

LHN Ltd (LHN SP)

Growth driven by co-living

Core PATMI below; declares final & special DPS

FY23 core PATMI of SGD19m (excluding fair value loss and disposal gain) is lower than our/market expectations, mainly due to higher financing cost (c.+80% YoY) and less contribution from JVs. The group declared a final DPS of SGD0.01 and a special DPS of SGD0.01 (which shareholders can elect to receive in either cash or units). We remain positive on LHN's growth strategy, but lower our FY24-25 core profit forecasts by c.14-16% to account for a higher-for-longer interest rate scenario. While our TP has been reduced to SGD0.45 (still based on 8x FY24E P/E), we retain Buy given its undemanding valuation of 6x forward P/E, 0.6x P/B and attractive yield of 6%. LHN has received approval to transfer its listing to the SGX mainboard from Catalyst, and will debut on 13 Dec.

Stable occupancy and rental for Coliwoo

LHN's FY23 co-living revenue of SGD28.3m is c.7% ahead of our estimate. This strong performance was driven by growth in the number of keys (+68% YoY) and higher average rental rates in FY23. Occupancy as of Sep'23 dipped to 94.7%, mainly due to new launches (vs. 96.7%/98% in 1H23/2H22). We factor in a stable occupancy rate and rental rates, but expect co-living to continue to underpin growth, as LHN aims to add 800 keys each year. Management expects to secure new tenders from Singapore Land Authority (SLA), and results may be announced as early as this month.

Expanding other income sources

FY23 revenue from industrial leasing grew 33% YoY, driven by robust demand from the private leasing market. However, contributions from commercial leasing declined 22% YoY due to lumpy revenue recognition. In addition, LHN is expanding its renewable energy business by adding more solar panel capacity; its existing facilities management services include EV charging, carpark management and cleaning services. We also expect additional income from the sale of its 49-unit food factory development (55 Tuas South) in 4Q23.

Sale of 20% stake in Pasir Panjang property

Leverage stood at 56.2% as of Sep'23, 360bps lower from 59.8% in Mar'23, after loan repayment and sale of its logistics business. We are assuming elevated cost of debt into FY24 given the ongoing re-pricing of its bank loans. On 23 Nov, Coliwoo's subsidiary disposed 20% of its interest in its subsidiary (Coliwoo PP, which holds 404 Pasir Panjang Rd) to a strategic partner (Globalpoint Far East) for SGD395,000. We do not expect any capital gain from this deal as it was sold at book value. Risks to our call include: higher-than-expected interest rates, volatile rental market and FX loss from overseas operations.

FYE Sep (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	112	94	117	132	152
EBITDA	46	38	48	49	56
Core net profit	19	19	23	25	27
Core FDEPS (cts)	4.8	4.8	5.6	6.1	6.5
Core FDEPS growth(%)	(58.8)	(1.1)	17.9	8.5	7.3
Net DPS (cts)	1.8	3.0	2.0	2.0	2.0
Core FD P/E (x)	5.7	7.0	5.7	5.3	4.9
P/BV (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	9.0	6.3	6.3	6.3
ROAE (%)	27.6	19.0	10.6	12.3	12.2
ROAA (%)	4.4	3.8	4.1	4.5	4.8
EV/EBITDA (x)	2.5	7.0	5.2	5.0	4.5
Net gearing (%) (incl perps)	56.4	58.1	52.9	52.7	53.5
Consensus net profit	-	-	28	31	na
MIBG vs. Consensus (%)	-	-	(17.4)	(12.9)	na

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BUY

Share Price SGD 0.32
12m Price Target SGD 0.45 (+40%)
Previous Price Target SGD 0.54

Company Description

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

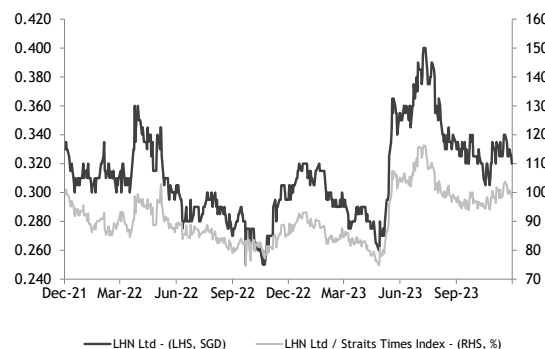
Statistics

52w high/low (SGD) 0.40/0.26
3m avg turnover (USDm) 0.2
Free float (%) 42.9
Issued shares (m) 409
Market capitalisation SGD130.9M
USD98M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(4)	8
Relative to index (%)	(3)	(0)	15

