

# Centurion Corp (CENT SP)

## Earnings Gap From Westlite Tuas

# HOLD

Share Price SGD 0.52  
 12m Price Target SGD 0.50 (-3%)  
 Previous Price Target SGD 0.55

### Earnings missed on earlier closure of Westlite Tuas

FY17 core earnings missed our estimate by 7% due to the earlier closure of Westlite Tuas by one month and weaker rental rate in the Singapore market. We forecast EPS to decrease 22% in FY18E as a result of the earnings gap from the land lease expiration of Westlite Tuas in Jan 2018 and lower rental rate in Singapore. On the bright side, the occupancy rate in Singapore remains healthy and performance has improved significantly in Malaysia due to positive regulations. We cut our FY18-19E EPS by 12-15% after reducing Singapore rental rate by 5%. Accordingly, our DCF-based TP fell 10% to SGD0.50 (WACC 7.0%). Maintain HOLD.

### Stable outlook in Singapore

Worker accommodation rental rate in Singapore declined by c.5% as management took proactive steps to reduce rents in exchange for a higher occupancy rate. Also, demand in the industry has been dented by the weaker oil and gas sector. So far, management's strategy has worked. Occupancy rate remains healthy at 98.4%, better than the 80% rate for the industry. Management expects this market to remain stable.

### Good performance and bright outlook in Malaysia

Worker accommodation rental rate in Malaysia has improved significantly. This is due to positive government regulations that are stricter and encourage proper housing for foreign workers. In FY17, the occupancy rate increased to 91% from c.70% in FY16. In addition, the rental rate increased c.10% YoY due to strong demand from the manufacturing industry. Management is positive on two projects under development in the state of Johor and Penang, which are expected to be completed in 2018 and 2020.

### Positive on student accommodation

Student accommodations in Australia, UK and US continued to enjoy a healthy occupancy rate of 92% in FY17. The earlier foray into this niche asset class could give Centurion an advantage during scale up. In 4Q17, it launched its maiden private fund, the Centurion US Student Housing Fund. The fund acquired six student accommodation assets across five U.S. states. This marks Centurion's first step in its asset-light strategy.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	121	137	119	130	137
EBITDA	69	72	66	73	78
Core net profit	38	44	35	39	43
Core EPS (cts)	5.1	5.3	4.1	4.7	5.1
Core EPS growth (%)	7.3	4.0	(21.8)	13.2	9.7
Net DPS (cts)	2.0	2.5	2.5	2.5	2.5
Core P/E (x)	10.2	9.8	12.5	11.0	10.1
P/BV (x)	1.0	0.9	0.9	0.9	0.9
Net dividend yield (%)	3.9	4.9	4.9	4.9	4.9
ROAE (%)	7.2	7.4	7.4	8.3	8.8
ROAA (%)	3.4	3.8	2.9	3.2	3.5
EV/EBITDA (x)	12.1	14.3	16.3	14.8	13.9
Net gearing (%) (incl perps)	144.7	121.3	128.2	122.7	116.2
Consensus net profit	-	-	45	na	na
MKE vs. Consensus (%)	-	-	(22.7)	na	na

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### Company Description

Centurion Corp develops, owns and operates worker and student accommodation.

### Statistics

52w high/low (SGD)	0.58/0.39
3m avg turnover (USDm)	0.4
Free float (%)	28.7
Issued shares (m)	841
Market capitalisation	SGD433.0M USD327M

### Major shareholders:

Centurion Global Ltd. (British Virgin Is)	53.0%
Teo Peng Kwang	7.6%
Lian Beng Group Ltd.	4.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(5)	23
Relative to index (%)	(2)	(8)	7

