

Centurion Corporation Limited

Stellar Performance Continues



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SINGAPORE | REAL ESTATE | 2Q17 RESULTS

11 August 2017

- 2Q17 total profit of SGD11.6mn exceeded our estimates by 5.5%.
- Newly acquired UK assets, higher occupancy at ASPRI-Westlite Papan and Westlite Malaysia portfolio contributed to stronger revenue growth.
- **Maintain Accumulate rating with higher target price of S\$0.59, previously S\$0.48 based on DCF model.**

Results at a glance

(SGD '000)	2Q17	2Q16	YoY	1Q17	QoQ	Comments
Revenue	35,248	28,700	23%	36,021	-2%	Better occupancy at Papan and Westlite M'sia portfolio. Acquisition of 4 more UK assets in 3Q16
Cost of Sales	(9,592)	(9,767)	-2%	(12,070)	-21%	Higher COS from Papan and 4 UK assets offset by cost savings from Tuas.
Gross Profit	25,656	18,933	36%	23,951	7%	
Other misc. gain	303	379	-20%	482	-37%	
Expenses	(11,329)	(9,960)	14%	(10,864)	4%	S\$1.4mn Fees for proposed dual listing on SEHK
Assoc. & JV	53	1,316	-96%	1,431	-96%	Fair value losses on Mandai
Fair value gains	1,976	-	NM	-	NM	Include Papan fair value gains
Income tax	(5,013)	(2,239)	124%	(3,266)	53%	
MI	(2,533)	428	NM	(1,010)	NM	Papan fair value gains to MI
PATMI	9,113	8,857	3%	10,724	-15%	

Source: Company, PSR

The Positives

+ Singapore workers' accommodation business continue to be supported by favourable supply demand dynamics and improving economic sentiments. Population of foreign workers remains stable owing to modest economic performance and sustained demand from public sector construction. There is no new supply of worker accommodation beds. Worker accommodation island wide are experiencing higher occupancy rate at an average of 80% and are no longer focused on cutting bed rate prices. The QoQ revenue growth was due to higher occupancy ASPRI-Westlite Papan (c.99% in 2Q17 vs. 89% in 1Q17) offset by decline in occupancy to 80% at Westlite Tuas because the short term lease extension could not retain customers who require longer commitment.

+ Better gross margin on reduced amortisation costs relating to intangible assets on favourable lease in Westlite Tuas. We estimate the quarterly amortisation expense in 2016 was S\$1.2mn. Following the extension of the lease on Tuas the remaining S\$1.8mn intangible assets will be amortised from January 2017 to January 2018 so the quarterly amortisation costs will be lowered to S\$0.4mn per quarter. Therefore we expect FY17e gross margins to improve to c.70% compared to 2Q16's 66%.

+ Expect some positive rental reversions for amid high occupancy for Westlite Papan. Westlite Papan had started on a poorer footing in 3Q16 owing to poor economic sentiments. By 3Q17, the rental lease by Westlite Papan occupants will be up for renewal and we can expect a positive rental reversion.

+ Improving occupancy at Westlite Malaysia. Occupancy rate at the Malaysian Westlite portfolio has improved from c.74% in 1Q17 to c.82% in 2Q17. This is due to higher legal enforcement on illegal worker dormitories that shifted more foreign workers into purpose built accommodation.

Accumulate (Maintain)

LAST TRADED PRICE	SGD 0.545
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.590
TOTAL RETURN	12.84%

COMPANY DATA

BLOOMBERG CODE	CENT SP
O/S SHARES (MN):	737
MARKET CAP (USD mn / SGD mn):	295 / 402
52 - WK HI/LO (SGD):	0.55 / 0.31
3M Average Daily T/O (mn):	0.47

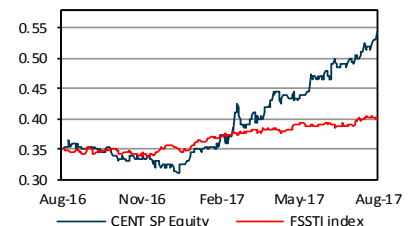
MAJOR SHAREHOLDERS (%)

Centurion Properties Pte Ltd	52.76%
Peng Kwang Teo	7.64%
Lian Beng Group Ltd	5.15%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.0	218	54.8
STI RETURN	3.58	3.87	21.43

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Rev (SGD mn)	105	120	145	125
NPAT (SGD mn)	34	35	51	48
EPS (Cents)	4.51	3.89	6.37	6.30
PER (X)	8.6	8.5	8.5	8.6
P/BV (X)	0.7	0.6	1.0	1.0
DPS (Cents)	1.50	2.00	2.50	2.50
Div Yield (%)	3.9	6.1	4.6	4.6

Source: Bloomberg, Company, PSR

Valuation Method: DCF

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

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The Negatives

- **Centurion's foreign operations are subjected to higher corporate tax rates than Singapore.** National corporate tax rate for US, Australia and UK are 35%, 30% and 20% respectively. Higher corporate tax rate could crimp dividends. Secondly, the withholding tax structure is more complex in US for non-US shareholders to receive their full tax exempted dividends. Australia has franking system to address the "double taxation" on corporate profit and dividend income received by shareholders. UK does not have taxation on dividends.

