

Singapore

October 11, 2023 - 8:32 PM

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.395
Target price:	S\$0.60
Previous target:	S\$0.60
Up/downside:	51.9%
CGS-CIMB / Consensus:	4.7%
Reuters:	CNCL.SI
Bloomberg:	CENT SP
Market cap:	US\$243.1m
	S\$332.1m
Average daily turnover:	US\$0.17m
	S\$0.23m
Current shares o/s	840.8m
Free float:	30.2%

*Source: Bloomberg

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (S\$m)	73.28	72.66	77.43
Normalised EPS (S\$)	0.081	0.086	0.092
Normalised EPS Growth	19.2%	6.8%	6.6%
FD Normalised P/E (x)	4.88	4.57	4.29
Recurring ROE	9.66%	9.46%	9.50%
P/BV (x)	0.45	0.42	0.40
DPS (S\$)	0.020	0.028	0.037
Dividend Yield	5.12%	7.11%	9.33%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.5	0	12.9
Relative (%)	-2.2	-1.6	10

Major shareholders	% held
Centurion Properties Pte Ltd	50.6
Teo Peng Kwang	7.6
David Loh Kim Kang	5.3

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Centurion Corporation Ltd

New interim standards for SG worker dorms

- Singapore's MOM has announced new improved interim standards for existing dormitories to be implemented between 2027 and 2030.
- CENT's PBDs already meet some of the new requirements, and it has put plans in place to reduce the impact of compliance on market bed supply.
- Gradual de-densification of worker dorms is in line with our expectations, and reaffirms our view that supply tightness could persist in medium term. Add.

MOM launches transitional new standards for existing dorms

- Singapore's Ministry of Manpower (MOM) announced today a Dormitory Transition Scheme (DTS) to improve existing worker dormitories' living conditions and resilience against any potential future pandemics. Dormitories approved before Sep 2021 can transition to the Interim Dormitory Standards (IDS), which are less comprehensive than the New Dormitory Standards (NDS) applicable for newer dorms.
- The IDS include specifications such as a maximum of 12 residents per room, a minimum living space of 3.6 square meters per resident, ensuite toilets and showers, and stricter isolation facility requirements during normal and pandemic times.
- Given the existing shortage of worker housing, **dorm operators have from 2027 to 2030 to transition under the DTS, and financial support may be provided for the retrofitting costs.** By 2040, all dorms must fully comply with the NDS.
- As of end-1H23, Centurion (CENT) has 34,786 bed capacity for worker accommodations in Singapore. Of which, 27,540 beds under its five purpose-built dorms (PBD) require retrofitting to meet the IDS. The five PBDs already have ensuite facilities but require retrofitting for other specifications.

Gradual de-densification suggests supply tightness to persist

- To prepare for the DTS, CENT plans to partially redevelop two of its PBDs – it has received provisional permissions from relevant authorities and aims to complete them before the transition period begins in 2027. This will allow CENT to progressively retrofit other parts of the dorms with minimal disruption to bed capacity.
- Depending on the extensiveness of retrofitting required for the five PBDs, CENT estimates a reduction of between 800 to 3,000 of its existing PBD bed capacity in Singapore by 2030.
- Overall, the gradual de-densification of foreign worker dormitories is in line with our expectations. The timeline put out by MOM suggests that it expects ongoing supply tightness could persist through 2026, which is supportive of our view that rental rates for workers accommodation will remain at high levels in the medium term.
- We make no changes to our EPS for our forecast period as the transition period begins in 2027. In the interim, we believe the Singapore government will release more new sites for construction of temporary and/or permanent housing to prepare for the upcoming transition.
- We also note from the worker accommodation's standard implementation in Malaysia in 2022 that CENT was able to more than offset the reduction of bed capacity via an increase in rental rates.

