

LHN Ltd (LHN SP)

Strong momentum

Performance on track; maintain BUY

LHN reported solid 3Q23 operating metrics with stable rental rates and improving occupancy for its Collwoo projects (total of 2,064 keys). Meanwhile, its facilities management, carpark and energy subsidiaries continue to secure new contracts. We remain positive on LHN's prospects and maintain BUY with a 12-month TP of SGD0.54, still based on 8x FY24E P/E. Re-rating catalysts include: 1) further value-unlocking divestments; 2) potential special dividends; and 3) successful upgrade to the SGX mainboard from its current listing on the Catalist board.

High occupancy rate of new assets

In 3Q23, rental rates across its portfolio ranged from SGD2,200-3,500 per month, supported by strong demand for short-stay. As of 7 Sep'23, its three new co-living assets, ie, Coliwoo Orchard/Lavender/298 River Valley, had healthy occupancy level of 90%/85%/100%, respectively. Since Aug'23, LHN has grown its portfolio with the acquisition of 286 & 288 River Valley and 99 Rangoon Rd. LHN plans to convert the latter into a 32-room student hostel with retail/F&B on the 1st floor. The total cost (including renovation of SGD1.5m) is up to SGD16m. 404 Pasir Panjang as well as 48 and 50 Arab Street are being renovated and are on track to be operational in 2Q24.

Firing on all cylinders

The facilities management arm secured 35 new contracts and retendered for 22 for services that range from cleaning, disinfecting, pest control, landscaping, minor building improvements, and integrated FM smart tech solutions. It launched 6 new carparks since May'23, taking the total to 760 parking lots. The group is actively expanding its energy business portfolio. To date, it has successfully installed and manages 21 solar energy projects with a combined capacity of 3.1 megawatts of renewable energy. Another four projects are in progress and are expected to contribute 0.6 MW.

Commits to more capital recycling

LHN has already received the SGD28.8m net proceeds from the sale of LHN Logistics (84.05% stake). The proceeds will be used for reducing net gearing, potential special dividends, and working capital. Management is also actively looking for more opportunities to recycle capital to unlock value from mature assets, such as its industrial property at 55 Tuas South (SGD21m), which is scheduled to complete redevelopment by 4Q24. To meet its target of adding 800 keys per year, LHN plans to enter into large management contracts with JV partners.

FYE Sep (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	121	112	117	123	136
EBITDA	61	47	45	60	62
Core net profit	34	20	24	28	31
Core FDEPS (cts)	8.4	4.9	5.8	6.8	7.5
Core FDEPS growth(%)	9.0	(41.8)	19.0	17.4	10.6
Net DPS (cts)	1.8	1.8	2.0	2.2	2.4
Core FD P/E (x)	4.1	5.6	5.5	4.7	4.3
P/BV (x)	1.0	0.6	0.7	0.7	0.7
Net dividend yield (%)	5.1	6.4	6.2	6.9	7.5
ROAE (%)	21.0	27.6	26.0	14.0	15.4
ROAA (%)	9.3	4.7	4.6	5.0	5.6
EV/EBITDA (x)	3.4	4.9	6.3	4.8	4.6
Net gearing (%) (incl perps)	43.6	56.4	70.3	70.3	70.3
Consensus net profit	-	-	na	na	na
MIBG vs. Consensus (%)	-	-	na	na	na

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BUY

Share Price	SGD 0.32
12m Price Target	SGD 0.54 (+70%)
Previous Price Target	SGD 0.54

Company Description

LHN Ltd. operates in four segments, namely space optimization, property development, facilities management and energy.