Source: FactSet

Fig 1: FY17 results

FYE Dec	FY17	FY16	Change (YoY %)	MBKE	% of	Comments
	(SGD m)	(SGD m)		FY17E	FY16E	
Revenue	137.1	120.5	13.8	145.3	94.3	
Cost of sales	(42.9)	(41.9)	2.4	(39.2)	109.3	
<b>Gross Profit</b>	<b>74.5</b>	<b>73.5</b>	<b>1.4</b>	<b>74.5</b>	<b>100.0</b>	
Other income	1.4	1.8	(24.6)	1.5	90.1	
Distribution expense	(1.2)	(1.3)	(10.1)	(1.5)	81.2	
Admin expense	(26.8)	(18.2)	47.7	(23.3)	115.4	
<b>EBIT</b>	<b>47.8</b>	<b>55.8</b>	<b>(14.3)</b>	<b>51.3</b>	<b>93.3</b>	
Share of profit from JV	4.6	5.4	(14.7)	6.0	76.5	
Fair value gain on inv prop	(1.2)	(3.1)	n/a	-	n/a	
Finance costs	(21.5)	(21.4)	(158.7)	(21.6)	99.7	
<b>Profit Before Tax</b>	<b>29.7</b>	<b>36.7</b>	<b>(521.1)</b>	<b>35.7</b>	<b>83.1</b>	
Taxation	(11.7)	(7.0)	(130.6)	(12.8)	91.8	
<b>Recurring PATMI</b>	<b>44.3</b>	<b>38.4</b>	<b>54.4</b>	<b>47.9</b>	<b>92.6</b>	Missed expectations due to earlier closure by one month for Westlite Tuas and lower-than-expected rental rate for Singapore.
						Adjusted for: 1) fair-value losses on investment properties of SGD2.9m; 2) provisions for deferred tax from fair-value gains of SGD2.8m and 3) dual-listing expense of SGD6.9m.
<b>PATMI</b>	<b>31.7</b>	<b>28.7</b>	<b>736.4</b>	<b>47.9</b>	<b>66.2</b>	
EPS (SGD cts)	4.19	3.79	(17.3)	6.33	66.2	
Recurring EPS (SGD cts)	5.86	5.07	192.9	6.33	92.6	
DPS (SGD cts)	2.5	2.0	25.0	2.0	125.0	
			(ppt)			
Gross margins	54.3	61.0	(6.6)	51.3		
EBIT margins	34.9	46.3	(11.4)	35.3		

Fig 2: 4Q17 results

FYE Dec	4Q17	3Q17	4Q16	Change	
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)
Revenue	33.6	32.3	35.0	4.1	(4.1)
Cost of sales	(10.8)	(10.5)	(11.5)	2.5	(6.8)
<b>Gross Profit</b>	<b>22.8</b>	<b>21.8</b>	<b>23.5</b>	<b>4.9</b>	<b>(2.8)</b>
Other income	0.2	0.4	0.6	(57.1)	(73.7)
Distribution expense	(0.4)	(0.3)	(0.3)	12.8	31.6
Admin expense	(9.0)	(6.2)	(5.9)	45.4	53.8
<b>EBIT</b>	<b>13.6</b>	<b>15.6</b>	<b>18.0</b>	<b>(12.9)</b>	<b>(24.4)</b>
Share of profit from JV	2.0	1.1	1.0	75.5	94.5
Fair value gain on inv prop	(1.5)	(1.5)	-3.121	0.5	(52.4)
Finance costs	(5.9)	(5.6)	(4.6)	4.5	26.6
<b>Profit Before Tax</b>	<b>8.2</b>	<b>9.7</b>	<b>11.3</b>	<b>(14.7)</b>	<b>(26.9)</b>
Taxation	(1.2)	(2.3)	(1.4)	(45.2)	(9.5)
<b>Recurring PATMI</b>	<b>9.3</b>	<b>8.9</b>	<b>12.8</b>	<b>5.4</b>	<b>(27.1)</b>
<b>PATMI</b>	<b>5.9</b>	<b>6.1</b>	<b>2.9</b>	<b>(2.8)</b>	<b>101.0</b>
EPS (SGD cts)	0.78	0.80	0.4	(2.8)	101.0
Recurring EPS (SGD cts)	1.23	1.17	1.69	5.4	(27.1)
DPS (SGD cts)	1.5	-	1.0	n/a	-
				Change (ppt)	
				(QoQ)	(YoY)
Gross margins	68.0	67.5	67.1	0.5	0.9
EBIT margins	40.5	48.4	51.4	(7.9)	(10.9)

Source: Upper table Company, Maybank KE; lower table Company.

**Fig 3: Earnings revisions**

	FY18E	FY19E
Old earnings (SGD m)	39.3	45.8
Revised earnings (SGD m)	34.7	38.7
% change	-12%	-15%
Comments	Lease expiry of Westlite Tuas in Jan 2018 and lower rental rate for Singapore workers dormitories.	

