

# Company Initiation

## Centurion Corporation Limited

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# Centurion Corporation Limited

(SGX: OU8)

## Oversold and underrated

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Phillip Securities Research Pte Ltd

28 November 2016

# Centurion Snapshot

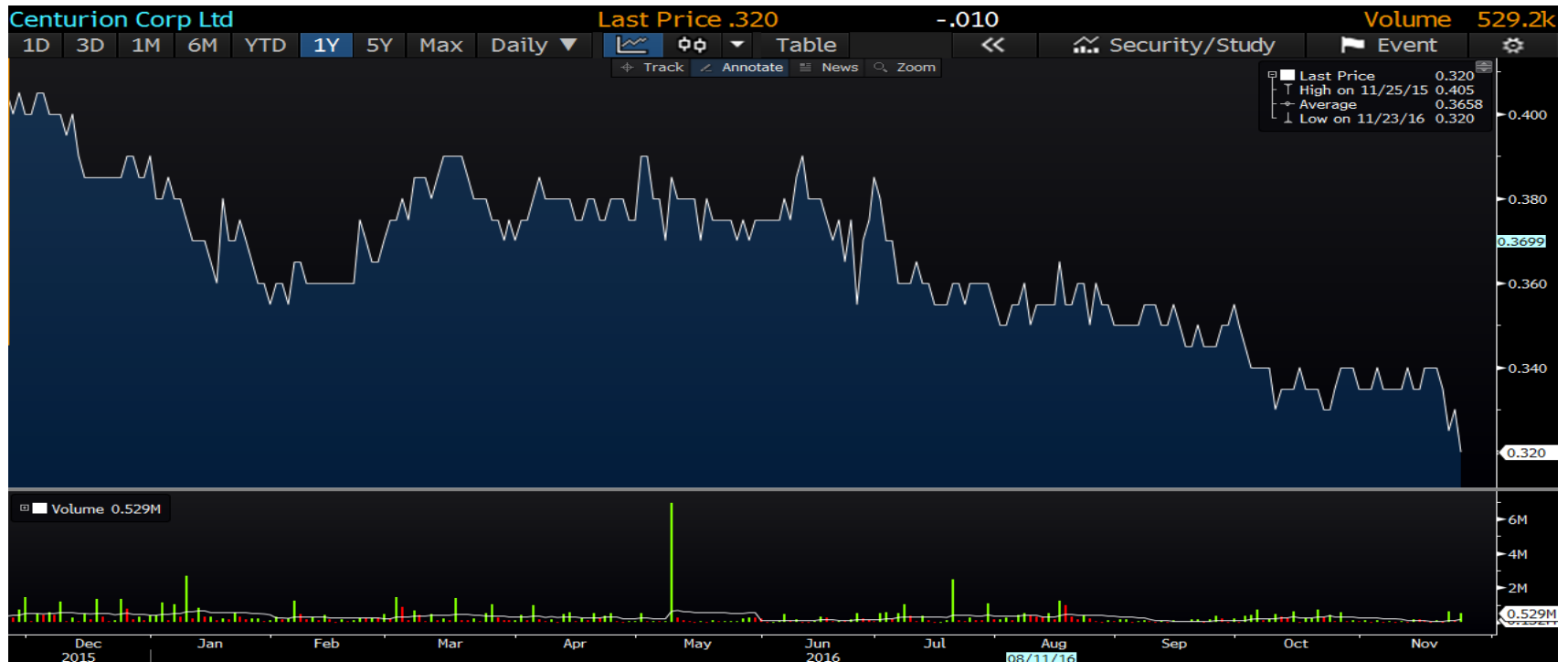
**Previous Close (25<sup>th</sup> Nov 2016):** \$0.330

**Target Price** : \$0.420 (“Buy”)

**Forecasted Dividend (FY17)** : 2.01 Cents (Dividend yield 6%)

**52-week range** : \$0.315 – \$0.41

**Market Capitalisation** : \$240.5 million



Source: Bloomberg

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## **Favourable Demand and Supply dynamics for Singapore PBWA**

- 320,000 foreign workers vie for 250,000 PBWA beds in 2017
- 100,000 beds (40% of the 250,000 beds) are temporary PBWA and face expiration in the near term. No visible new supply in 2017

## **Regulatory pressure to improve quality of foreign workers' dormitory adds traction for professionally managed PBWA and reduces competition**

