Penang's CAT rollout.

Figure 3: Accommodation growth profile



* Excluding Westlite Tuas, which lease has expired in January 2018

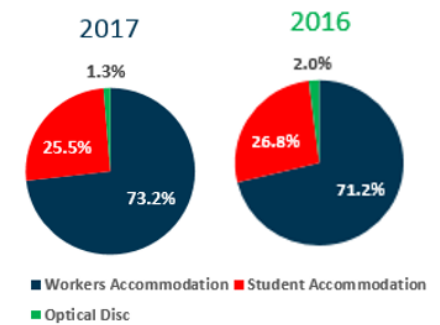
Source: Company

Figure 1: Worker accommodation operators in Singapore

Operator	No. of beds
Centurion	26,100
MES	24,000
Averic	21,000
Capital Development	20,000
Others	128,900
Total Supply	220,000

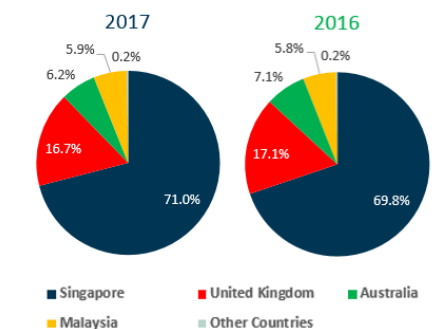
Source: PSR

Figure 1: Revenue by business segment



Source: PSR, Company

Figure 2: Revenue by Geography



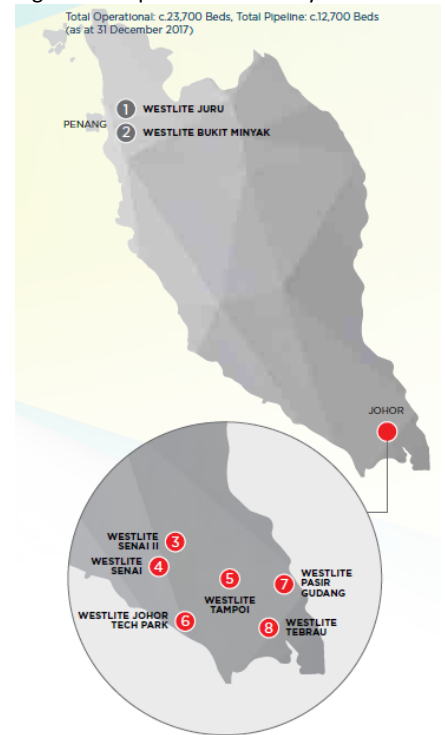
Source: PSR, Company

Westlite Bukit Minyak CAT

Bukit Minyak CAT is the very first PBWA in Penang, and Centurion’s seventh workers accommodation in Malaysia, with the other six located in Johor. This asset was built on privately-sourced freehold land acquired in 2014. The facility has a gross floor area (GFA) of 17,900sqm and comprises of three 11-story block of dormitories totalling c.6,600 beds. The facility includes a supermarket, barber, gym and sports facilities, recreational facilities as well as a laundry room. This facility costs RM72.3mn (S\$23.8mn) and is located near major highways leading to Bukit Minyak Industrial Park, the Science Park, and the Batu Kawan Industrial Park. Bukit Minyak CAT is expected to receive its first residence in mid-Feb 2019. Current committed occupancy stands at 30% and is expected to ramp up to 60% by end-June 2019.

Average rent per bed in Penang is RM130 per month, translating to c.RM10.3mn (S\$3.2mn) yearly revenue, assuming 95% occupancy. For context, the revenue for 9 months-ended September 2018 was S\$88.7mn (post Westlite Tuas closure).