Source: Maybank Kim Eng

**Fig 4: Existing and new beds**

Location	Facility	Current Capacity (no. of beds)	Expected Capacity (no. of beds)
Singapore	Westlite Toh Guan	7,800	7,800
	Westlite Mandai	6,300	6,300
	Westlite Woodlands	4,100	4,100
	ASPRI-Westlite Dormitory - Papan	7,900	7,900
	<b>Total in Singapore</b>	<b>26,100</b>	<b>26,100</b>
Malaysia	Westlite Tebrau	2,100	2,500
	Westlite Johor Tech Park	5,800	5,800
	Westlite Pasir Gudang	2,000	2,000
	Westlite Senai	2,600	2,600
	Westlite Tampoi	5,300	5,300
	Westlite Senai II	5,900	5,900
	Westlite Bukit Minyak (expected completion 2018)	-	6,600
	Westlite Juru (expected completion 2018)	-	6,100
	<b>Total in Malaysia</b>	<b>23,700</b>	<b>36,400</b>
<b>Student Accommodation</b>			
Singapore	Dwell Selegie	332	332
Australia	RMIT Village (expected new beds in 2018)	456	616
	Dwell Adelaide (expected completion 2018)		280
UK	Eight student accommodation	2,420	2,420
US	Five student accommodation	2,140	2,140

Source: Company

**Fig 5: DCF valuation**

*TP fell to SGD0.50 from SGD0.55 after lowering the rental rate for Singapore by 5%.*

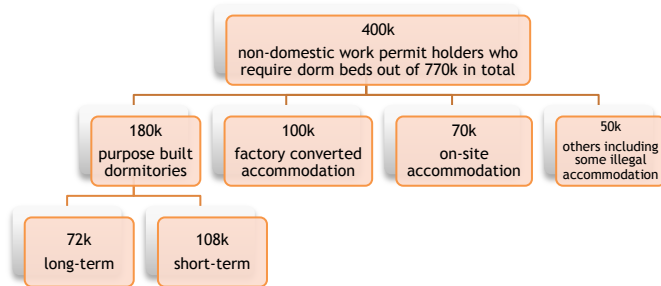
FYE Dec (SGDm)	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Operating CF	57	55	64	67	70	72
JV contributions	3	8	8	8	8	9
Capex	(24)	(69)	(19)	(19)	(14)	(13)
FCFF	35	(6)	53	56	64	68
Terminal value						1244
PV	33	(6)	43	43	45	872
Total discounted FCFF	998					
Less: FY17 net debt	(577)					
Add: Proceeds from exercise of warrants						
Intrinsic value	421					
<b>Value/share</b>	<b>0.50</b>					
		<u>Remarks</u>				
WACC	7.0%					
Cost of equity	9.3%					
Cost of debt	3.5%					
Corporate tax rate	17%					
Optimum debt/capital ratio	35.0%					
Risk-free rate	2.5%					
Beta	1.1	Centurion's 3-year beta				
Market return	9.0%	FSSTI's 10-year return				
Terminal growth	1.5%					

Source: Maybank Kim Eng

## Value Proposition

- Provides large-scale accommodation to foreign workers and students.
- Helps to mitigate social issues and HR-related matters for companies by managing affairs related to foreign workers.
- Leading provider of purpose-built workers' dormitories in Singapore and Malaysia. Also provides student accommodation in Australia and the UK.
- Early entry into the unique asset classes enables it to acquire land attractively and generate stable return.
- ROE of 8% vs cost of equity of 9%.

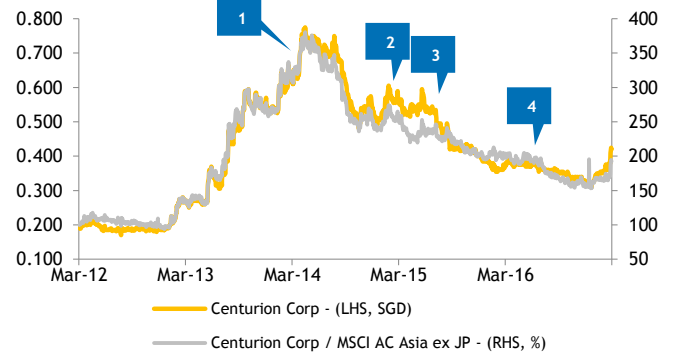
### Types of accommodation in Singapore



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



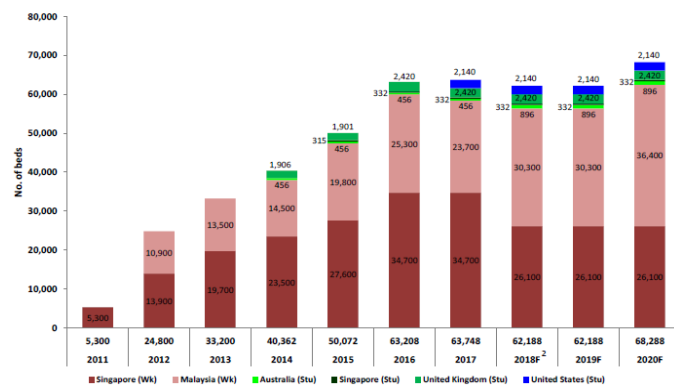
Source: Company, Bloomberg, Maybank Kim Eng

1. Feb 2014: FY13 core earnings grew 29% YoY, driven by a new foreign workers' dormitory in Singapore.
2. Jan 2015 - Announced that it was exploring the feasibility of listing a REIT for certain worker-accommodation assets.
3. Mar 2015 - Plan for REIT was cancelled as it would be considered a chain listing by SGX.
4. Feb 2016: FY16 core earnings grew 1% YoY, lacklustre outlook for Singapore due to huge supply and slower growth in no. of foreign workers.