- New conditions increase operating costs for FCDs thus reduce their competitiveness

## **Conditions favourable for the development of PBSA in Australia**

- Undersupply of PBSA has driven up competition for private apartments
- Ongoing concern for city planners address the development of high quality and affordable PBSA

## **UK Student Accommodation industry continues to present an attractive return on investment**

- Investment yield of close to 6%
- Student to PBSA bed Ratio continues to be high

# Company Background

**Centurion Corporation Limited was listed on 17 Oct 2011 via reverse takeover of SM Summit Holdings. SM Summit Holdings was primarily in the optical disc manufacturing and services industry.**

**Centurion's revenue is derived from:**

- Provision of PBWA in Singapore and Malaysia through its Westlite brand.
- Provision of PBSA in Singapore, UK and Australia.
- Manufacture and sale of optical storage media.

**In 2011, optical sales comprise 56.8% of total sales but by 2015, optical sales comprise 4.8% of total sales.**

**In 2012, value of investment properties and rental income from Singapore was c.90% but by 2015, the percentage weightage had reduced to c.60% for both value and rental income.**

**3 developments in the backlog; Port Hedland in Australia, Bekasi in Indonesia and Nusajaya in Malaysia.**

# Ownership Structure

## Top 7 Shareholders are on the BoD and Senior Management except Lian Beng Group

- Mr Loh and Mr Han serve as Non-Executive Directors on the BoD. They are ultimate shareholders of Thinkpac Ltd and Centurion Properties Pte Ltd
- Mr Teo is the COO
- Mr Lee is an ED and manager of the Optical Storage business
- The top 7 shareholders collectively make up 73.63% of total shareholdings

Holder Name	No. of Shares Owned	% Shareholding	Filing Date
Centurion Properties Pte Ltd	353,869,206	47.82	03 Oct 2016
Peng Kwang Teo	56,537,664	7.62	18 Mar 2016
Thinkpac Ltd	45,000,000	6.08	03 Oct 2016
Lian Beng Group Ltd	38,000,000	5.14	16 Mar 2016
Kerk Chong Lee	28,716,271	3.88	28 Apr 2016
Kim Kang Loh	12,013,500	1.62	03 Oct 2016
Seng Juan Han	10,897,000	1.47	20 Oct 2016
AXA Rosenberg Management Ireland	2,310,000	0.31	31 Aug 2016
RHB Asset Management Sdn Bhd	1,513,000	0.20	31 Mar 2016
Fidelity Management & Research	927,500	0.13	30 Sept 2016

Source: Bloomberg, Company FY15 Annual Report

# One of the leading PBWA providers in SG

## 2<sup>nd</sup> largest Dormitory Operator by number of beds

- Operates 34,692 beds in 5 locations. Ahead of the 3<sup>rd</sup> largest dormitory operator by wide margin of 9000 beds

## Dormitories are strategically located and have long land tenures

- Bed capacity spread across 5 locations and located to reduce travelling time workers
- Each Dormitory has sufficient capacity to capture demand across the island, yet not overburdened with too many beds when competition becomes keener.

## Operations enjoy economies of scale

- Have the resources to add value and provide high quality accommodation.
- Regulatory requirements to improve quality and value of workers' accommodation increases the advantage for Centurion over low cost operators.



# One of the leading PBWA providers in SG

Dormitory	Background	No. of Locations	No. of Rooms
Vobis Enterprise	Wholly owned subsidiary of Aik Chuan Construction	7	39,500
Westlite	Centurion Corporation Ltd, listed on SGX	5	34,692
ST-Lodge	-	1	25,000
MES Group	Family business of Mr Mohamed Abdul Jaleel	3	24,000
Averic Capital Management	Founded by Mr Vernon Chua	4	23,000
CDPL	Affiliation of Eng Seng Lee Construction Co Pte Ltd	2	19,968
S11 capital	Founded by Mr Jonathan Cheah and Mr Lawrence Lee	2	18,000
Tuasview Dormitory	Owned by Active System Engineering Pte Ltd which is 60% owned by Wee Hur Domitory Pte Ltd, 20% owned by TS management Services, 10% owned by WM Pte Ltd and 10% owned by Lucrum Capital	1	16,800
Tuas South Dormitory	Owned by TA Corp (Tiong Aik), 62% and King Wan Corp, 38%	1	9,200
North Coast Lodge	Owned by Crest Capital Asia, a fund founded by Mr Peter Chan	1	9,000