Reiterate Add

- Reiterate Add with TP of S\$0.60 based on blended valuation (7.4x FY24F P/E and 40% discount to RNAV) as we see CENT riding on favourable industry dynamics amid ongoing regulatory reforms to improve migrant worker housing standards.
- Re-rating catalysts include the gradual resumption of DPR to pre-pandemic levels of 40-50% and successful execution of its capital recycling strategy. Downside risks include higher-than-expected increase in financing costs, and a slowdown in construction/O&G sectors impacting worker requirements, resulting in lower bed capacity utilisation for CENT.

Figure 1: Standards that migrant worker dormitories are required to adhere to

	Previous standards	Interim standards under Dormitory Transition Scheme (DTS), to be implemented by 2030	New Dormitory Standards (NDS), to be implemented by 2040
Occupancy per room	<ul style="list-style-type: none"> No maximum residents per room No requirement for spacing between beds 	<ul style="list-style-type: none"> ≤ 12 residents per room ≥ 1m spacing between beds (recommended) 	<ul style="list-style-type: none"> ≤ 12 residents per room ≥ 1m spacing between beds
Living space, excluding shared living facilities	<ul style="list-style-type: none"> ≥ 3.5 sqm/resident on average, varies across dormitories* 	<ul style="list-style-type: none"> ≥ 3.6 sqm/resident 	<ul style="list-style-type: none"> ≥ 4.2 sqm/resident
Toilets	<ul style="list-style-type: none"> ≥ 1 set of toilet, shower, sink and urinal per 15 residents Common or en-suite toilets allowed 	<ul style="list-style-type: none"> ≥ 1 set of toilet, shower, and hand-wash basin per 6 residents En-suite only (communal toilets will be allowed for dormitories with infrastructure constraints on a case-by-case basis, subject to approval by MOM) 	<ul style="list-style-type: none"> ≥ 1 set of toilet, shower, and hand-wash basin per 6 residents En-suite only
Isolation facilities	<ul style="list-style-type: none"> ≥ 10 isolation bed per 1,000 bed spaces En-suite toilets recommended but not required apart from first 1 in 10 isolation beds No restrictions on number of beds per room for the next 9 in 10 isolation beds Additional isolation beds at ≥ 15 isolation beds per 1,000 bed spaces (to be stood up during public health outbreaks, convertible from existing spaces) No specifications on the number of beds per room or toilet provision 	<ul style="list-style-type: none"> ≥ 10 isolation beds per 1,000 bed spaces En-suite toilets required for all isolation rooms Only 1-bedded rooms allowed for the first 5 per 10 isolation beds. For the next 5 beds, 2-bedded rooms are allowed if there is partitioning between beds Additional isolation beds at ≥ 15 per 1,000 bed spaces (to be stood up during public health outbreaks, convertible from existing spaces) Only 1 or 2-bedded rooms allowed. 2-bedded rooms are allowed if there is partitioning between beds. En-suite toilets are recommended 	

*The previous standard for minimum living space was 4.5sqm/resident, and included shared living facilities (e.g., en-suite kitchen, toilets, yard spaces). Excluding the shared living facilities, this broadly works out to a living space of 3.5sqm/resident on average. In practice, there is a wide range of living space provisions within the overall ≥4.5 sqm/resident requirement, and many existing dormitories are below 3.5sqm/resident.