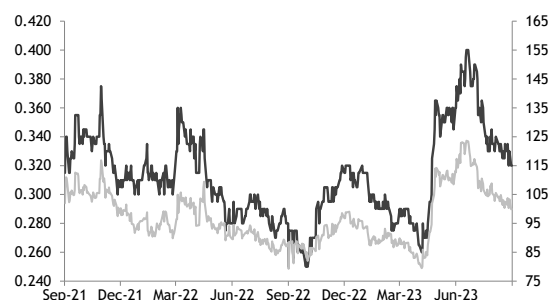
Statistics

52w high/low (SGD)	0.40/0.25
3m avg turnover (USDm)	0.4
Free float (%)	42.9
Issued shares (m)	409
Market capitalisation	SGD130.9M USD96M

Major shareholders:

LIM FAMILY /LHN/	54.0%
LIM BEE CHOO	1.0%
IFast Financial Pte Ltd. (Investment Man)	0.6%

Price Performance



— LHN Ltd - (LHS, SGD) — LHN Ltd / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(11)	14
Relative to index (%)	(5)	(12)	13

Source: FactSet

Abbreviation:

FM: facilities management

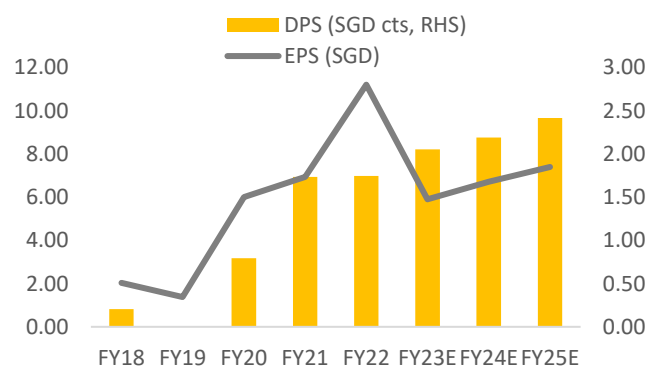
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Value Proposition

- LHN’s co-living brand, Coliwoo, is the largest operator in Singapore by number of keys.
- After rapid expansion since 2019, Coliwoo is operating at 13 locations and preparing to launch three more assets.
- New dividend policy of a minimum 30% payout ratio.
- FY23 P/E of less than 7x is undemanding compared to global peers in hospitality.
- Potential divestments are supported by a portfolio of assets that are in the money, and LHN is tilting towards an asset-light strategy.

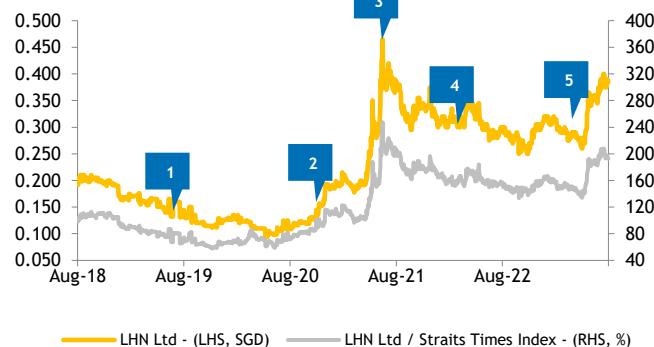
EPS and DPS trend



Source: Company

Price Drivers

Historical share price trend



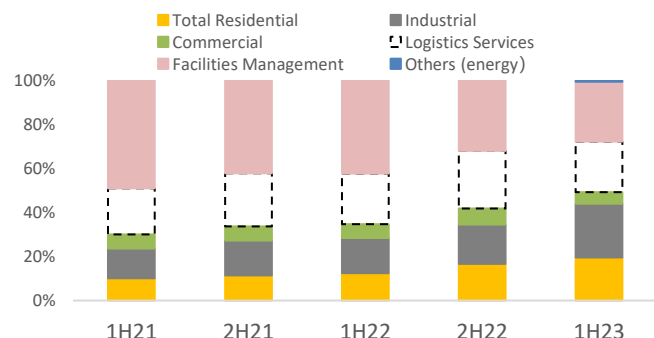
Source: Company, Maybank IBG Research

1. 2Q20 results hit by onset of Covid-19 pandemic.
2. Co-living gained popularity among expatriates and students after gradual easing of pandemic restrictions.
3. Completed acquisitions of Amber, 115 Geylang and Beach Road Properties as well as announced acquisition of Tuas Properties. Placement of 6.5m shares amounting to net sales proceeds of SGD2.1m, which was intended for general working capital.
4. Listing of LHN Logistics Limited on 29 April 2022 and decreased revenue of SGD0.3m from commercial properties due to expiry of 3 master leases.
5. Received offer for sale of LHN Logistics and launch of Coliwoo Orchard @ 2 mount Elizabeth Link, which achieved 75% occupancy in 1H23.

