

Centurion Corporation Limited

Strong Performance Despite a Tough Operating Environment



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SINGAPORE | REAL ESTATE | 1Q17 RESULTS

2 June 2017

- 1Q17 PATMI of SGD10.7mn met our estimates.
- Newly acquired UK assets, higher occupancy at ASPRI-Westlite Papan and improvements in student accommodation rental rates contributed to stronger revenue growth.
- **Maintain Accumulate rating with higher target price of S\$0.48, previously S\$0.42.**

Results at a glance

(SGD '000)	1Q17	1Q16	YoY	4Q16	QoQ	Comments
Revenue	36,021	28,671	26%	34,787	4%	Better occupancy at Woodlands and Papan. Improvements to Student Accommodation rental rates. Acquisition of 4 more UK assets
Cost of Sales	(12,070)	(9,341)	29%	(11,531)	5%	Higher property tax QoQ for ASPRI-Westlite Papan and RMIT Village
Gross Profit	23,951	19,330	24%	23,256	3%	
Other misc. gains	482	37	1203%	896	-46%	
Expenses	(10,864)	(9,783)	11%	(10,798)	1%	Lower admin expense offset by higher interest expense
Share of profit from JV & assoc., co	1,431	1,464	-2%	1,028	39%	
Fair value gains	-	-	NM	(3,121)	NM	
Income tax expense	(3,266)	(1,965)	66%	(1,364)	139%	
NCI	1,010	(259)	NM	6,966	NM	ASPRI-Westlite Papan JV property Fair Value gains to NCI in 4Q16
PATMI	10,724	9,342	15%	2,931	266%	Impacted by fair value losses in 4Q16

Source: PSR

1Q17 revenue grew 26% YoY and 4% QoQ. The YoY growth revenue was mainly due to the addition of four new student accommodation properties in United Kingdom ("UK"), acquired in 3Q16. The QoQ revenue growth was mainly due to higher occupancy for workers' dormitories at Westlite Woodlands (c.95% in 1Q17 vs. c.90% in 4Q16) and ASPRI-Westlite Papan (89% in 1Q17 vs. 75% in 4Q16). We estimate rental rates increased c.1% QoQ for UK student accommodation business thus providing a boost to the QoQ revenue growth.

1Q17 net profit margin improved to 33% compared to 32% a year ago. The improvements to net profit margin was due to ASPRI-Westlite Papan becoming more profitable in 1Q17 but slightly offset by higher Cost of Goods ("COGs") and higher interest expense. COGs was higher QoQ owing to more property tax paid on better property valuation for ASPRI-Westlite Papan and RMIT Village. Barring lumpy expenses in COGs, Centurion continues to enjoy a high operating leverage where they will be able to grow revenue faster than costs through positive rental reversions. 1Q17 COGs, distribution and administration expenses margin was c.50%. Based on our estimations, if Centurion is able to maintain this margin through FY17, we can expect c.3% improvement to its operating cash flow compared to FY16.

Singapore Workers' Dormitory Portfolio have almost hit full occupancy by 1Q17, well ahead of our expectation of hitting full occupancy by end of 2017. We believe that higher occupancy was possible as the foreign worker population in Singapore remained stable while supply of Purpose-Built Workers' Accommodation remains tight. We expect the supply constraints in workers' accommodation to continue while the strong pipeline of public sector construction projects which are expected to last till 2020 will keep Centurion's Singapore workers' dormitories fully occupied.

Minimal impact from ceasing of operations at Westlite Desa Cemerlang. We estimate Westlite Desa Cemerlang's quarterly revenue before ceasing operations was c.S\$100,000 which was only c.0.3% of Centurion's average quarterly total revenue over the last 4 quarters of S\$31mn.

Accumulate (Maintain)

LAST TRADED PRICE	SGD 0.445
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.480
TOTAL RETURN	13.48%

COMPANY DATA

BLOOMBERG CODE	CENT SP
O/S SHARES (MN) :	738
MARKET CAP (USD mn / SGD mn) :	236 / 328
52 - WK HI/LO (SGD) :	0.45 / 0.31
3M Average Daily T/O (mn) :	0.54

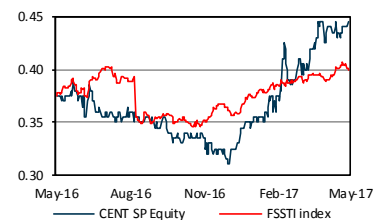
MAJOR SHAREHOLDERS (%)

Centurion Properties Pte Ltd	52.72%
Peng Kwang Teo	7.64%
Lian Beng Group Ltd	5.15%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	7.1	214	23.2
STI RETURN	3.60	4.81	20.03

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Revenue (SGD mn)	105	120	146	124
NPAT (SGD mn)	34	35	46	37
EPS (Cents)	4.51	3.89	6.00	4.85
P/E (x)	8.6	8.5	7.3	9.1
P/B (x)	0.7	0.6	0.7	0.7
DPS (Cents)	1.50	2.00	2.50	2.50
Dividend Yield (%)	3.6	4.8	6.0	6.0

Source: Bloomberg

Valuation Method: DCF

(WACC: 6.2%, Terminal Growth Rate: 1.5%)

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Maintain Accumulate rating with higher target price of S\$0.48, previously S\$0.42. We are pleased to see Centurion's ability to command a price premium for its Singapore workers' dormitories and yet ramp up its occupancy faster than expected. All these despite competitors slashing prices and weaknesses from the oil and gas industry that we have witnessed in 2016.