Figure 4: Map of CATs in Malaysia



Source: Company

Images from our site visit

Figure 5: Two eleven-story blocks at Bukit Minyak CAT



Source: PSR

Figure 6: First floor corridor outside dormitory units



Source: PSR

Figure 7: Kitchen and cooking areas in each unit



Source: PSR

Figure 8: Shared space within three-room unit



Source: PSR

Figure 9: Six-bed room with person lockers



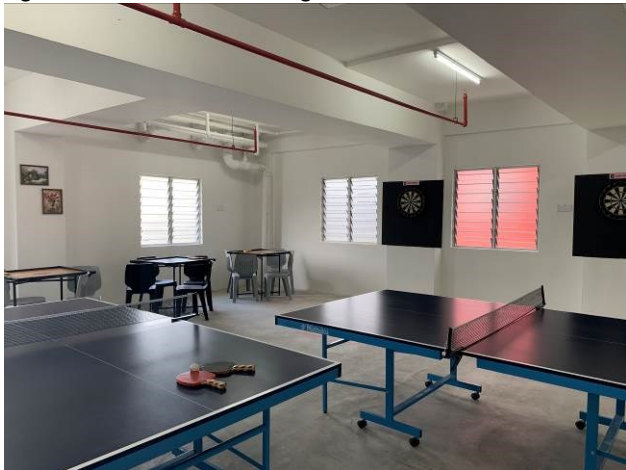
Source: PSR

Figure 10: Lift facilities in each block



Source: PSR

Figure 11: Recreational area – games corner



Source: PSR

Figure 12: Gym room



Source: PSR

Figure 13: Laundry, quarantine, reading rooms and sickbays



Source: PSR

Figure 14: Security room



Source: PSR

Figure 15: Factories in Bayan Lepas Industrial Park - Inari



Source: PSR

Figure 15: Factories in Batu Kawan Industrial Park - Hotayi



Source: PSR

Figure 15: Factories in Batu Kawan Industrial Park - Honda



Source: PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17
Revenue	84.44	104.54	120.54	137.11
Gross profit	55.78	68.82	78.65	94.21
Other income and fair values gains/(losses)	142.87	79.90	1.00	(0.17)
Expense				
Distribution expenses	1.76	1.47	(1.31)	(1.18)
Administrative expenses	14.50	20.24	(18.17)	(26.83)
Finance expense	8.89	15.94	(21.38)	(21.55)
Profit before tax	117.72	42.25	41.86	49.39
Taxation	6.50	8.27	(7.05)	(11.75)
Net profit	111.15	33.98	34.81	37.64
Profit attributable to:				
Equity holders of the company	111.20	34.13	28.71	31.72
Non-controlling interest	(0.05)	(0.15)	6.10	5.92
	111.15	33.98	34.81	37.64

Per share data (SGD)

Y/E Dec	FY14	FY15	FY16	FY17
EPS diluted (cents)	14.43	4.52	3.86	4.17
DPS (cents)	1.1	1.5	2.0	2.0

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17
CFO				
Net Income after tax	111.15	33.98	34.81	37.64
Adjustments	(70.22)	19.68	26.62	24.48
WC changes	12.61	0.41	8.09	(5.18)
Cashflow from ops	53.54	54.07	69.52	56.94
CFI				
Capex, net	(270.93)	(193.69)	(98.90)	(24.38)
Others	2.82	2.83	14.33	(44.17)
Cashflow from investments	(268.11)	(190.86)	(84.57)	(68.55)
CFF				
Share issuance	-	-	-	19.76
Proceeds from bank borrowings, net	241.55	183.47	8.13	(8.93)
Distributions to unitholders	8.32	11.35	(14.88)	(15.36)
Others	(19.57)	18.30	(31.16)	8.98
Cashflow from financing	230.30	213.12	(37.91)	4.45
Net change in cash	43.56	59.12	(52.96)	(7.16)
CCE, end	59.17	134.39	80.22	73.19

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 mn	FY14	FY15	FY16	FY17
ASSETS				
Investment properties	684.44	891.47	927.34	952.35
Trade and Other Receivables	5.59	5.41	7.84	13.63
Cash and Cash Equivalents	63.14	138.44	82.55	75.77
Investment in Associates	1.37	83.10	77.34	112.81
Other assets	119.49	23.22	24.66	34.43
Total Assets	874.03	1,141.64	1,119.73	1,188.99
LIABILITIES				
Trade and other payables	39.23	54.47	47.25	44.74
Interest bearing borrowings	432.77	671.59	660.39	652.64
Other liabilities	266.75	(5.81)	5.62	22.87
Total Liabilities	482.47	738.75	720.25	713.26
EQUITY				
Non-controlling Interest	0.93	0.78	6.88	12.81
Equity holders of the company	390.63	402.11	392.60	462.92
Total Equity	391.56	402.89	399.48	475.73

Valuation Ratios

Non-controlling interest	FY14	FY15	FY16	FY17
P/E	3.50	8.63	8.55	12.59
Distribution yield (%)	2.2%	3.8%	6.1%	3.8%
Growth & Margins (%)	FY14	FY15	FY16	FY17
Growth				
Revenue	48.0%	23.8%	15.3%	13.7%
Gross Profit	nm	23.4%	14.3%	19.8%
Net Profit	nm	nm	2.4%	8.1%
DPS	83.3%	36.4%	33.3%	0.0%
Margins				
Gross Profit Margin	nm	76.4%	0.8%	-0.1%
Net Profit Margin	2.1%	1.4%	-1.1%	-0.9%
Key Ratios				
ROA	nm	3.0%	3.1%	3.2%
ROE	nm	8.5%	8.9%	8.1%
Net Gearing	1.11	1.67	1.65	1.37

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