

Centurion Corporation Limited

High Occupancy at Above Market Rates



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SINGAPORE | REAL ESTATE | 3Q17 RESULTS

10 November 2017

- Revenue of S\$32.3mn was below our estimate of S\$35.9mn because Tuas dormitory's rates were lower as its lease approaches expiration.
- Revenue well supported by high occupancy at Woodlands and Papan of 99% and 100% respectively.
- Occupancy at Malaysia's dormitories is now at c.86%.
- Maintain Accumulate rating with unchanged target price of S\$0.59 based on DCF model.**

Results at a glance

| (SGD '000) | 3Q17 | 3Q16 | YoY | 2Q17 | QoQ | Comments |
|------------------|----------|----------|------|----------|-------|---|
| Revenue | 32,253 | 28,130 | 15% | 35,248 | -8% | Better occupancy at Papan Woodlands and Westlite M'sia portfolio. |
| Cost of Sales | (10,489) | (11,246) | -7% | (9,592) | 9% | Lower amortisation cost YoY from Tuas assets |
| Gross Profit | 21,764 | 16,884 | 29% | 25,656 | -15% | |
| Other misc. gain | 396 | 729 | -46% | 303 | 31% | |
| Expenses | (12,165) | (10,583) | 15% | (11,329) | 7% | S\$1.1mn Fees for proposed dual listing on SEHK |
| Assoc. & JV | 1,139 | 1,590 | -28% | 53 | 2049% | |
| Fair value gains | (1,478) | - | NM | 1,976 | NM | Fair value losses from valuation exercise |
| Income tax | (2,253) | (1,480) | 52% | (5,013) | -55% | |
| MI | (1,342) | 676 | NM | (2,533) | NM | Better performance from Papan |
| PATMI | 6,061 | 7,816 | -22% | 9,113 | -33% | Lower contribution from Tuas |

Source: Company, PSR

The Positives

+ Singapore workers' accommodation business continue to experience high occupancy and above average bed rates. The YoY revenue growth was due to continued high occupancy of 99% at ASPRI-Westlite Papan (99% in 2Q17 and 89% in 1Q17). 100% occupancy at Westlite Woodlands. And 95% occupancy at Westlite Toh Guan and Westlite Mandai. The unutilised 5% capacity amounting to 705 beds in Toh Guan and Mandai can be used to absorb some of the displaced workers from Westlite Tuas. We estimate that the bed rates at all the Westlite dormitories are commanding a 10% to 14% premium to market rates.

+ Improving occupancy at Westlite Malaysia. Occupancy rate at the Malaysian Westlite portfolio has improved to c.86% from c.82% in 2Q17 (c.74% in 1Q17). This is due to ongoing legal enforcement on illegal worker dormitories that shifted more foreign workers into purpose-built accommodation and increased worker limit in certain sectors. We can expect positive rental reversion in 2018 as policy continues to be favourable.

+ Cash injection of S\$29mn from exercise of warrants reduced net debt to equity from 140% in 2Q17 to 125% in 3Q17. The cash injection included the management and majority owners; Mr Loh, Mr Han and Mr Teo. They have exercised their warrants and increased their investments into Centurion Corporation Limited.

Accumulate (Maintain)

| | |
|-------------------|-----------|
| LAST TRADED PRICE | SGD 0.535 |
| FORECAST DIV | SGD 0.02 |
| TARGET PRICE | SGD 0.590 |
| TOTAL RETURN | 12.84% |

COMPANY DATA

| | |
|------------------------------|-------------|
| BLOOMBERG CODE | CENT SP |
| O/S SHARES (MN) | 805 |
| MARKET CAP (USD mn / SGD mn) | 317 / 431 |
| 52 - WK HI/LO (SGD) | 0.58 / 0.31 |
| 3M Average Daily T/O (mn) | 0.49 |

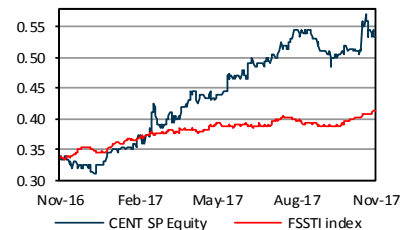
MAJOR SHAREHOLDERS (%)