Source: Ministry of Manpower, PSR estimates

Total Rooms of Top 10 Workers' Dormitory Business in Singapore	219,160
Estimated Total Number of PBWA Rooms in Singapore as of 6 Nov 2015	271,958
% Market Share controlled by Top 10 Workers' Dormitory Owners	80.6%

# One of the leading PBWA providers in SG

**Figure 14: Westlite Dormitories in Singapore**

**Westlite Mandai (45% owned)**

- 6,300 beds
- Land tenure: Freehold
- Land area: 8,000 sqm
- One of the largest freehold purpose-built workers accommodation in Singapore



**Westlite Tuas**

- 8,600 beds
- Land tenure: 3+3+3 years (wef 2008)
- Land area: 37,870 sqm
- BCA Green Mark Gold Award Winner



**ASPRI-Westlite Papan (51% owned)**

- 7,900 beds
- Land tenure: 23 years (wef 2015)
- Land area: 14,817 sqm
- First-of-its-kind workers accommodation in Singapore that incorporates a training centre
- TOP received in May 2016

**Westlite Woodlands**

- 4,100 beds
- Land tenure: 30 years (wef 2013)
- Land area: 9,542 sqm
- Caters to the workers from the marine, process and manufacturing industries.



**Westlite Toh Guan**

- 8,600 beds (Under clarification with URA)
- Land tenure: 60 years (wef 1997)
- Land area: 11,685 sqm
- Conveniently located in the Jurong locality to cater to workers from all industries.

Source: Company2Q FY16 Financial Results Presentation, 12 Aug 2016

# Only PBWA provider in M'sia

## More approved FDIs drive demand for reliable accommodation for Foreign Workers

- The lack of quality accommodation should not serve as a disincentive to attract labour.
- Centurion had built an established track record with MNCs in M'sia by providing quality, reliable and professionally run accommodation.
- Support the supply of skilled workers in search of better paying jobs provided by MNCs

## Strategically located near MNCs in Johor

- MNCs have an incentive to operate over the long term in M'sia therefore providing reliable demand for Centurion's Westlite brand of dormitories.
- The permanence of these MNCs in Johor is an outcome of close collaboration between federal government and the Johor state government to maintain momentum of Johor's economic expansion and job creation.

# Only PBWA provider in M'sia



## Westlite Bukit Minyak (Under Planning)

- 5,000 beds
- Land tenure: Freehold
- Land area: 17,887 sqm
- Centurion's first Malaysian worker's accommodation outside Johor
- Expected to be completed in 2018



## Westlite Juru (Under Planning)

- 6,100 beds
- Land tenure: 99 years
- Land area: 26,709 sqm
- Expected to be completed in 2018



## Westlite Senai II

- 5,900 beds
- Land tenure: Freehold
- Land area: 16,430 sqm
- Construction was completed in January 2016



## Westlite Johor Tech Park

- 5,800 beds
- Land tenure: 99 years (wef 2013)
- Land area: 14,314 sqm
- One of the largest purpose-built workers dormitory in Johor.



## Westlite Senai

- 2,600 beds
- Land tenure: Freehold
- Land area: 6,880 sqm
- Located industrial parks where multinational electronics manufacturers are based.



## Westlite Desa Cemerlang

- 1,600 beds
- Land tenure: Freehold
- Land area: 15,555 sqm
- Located near the major manufacturing hubs of Taman Perindustrian Tiram Utama



## Westlite Tampoi

- 5,300 beds
- Land tenure: Freehold
- Land area: 28,328 sqm
- Located in one of the established industrial zones in Iskandar Malaysia within close proximity to several major multinational electronics manufacturers



## Westlite Pasir Gudang

- 2,000 beds
- Land tenure: 99 years (wef 1986)
- Land area: 8,391 sqm
- Located near the industrial zone within Pasir Gudang



## Westlite Tebrau

- 2,500 beds
- Land tenure: 60 years (wef 2000)
- Land area: 5,721 sqm
- One of Johor's first purpose-built workers accommodation

Source: Company2Q FY16 Financial Results Presentation, 12 Aug 2016



# Growing Chinese student population in UK and Australia

## Chinese Students Enrolments as a percentage of Total Enrolments to study in Australia

YTD Enrolments	2013	2014	2015	July 2016
Total Enrolments (mn)	4.92	5.43	5.99	3.32
Chinese Students Enrolments (mn)	1.35	1.43	1.61	0.95
Chinese Students Enrolments to Total Enrolments (%)	27.4	26.3	26.9	28.6