Financial Metrics

- Revenue growth in 1H23 boosted by co-living business in Singapore (+27%). We expect further growth, led by co-living as more assets in the pipeline become operational.
- Contribution from space optimisation business grew steady, making up 50% of LHN’s 1H23 revenue.
- Gearing is likely to remain stable as LHN intends to expand via JVs and asset-light strategy.

Revenue contribution by segments



Source: Company

Swing Factors

Upside

- Better than expected rental fees and occupancy
- Prolonged lack of supply of new hotels / co-living rooms in Coliwoo’s key locations.
- Sports events and entertainment create surge in ad hoc demand from travellers.
- Potential disposal of business segment.
- Value-unlocking divestments that lead to special dividend for shareholders.

Downside

- Surge in supply of key locations.
- Failure to renew lease for master-leased assets.
- Elevated interest rates until next re-financing in FY24.

Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³ (Updated: 01 AUG 2023)	NA

Business Model & Industry Issues

- As a real estate management services company, LHN strives to be a sustainable player in the market and ensures it does its part on the grand scale of reducing its contribution to climate change.
- On a peer-to-peer basis, currently LHN sits comfortably above its peers regarding its efforts to reduce climate change and provide sustainable opportunities to its employees.
- The biggest threat to LHN exists in the form of rising property prices (average 4.9% YoY) and a competitive industry due to the nature of its co-living segment. This may potentially mean a higher cost of acquisition and LHN would require consistently good occupancy levels to sustain its growth. On the contrary, LHN's capital recycling model and revaluation strategies can help reduce their gearing.

For space optimisation to see continued growth, there may be increased consumption of energy and water, which may impact its long-term ESG goals of reducing utilities consumption. However, their efforts in sustainable practices should eventually offset this challenge.

Material E issues

- Two of its managed properties - 1557 Keppel Road and 202 Kallang Bahru - were BCA Green Mark certified.
- Installed water saving taps for 100% of its properties managed. However, more needs to be done to achieve its water consumption intensity target of a 5% reduction.
- 7% of energy consumption sourced through solar panel installations at several of its properties reaching 2,468kWp system capacity.
- City Developments Limited (CDL) issued a green bond in 2017 that raised SGD100m for promoting sustainability in its projects. LHN may also consider doing so after carefully evaluating the viability of such projects.
- IOT Deployment in 2021 to better monitor energy consumption at managed properties by targeting increasing energy consumption.

Material S issues

- On average, each employee received approximately 15.9 training hours in FY22, as compared to 6.1 hours in FY21, resulting in a 205% increase, due to the increase in training programmes conducted for all employees.
- Gender diversity is fairly high with a 58:42 ratio in FY22, and 40% represented in senior management, but diversity here can be improved, moving forward LHN plans to step up these figures.
- Consistent satisfaction scores exceeding target of 70% over the past three years.

Key G metrics and issues

- The board currently has 5 directors, including the executive chairman and Group Managing Director. The remaining 3 are independent non-executive directors.
- The remuneration and audit committees are chaired by independent directors.
- Executive Chairman Mr Kelvin Lim is the brother of the Group Managing Director Ms Jess Lim. They hold 54.04% and 0.98% stakes in the company, respectively.
- IFast Financial Pte Ltd. (Investment Management) owns about a 0.6412% stake in the company.
- There were no cases of non-compliance with all applicable laws and regulations concerning corruption in its operations in Singapore.
- A total of 337 employee leaving the company is due to the end of several contracts from its dormitory business. This is compensated by its new hire at 329 employees.
- LHN has a code of corporate governance that includes Anti-Corruption, Anti-Fraud and whistle-blowing policies in place that adhere to the local government's laws, regulations and has helped it generate 0 incidents of corruption.
- In the past 6 years, LHN Group has not received any substantiated complaints or identified leaks, thefts or losses of customer data, and has displayed a good cybersecurity track record and framework, according to the company.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	3.6	2.8	2.6	4.7	4.3
Core P/E (x)	4.1	5.6	5.2	4.5	4.0
Core FD P/E (x)	4.1	5.6	5.5	4.7	4.3
P/BV (x)	1.0	0.6	0.7	0.7	0.7
P/NTA (x)	1.0	0.6	0.6	0.6	0.6
Net dividend yield (%)	5.1	6.4	6.2	6.9	7.5
FCF yield (%)	19.5	20.8	28.8	32.7	33.6
EV/EBITDA (x)	3.4	4.9	6.3	4.8	4.6
EV/EBIT (x)	4.8	8.7	6.1	7.0	6.6