| | |
|------------------------------|--------|
| Centurion Properties Pte Ltd | 54.15% |
| Peng Kwang Teo | 7.58% |
| Lian Beng Group Ltd | 4.72% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1YR |
|------------|-------|-------|-------|
| COMPANY | 4.9 | 0.1 | 66.6 |
| STI RETURN | 4.13 | 3.92 | 26.88 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec | FY 15 | FY 16 | FY 17e | FY 18e |
|---------------|-------|-------|--------|--------|
| Rev (SGD mn) | 105 | 120 | 137 | 125 |
| NPAT (SGD mn) | 34 | 35 | 43 | 45 |
| EPS (Cents) | 4.51 | 3.89 | 4.92 | 5.46 |
| PER (X) | 8.6 | 8.5 | 11.0 | 9.9 |
| P/BV (X) | 0.7 | 0.6 | 0.9 | 0.9 |
| DPS (Cents) | 1.50 | 2.00 | 2.00 | 2.50 |
| Div Yield (%) | 3.9 | 6.1 | 3.7 | 4.6 |

Source: Bloomberg, Company, PSR

Valuation Method: DCF

(WACC: 6%, Terminal Growth Rate: 1.5%)

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The Negatives

- **Tenure on Westlite Tuas will expire on 30 January 2018.** Bed rates at Westlite Tuas fell to between S\$250 to S\$260 per bed per month in 3Q17. Due to the impending expiration of the Westlite Tuas' land lease, potential tenants were reluctant to commit. Therefore, bed rates were reduced encourage tenants to commit to a short-term stay. Occupancy at Westlite Tuas during 3Q17 was 75% and will be dialled down to zero by the end of 2017. Owing to the reduced bed rates at Westlite Tuas in 3Q17 and 4Q17, we have revised our FY17e revenue lower by 5.7%.

Outlook

We expect the revenues in FY18e to be lower than FY17e owing to the absence of contribution by Westlite Tuas. While the AEP to RMIT and dwell Adelaide will only be completed by 4Q18 therefore we do not expect the projects to be accretive in FY18. However, we expect FY18 total profits to be higher because of a 30% interest in a joint venture to acquire 6 US student accommodation assets which are in operation. The acquisition will be completed in 4Q17 and are expected to be accretive by 4Q17

Our financials forecast has not included the SEHK IPO proceeds due to insufficient details. Excluding the IPO proceeds and taking into account the cash injection from the exercise of warrants, we revise our FY17e net debt to equity to 133% from previous estimate of 171%. The SEHK listing which was expected to happen in October 2017 was pushed back to a later date closer to the end of 2017.

Investment Actions

Maintain Accumulate rating with unchanged target price of S\$0.59 based on DCF model.

We still like Centurion Corporations because of the improving occupancy and possible upward rental reversions for the Malaysia Westlite portfolio in FY18; and stronger operating cash flow in FY19 as dwell Adelaide and the AEP for RMIT village will commence operations. However, on the cost side, we revise our FY17e cost ratio less interest expense to an average of 50% from previous 47% because of professional fees incurred for the preparation of dual listing in SEHK in 2H17.

Financials

Income Statement

| Y/E Dec, SGD'000 | FY14 | FY15 | FY16 | FY17e | FY18e |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 86,283 | 104,538 | 120,288 | 136,544 | 125,204 |
| Cost of Sales | 30,256 | 36,202 | 41,885 | 42,778 | 41,371 |
| Gross Profit | 56,027 | 68,336 | 78,403 | 93,765 | 83,833 |
| Other gains - misc | 926 | 1,549 | 2,041 | 1,533 | 1,484 |
| Expenses | (25,081) | (37,172) | (41,124) | (46,041) | (44,270) |
| - Distribution | (1,439) | (1,470) | (1,313) | (1,138) | (1,101) |
| - Administration | (14,730) | (19,762) | (18,166) | (24,095) | (22,135) |
| - Finance | (8,912) | (15,940) | (21,645) | (20,808) | (21,034) |
| Share of profit of assoc & JV | 45,332 | 5,986 | 5,398 | 6,775 | 17,155 |
| Fair value gains | 40,308 | 3,550 | (3,121) | 498 | 0 |
| Profit Before Tax | 117,512 | 42,249 | 41,597 | 56,530 | 58,203 |
| Taxation | (6,502) | (8,270) | (7,048) | (13,711) | (13,361) |
| Total Profit | 111,010 | 33,979 | 34,549 | 42,819 | 44,841 |
| Total Profit from Core Ops | 31,119 | 35,586 | 38,362 | 42,321 | 44,841 |