Source: [https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2016.aspx#Pivot\\_Table](https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2016.aspx#Pivot_Table), PSR estimates

## Visas granted to Foreign Students to UK

	Year ending June 2015	Year ending June 2016	Change	Percentage change
Study-related visas granted excluding Short-term students (1)	216,707	204,859	-11,848	-5%
of which (Top 5):				
China	68,286	70,194	+1,908	+3%
United States	13,820	14,245	+425	+3%
India	11,863	10,664	-1,199	-10%
Malaysia	10,691	9,478	-1,213	-11%
Hong Kong	9,293	9,069	-224	-2%
Short-term study visas (1) (main applicants only)	64,152	82,318	+18,166	+28%

Source: <https://www.gov.uk/government/publications/immigration-statistics-april-to-june-2016/study#study-immigration-latest-trends>

## **Lifting of ban on Foreign Workers in Malaysia**

- Employers could bring in migrant workers after June 2016.
- Most of the jobs are concentrated in the manufacturing sector where 80% to 90% are already made up of foreign labour.

## **Removing the cap on UK students numbers**

- From 2015, English Universities no longer face limitations to how many students they can enroll.
- Lead to increased student mobility within UK thus raising demand for student accommodation.

# Analysis and Forecast Assumptions

## **Lease on land for Westlite Tuas will not be renewed**

- Land lease expires in Apr 2017
- Assume value will be reduced to zero and property will cease of operate on expiration

## **Contributions from Nusajaya, Bekasi District and Port Hedland are not included in forecast. Westlite Minyak and Westlite Juru assumed to start operations at the beginning of 2019**

- Nusajaya, Bekasi District and Port Hedland are still in planning phase and there is no visibility on their potential.
- Westlite Minyak and Westlite Juru are slated for completion in 2018 but we assume it will contribute to revenue in 2019

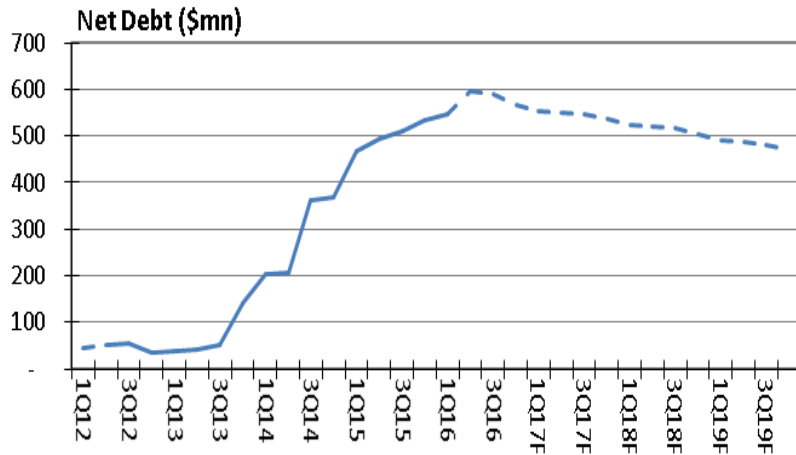
## **No further debt raising. Capital investments are limited to internal financing**

- Estimate that Centurion's Net Debt to Equity has reached 150% in 3Q16.
- Assume that Centurion will not be stretching the balance sheet further.

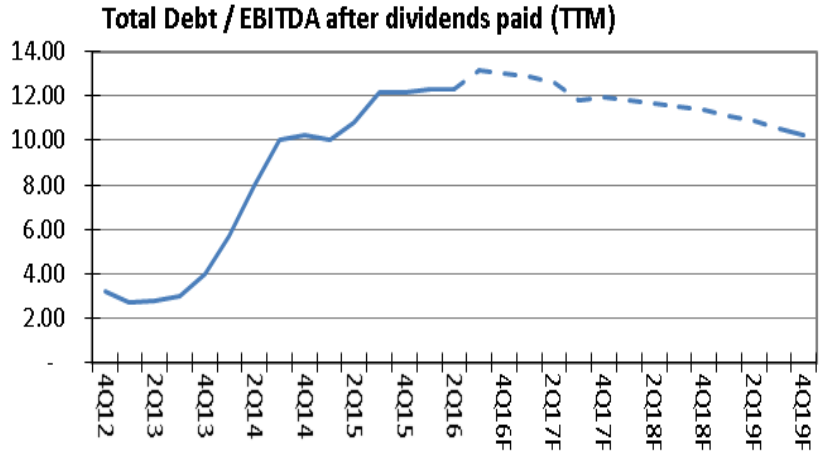
## **Dividend payout ratio sustainable at c.40% to attract investors' interest**