## Financial Metrics

- Key drivers of earnings growth: 1) increase in no. of beds; 2) occupancy rate; and 3) bed rate.
- No. of beds is expected to increase in Malaysia. Other countries should remain stable except for Singapore.
- For Singapore, it could see a reduction of 8,600 beds in Jan 2018 as its land lease in Westlite Tuas ends. We have factored in the reduction in our FY18E earnings.
- Singapore is still expected to be the key earnings contributors, at >50% for FY17.

### Overview of no. of beds



Source: Company

## Swing Factors

### Upside

- Spin-off of its assets for REIT could help to unlock value of properties, generate management fees and recycle capital.
- Easing of foreign workers' policy by the Singapore government. This could increase the number of foreign workers and hence demand for beds.

### Downside

- Oversupply of dormitory beds in Singapore, which could increase competition and reduce rental rate.
- Further tightening of foreign workers' policy by the Singapore government.
- General economic slowdown, which could reduce the demand for foreign workers.

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FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	9.5	12.5	12.5	11.0	10.1
Core P/E (x)	10.2	9.8	12.5	11.0	10.1
P/BV (x)	1.0	0.9	0.9	0.9	0.9
P/NTA (x)	1.0	0.9	0.9	0.9	0.9
Net dividend yield (%)	3.9	4.9	4.9	4.9	4.9
FCF yield (%)	nm	nm	nm	12.3	13.1
EV/EBITDA (x)	12.1	14.3	16.3	14.8	13.9
EV/EBIT (x)	13.7	15.3	17.0	15.5	14.5
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	120.5	137.1	118.8	129.7	137.4
Gross profit	78.7	94.2	82.0	90.1	96.2
EBITDA	68.9	72.3	66.2	73.0	78.0
Depreciation	(3.0)	(2.9)	(2.6)	(3.0)	(3.3)
Amortisation	(4.9)	(1.9)	0.0	0.0	0.0
EBIT	61.0	67.5	63.6	70.0	74.7
Net interest income / (exp)	(21.4)	(21.5)	(20.2)	(20.9)	(20.9)
Associates & JV	5.4	4.6	8.0	8.1	8.2
Exceptionals	(3.1)	(1.2)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.9	49.4	51.4	57.2	62.1
Income tax	(7.0)	(11.7)	(9.8)	(10.9)	(11.8)
Minorities	6.1	5.9	6.9	7.1	7.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	28.7	31.7	34.7	39.2	43.1
Core net profit	38.4	44.3	34.7	39.2	43.1
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	82.5	75.8	25.4	29.7	37.1
Accounts receivable	6.5	13.6	11.4	12.4	13.2
Inventory	0.1	0.1	1.0	1.1	1.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	9.3	9.0	6.0	7.0	7.7
Intangible assets	1.9	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,019.5	1,090.6	1,155.6	1,170.6	1,185.6
<b>Total assets</b>	<b>1,119.7</b>	<b>1,189.0</b>	<b>1,199.4</b>	<b>1,220.8</b>	<b>1,244.7</b>
ST interest bearing debt	39.6	107.5	107.5	107.5	107.5
Accounts payable	47.2	44.7	42.4	45.5	47.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	620.8	545.1	545.1	545.1	545.1
Other liabilities	13.0	16.0	15.0	15.0	15.0
<b>Total Liabilities</b>	<b>720.3</b>	<b>713.3</b>	<b>710.0</b>	<b>713.1</b>	<b>715.1</b>
Shareholders Equity	392.6	462.9	469.6	480.8	495.6
Minority Interest	6.9	12.8	19.8	26.8	34.0
<b>Total shareholder equity</b>	<b>399.5</b>	<b>475.7</b>	<b>489.4</b>	<b>507.6</b>	<b>529.7</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,119.7</b>	<b>1,189.0</b>	<b>1,199.4</b>	<b>1,220.8</b>	<b>1,244.7</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	41.9	49.4	51.4	57.2	62.1
Depreciation & amortisation	8.0	4.8	2.6	3.0	3.3
Change in working capital	8.2	(5.2)	(1.1)	2.0	1.1
Cash taxes paid	(7.0)	(9.0)	(9.8)	(10.9)	(11.8)
Other operating cash flow	18.6	16.9	11.5	12.5	12.4
Cash flow from operations	69.7	56.9	54.6	63.9	67.1
Capex	(99.4)	(60.8)	(69.0)	(19.0)	(19.0)
Free cash flow	(15.0)	(11.6)	(5.6)	53.2	56.6
Dividends paid	(14.9)	(15.4)	(21.0)	(21.0)	(21.0)
Equity raised / (purchased)	0.0	19.8	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(2.1)	(8.9)	(0.0)	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(105.7)	(59.6)	(80.5)	(31.5)	(31.4)
Effect of exch rate changes	(1.2)	0.1	0.0	0.0	0.0
Net cash flow	(54.2)	(7.0)	(46.9)	11.3	14.7