Source: FactSet

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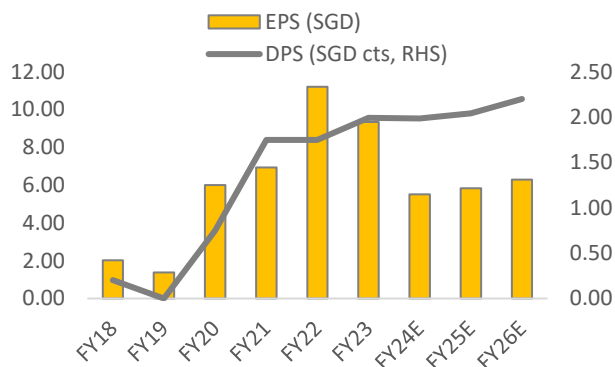
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OPPORTUNITY+

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 four more assets.
- New dividend policy a minimum of 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.

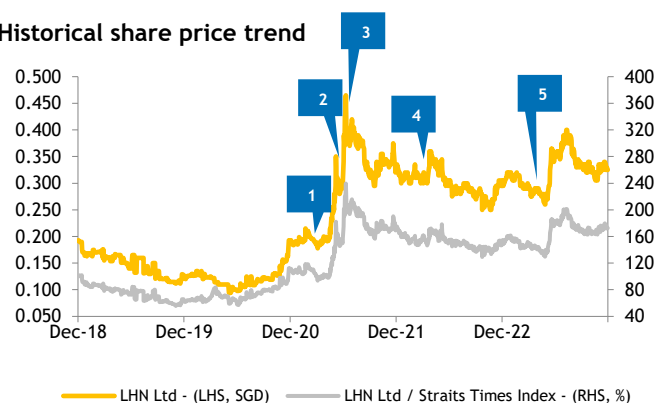
EPS and DPS Trend



Source: Company

Price Drivers

Historical share price trend



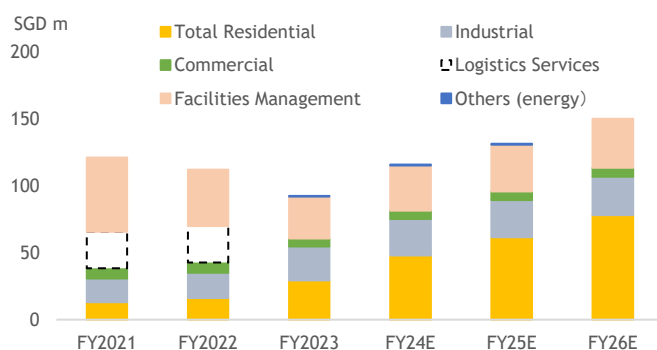
Source: Company, Maybank IBG Research

1. 2Q20 results hit by onset of Covid-19 pandemic.
2. Increase in the co-living among expatriates and students followed by 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 agreement of 6.5m shares amounting to net sales proceeds of S\$2.1m, which are intended for general working capital purposes.
4. Listing of LHN Logistics Limited on 29 April 2022 and decreased revenue of S\$0.3m 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 at 1H23.

Financial Metrics

- FY23 revenue was underpinned by co-living business in Singapore (+85%). We expect further growth, led by co-living as more pipeline assets become operational.
- Contribution by total space optimisation business saw steady growth, reaching 64% of LHN's revenue in FY23.
- Gearing is likely to remain stable as LHN intends to expand via joint venture and asset light strategy.

Segmental revenue



Source: Company

Swing Factors

Upside

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

Downside

- Surge of supply in 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	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 in 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 in reducing their 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 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 programs 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).

1. Forecast changes

Fig 1: Change of estimates

	FY24E (old)	FY25E (old)	FY24E (new)	FY25E (new)	FY24E (% change)	FY25E (% change)
Revenue (SGDm)	122.68	135.56	116.94	132.40	(4.7%)	(2.3%)
Gross profit (SGD m)	70.54	77.95	69.58	79.44	(1.4%)	1.9%
Share of results of Associates and Joint Ventures, net of tax	2.81	2.81	1.76	1.79	(37.3%)	(36.1%)
Financing cost (SGD m)	(9.29)	(7.77)	(8.93)	(8.43)	(3.8%)	8.6%
Core PATMI (SGD m)	29.09	32.40	24.18	26.23	(16.9%)	(19.0%)
Core EPS (SGD cts)	0.0711	0.0792	0.0591	0.0642	(16.9%)	(19.0%)

Source: Maybank IBG Research

2. Operational highlights

Fig 2: Breakdown of total number of keys (as of Sep'23)

Table - No. of Keys by Projects

	Coliving - Singapore Projects			85 SOHO - Overseas Projects		Total
	Master Lease	Owned	Joint Venture	Master Lease	Owned	
AS AT SEP'23	1,387	210	84	275	108	2,064