- Dividend yield can settle in a range of 4.8% to 6% based on a share price range of S\$0.335 to S\$0.42

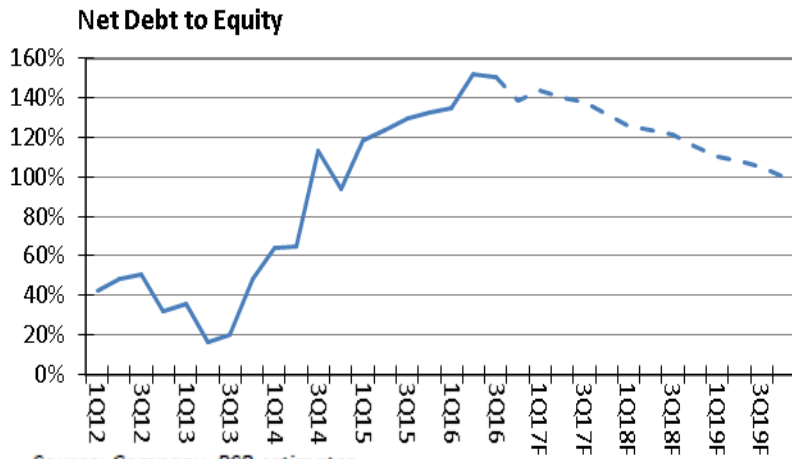
# Analysis and Forecast Assumptions



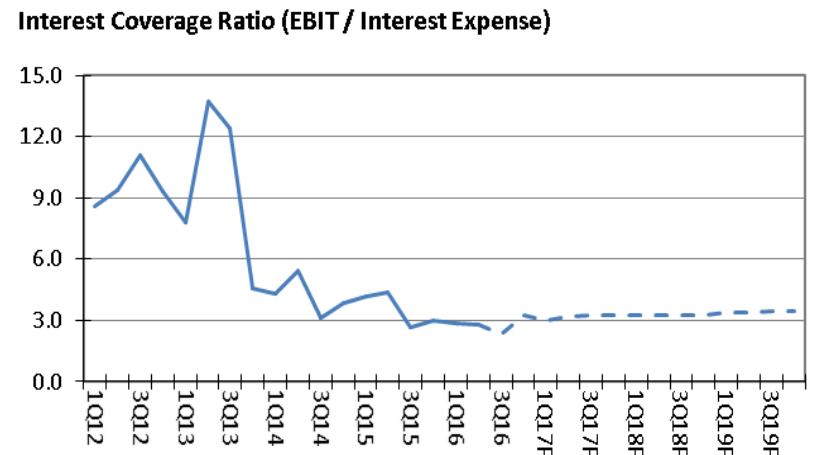
Source: Company, PSR estimates



Source: Company, PSR estimates



Source: Company, PSR estimates



Source: Company, PSR estimates



# DCF valuation of S\$0.42

Item	WACC	Target
A	Share price (as of 7-Nov-16)	0.335
B	No. of shares ('000)	739,964
AxB=C	Market capitalisation (S\$ '000)	247,888
D	Total Debt (S\$ '000)	710,181
C+D=E	Total Market Value (S\$ '000)	958,069
C / E	Equity Ratio	26%
D/ E	Debt Ratio	74%
<b>Cost of Debt</b>		
	Interest Rate	3.06%
	Tax Rate, t	19%
	After-tax interest	2.47%
<b>Cost of Equity</b>		
	Risk free rate	2.00%
	Market risk premium	14.05%
	Beta	0.592
	Cost of Equity	10.32%
	<b>WACC</b>	4.50%
	<b>Terminal Growth Rate</b>	0.75%

