

14 October 2024

Property | Real Estate

## Centurion Corp (CENT SP)

**Buy** (Maintained)

### More Positive On Bed Rates In Singapore; Still BUY

Target Price (Return): SGD1.06 (+27%)  
 Price (Market Cap): SGD0.84 (USD538m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.88m/0.67m

- Maintain BUY, with new SGD1.06 TP from SGD0.76, 27% upside and c.4% FY25F yield.** We like Centurion Corp for being well positioned to yield better rental rates in Singapore from the dormitory supply shortage situation. We turn more positive on CENT on better purpose-built workers accommodation (PBWA) bed rates in Singapore, with longer term growth supported by overseas properties. We raise our earnings and lift our target P/E based on FY25F earnings to 9x from 7.5x in view of its longer-term growth potential.
- Enters China market with JV partner.** CENT announced that it has entered into a framework agreement with accommodation services company Xiamen City Home Apartment Management to establish two JVs to retrofit, renovate and/or manage and operate build to-rent (BTR) residential accommodation targeting working professionals in Xiamen, located in the Fujian province. CENT will hold 51% in the JV. Two projects totalling c.1,500 BTR apartments have been identified in central Xiamen under the JV. They are five blocks of new residential development to be retrofitted into 1,000 apartments targeting fresh graduates and working professionals, and one block of new residential development to be retrofitted into 500 quality apartments. Both projects have 20-year master leases with the property owners.
- Strengthening presence in China.** This Xiamen development follows CENT's recent announcement of entering into Hong Kong earlier this year. While these overseas developments will support longer term growth, we see negligible impact for now and have left CENT's immediate term growth due to this as largely unchanged. Nonetheless, these projects will supplement growth to core markets such as Singapore.
- Raise FY25F-26F earnings by 12% and 17%.** PBWA bed rates in Singapore have continued to be robust and due to the demand-supply situation, we see ongoing upward rental reversions lifting average bed rates going forward. In view of the strong demand, we raise our Singapore PBWA bed rate assumptions for FY25-26 by 10-15% to SGD400-450 per bed per month. This results in a +12% and +17% change in our FY25F-26F earnings. We also ascribe a higher P/E to our TP to 9x from 7.5x, or around +0.5SD from its historical mean to account for longer term growth potential in new overseas markets including Hong Kong and Xiamen, resulting in a higher TP.
- Key downside risks.** Our earnings forecasts are premised on better occupancies and bed rates, failing which, could pose downside risks to our estimates. Our TP includes a 2% discount to the intrinsic value, as CENT's ESG score of 3 (out of 4) is below the 3.1 country median.

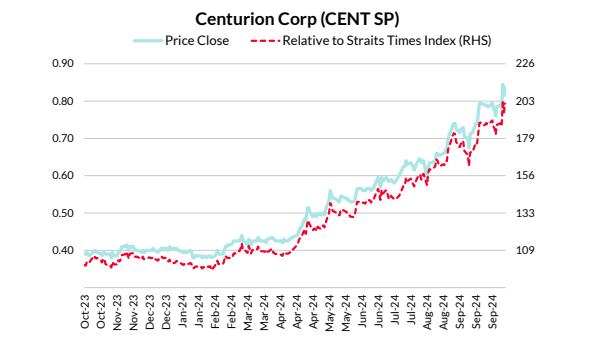
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#### Share Performance (%)

|                            | YTD   | 1m   | 3m   | 6m   | 12m   |
|----------------------------|-------|------|------|------|-------|
| Absolute                   | 106.2 | 17.6 | 40.3 | 92.0 | 108.8 |
| Relative                   | 95.9  | 16.4 | 37.5 | 81.3 | 96.9  |
| 52-wk Price low/high (SGD) |       |      |      | 0.38 | -0.85 |



Source: Bloomberg

| Forecasts and Valuation         | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (SGDm)           | 180    | 207    | 249     | 278     | 297     |
| Recurring net profit (SGDm)     | 56     | 69     | 84      | 101     | 111     |
| Recurring net profit growth (%) | 5.0    | 23.3   | 21.8    | 20.0    | 9.1     |
| Recurring P/E (x)               | 12.49  | 10.13  | 8.32    | 6.93    | 6.35    |
| P/B (x)                         | 1.0    | 0.9    | 0.7     | 0.7     | 0.6     |
| P/CF (x)                        | 8.17   | na     | 22.20   | 4.80    | 4.62    |
| Dividend Yield (%)              | 1.2    | 1.8    | 3.6     | 3.6     | 3.8     |
| EV/EBITDA (x)                   | 13.38  | 10.87  | 8.14    | 7.17    | 6.38    |
| Return on average equity (%)    | 10.6   | 20.2   | 16.8    | 10.2    | 10.3    |
| Net debt to equity (%)          | 84.0   | 66.9   | 50.5    | 40.6    | 31.3    |

Source: Company data, RHB

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

Centurion complies with all applicable environmental laws and regulations in its business activities. In 2022, there were no incidents of non-compliance with environmental laws and regulations resulting in significant fines or non-monetary sanctions in the reported period.