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	15.3	13.8	(13.4)	9.2	6.0
EBITDA growth	23.4	4.9	(8.4)	10.2	6.9
EBIT growth	25.3	10.8	(5.8)	10.0	6.8
Pretax growth	(0.9)	18.0	4.0	11.3	8.5
Reported net profit growth	(15.9)	10.5	9.3	13.2	9.7
Core net profit growth	7.3	15.6	(21.8)	13.2	9.7
<b>Profitability ratios (%)</b>					
EBITDA margin	57.2	52.7	55.7	56.3	56.8
EBIT margin	50.6	49.3	53.6	54.0	54.4
Pretax profit margin	34.7	36.0	43.3	44.1	45.2
Payout ratio	52.7	66.3	60.6	53.6	48.8
<b>DuPont analysis</b>					
Net profit margin (%)	23.8	23.1	29.2	30.3	31.3
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.9	2.6	2.6	2.5	2.5
ROAE (%)	7.2	7.4	7.4	8.3	8.8
ROAA (%)	3.4	3.8	2.9	3.2	3.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.7	1.7	1.7	1.7
Net gearing (%) (incl perps)	144.7	121.3	128.2	122.7	116.2
Net gearing (%) (excl. perps)	144.7	121.3	128.2	122.7	116.2
Net interest cover (x)	2.9	3.1	3.1	3.4	3.6
Debt/EBITDA (x)	9.6	9.0	9.9	8.9	8.4
Capex/revenue (%)	82.5	44.3	58.1	14.7	13.8
Net debt/ (net cash)	577.9	576.9	627.2	623.0	615.5

Source: Company; Maybank

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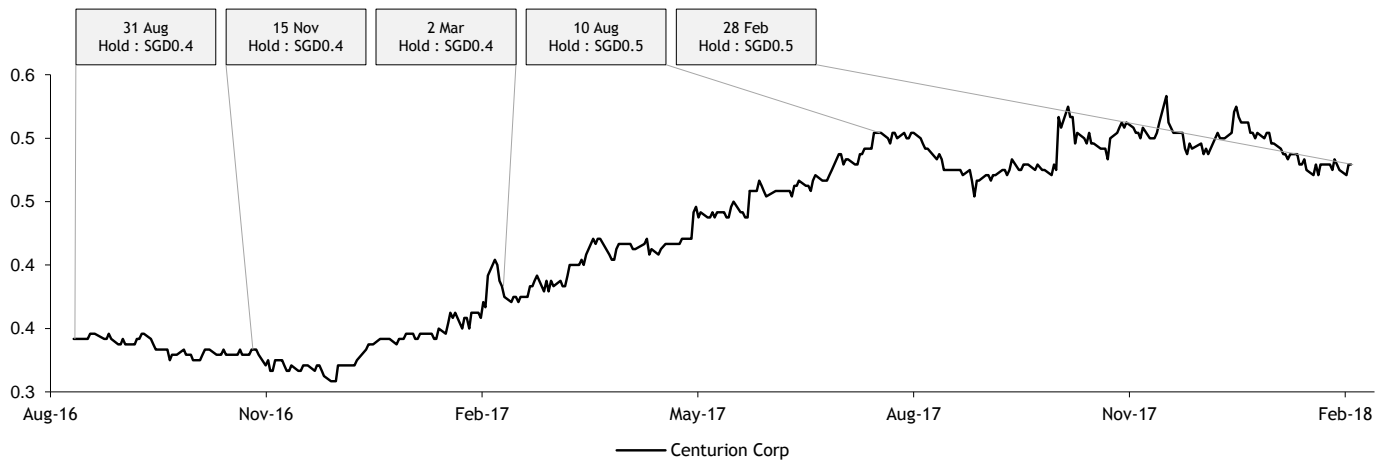
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