Item	Financials (S\$ '000)	Cash Flow (S\$'000)				
		FY17e	FY18e	FY19e	FY20e	FY21e
Year						
OCF	48,593	50,189	54,395	59,132	62,271	
OCF adjusted for SG properties	17,494	18,068	19,582	21,287	22,417	
Capex	-3,981	-4,021	-4,021	-4,021	-4,021	
Interest expense*(1-t)	15,350	15,662	15,892	15,644	15,325	
FCFF	28,862	29,710	31,454	32,911	33,721	
Terminal value (S\$ '000)					905,804	
PV (S\$ '000)	27,619	27,206	27,562	27,597	753,897	
F	Firm Value	905,804				
G	Add: Net Cash / (Debt)	-596,645				
H	Less: Minority Interest	332				
F + G - H = I	Equity Value	308,827				
J	No. of shares ('000)	739,964				
I/J	Fair Value / share (S\$)	0.42				
	Book value / share (S\$)	0.53				
	Discount to Book Value	21%				

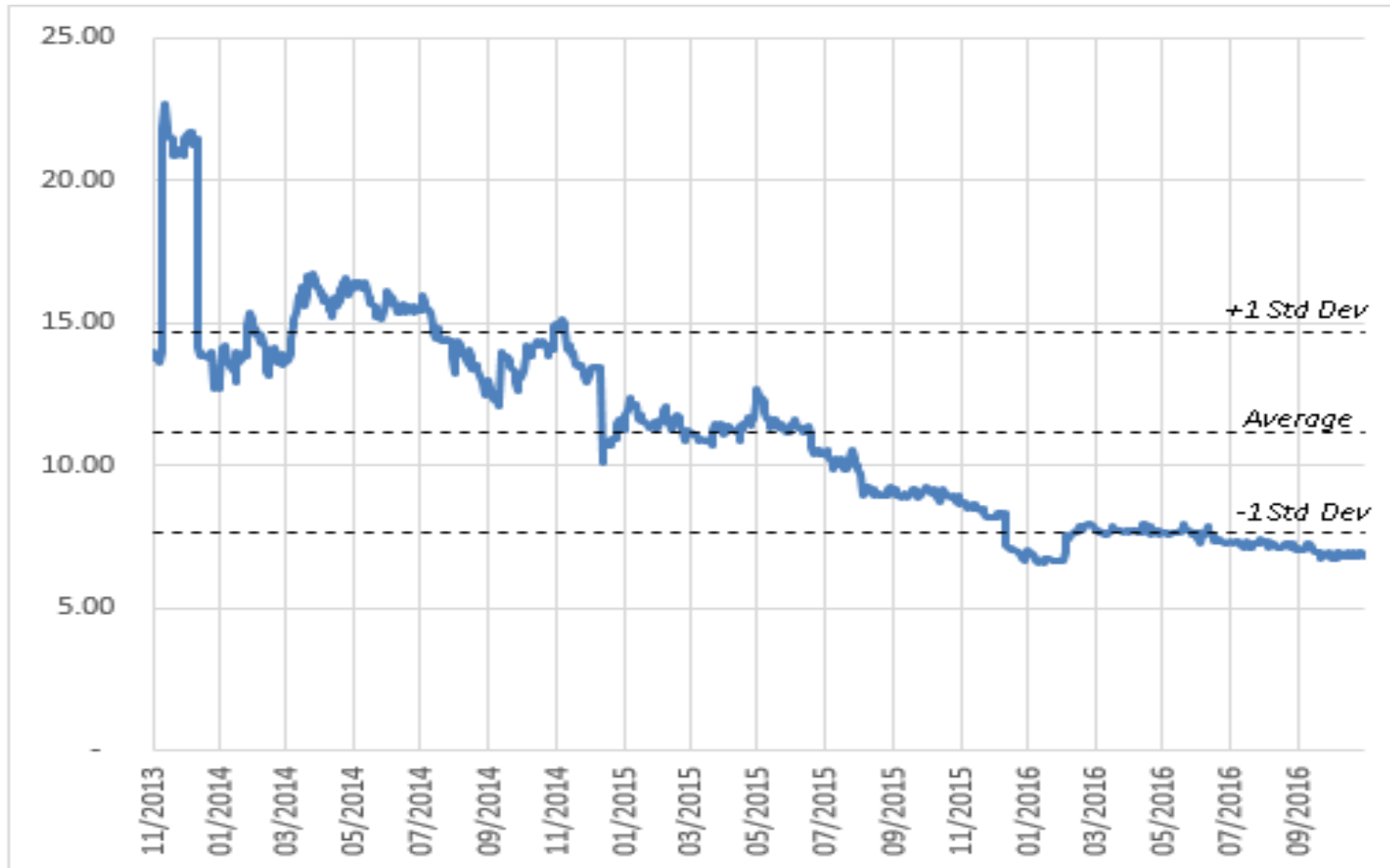
- Excluded cash flow from SG properties in the DCF model because they have finite leases.
- Maintaining the payout ratio at c.40% could translate to c.6% yield in FY17F at current share price of S\$0.355 or c.4.8% yield at share price of S\$0.42
- 74.8mn warrants outstanding. 1 warrant : 1 ordinary share at exercise price of S\$0.50