Our higher target price is based on the expectation for stronger operating cash flow as a result of Centurion's continued ability to exercise pricing power in its student and worker accommodation business across markets and on the expectation that favourable supply demand dynamics in its Singapore workers' accommodation business will continue to support that stronger cash flow. On the cost side, we expect COGs, distribution and administration expenses to be stable at c.50% of total revenue to also support the higher operating cash flow projections.

Financials

Income Statement

Y/E Dec, SGD'000	FY14	FY15	FY16	FY17e	FY18e
Revenue	86,283	104,538	120,288	146,171	123,895
Cost of Sales	30,256	36,202	41,885	51,432	43,343
Gross Profit	56,027	68,336	78,403	94,739	80,552
Other gains - miscellaneous	926	1,549	2,041	1,600	1,666
Expenses	25,081	37,172	40,862	45,638	43,452
- Distribution	1,439	1,470	1,313	1,442	1,217
- Administration	14,730	19,762	18,166	23,023	19,411
- Finance	8,912	15,940	21,383	21,173	22,823
Share of profit of assoc. co. and JV	45,332	5,986	5,398	6,106	6,284
Fair value gains of group's inv. prop.	40,308	3,550	(3,121)	0	0
Profit Before Tax	117,512	42,249	41,859	56,805	45,051
Taxation	6,502	8,270	7,048	10,648	8,030
Total Profit	111,010	33,979	34,811	46,159	37,020
Total Profit from Core Operations	31,119	35,586	38,362	46,159	37,020

Per share data (SG Cents)

Y/E Dec, SG Cents	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	14.70	4.51	3.89	6.00	4.85
EPS, diluted	14.41	4.49	3.89	6.00	4.85
DPS	1.10	1.50	2.00	2.50	2.50
BVPS	51.73	53.59	53.99	63.84	67.13

Cashflow Statements (SGD mn)

Y/E Dec, SGD'000	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net Profit	111,150	33,979	34,811	46,159	37,020
Depreciation & Amortisation	6,895	7,230	7,981	5,342	4,258
Others	(75,833)	19,214	25,397	25,256	23,745
WC changes	7,767	560	8,253	1,505	76
Cash generated from ops	49,979	60,983	76,442	79,980	65,100
Taxes paid, net	(6,450)	(6,459)	(7,018)	(8,408)	(8,059)
Cashflow from operations	43,529	54,524	69,424	71,571	57,041
CFI					
CAPEX, net	(267,659)	(195,862)	(98,897)	(5,456)	(46,784)
Loan repaid by / (disbursed to) JV, assoc co.	(668)	(450)	(142)	0	0
Dividend and Interest received	13,970	5,018	12,606	10,585	14,031
Others	(3,200)	(19)	1,722	0	0
Cashflow from investments	(257,557)	(191,313)	(84,711)	5,129	(32,753)
CFF					
Loans, net of repayments and interest paid	232,596	170,482	(23,287)	33,928	(29,837)
Dividends	(8,325)	(11,353)	(14,876)	(19,177)	(19,492)
Share buyback	0	(2,107)	(4,391)	0	0
Loans provided by NCI and associate co.	5,100	56,180	4,900	1,470	0
Others	405	(84)	0	0	0
Cashflow from financing	229,776	213,118	(37,909)	15,820	(49,329)
Effect of FX fluctuations on cash held	(182)	(1,057)	(1,212)	(65)	0
Net change in cash	15,566	75,272	(54,408)	92,455	(25,042)
CCE, end	59,116	134,388	79,980	172,674	147,633