SOURCES: CGS-CIMB RESEARCH, MINISTRY OF MANPOWER

Figure 2: Peer comparison

Company	Bloomberg Ticker	Bloomberg Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY23F	CY24F		CY23F	CY24F	CY23F	CY24F	CY23F	CY24F	CY23F	CY24F
Centurion Corporation Ltd	CENT SP	ADD	0.40	0.60	247	4.9	4.6	9.9%	0.5	0.4	9.7%	9.5%	6.8	6.2	5.1%	7.0%
PBSA/PBWA																
Wee Hur Holdings Ltd	WHUR SP	NR	0.18	na	123	na	na	na	na	na	na	na	na	na	na	na
Far East Orchard Ltd	FEOR SP	NR	1.03	na	369	na	na	na	na	na	na	na	na	na	na	na
CapitaLand Ascott Trust	CLAS SP	NR	0.91	na	2,497	19.3	16.5	0.1%	0.8	0.8	4.1%	4.7%	20.7	18.2	6.6%	7.4%
Frasers Hospitality Trust	FHT SP	NR	0.50	na	707	23.9	20.8	-11.1%	0.8	0.8	3.2%	3.6%	23.9	21.4	4.8%	5.5%
UNITE Group PLC	UTG LN	NR	912.50	na	4,926	20.6	19.7	-18.0%	1.0	0.9	7.2%	5.9%	21.4	20.1	3.8%	4.0%
Empiric Student Property PLC	ESP LN	NR	87.20	na	655	21.3	18.8	-23.6%	0.7	0.7	8.1%	9.8%	20.4	18.5	3.9%	4.4%
Watkin Jones PLC	WJG LN	NR	34.85	na	104	6.1	4.0	18.0%	0.6	0.5	1.7%	11.5%	4.0	2.4	10.5%	13.4%
Simple average (excludes Centurion)						18.2	15.9	-6.9%	0.8	0.7	4.8%	7.1%	18.1	16.1	5.9%	6.9%

DATA AS AT 11 OCT 2023

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

NOTE: FORECASTS FOR NOT RATED (NR) COMPANIES ARE BLOOMBERG CONSENSUS' ESTIMATES

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	180.5	201.1	213.2	223.8
Gross Profit	123.6	144.9	154.2	161.6
Operating EBITDA	97.7	117.3	124.4	129.8
Depreciation And Amortisation	(3.7)	(3.5)	(3.5)	(3.5)
Operating EBIT	94.1	113.8	120.9	126.3
Financial Income/(Expense)	(28.3)	(32.7)	(31.7)	(30.7)
Pretax Income/(Loss) from Assoc.	8.9	10.0	10.0	10.0
Non-Operating Income/(Expense)	6.3	1.7	1.5	1.5
Profit Before Tax (pre-EI)	80.9	92.8	100.7	107.2
Exceptional Items	14.3	5.3	0.0	0.0
Pre-tax Profit	95.3	98.0	100.7	107.2
Taxation	(19.0)	(19.4)	(22.7)	(24.3)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0
Profit After Tax	76.3	78.6	78.1	82.9
Minority Interests	(4.9)	(5.3)	(5.4)	(5.5)
Prof. & Special Div	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	71.4	73.3	72.7	77.4
Normalised Net Profit	61.9	73.4	78.1	82.9
Fully Diluted Normalised Profit	57.1	68.0	72.7	77.4

Balance Sheet

(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	68	71	79	84
Properties Under Development				
Total Debtors	13	17	18	18
Inventories	0	0	0	0
Total Other Current Assets	10	10	10	10
Total Current Assets	92	98	107	113
Fixed Assets	7	6	4	3
Total Investments	1,444	1,480	1,510	1,540
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	4	4	4	4
Total Non-current Assets	1,456	1,490	1,518	1,547
Short-term Debt	80	80	80	80
Current Portion of Long-Term Debt				
Total Creditors	55	54	57	60
Other Current Liabilities	30	30	30	30
Total Current Liabilities	166	164	167	170
Total Long-term Debt	583	563	543	523
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	70	70	70	70
Total Non-current Liabilities	653	633	613	593
Total Provisions	21	21	21	21
Total Liabilities	839	818	801	784
Shareholders' Equity	687	743	792	839
Minority Interests	22	27	32	38
Total Equity	708	770	825	876

Cash Flow

(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	97.73	117.29	124.40	129.84
Cash Flow from Inv. & Assoc.	(8.92)	(10.00)	(10.00)	(10.00)
Change In Working Capital	11.99	(4.80)	1.69	2.19
Straight Line Adjustment				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(18.15)	(21.16)	(20.16)	(19.16)
Net Interest (Paid)/Received	27.53	31.16	30.16	29.16
Tax Paid	(7.19)	(19.42)	(22.69)	(24.30)
Cashflow From Operations	103.00	93.07	103.40	107.73
Capex	(5.87)	(22.00)	(22.00)	(22.00)
Disposals Of FAs/subsidiaries				
Disposals of Investment Properties				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	4.15	1.50	1.50	1.50
Cash Flow From Investing	(1.71)	(20.50)	(20.50)	(20.50)
Debt Raised/(repaid)	(41.31)	(20.00)	(20.00)	(20.00)
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00
Dividends Paid	(8.42)	(17.01)	(23.61)	(30.97)
Preferred Dividends				
Other Financing Cashflow	(29.28)	(32.66)	(31.66)	(30.66)
Cash Flow From Financing	(79.02)	(69.66)	(75.27)	(81.63)