Per share data

| Y/E Dec, SG Cents | FY14 | FY15 | FY16 | FY17e | FY18e |
|-------------------|-------|-------|-------|-------|-------|
| EPS, reported | 14.70 | 4.51 | 3.89 | 4.92 | 5.46 |
| EPS, diluted | 14.41 | 4.49 | 3.89 | 4.92 | 5.46 |
| DPS | 1.10 | 1.50 | 2.00 | 2.00 | 2.50 |
| BVPS | 51.73 | 53.59 | 53.99 | 57.40 | 61.60 |

Cashflow Statement

| Y/E Dec, SGD'000 | FY14 | FY15 | FY16 | FY17e | FY18e |
|----------------------------------|------------------|------------------|-----------------|-----------------|-----------------|
| CFO | | | | | |
| Net Profit | 111,150 | 33,979 | 34,549 | 42,819 | 44,841 |
| Dep & Amor | 6,895 | 7,230 | 7,981 | 4,542 | 3,597 |
| Others | (75,833) | 19,214 | 25,397 | 26,166 | 16,406 |
| WC changes | 7,767 | 560 | 8,253 | 10,730 | (1,134) |
| Cash generated from ops | 49,979 | 60,983 | 76,180 | 87,346 | 63,712 |
| Taxes paid, net | (6,450) | (6,459) | (7,018) | (9,905) | (13,776) |
| Cashflow from operations | 43,529 | 54,524 | 69,162 | 77,441 | 49,936 |
| CFI | | | | | |
| CAPEX, net | (267,659) | (195,862) | (98,897) | (101,256) | (51,059) |
| JV & assoc loans | (668) | (450) | (142) | (861) | 0 |
| Dividend and Interest received | 13,970 | 5,018 | 12,606 | 6,765 | 17,457 |
| Others | (3,200) | (19) | 1,722 | (171) | 0 |
| Cashflow from investments | (257,557) | (191,313) | (84,711) | (95,523) | (33,603) |
| CFF | | | | | |
| Loans, net | 232,596 | 170,482 | (23,287) | (22,923) | (29,431) |
| Dividends | (8,325) | (11,353) | (14,876) | (15,625) | (20,979) |
| 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 | 27,420 | 0 |
| Cashflow from financing | 229,776 | 213,118 | (37,909) | (10,777) | (50,410) |
| Effect of FX | (182) | (1,057) | (1,212) | 275 | 0 |
| Net change in cash | 15,566 | 75,272 | (54,670) | (28,584) | (34,077) |
| CCE, end | 59,116 | 134,388 | 79,718 | 51,373 | 17,296 |

