

COMPANY RESULTS

Centurion Corp (CENT SP)

1Q22: Continues To See Strong Recovery In Its Business

Centurion reported better-than-expected 1Q22 revenue of S\$45m, up 47% yoy and forming over 30% of our full-year revenue estimates. All business segments enjoyed double-digit revenue growth due to a combination of higher occupancies and new revenue streams as economic recovery and the reopening of international borders provided strong tailwinds. Maintain BUY. Target price S\$0.43.

1Q22 BUSINESS UPDATE

Year to 31 Dec (S\$m)	1Q21	1Q22	yoy	Remarks
Revenue	30.7	45.1	+46.7%	- Driven by additions of new PBWA capacity
By Business Segment				
Workers Accommodation	22.81	33.44	+46.6%	
Student Accommodation	7.65	10.97	+43.4%	
Others	0.23	0.63	+174%	
By Geographical Area				
Singapore	20.23	30.64	+51.5%	- Boosted by contributions from two QBDs and two
Malaysia	3.33	3.44	+3.3%	Onboarding Centres
United Kingdom	5.47	8.55	+56.3%	- Robust bookings for PBSA occupancies
Australia	1.15	1.82	+58.3%	- Strong recovery for PBSA occupancies
Others	0.5	0.59	+18%	

Source: Centurion, UOB Kay Hian

RESULTS

- Strong growth from its main revenue driver.** Centurion Corp's (Centurion) better-than-expected 1Q22 revenue of S\$45m (+47% yoy) was driven by its Purpose Built Workers' Accommodation (PBWA) assets in Singapore which saw volume increasing via two additional Quick Build Dormitories (QBDs) that started operations in 2Q21 and 4Q21. The company also witnessed continued recovery in its PBWA occupancy rates on a yoy basis.
- Other segments continue to see gains as well.** The company's Purpose Built Students' Accommodation (PBSA) segment generated a 43% yoy increase in revenue, resulting from a strong recovery in Australia and the UK with revenue up 58% and 56% yoy respectively. The reopening of borders after the COVID-19 pandemic has led to higher demand for student accommodation with the outlook likely to remain strong due to robust bookings for the 2022 academic year in the UK.
- Inflation – smaller-than-expected impact.** The key operating cost that has markedly increased on a yoy basis is energy and while this cost cannot be passed on within the PBSA segment until the lease is up, PBWA contracts exclude energy costs. Thus, energy costs are borne separately by Centurion's clients, thus preserving its margins within this segment which contributed over 73% of the company's revenue in 1Q22.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	128	143	164	170	175
EBITDA	47	79	92	99	104
Operating profit	44	76	82	89	91
Net profit (rep./act.)	17	53	50	56	58
Net profit (adj.)	17	53	50	56	58
EPS (S\$ cent)	2.0	6.3	6.0	6.7	6.9
PE (x)	17.4	5.7	5.9	5.3	5.1
P/B (x)	0.5	0.5	0.4	0.4	0.4
EV/EBITDA (x)	20.1	12.0	10.4	9.6	9.1
Dividend yield (%)	0.0	1.4	3.4	3.8	3.9
Net margin (%)	13.4	36.8	30.6	33.0	33.3
Net debt/(cash) to equity (%)	110.8	100.1	90.2	80.4	82.4
Interest cover (x)	2.0	3.5	3.5	3.8	4.0
ROE (%)	2.9	8.3	7.4	7.8	7.9
Consensus net profit	-	-	54	56	59
UOBKH/Consensus (x)	-	-	0.94	0.99	0.99

Source: Centurion corp, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.355
Target Price	S\$0.43
Upside	+21.1%
(Previous TP)	S\$0.450

COMPANY DESCRIPTION

Centurion is one of the largest providers of purpose-built workers' accommodations in Singapore and Malaysia, and has exposure to student accommodation in UK and Australia.