Source: Company

Fig 3: Portfolio occupancy as of Sep'23

Occupancy Rates of Space Optimisation Properties (Table 5)

Industrial Properties	
Work+Store space:	100.0%
Industrial space:	98.3%
Commercial Properties	
Commercial space:	95.9%
Residential Properties	
Co-living space (Singapore):	94.7%

Source: Company

3. Results highlights

Fig 4: Segmental revenue trends

		FY19	FY20	FY21	FY22	FY23	YoY, %
Co-Living (Singapore)	SGD m		9.22	10.99	15.27	28.26	85.0%
85 SOHO (Overseas)	SGD m		1.64	1.97	0.89	1.07	20.9%
Dormitory Set up & Retro Fit	SGD m		16.12	0.04	0.00	0.00	n.m.
Total Residential	SGD m	5.32	26.99	13.00	16.16	29.33	81.5%
Industrial	SGD m	39.24	26.89	17.66	18.88	25.19	33.5%
Commercial	SGD m	21.23	15.61	7.74	7.56	5.91	(21.8%)
Total Space Optimisation Revenue	SGD m	65.79	69.48	38.40	42.59	60.43	41.9%
Logistics Services	SGD m	24.94	25.19	27.16	27.31	0.00	n.m.
Facilities Management	SGD m	20.37	39.55	55.42	41.87	31.34	(25.2%)
Others (energy)	SGD m					0.55	n.m.
Corporate						1.33	
Total Revenue	SGD m	111.09	134.21	120.98	111.77	93.64	

Source: Company, Maybank IBG Research

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	3.3	5.7	4.9	4.9
Core P/E (x)	5.7	6.7	5.4	5.0	4.6
Core FD P/E (x)	5.7	7.0	5.7	5.3	4.9
P/BV (x)	nm	0.6	0.6	0.6	0.6
P/NTA (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	9.0	6.3	6.3	6.3
FCF yield (%)	0.0	25.8	23.8	7.3	28.9
EV/EBITDA (x)	2.5	7.0	5.2	5.0	4.5
EV/EBIT (x)	4.0	7.4	7.1	6.4	5.4

INCOME STATEMENT (SGD m)

Revenue	111.8	93.6	116.9	132.4	151.8
EBITDA	46.4	38.1	47.7	49.3	55.6
Depreciation	(20.5)	(20.1)	(12.8)	(10.4)	(9.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	29.0	36.1	34.9	38.9	46.6
Net interest income / (exp)	(4.9)	(8.9)	(8.9)	(8.4)	(8.1)
Associates & JV	16.5	1.7	1.8	1.8	1.8
Exceptionals	0.0	21.3	0.0	0.0	0.0
Other pretax income	12.3	(6.0)	0.0	1.0	0.0
Pretax profit	52.8	44.3	27.7	33.2	40.3
Income tax	(5.5)	(4.1)	(3.6)	(5.0)	(5.0)
Minorities	(1.7)	(2.0)	(1.2)	(1.3)	(1.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	45.8	38.2	23.0	26.8	26.8
Core net profit	19.0	19.5	23.0	24.9	26.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	39.7	41.6	46.2	45.0	43.9
Accounts receivable	42.2	32.2	30.2	28.4	26.7
Inventory	0.1	29.0	29.0	29.0	29.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	48.2	34.9	27.6	20.4	13.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	36.2	27.6	27.9	28.4	29.3
Other assets	302.3	388.9	392.9	404.9	421.1
Total assets	468.9	554.1	553.8	556.0	563.3
ST interest bearing debt	19.3	18.8	17.9	17.0	16.2
Accounts payable	37.1	42.2	44.3	46.5	48.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	128.9	149.5	144.5	143.7	145.9
Other liabilities	91.0	126.0	128.0	129.0	131.0
Total Liabilities	276.7	336.0	334.2	336.5	342.2
Shareholders Equity	185.9	216.2	217.7	217.7	219.2
Minority Interest	6.3	1.9	1.9	1.9	1.9
Total shareholder equity	192.2	218.0	219.6	219.6	221.1
Total liabilities and equity	468.9	554.1	553.8	556.0	563.3

CASH FLOW (SGD m)