Outlook

Though Westlite Tuas lease is expected to expire in January 2018, we are optimistic of a renewal by authorities because we believe that Centurion's value proposition to engage the workers and provide comprehensive amenities is well recognised by government bodies. But our financials forecast assumes that Westlite Tuas will expire by January 2018.

Our financials forecast have not included the SEHK IPO proceeds due to insufficient details. Excluding the IPO proceeds, we revise our FY17e net debt to equity to 171% from 130%. The increase in net debt to equity is due to the capital investment in 30% stake in the US student accommodation assets. However, with an expected October 2017 IPO on SEHK, net debt to equity should taper down from present 171%.

Investment Actions

Maintain Accumulate rating with higher target price of S\$0.59, previously S\$0.48 based on DCF model.

Our higher target price is based on stronger operating cash flow starting in 1Q19 as dwell Adelaide and the AEP for RMIT village will begin operation. A bonus from an extension of Westlite Tuas land lease after January 2018 could drive up the share price further. On the cost side, we expect FY17e COS, distribution and administration expenses to improve to c.47% of total revenue because of high operating leverage as revenue increases are due improving performance at existing operating assets – improving occupancy and bed rates at Papan and improving occupancy at Malaysia Westlite portfolio.

Financials

Income Statement

Y/E Dec, SGD'000	FY14	FY15	FY16	FY17e	FY18e
Revenue	86,283	104,538	120,288	144,817	124,613
Cost of Sales	30,256	36,202	41,885	43,454	38,079
Gross Profit	56,027	68,336	78,403	101,362	86,534
Other gains - misc	926	1,549	2,041	1,492	1,570
Expenses	(25,081)	(37,172)	(40,862)	(45,691)	(44,322)
- Distribution	(1,439)	(1,470)	(1,313)	(910)	(798)
- Administration	(14,730)	(19,762)	(18,166)	(23,642)	(20,849)
- Finance	(8,912)	(15,940)	(21,383)	(21,139)	(22,676)
Share of profit of assoc & JV	45,332	5,986	5,398	7,417	17,510
Fair value gains	40,308	3,550	(3,121)	1,976	0
Profit Before Tax	117,512	42,249	41,859	66,555	61,292
Taxation	(6,502)	(8,270)	(7,048)	(15,347)	(13,447)
Total Profit	111,010	33,979	34,811	51,209	47,844
Total Profit from Core Operations	31,119	35,586	38,362	49,233	47,844

Per share data

Y/E Dec, SG Cents	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	14.70	4.51	3.89	6.37	6.30
EPS, diluted	14.41	4.49	3.89	6.37	6.30
DPS	1.10	1.50	2.00	2.50	2.50
BVPS	51.73	53.59	53.99	53.13	56.45

Cashflow Statement

Y/E Dec, SGD'000	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net Profit	111,150	33,979	34,811	51,209	47,844
Dep & Amor	6,895	7,230	7,981	4,470	4,258
Others	(75,833)	19,214	25,397	26,356	17,798
WC changes	7,767	560	8,253	(7,032)	616
Cash generated from ops	49,979	60,983	76,442	78,093	70,517
Taxes paid, net	(6,450)	(6,459)	(7,018)	(10,538)	(13,647)
Cashflow from operations	43,529	54,524	69,424	67,555	56,869
CFI					
CAPEX, net	(267,659)	(195,862)	(98,897)	(76,008)	(43,185)
Loan repaid / (disbursed) JV & assoc	(668)	(450)	(142)	0	0
Dividend and Interest received	13,970	5,018	12,606	9,052	14,021
Others	(3,200)	(19)	1,722	(171)	0
Cashflow from investments	(257,557)	(191,313)	(84,711)	(67,128)	(29,163)
CFF					
Loans, net of repayments & int paid	232,596	170,482	(23,287)	(18,399)	(34,215)
Dividends	(8,325)	(11,353)	(14,876)	(19,009)	(19,544)
Share buyback	0	(2,107)	(4,391)	(1,119)	0
Loans provided by NCI & assoc.	5,100	56,180	4,900	1,470	0
Others	405	(84)	0	0	0
Cashflow from financing	229,776	213,118	(37,909)	(38,728)	(53,759)
Effect of FX fluctuations on cash held	(182)	(1,057)	(1,212)	115	0
Net change in cash	15,566	75,272	(54,408)	(38,185)	(26,053)
CCE, end	59,116	134,388	79,980	42,034	15,981