INCOME STATEMENT (SGD m)

Revenue	121.0	111.8	117.3	122.6	135.5
EBITDA	61.0	46.6	45.0	59.6	61.8
Depreciation	(18.8)	(20.5)	(19.0)	(18.9)	(18.7)
Amortisation	(0.0)	0.0	0.0	0.0	0.0
EBIT	42.2	26.1	46.4	40.7	43.1
Net interest income / (exp)	(4.9)	(4.9)	(9.0)	(9.0)	(7.8)
Associates & JV	3.7	16.5	2.8	2.8	2.8
Exceptionals	0.0	0.0	21.0	0.0	0.0
Other pretax income	(11.6)	12.3	(3.0)	0.0	0.0
Pretax profit	29.4	49.9	58.2	34.5	38.1
Income tax	(5.4)	(5.5)	(5.6)	(5.2)	(5.7)
Minorities	0.0	(1.7)	(1.2)	(1.5)	(1.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	28.1	45.8	50.0	27.8	30.8
Core net profit	33.8	19.9	23.7	27.8	30.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	36.8	39.7	35.2	25.2	10.2
Accounts receivable	51.8	42.2	36.8	36.8	36.8
Inventory	0.1	0.1	0.2	0.2	0.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	54.2	48.2	56.7	56.7	56.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	20.9	36.2	27.4	27.4	27.4
Other assets	223.0	302.3	410.2	410.2	410.2
Total assets	386.8	468.9	566.5	556.5	541.5
ST interest bearing debt	11.6	19.3	19.9	19.9	19.9
Accounts payable	35.4	37.1	41.9	41.9	41.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	89.8	128.9	160.5	150.5	135.5
Other liabilities	102.0	91.0	138.0	138.0	138.0
Total Liabilities	238.5	276.7	360.0	350.0	335.0
Shareholders Equity	145.7	185.9	199.2	199.2	199.2
Minority Interest	2.6	6.3	7.3	7.3	7.3
Total shareholder equity	148.3	192.2	206.5	206.5	206.5
Total liabilities and equity	386.8	468.9	566.5	556.5	541.5

CASH FLOW (SGD m)

Pretax profit	29.4	49.9	58.2	34.5	38.1
Depreciation & amortisation	18.9	20.5	19.0	18.9	18.7
Adj net interest (income)/exp	3.5	3.4	8.2	9.0	7.8
Change in working capital	1.4	(1.4)	7.9	(0.0)	(0.0)
Cash taxes paid	(4.9)	(5.2)	(5.6)	(5.2)	(5.7)
Other operating cash flow	3.8	(29.3)	(42.0)	(5.7)	(6.0)
Cash flow from operations	52.0	38.1	46.1	51.5	52.9
Capex	(20.0)	(7.8)	(8.5)	(8.7)	(8.8)
Free cash flow	32.0	30.3	37.6	42.8	44.0
Dividends paid	(7.2)	(7.9)	(8.5)	(9.1)	(9.9)
Equity raised / (purchased)	2.2	3.6	0.0	0.0	0.0
Change in Debt	(5.3)	7.2	(13.6)	(56.2)	(72.9)
Other invest/financing cash flow	(28.9)	(33.9)	4.9	11.2	12.4
Effect of exch rate changes	0.0	0.0	(0.4)	0.0	0.0
Net cash flow	(7.2)	(0.6)	20.1	(11.3)	(26.3)