#### DCF Sensitivity

WACC%	Assumed Perpetual Growth %		
	0.50%	0.75%	1.00%
3.50%	\$0.72	\$0.86	\$1.04
4.50%	\$0.34	\$0.42	\$0.51
5.50%	\$0.11	\$0.16	\$0.22

# Performance

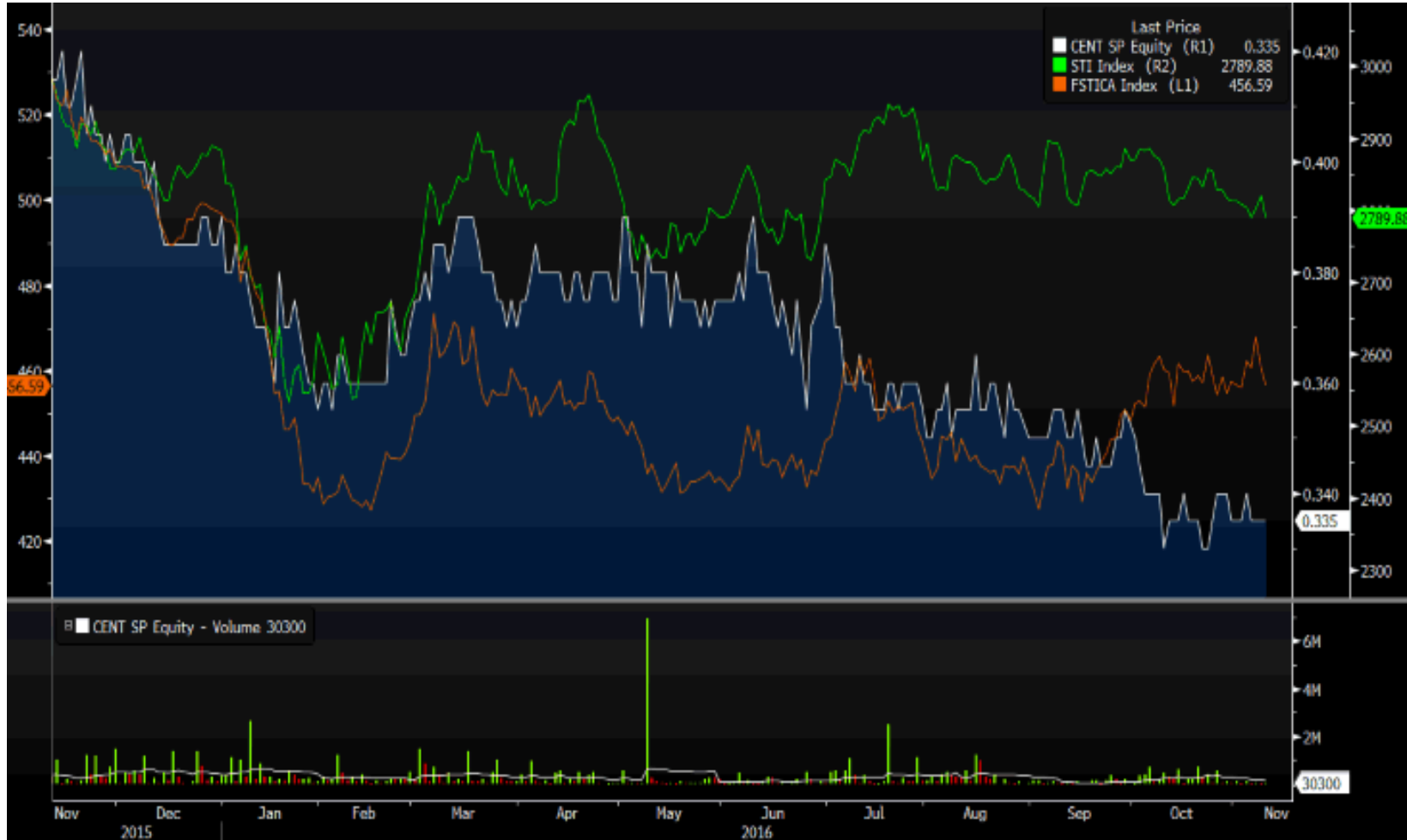
## 3 Years Historical PER



Source: Bloomberg, PSR estimates

# Performance

## 1-Year historical performance relative to STI Index and Catalyst Index



Source: Bloomberg, PSR estimates

# Peer Comparison

Company	Ticker	Mkt Cap (SGD mn)	Currency Adjusted EV (SGD mn)	Curr EV/T12M EBITDA	P/E:		Dividend Yld	Debt/			
					P/E FY1	P/E FY2		Equity	ROE:Y	ROA:Y	
CENTURION CORP LTD	CENT SP Equity	251.59	855.14	14.43	7.73	6.94	6.94	3.85	166.69	8.61	3.39
U AND I GROUP PLC	UAI LN Equity	337.16	602.89	10.92	24.17	11.82	7.06	2.91	58.70	5.42	2.98
HELICAL PLC	HLCL LN Equity	527.27	1838.73	24.14	2.68	18.19	8.70	2.12	150.98	12.97	4.83
CONYGAR INVESTMENT CO PLC	CIC LN Equity	199.64	184.63	25.96	131.30	78.13	41.12	1.05	22.34	3.82	2.50
INLAND HOMES PLC	INL LN Equity	203.05	274.57	7.04	4.09	8.44	7.47	1.52	48.85	13.99	6.68
URBAN & CIVIC PLC	UANC LN Equity	500.11	503.11	32.25	36.36	17.39	12.99	0.99	3.28	2.06	1.89
<b>Simple Average (Excl. Centurion)</b>		<b>353.4</b>	<b>680.8</b>	<b>20.1</b>	<b>39.7</b>	<b>26.8</b>	<b>15.5</b>	<b>1.7</b>	<b>56.8</b>	<b>7.7</b>	<b>3.8</b>

- Centurion's business model resembles closely to UK listed property investment firms.
- Centurion's Singaporean peers are not listed.
- Compared Centurion with UK listed property investment firms that have interest in accommodation business and have similar market capitalisation.

- 1. Reduction in number of beds.** Westlite Toh Guan's capacity will be reduced from 8,600 to 7,792 owing to URA's decision and the land lease for Westlite Tuas is slated to expire by April 2017. If the land lease on Westlite Tuas is not renewed, the number of beds in the portfolio will be reduced by 8,600.
- 2. Negative impact from weak currency.** A weak currency is a disincentive for foreign workers to earn wages in the country therefore it may negatively affect the demand for PBWA.