Key Ratios

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	26.2%	11.5%	6.0%	5.0%
Operating EBITDA Growth	28.4%	20.0%	6.1%	4.4%
Operating EBITDA Margin	54.2%	58.3%	58.3%	58.0%
Net Cash Per Share (\$)	(0.71)	(0.68)	(0.65)	(0.62)
BVPS (\$)	0.82	0.88	0.94	1.00
Gross Interest Cover	3.32	3.48	3.82	4.12
Effective Tax Rate	19.9%	19.8%	22.5%	22.7%
Net Dividend Payout Ratio	14.7%	25.0%	32.5%	40.0%
Accounts Receivables Days	31.23	26.69	29.23	29.29
Inventory Days	1.60	2.17	2.07	1.96
Accounts Payables Days	324.9	353.7	342.7	341.0
ROIC (%)	(270%)	(226%)	(257%)	(251%)
ROCE (%)	6.69%	8.05%	8.33%	8.51%
Return On Average Assets	5.77%	6.76%	6.83%	6.91%

12-mth Fwd FD P/E (x) - Centurion Corporation Ltd



Key Drivers

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
PBWA Malaysia bed capacity	26,313.0	28,799.0	30,289.0	30,799.0
PBWA Singapore bed capacity	33,898.0	34,786.0	34,322.0	34,984.8
PBSA Australia bed capacity	920.0	920.0	920.0	920.0
PBSA UK bed capacity	2,807.0	2,807.0	2,807.0	2,807.0
PBWA Malaysia occupancy	0.8	0.9	0.9	0.9
PBWA Singapore occupancy	1.0	1.0	1.0	1.0
PBSA Australia occupancy	0.7	0.8	0.9	0.9
PBSA UK bed occupancy	0.9	0.9	0.9	0.9

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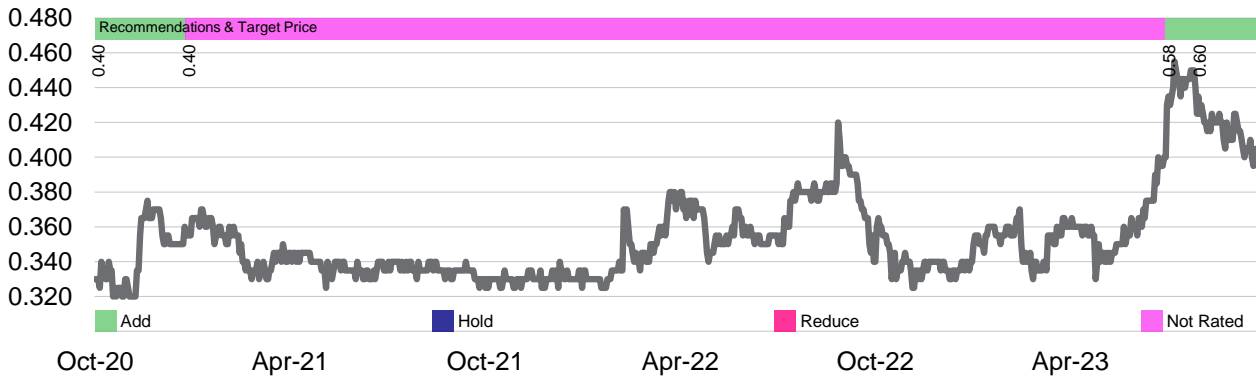
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Centurion Corporation Ltd (CENT SP)

— Price Close



Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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