Pretax profit	52.8	44.3	27.7	33.2	40.3
Depreciation & amortisation	20.5	20.1	12.8	10.4	9.0
Adj net interest (income)/exp	3.4	7.2	8.9	8.4	8.1
Change in working capital	(1.4)	13.4	1.9	4.7	4.7
Cash taxes paid	(5.2)	(4.1)	(3.6)	(5.0)	(5.0)
Other operating cash flow	(29.3)	(1.3)	5.9	(18.1)	10.2
Cash flow from operations	41.0	54.2	50.2	28.7	55.1
Capex	(7.8)	(18.8)	(19.0)	(19.2)	(17.3)
Free cash flow	33.2	35.4	31.2	9.5	37.8
Dividends paid	(7.9)	(8.6)	(8.2)	(8.2)	(8.3)
Equity raised / (purchased)	3.6	0.0	0.0	0.0	0.0
Change in Debt	7.2	(2.0)	(3.7)	(18.6)	(13.5)
Other invest/financing cash flow	(33.9)	(7.7)	(9.6)	25.7	(8.7)
Effect of exch rate changes	0.0	(0.2)	0.0	0.0	0.0
Net cash flow	2.2	16.9	9.7	8.4	7.3

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.6)	(16.2)	24.9	13.2	14.7
EBITDA growth	(24.0)	(17.8)	25.1	3.3	12.7
EBIT growth	(38.4)	24.6	(3.4)	11.3	19.9
Pretax growth	54.1	(16.1)	(37.4)	19.7	21.3
Reported net profit growth	63.3	(16.6)	(39.9)	16.8	(0.3)
Core net profit growth	na	2.6	17.9	8.5	7.3
Profitability ratios (%)					
EBITDA margin	41.5	40.7	40.8	37.2	36.6
EBIT margin	25.9	38.6	29.9	29.3	30.7
Pretax profit margin	47.2	47.3	23.7	25.1	26.5
Payout ratio	nm	32.1	35.7	30.7	31.0
DuPont analysis					
Net profit margin (%)	41.0	40.8	19.6	20.3	17.6
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.3
Assets/Equity (x)	2.5	2.6	2.5	2.6	2.6
ROAE (%)	27.6	19.0	10.6	12.3	12.2
ROAA (%)	4.4	3.8	4.1	4.5	4.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.7	1.7	1.6
Net gearing (%) (incl perps)	56.4	58.1	52.9	52.7	53.5
Net gearing (%) (excl. perps)	56.4	58.1	52.9	52.7	53.5
Net interest cover (x)	5.9	4.1	3.9	4.6	5.7
Debt/EBITDA (x)	3.2	4.4	3.4	3.3	2.9
Capex/revenue (%)	7.0	20.1	16.3	14.5	11.4
Net debt/ (net cash)	108.4	126.7	116.1	115.7	118.2

Source: Company; Maybank IBG Research

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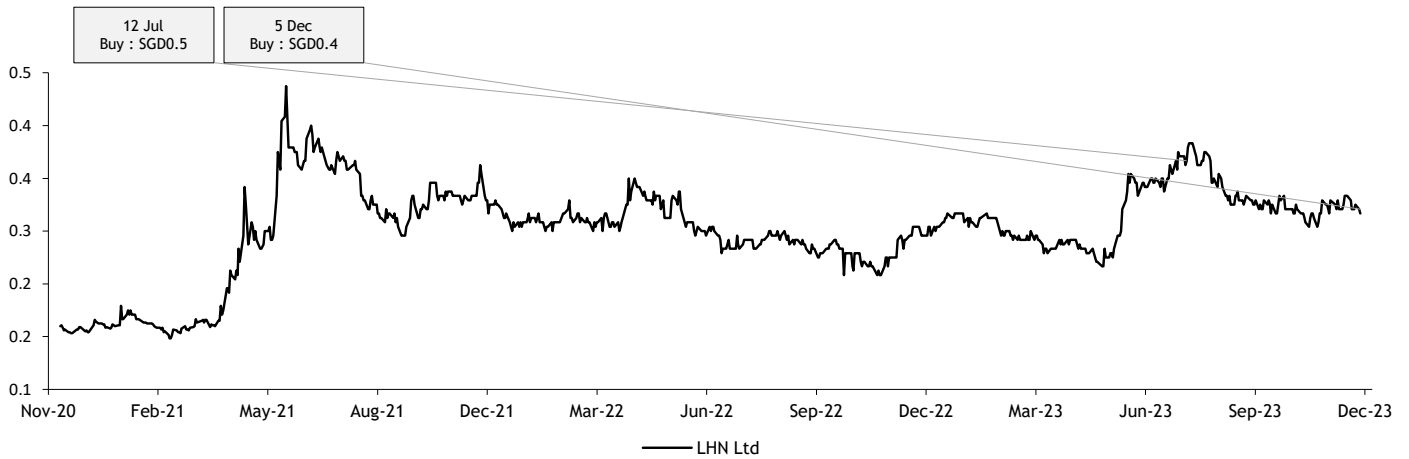
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