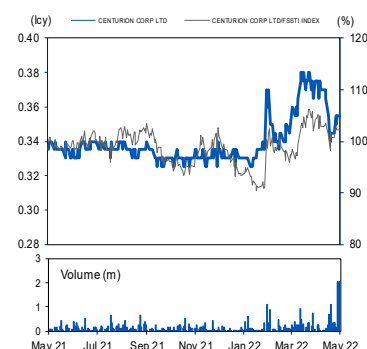
STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CENT SP
Shares issued (m):	840.8
Market cap (S\$m):	298.5
Market cap (US\$m):	216.7
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low	S\$0.380/S\$0.325			
1mth	3mth	6mth	1yr	YTD
(2.7)	6.0	7.6	6.0	7.6
Major Shareholders				
Centurion Properties	50.6			
Teo Peng Kwang	7.6			
Han Seng Juan	5.0			
FY22 NAV/Share (S\$)	0.83			
FY22 Net Debt/Share (S\$)	0.76			

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Positive rental reversions seen.** During 1Q22, the company benefitted from positive rental reversions at most of its geographies with low to mid-single-digit increases. Singapore has clearly been the key driver and in the past 3-6 months, the pace of foreign workers returning to various industries has increased. Thus, the 15% decline in worker volumes in 2021 has mostly recovered, with faster recovery seen in certain sectors like oil & gas, petrochemicals and construction while shipping and marine has seen a relatively slower recovery.
- New acquisition in the UK.** On 20 May 22, Centurion announced that it had acquired a 103-bed freehold student PBSA in Nottingham, UK, at a purchase consideration of £10.4m. This asset, built in 2018, will complement the company's two existing PBSA assets in Nottingham, namely dwell Castle Gate Haus and dwell Archer House. Demand for student accommodation will likely come from Nottingham Trent University and the University of Nottingham. Notably, the Nottingham City Council estimates that there will be a shortfall of 2,000 PBSA beds in Nottingham even after all current pipeline beds are completed, and a further shortfall of 5,000 PBSA beds by 4Q24.
- The key risk facing Centurion in the next six months** is the release of the Singapore government's revised rules and standards regarding PBWAs. These rules are likely to see lower density of workers per given area vs current standards (among other new rules) and thus Centurion and other players in the PBWA industry will need time to retrofit its assets to adhere to the new regulations without interruption to the key industries that they serve. As a result, there will likely be some level of disruption to its business which cannot be quantified at present. To offset this disruption, we anticipate that financial support from the government could be forthcoming; however this has not been revealed yet.

EARNINGS REVISION/RISK

- Upgrading earnings forecasts.** Based on the better-than-expected revenue numbers, we have upgraded our 2022-24 earnings by 11-17% as we have increased Centurion's occupancy rates for both PBWA and PBSA by between 3-5ppt, and also increased our rental assumptions by 2-4% which is somewhat conservative in our view. The acquisition in Nottingham added 0.5ppt and 1.0ppt to our earnings estimates for 2022 and 2023 respectively.

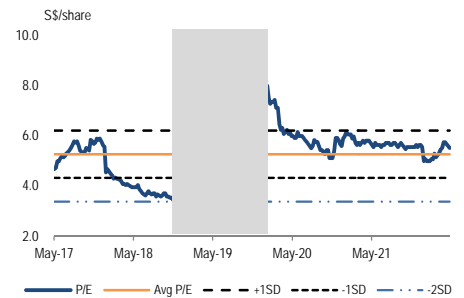
VALUATION/RECOMMENDATION

- Maintain BUY with target price of S\$0.43.** Our target price is an aggregate of both PE and P/B valuation methodologies. We have revised down our 2022E PE target multiple to 6.2x – this is 1SD above the company's past five-year average of 5.3x which excludes the abnormal forward PE multiples seen in 2019-20 and results in a valuation of S\$0.37. Our 2022 P/B target multiple of 0.6x (in line with its past five-year average P/B) is \$0.48.

SHARE PRICE CATALYST

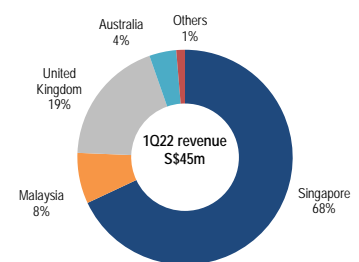
- Full resumption of domestic and international flights.
- Faster-than-expected easing of COVID-19 restrictions in Centurion's key geographies.

