

Centurion Corporation Limited

Stable so far



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SINGAPORE | REAL ESTATE MANAGEMENT | CREDIT VIEW

- Impact of COVID-19 showed in 2Q20, hitting PBSA segment the hardest.
- The group's balance sheet remains healthy with adequate buffers and gearing stable at 54.1% from 54.5% in 4Q19.
- EBIT margins fell to 51.4% from 54.9% in 1H19 from higher expenses and provisions for rent receivables.
- The **CENSP 22NC21** bond is an interesting short tenor play. We are Neutral on the bond given headwinds from lower PBSA occupancies and strained receivables from PBWA customers expected to weigh on cash flows. But with the 2.5% step up on 1 Feb 2021 if not called, we think there is incentive for Centurion to call, translating to a yield to worst of 4.8%.

Results at a glance

(SGD '000)	1H20	1H19	YoY	Comments
Revenue	66,590	64,192	3.7%	COVID-19 impact felt in 2Q20
- PBSA	21,068	22,992	-8.4%	Pre-terminations and weaker occupancies
- PBWA	45,172	40,479	11.6%	Contributions from new assets
EBIT	34,238	35,267		
EBIT margins	51.4%	54.9%	-3.5%	Higher operating expenses and provisions
OCF	32,174	27,365	11.4%	Government support scheme S\$1.5mn

The Positives

+ Gearing and liquidity still adequate. Gearing remained stable at 54.1% from 54.5% in 4Q19, while OCF grew 11.4% YoY to S\$32.2mn aided by government support scheme of S\$1.5mn. According to Centurion's MTN financial covenants, the group has a 23% asset loss buffer of S\$347mn keeping debt constant, and 33% debt headroom of S\$248mn keeping assets constant, before the covenants are breached. Liquidity is also healthy with cash to short-term borrowings at 1.67x and credit facilities of S\$102mn compared to short-term borrowings of S\$32mn. The group secured loan moratoriums with banks to extend loan repayments, and have halted all ongoing and new developments to conserve cash.

+ New JTC management contract to support cash flows. Under the contract, Centurion will manage 4,200 beds across 3 sites starting 3Q20 for 6 months, with the option by JTC to extend for another 6 months. Centurion's current PBWA portfolio has 28,000 beds.

The Negatives

- Higher provisions and rental delinquencies from PBWA customers. There were pre-terminations of leases from PBWA customers due to financial strain. Provisions for receivables increased in 1H20 to S\$1.5mn from S\$52k in 1H19, likely due to the PBWA segment's significant 48% exposure to the construction sector, which faces business restrictions. The group will continue to monitor rental receivables. On a positive note, PBWA occupancies were stable at 88.5%.

- PBSA occupancies fell across the board. The segment was the hardest hit by COVID-19 travel restrictions and uncertainty over university courses. Average occupancies were 74.2% in UK, 62.5% in Melbourne, 81.4% in Adelaide, and 25.4% in South Korea. The impact will be lasting given uncertainty of details on university courses and lasting travel restrictions. Despite this, EBIT from PBWA was enough to cover all interest expenses in 1H20.

CREDIT VIEW (BONDS)

COMPANY DATA

BLOOMBERG CODE	CENSP SP
MARKET CAP (SGD mn)	302.7
EXCHANGE	SGX

OUTSTANDING BONDS

	Size (mn)	Ask Px	YTW
Ticker: CENSP Corp (SGD)			
5.5% 01Feb2022	60	100.30	4.80%

Indicative prices, Source: Bloomberg

MAJOR SHAREHOLDERS (%)

Centurion Properties Pte Ltd	50.64
Teo Peng Kwang	7.58
Han Seng Juan	4.92
Lian Beng Group Ltd	4.52

KEY FINANCIALS

Y/E Dec, SGD mn	FY17	FY18	FY19	1H20
Revenue	137.1	120.1	133.4	66.6
EBITDA	71.0	67.3	74.8	36.0
Net Income	37.6	84.2	103.8	23.9
EBITDA Margin (%)	51.8	56.0	56.1	54.0
EBITDA Int. Cover (X)	3.29	2.81	2.60	2.94
Debt/EBITDA (X)	9.20	10.98	10.78	10.91
Debt/Assets (X)	0.55	0.56	0.54	0.54
Net Debt/Assets (X)	0.49	0.51	0.51	0.50
Cash/ST borrowings (X)	0.70	1.46	0.78	1.67

Source: Company, Bloomberg, PSR

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Outlook

We see little catalysts for short-term credit profile uplift as headwinds weigh on PBSA occupancies and concerns on rent receivables, coupled with halting of developments limiting growth. The PBWA segment will support the group for the time being. Completion of dorm worker testing and resumption of construction projects may help alleviate concerns on PBWA rent receivables. Cash conservation will be a priority to tide through COVID-19.