- 3. Unfavourable changes in govt policies.** Immigration restriction on student visas and workers' permit, planning restrictions on land use and unfavourable parliamentary decisions on workers' levies and setting thresholds on education fees all serve as risks to the accommodation business.
- 4. Competition from new entrants.** competition from operators with larger capital, stronger balance sheet and experience.
- 5. Others risks.** Ability to secure credit facility to roll over debt, execution risks, licensing requirements and brand reputation.

# SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>▪ 2<sup>nd</sup> largest workers' dormitory operator in Singapore</li><li>▪ Only Purpose Built Workers Dormitory operator in Malaysia</li><li>▪ Well located Student Dormitories in UK and Australia</li><li>▪ Strong brand name and management experience</li><li>▪ Student and Workers' accommodation demand is less affected by economic cycles</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>▪ High Net Debt to Equity</li><li>▪ Upside of the business is limited by bed capacity</li><li>▪ Capital intensive business</li></ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>▪ Direction of regulatory oversight on Singapore Workers' Dormitories is favourable for Purpose-Built Workers' Accommodation operators</li><li>▪ Undersupply of Purpose-Built Student Accommodation in Australia</li><li>▪ Strong student migration from China to UK</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>▪ Unfavourable changes in regulation that could reduce foreign workers' population and mobile student population faster than available supply</li><li>▪ Regulation changes could raise operating costs and capital expenditure</li><li>▪ Competition from construction firms that will prioritise own-run dormitories over Centurion's Westlite brand of dormitories</li></ul>

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# Ask Questions!

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