FYE 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(9.9)	(7.6)	4.9	4.5	10.5
EBITDA growth	2.2	(23.6)	(3.5)	32.4	3.8
EBIT growth	8.7	(38.1)	77.6	(12.4)	5.9
Pretax growth	31.0	69.9	16.6	(40.8)	10.6
Reported net profit growth	(9.2)	63.3	9.1	(44.3)	10.6
Core net profit growth	9.5	(41.1)	19.0	17.4	10.6
Profitability ratios (%)					
EBITDA margin	50.5	41.7	38.4	48.6	45.6
EBIT margin	34.9	23.4	39.6	33.2	31.8
Pretax profit margin	24.3	44.7	49.6	28.1	28.1
Payout ratio	25.2	15.6	16.2	32.6	32.1
DuPont analysis					
Net profit margin (%)	23.2	41.0	42.6	22.7	22.7
Revenue/Assets (x)	0.3	0.2	0.2	0.2	0.3
Assets/Equity (x)	2.7	2.5	2.8	2.8	2.7
ROAE (%)	21.0	27.6	26.0	14.0	15.4
ROAA (%)	9.3	4.7	4.6	5.0	5.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	43.6	56.4	70.3	70.3	70.3
Net gearing (%) (excl. perps)	43.6	56.4	70.3	70.3	70.3
Net interest cover (x)	8.7	5.3	5.1	4.5	5.5
Debt/EBITDA (x)	1.7	3.2	4.0	2.9	2.5
Capex/revenue (%)	16.5	7.0	7.2	7.1	6.5
Net debt/ (net cash)	64.6	108.4	145.1	145.2	145.2

Source: Company; Maybank IBG Research

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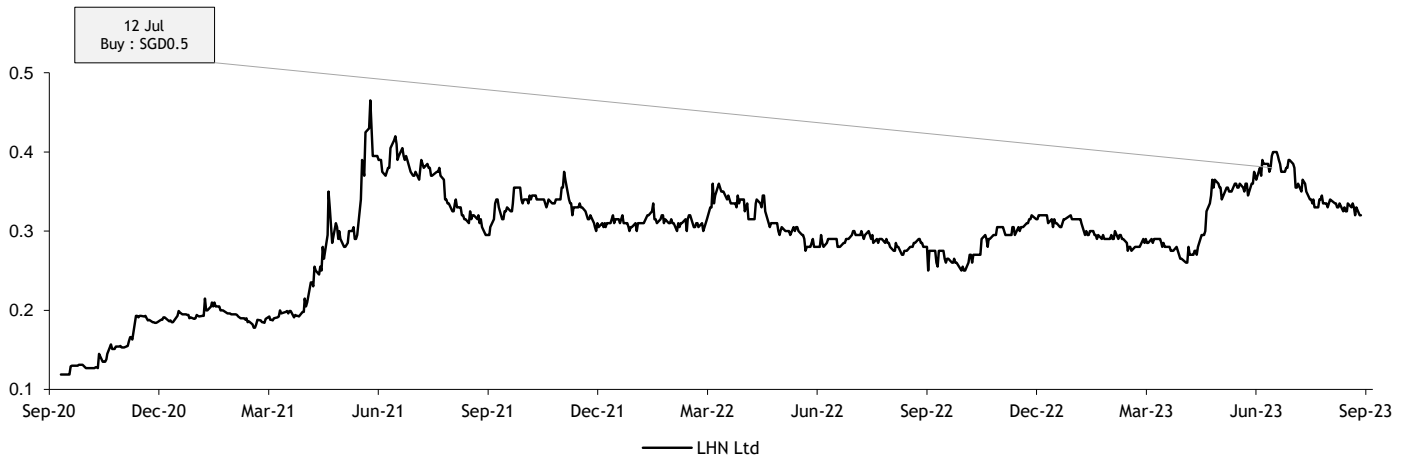
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