FIVE-YEAR FORWARD PE CHART (EXCL. 2019)



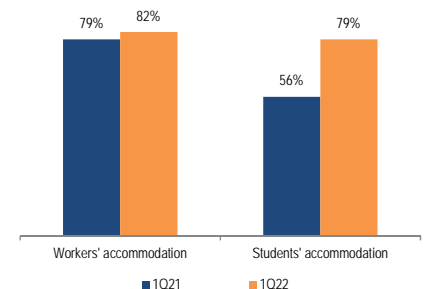
Source: Bloomberg

REVENUE BY GEOGRAPHY IN 1Q22



Source: Centurion

OCCUPANCY RATES BY ASSET CLASS



Note: Occupancy excludes Quick Build Dormitories (QBDs) which commenced operations in 4Q20

Source: Centurion

CHANGES TO EARNINGS FORECASTS

Y/e 31 Dec, S\$m	2022E	2023E	2024E
NPAT - was	42.9	49.7	52.5
NPAT - is	50.2	56.1	58.3
Change	17.2%	12.9%	11.1%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	143.0	164.4	169.8	175.1
EBITDA	79.1	91.5	99.4	103.9
Deprec. & amort.	3.6	9.0	10.8	12.5
EBIT	75.6	82.5	88.6	91.4
Associate contributions	15.1	6.7	7.8	7.9
Net interest income/(expense)	(22.7)	(25.9)	(25.9)	(25.9)
Pre-tax profit	67.9	63.3	70.6	73.4
Tax	(12.1)	(10.1)	(11.2)	(11.7)
Minorities	(3.1)	(3.0)	(3.3)	(3.4)
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	52.7	50.2	56.1	58.3
Net profit (adj.)	52.7	50.2	56.1	58.3

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	74.3	85.6	89.3	59.0
Pre-tax profit	55.8	53.2	59.4	61.7
Tax	(7.8)	(10.1)	(11.2)	(11.7)
Deprec. & amort.	3.6	9.0	10.8	12.5
Associates	(15.1)	(6.7)	(7.8)	(7.9)
Working capital changes	2.7	4.2	1.1	(33.3)
Non-cash items	35.2	36.0	37.0	37.5
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(20.0)	(19.6)	(18.7)	(25.0)
Capex (growth)	(4.1)	(25.0)	(25.0)	(25.0)
Capex (maintenance)	(31.0)	0.0	0.0	0.0
Investments	11.3	5.4	6.3	0.0
Proceeds from sale of assets	3.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(71.8)	(24.6)	(37.1)	(37.5)
Dividend payments	0.0	(10.0)	(11.2)	(11.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	48.3	11.3	0.0	0.0
Loan repayment	(87.4)	0.0	0.0	0.0
Others/interest paid	(32.8)	(25.9)	(25.9)	(25.9)
Net cash inflow (outflow)	(17.5)	41.4	33.5	(3.6)
Beginning cash & cash equivalent	83.9	66.3	106.5	138.8
Changes due to forex impact	1.1	0.0	0.0	0.0
Ending cash & cash equivalent	67.5	107.7	140.0	135.3

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	8.7	74.0	0.0	0.0
Other LT assets	1,477.3	1,481.4	1,483.6	1,462.3
Cash/ST investment	67.5	107.7	140.0	135.3
Other current assets	29.1	29.2	29.2	29.0
Total assets	1,582.7	1,692.2	1,652.8	1,626.5
ST debt	63.3	55.8	55.8	55.8
Other current liabilities	73.6	80.5	82.2	27.4
LT debt	664.4	683.3	683.3	683.3
Other LT liabilities	104.1	152.2	62.8	103.0
Shareholders' equity	659.7	699.9	744.8	733.1
Minority interest	17.6	20.6	23.9	23.9
Total liabilities & equity	1,582.7	1,692.2	1,652.8	1,626.5

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	55.3	55.7	58.5	59.3
Pre-tax margin	47.5	38.5	41.6	41.9
Net margin	36.8	30.6	33.0	33.3
ROA	3.4	3.1	3.4	3.6
ROE	8.3	7.4	7.8	7.9
Growth				
Turnover	11.4	14.9	3.3	3.1
EBITDA	67.1	15.7	8.6	4.5
Pre-tax profit	163.7	(6.7)	11.5	3.9
Net profit	206.8	(4.6)	11.6	3.9
Net profit (adj.)	206.8	(4.6)	11.6	3.9
EPS	206.8	(4.6)	11.6	3.9
Leverage				
Debt to total capital	51.8	50.6	49.0	49.4
Debt to equity	110.3	105.6	99.2	100.8
Net debt/(cash) to equity	100.1	90.2	80.4	82.4
Interest cover (x)	3.5	3.5	3.8	4.0

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