Source: 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	FY16	FY17e	FY18e
Trade and other receivables	604	148	0	0	0
Other assets	265	265	130	130	130
Available-for-sale financial assets	2,314	2,196	0	0	0
Investments in assoc.co. / JV	85,789	83,097	77,236	82,590	83,032
Investments in subsidiaries	0	0	0	0	0
Investment properties	684,437	891,471	927,406	962,456	1,005,220
PPE	6,385	9,709	9,268	9,506	8,578
Deferred income tax assets	60	19	4	0	0
Intangible assets	11,733	6,793	1,854	207	207
Non-current assets	791,587	993,698	1,015,898	1,054,889	1,097,167
Cash and cash equivalents	63,144	138,435	82,545	174,984	149,943
Trade and other receivables	4,993	5,659	6,499	6,937	7,046
Inventories	643	381	103	121	124
Other assets	13,666	3,819	5,140	4,204	4,204
Assets held for sales	0	45	7,375	0	0
Current assets	82,446	148,339	103,836	186,246	161,316
Total Assets	874,033	1,142,037	1,119,734	1,241,135	1,258,483
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	39,604	42,949	42,527
Other liabilities	0	0	0	0	0
Current liabilities	70,988	198,268	95,069	97,721	97,380
Non-current Borrowings	408,081	538,289	620,794	671,689	665,096
Other liabilities	276	202	500	499	500
Deferred income tax liabilities	3,128	2,382	1,343	1,541	1,571
Non-current liabilities	411,485	540,873	622,637	673,730	667,168
Total Liabilities	482,473	739,141	717,706	771,451	764,548
Equity attributable to owners of the Co.,	390,630	402,116	392,598	423,186	447,749
Non-controlling interests	930	780	6,884	8,090	8,364
Total equity	391,560	402,896	399,482	415,097	439,385

Valuation Ratios

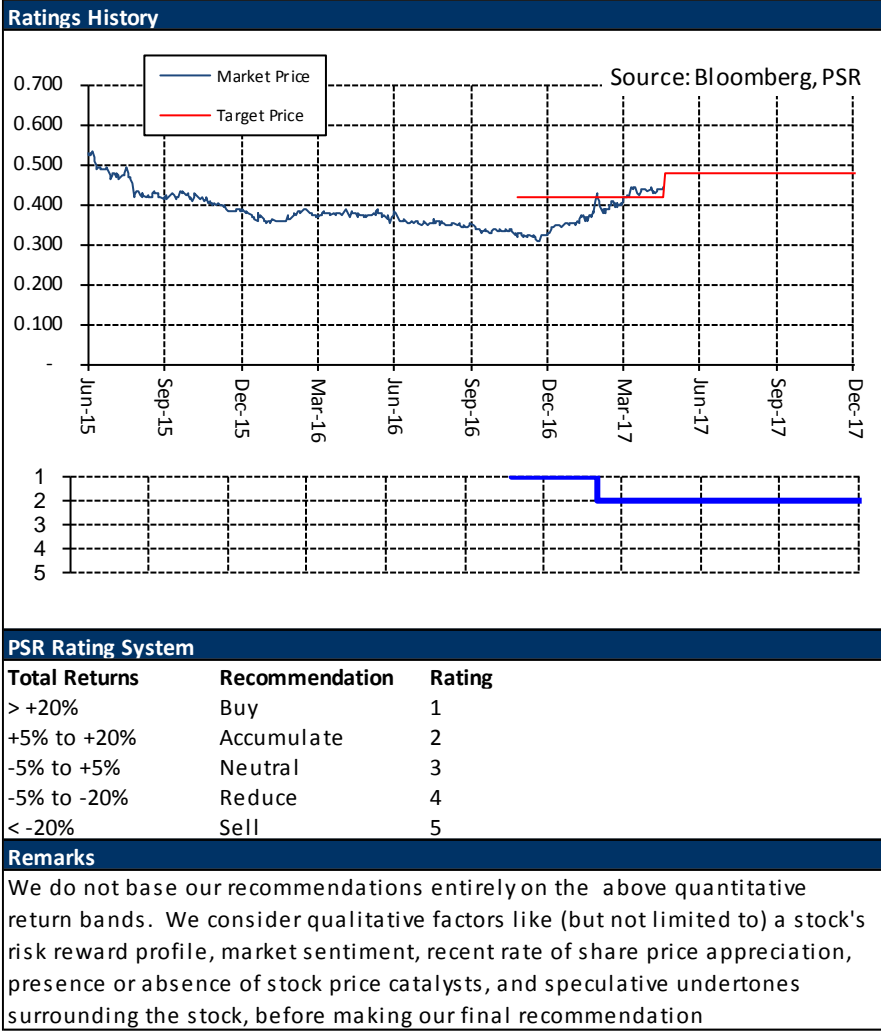
Y/E Dec, SGD'000	FY14	FY15	FY16	FY17e	FY18e
P/E (X)	3.4	8.6	8.5	7.4	9.2
P/B (X)	1.0	0.7	0.6	0.7	0.7

Growth & Margins (%)

	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	30.0%	21.2%	15.1%	21.5%	15.1%
PATMI, adj.	153.7%	-56.9%	-5.3%	52.6%	-19.3%
Margins					
PATMI margin, adj.	82.2%	29.3%	24.1%	30.2%	28.8%
Operating profit margin	36.9%	31.3%	32.9%	34.7%	31.3%

Key Ratios

	FY14	FY15	FY16	FY17e	FY18e
ROE	28.4%	8.4%	8.7%	11.1%	8.4%
ROA	12.7%	3.0%	3.1%	3.7%	2.9%
Dividend Payout ratio	7.5%	33.3%	51.4%	41.6%	51.6%
Dividend Yield	2.5%	3.4%	4.5%	5.6%	5.6%



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