##### S: GOOD

Centurion works closely with stakeholders such as local authorities, welfare organisations, universities and healthcare providers on initiatives to promote health and safety amongst our worker and student residents.

##### G: GOOD

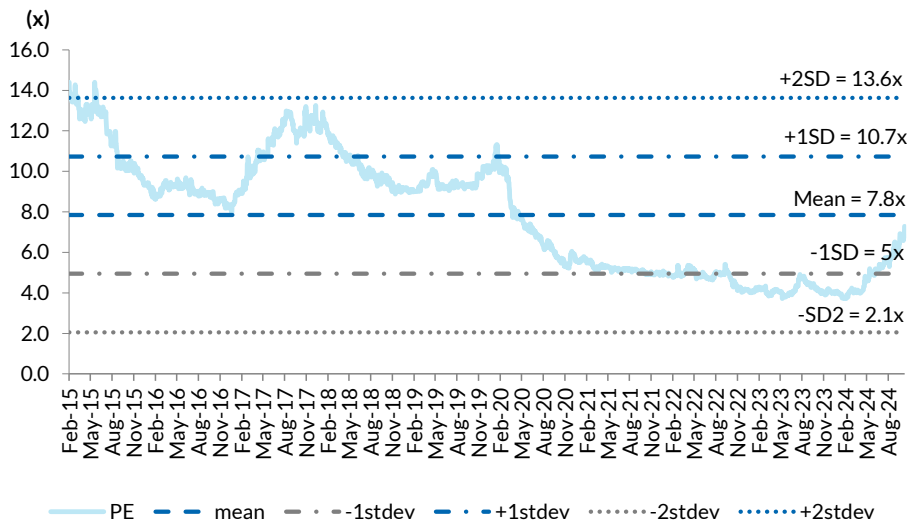
The Directors are provided regularly with updates on changes in the relevant laws and regulations, where appropriate, by management and company secretaries, to enable them to keep pace with new laws and regulations and make well-informed decisions, and to discharge their duties responsibly.