Source: Company, PSR

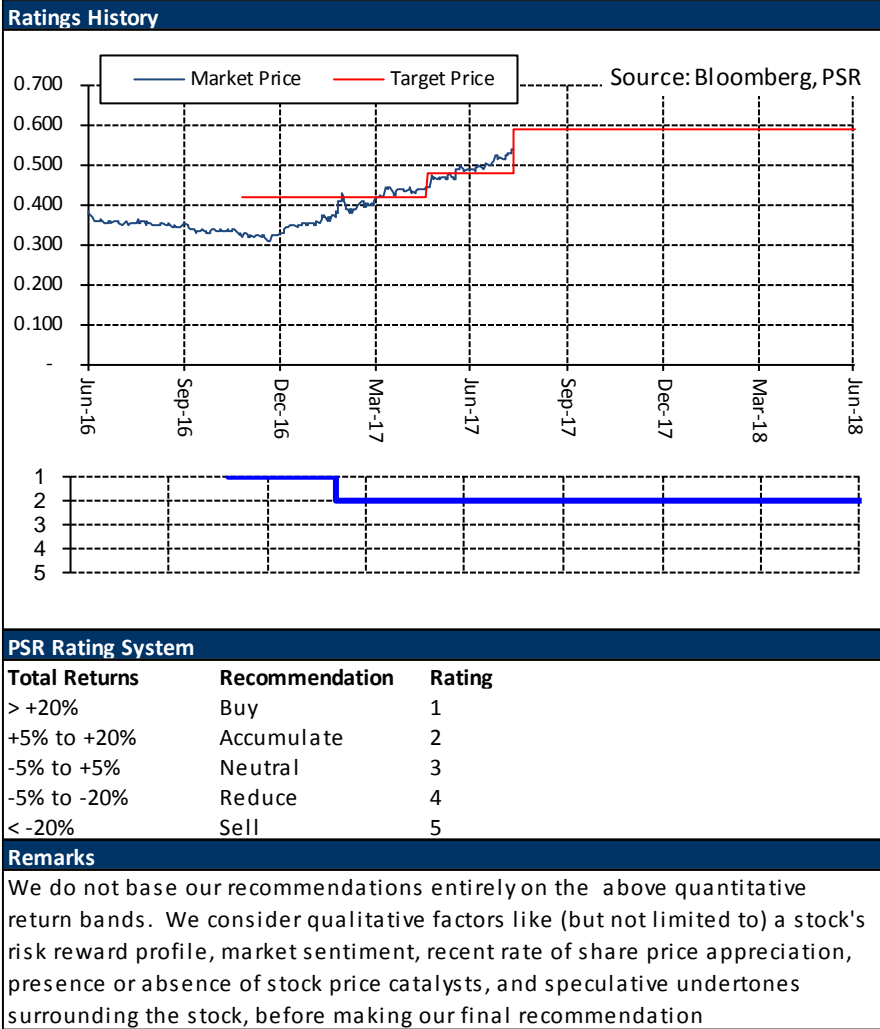
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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
AFS financial assets	2,314	2,196	0	0	0
Investments in assoc.co. / JV	85,789	83,097	77,236	138,718	139,161
Investment properties	684,437	891,471	927,406	962,456	1,001,620
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	1,111,018	1,149,697
Cash and cash equivalents	63,144	138,435	82,545	44,535	18,482
Trade and other receivables	4,993	5,659	6,499	7,622	7,896
Inventories	643	381	103	116	118
Other assets	13,666	3,819	5,140	4,249	4,249
Assets held for sales	0	45	7,375	0	0
Current assets	82,446	148,339	103,836	56,522	30,745
Total Assets	874,033	1,142,037	1,119,734	1,167,540	1,180,442
Trade and other payables	40,545	55,510	47,247	49,218	48,327
Current income tax liabilities	7,064	9,454	10,478	8,871	9,505
Current Borrowings	23,379	133,304	39,604	42,949	42,255
Other liabilities	0	0	286	303	305
Current liabilities	70,988	198,268	97,615	101,342	100,392
Non-current Borrowings	408,081	538,289	620,794	671,689	660,843
Other liabilities	276	202	500	488	486
Deferred income tax liabilities	3,128	2,382	1,343	2,249	2,449
Non-current liabilities	411,485	540,873	622,637	674,426	663,778
Total Liabilities	482,473	739,141	720,252	775,768	764,170
Shareholders' equity	390,630	402,116	392,598	402,337	427,112
Non-controlling interests	930	780	6,884	10,564	10,841
Total equity	391,560	402,896	399,482	391,773	416,271

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X)	3.4	8.6	8.5	8.5	8.6
P/B (X)	1.0	0.7	0.6	1.0	1.0
Growth & Margins (%)					
Growth					
Revenue	30.0%	21.2%	15.1%	20.4%	15.1%
PATMI, adj.	153.7%	-56.9%	-5.3%	62.3%	-1.1%
Margins					
PATMI margin, adj.	82.2%	29.3%	24.1%	32.4%	37.3%
Operating profit margin	36.9%	31.3%	32.9%	39.5%	35.1%
Key Ratios					
ROE	28.4%	8.4%	8.7%	13.1%	11.5%
ROA	12.7%	3.0%	3.1%	4.4%	4.1%
Dividend Payout ratio	7.5%	33.3%	51.4%	39.3%	39.7%
Dividend Yield	2.0%	3.9%	6.1%	4.6%	4.6%



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