Source: Company, PSR

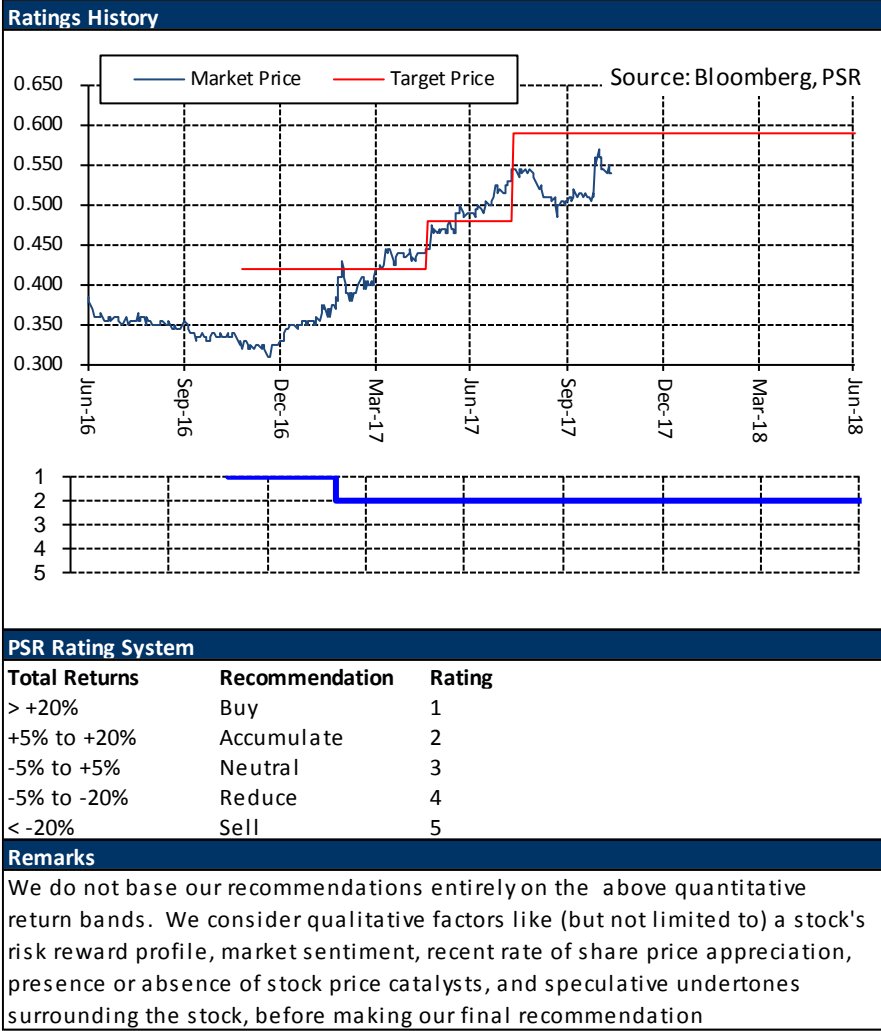
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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 | 1,248 | 1,248 |
| AFS financial assets | 2,314 | 2,196 | 0 | 0 | 0 |
| Investments in assoc.co. / JV | 85,789 | 83,097 | 77,236 | 147,298 | 160,682 |
| Investment properties | 684,437 | 891,471 | 927,406 | 950,365 | 996,834 |
| PPE | 6,385 | 9,709 | 9,268 | 9,782 | 9,992 |
| 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 | 1,108,900 | 1,168,963 |
| Cash and cash equivalents | 63,144 | 138,435 | 82,545 | 53,900 | 19,823 |
| Trade and other receivables | 4,993 | 5,659 | 6,499 | 7,949 | 8,574 |
| Inventories | 643 | 381 | 103 | 111 | 106 |
| Other assets | 13,666 | 3,819 | 5,140 | 11,088 | 11,088 |
| Assets held for sales | 0 | 45 | 7,375 | 0 | 0 |
| Current assets | 82,446 | 148,339 | 103,836 | 73,048 | 39,592 |
| Total Assets | 874,033 | 1,142,037 | 1,119,734 | 1,181,948 | 1,208,555 |
| Trade and other payables | 40,545 | 55,510 | 47,247 | 50,527 | 51,040 |
| Current income tax liabilities | 7,064 | 9,454 | 10,478 | 8,948 | 9,602 |
| Current Borrowings | 23,379 | 133,304 | 39,604 | 109,867 | 108,474 |
| Other liabilities | 0 | 0 | 286 | 312 | 317 |
| Current liabilities | 70,988 | 198,268 | 97,615 | 169,653 | 169,433 |
| Non-current Borrowings | 408,081 | 538,289 | 620,794 | 552,362 | 545,359 |
| Other liabilities | 276 | 202 | 500 | 480 | 475 |
| Deferred income tax liabilities | 3,128 | 2,382 | 1,343 | 2,736 | 3,151 |
| Non-current liabilities | 411,485 | 540,873 | 622,637 | 555,578 | 548,984 |
| Total Liabilities | 482,473 | 739,141 | 720,252 | 725,231 | 718,417 |
| Shareholders' equity | 390,630 | 402,116 | 392,598 | 444,955 | 478,104 |
| Non-controlling interests | 930 | 780 | 6,884 | 11,762 | 12,034 |
| Total equity | 391,560 | 402,896 | 399,482 | 456,718 | 490,138 |

Valuation Ratios

| Y/E Dec | FY14 | FY15 | FY16 | FY17e | FY18e |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| P/E (X) | 3.4 | 8.6 | 8.5 | 11.0 | 9.9 |
| P/B (X) | 1.0 | 0.7 | 0.6 | 0.9 | 0.9 |
| Growth & Margins (%) | | | | | |
| Growth | | | | | |
| Revenue | 30.0% | 21.2% | 15.1% | 13.5% | 15.1% |
| PATMI, adj. | 153.7% | -56.9% | -5.3% | 29.9% | 15.7% |
| Margins | | | | | |
| PATMI margin, adj. | 82.2% | 29.3% | 24.1% | 27.5% | 34.7% |
| Operating profit margin | 36.9% | 31.3% | 32.7% | 36.1% | 32.8% |
| Key Ratios | | | | | |
| ROE | 28.4% | 8.4% | 8.6% | 9.4% | 9.1% |
| ROA | 12.7% | 3.0% | 3.1% | 3.6% | 3.7% |
| Dividend Payout ratio | 7.5% | 33.3% | 51.4% | 40.8% | 45.7% |
| Dividend Yield | 2.0% | 3.9% | 6.1% | 3.7% | 4.6% |



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