## Financial Exhibits

| Asia  | Financial summary (SGD)             | Dec-22 | Dec-23  | Dec-24F | Dec-25F | Dec-26F |
|---|-------------------------------------|--------|---------|---------|---------|---------|
| Singapore   | Recurring EPS                       | 0.07   | 0.08    | 0.10    | 0.12    | 0.13    |
| Property  | DPS                                 | 0.01   | 0.01    | 0.03    | 0.03    | 0.03    |
| Centurion Corp  | BVPS                                | 0.82   | 0.98    | 1.13    | 1.22    | 1.32    |
| CENT SP   | Return on average equity (%)        | 10.6   | 20.2    | 16.8    | 10.2    | 10.3    |
| Buy   |                                     |        |         |         |         |         |
|   |                                     |        |         |         |         |         |
| Valuation basis   | Valuation metrics                   | Dec-22 | Dec-23  | Dec-24F | Dec-25F | Dec-26F |
| 9x FY25F P/E  | Recurring P/E (x)                   | 12.49  | 10.13   | 8.32    | 6.93    | 6.35    |
|   | P/B (x)                             | 1.0    | 0.9     | 0.7     | 0.7     | 0.6     |
|   | FCF Yield (%)                       | 11.4   | (11.6)  | 0.9     | 17.3    | 18.1    |
|   | Dividend Yield (%)                  | 1.2    | 1.8     | 3.6     | 3.6     | 3.8     |
|   | EV/EBITDA (x)                       | 13.38  | 10.87   | 8.14    | 7.17    | 6.38    |
|   | EV/EBIT (x)                         | 13.89  | 11.20   | 8.40    | 7.42    | 6.59    |
|   |                                     |        |         |         |         |         |
| Key drivers   | Income statement (SGDm)             | Dec-22 | Dec-23  | Dec-24F | Dec-25F | Dec-26F |
| Expansion of purpose-built workers accommodation (PBWA) or purpose-built student accommodation (PBWA) assets.   | Total turnover                      | 180    | 207     | 249     | 278     | 297     |
|   | Gross profit                        | 124    | 150     | 189     | 211     | 226     |
|   | EBITDA                              | 99     | 122     | 157     | 170     | 182     |
|   | Depreciation and amortisation       | (4)    | (4)     | (5)     | (6)     | (6)     |
|   | Operating profit                    | 95     | 119     | 152     | 165     | 176     |
|   | Net interest                        | (28)   | (36)    | (35)    | (33)    | (32)    |
|   | Pre-tax profit                      | 95     | 180     | 207     | 140     | 153     |
|   | Taxation                            | (19)   | (20)    | (41)    | (28)    | (31)    |
|   | Reported net profit                 | 71     | 153     | 150     | 101     | 111     |
|   | Recurring net profit                | 56     | 69      | 84      | 101     | 111     |
|   |                                     |        |         |         |         |         |
| Key risks   | Cash flow (SGDm)                    | Dec-22 | Dec-23  | Dec-24F | Dec-25F | Dec-26F |
| Our earnings forecasts are premised on better occupancies at the company's PBWA assets and bed rates. Failure to achieve these revenue drivers poses downside risks to our estimates. | Change in working capital           | 14.7   | (42.3)  | (0.4)   | 7.0     | 4.6     |
|   | Cash flow from operations           | 85.9   | (20.0)  | 31.6    | 146.2   | 151.9   |
|   | Capex                               | (5.9)  | (61.4)  | (25.0)  | (25.0)  | (25.0)  |
|   | Cash flow from investing activities | (1.7)  | (45.3)  | 18.4    | (22.1)  | (20.8)  |
|   | Dividends paid                      | (8.4)  | (12.6)  | (25.2)  | (25.2)  | (26.9)  |
|   | Cash flow from financing activities | (83.4) | (93.3)  | (61.9)  | (61.4)  | (63.1)  |
|   | Cash at beginning of period         | 67.5   | 68.3    | 74.7    | 146.0   | 211.6   |
|   | Net change in cash                  | 0.7    | (158.6) | (11.9)  | 62.7    | 68.0    |
|   | Ending balance cash                 | 66.2   | (90.3)  | 62.8    | 208.6   | 279.6   |
|   |                                     |        |         |         |         |         |
| Company Profile   | Balance sheet (SGDm)                | Dec-22 | Dec-23  | Dec-24F | Dec-25F | Dec-26F |
| Centurion Corp provides purpose-built workers and student accommodation services. The group owns, develops, and manages quality and purpose-built workers accommodation assets.       | Total cash and equivalents          | 68     | 75      | 146     | 212     | 284     |
|   | Tangible fixed assets               | 7      | 8       | 28      | 47      | 66      |
|   | Total investments                   | 1,444  | 1,551   | 1,600   | 1,609   | 1,618   |
|   | Total assets                        | 1,548  | 1,725   | 1,869   | 1,966   | 2,068   |
|   | Short-term debt                     | 80     | 59      | 59      | 59      | 59      |
|   | Total long-term debt                | 583    | 599     | 599     | 599     | 599     |
|   | Total liabilities                   | 839    | 853     | 857     | 867     | 873     |
|   | Total equity                        | 708    | 872     | 1,012   | 1,099   | 1,195   |
|   | Total liabilities & equity          | 1,548  | 1,725   | 1,869   | 1,966   | 2,068   |
|   |                                     |        |         |         |         |         |
| Key metrics   | Key metrics                         | Dec-22 | Dec-23  | Dec-24F | Dec-25F | Dec-26F |
|   | Revenue growth (%)                  | 26.2   | 14.8    | 20.1    | 11.7    | 6.9     |
|   | Recurrent EPS growth (%)            | 5.0    | 23.3    | 21.8    | 20.0    | 9.1     |
|   | Gross margin (%)                    | 68.5   | 72.4    | 76.0    | 76.0    | 76.0    |
|   | Operating EBITDA margin (%)         | 54.6   | 59.0    | 62.9    | 61.2    | 61.3    |
|   | Net profit margin (%)               | 39.6   | 73.9    | 60.1    | 36.4    | 37.2    |
|   | Dividend payout ratio (%)           | 11.8   | 8.2     | 16.9    | 24.9    | 24.3    |
|   | Capex/sales (%)                     | 3.3    | 29.6    | 10.0    | 9.0     | 8.4     |
|   | Interest cover (x)                  | 3.35   | 3.21    | 4.14    | 4.55    | 4.87    |

Source: Company data, RHB

Figure 1: CENT's historical P/E mean



Source: Bloomberg

## Emissions And ESG

### Trend analysis

In 2022, energy usage increased mainly due to better occupancy in the PBWA segment, offset by lower energy consumption in the PBSA segment due to improved energy consumption efficiency in the UK. Campaign is ongoing in Australia to encourage lower electricity consumption for lights and air conditioning. Emissions intensity per person was flat from 2021 despite the cold snap in the UK and the extreme heatwave in Australia.