Bond Recommendations

We are Neutral on the **CENSP 22NC21** as we continue to monitor the impact of COVID-19 on the group. We think the bond is an interesting short tenor play with a call date on 1 Feb 2021 and will step-up 2.5% if not called. It matures on 1 Feb 2022, with a yield to worst of 4.80% and yield to maturity of 7.09%. We think there is incentive for Centurion to call the bond given the high step-up, and note that they have adequate short-term liquidity to do so. However, there is uncertainty on when bank moratoriums expire, which could strain liquidity in the future.

Financials

Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	1H20
Revenue	137.1	120.1	133.4	66.6
EBITDA	71.0	67.3	74.8	36.0
EBIT	66.2	64.2	71.7	34.2
Interest expense (incl perps)	(21.5)	(23.9)	(28.8)	(12.2)
Profit before tax	49.4	96.6	111.0	27.9
Net income	37.6	84.2	103.8	23.9
EBITDA margin (%)	51.8	56.0	56.1	54.0
EBIT margin (%)	48.3	53.4	53.8	51.4
Net margin (%)	27.5	70.1	77.8	35.9

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	1H20
Cash and cash equivalents	75.8	62.9	48.6	65.1
Receivables	13.6	12.0	8.1	9.4
Investment properties	952.3	1,097.2	1,275.9	1,263.9
Total assets	1,189.0	1,321.7	1,479.0	1,491.9
Short-term debt	107.5	43.0	62.5	39.0
Long-term debt	545.1	695.4	743.4	768.2
Perpetuals	0.0	0.0	0.0	0.0
Total liabilities (adj for perps)	652.6	738.4	805.9	807.2
Net debt (adj for perps)	576.9	675.5	757.4	742.1
Shareholder Equity (adj for perps)	475.7	525.0	613.9	618.9

Cash Flow Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	1H20
Cashflow from operations	56.9	57.5	70.2	32.2
Net CAPEX	(34.3)	(121.8)	(40.8)	(4.6)
Dividends	(15.4)	(21.0)	(16.8)	(8.4)
Free cashflow to firm	7.2	(85.4)	12.6	19.2

Source: Company, Phillip Securities Research (Singapore)

Credit Ratios

Y/E Dec	FY17	FY18	FY19	1H20
EBITDA Int. Coverage (X)	3.3	2.8	2.6	2.9
EBIT Int. Coverage (X)	3.1	2.7	2.5	2.8
Debt/EBITDA (X)	9.2	11.0	10.8	10.9
Debt/EBIT (X)	9.9	11.5	11.2	11.6
Debt/Equity (%)	137.2	140.7	131.3	130.4
Debt/Assets (%)	54.9	55.9	54.5	54.1
Net debt/Assets (%)	48.5	51.1	51.2	49.7
Cash/ST Borrowings (%)	70.5	146.3	77.7	167.0
Cash+CFO/ST Borrowings (%)	123.4	280.0	190.1	323.1

Financial Covenant Asset Loss Threshold

SGD mn	2Q20	-10%	-20%	-28%
Total equity > S\$200mn	618.9	469.7	320.5	200.0
Net borrowing/Equity < 2.5x	1.10	1.44	2.12	2.50
Asset loss amount		-149.2	-298.4	-347.5

Financial Covenant Debt Headroom

SGD mn	2Q20	10%	20%	56%
Total equity > S\$200mn	618.9	544.5	470.2	200.0
Net borrowing/Equity < 2.5x	1.10	1.38	1.76	2.50
Borrowings increase amount		74.4	148.7	248.2

Revenue Stress Test on EBIT Interest Coverage

SGD mn	1H20	-10%	-20%	-33%
Revenue	66.6	59.9	53.3	44.6
Operating expenses	-32.4	-32.4	-32.4	-32.4
EBIT	34.2	27.6	20.9	12.2
Interest expense (incl perps)	-12.2	-12.2	-12.2	-12.2
EBIT Int. Coverage (X)	2.80	2.25	1.71	1.00
Revenue decline amount		-6.7	-13.3	-22.0

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Bond recommendation:

Overweight ("OW") – We expect the issuer's specific bond to outperform the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

Neutral ("N") – We expect the issuer's specific bond to perform in line with the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

Underweight ("UW") – We expect the issuer's specific bond to underperform the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

Issuer profile rating:

Positive ("Pos") – We view the issuer's credit profile as strong or expected to become strong over the next six months.

Neutral ("N") – We view the issuer's credit profile as fair or expected to become fair over the next six months.

Negative ("Neg") – We view the issuer's credit profile as weak or expected to become weak over the next six months.

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