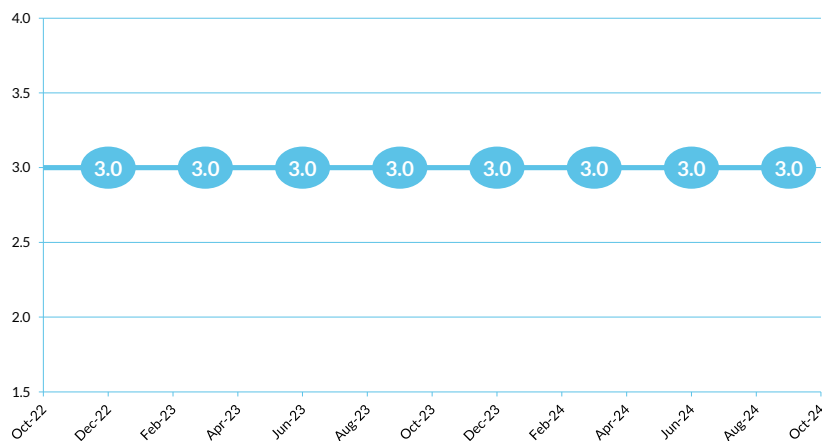
| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|-------------------|--------|--------|--------|
| Scope 1           | -      | -      | -      |
| Scope 2           | 14,465 | 17,730 | 21,133 |
| Scope 3           | na     | na     | na     |
| Total emissions   | 14,465 | 17,730 | 21,133 |

Source: Company data, RHB

## Latest ESG-Related Developments

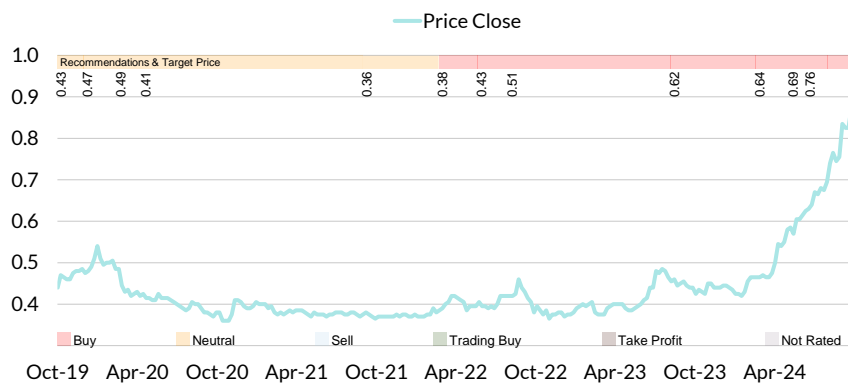
- Disclosure is unavailable for Scope 1 as framework for data collection is in development.
- Screening exercise will be conducted in 2023 to establish Scope 1 inventory.
- CENT will conduct its first climate change scenario analysis study in 2023 and benchmark its climate-related targets against global standards and best practices.
- It will be progressively phasing in climate-related disclosures within the next two years, in line with the recommendations of TCFD, and disclose our approach in the reporting period FY24.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-08-16 | Buy            | 0.76         | 0.66  |
| 2024-05-20 | Buy            | 0.69         | 0.54  |
| 2024-03-05 | Buy            | 0.64         | 0.43  |
| 2023-11-10 | Buy            | 0.62         | 0.39  |
| 2023-08-22 | Buy            | 0.62         | 0.42  |
| 2023-06-05 | Buy            | 0.51         | 0.35  |
| 2023-04-24 | Buy            | 0.51         | 0.36  |
| 2022-08-15 | Buy            | 0.51         | 0.38  |
| 2022-06-06 | Buy            | 0.43         | 0.37  |
| 2022-03-08 | Buy            | 0.38         | 0.34  |
| 2021-09-16 | Neutral        | 0.36         | 0.34  |
| 2020-04-28 | Neutral        | 0.41         | 0.39  |
| 2020-03-02 | Neutral        | 0.49         | 0.45  |
| 2019-12-17 | Neutral        | 0.47         | 0.43  |
| 2019-11-14 | Neutral        | 0.43         | 0.43  |

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
| <b>Sell:</b>        | Share price may fall by more than 10% over the next 12 months                                    |
| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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