

LHN Limited

Co-living the growth driver

SINGAPORE | REAL ESTATE | 2H22 RESULTS

- FY22 revenue and adjusted PATMI was 91%/100% of our FY22e forecasts. 2H22 adjusted PATMI declined 19% YoY to S\$13.4mn due to the absence of worker dormitory earnings.
- Co-living revenue continues to grow strongly with 38% YoY growth in 2H22. Growth was driven by an estimated 25% growth in rooms and a mid-teens rise in room rates.
- Earnings in FY23e will be supported by an estimated 60% expansion in co-living capacity (under Coliwoo brand) by 600 rooms to around 1,600. The new 411 units in Mount Elizabeth will be one of the largest sites for Coliwoo. The absence of dorm earnings will be a drag in 1H23. We maintain a BUY with lower TP of S\$0.47 (prev. S\$0.51) due to decline in valuations of listed LHN Logistics (LHNL SP, Not Rated). Core business valuations are pegged to 6.5x FY23e P/E, while the industry is trading at 13x. Stock is also trading at 35% discount to book value of S\$0.455 with a dividend yield of around 6%.

Results at a glance

SGD '000	2H22	2H21	YoY	Comments
Revenue	52,591	56,499	-6.9%	
- Industrial	9,423	8,903	5.8%	
- Commercial	3,820	3,660	4.4%	Occupancy 97.9%
- Co-living	8,269	6,007	37.7%	Occupancy 98.3%
- Facilities Mgmt	16,827	23,797	-29.3%	
Profit before tax	17,117	15,982	7.1%	
- Industrial	7,787	5,573	39.7%	Work + Store occupancy at 94.9%
- Commercial	2,716	97	n.m.	
- Co-living	29,997	-2,617	n.m.	
- Facilities Mgmt	4,379	6,919	-36.7%	
Adj PATMI	13,406	16,505	-18.8%	
DPS (cts)	1.00	1.00	0.0%	

Source: Company, PSR *Adj. PATMI is excludes fair value gain on investment properties and other one-offs

The Positive

+ Co-living riding on surge in rental rates and capacity. Co-living revenue jumped 38% YoY from higher rental rates and a 25% rise in room capacity in FY22e. New capacity additions were 320 Balestier Road, 75 Beach Road, 115 Geylang Road and a JV properties at 40 and 42 Amber Road and 471 Balestier Road. Fair value gains caused a spike in PBT for co-living.

The Negatives

- Facilities management dragged down by dormitory. Facilities management earnings dropped 37% YoY in 2H22 to S\$4.4mn. The decline was due to the exit of the dormitory business in mid-2022. The drag from dorm earnings will persist into 1H23.

- Rise in net debt from investment properties. Net debt has risen from S\$63mn to S\$107mn in FY22. The increase in net debt was due to S\$53mn invested in investment properties. We expect stability in FY23e cash-flows, as the focus will be on launching and raising occupancy levels of Mount Elizabeth Coliwoo. Bulk of the debt is on fixed rates for the next two years.



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11 December 2022

BUY (Maintained)

CLOSING PRICE	SGD 0.295
FORECAST DIV	SGD 0.0175
TARGET PRICE	SGD 0.47
TOTAL RETURN	65.3%

COMPANY DATA

Bloomberg CODE:	LHN SP
O/S SHARES (MN):	532.9
MARKET CAP (USD mn / SGD mn):	116 / 157
52 - WK HI/LO (SGD):	0.37 / 0.25
3M Average Daily T/O (mn):	0.09

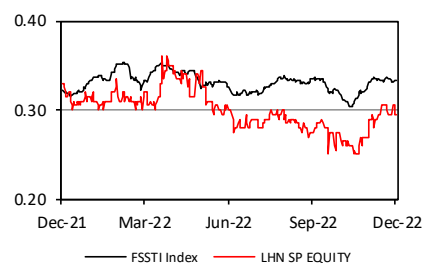
MAJOR SHAREHOLDERS

Hean Nerng Group Pte Ltd	41.5%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.3	7.3	0.7
STI RETURN	3.0	0.0	8.2

PRICE VS. STI



KEY FINANCIALS

Y/E Sep, SGD (mn)	FY21	FY22	FY23e	FY24e
Revenue	121.0	111.8	123.6	132.1
EBITDA	58.0	78.4	56.7	60.3
PATMI	28.1	45.8	29.4	30.8
Adj PATMI	35.4	27.9	29.4	30.8
EPS (SGD cents)	6.9	11.2	7.2	7.5
Adj EPS (SGD cents)	8.7	6.8	7.2	7.5
P/E (x)	3.4	4.3	4.1	3.9
Dividend Yield	5.9%	5.9%	5.9%	5.9%
ROE	18.9%	23.9%	13.5%	12.6%
ROA	7.3%	9.8%	5.9%	5.8%

Source: Company, PSR

VALUATION METHOD

6.5x FY22e PE adj. + Subsidiary market cap

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Outlook

We expect stable growth in FY23e.

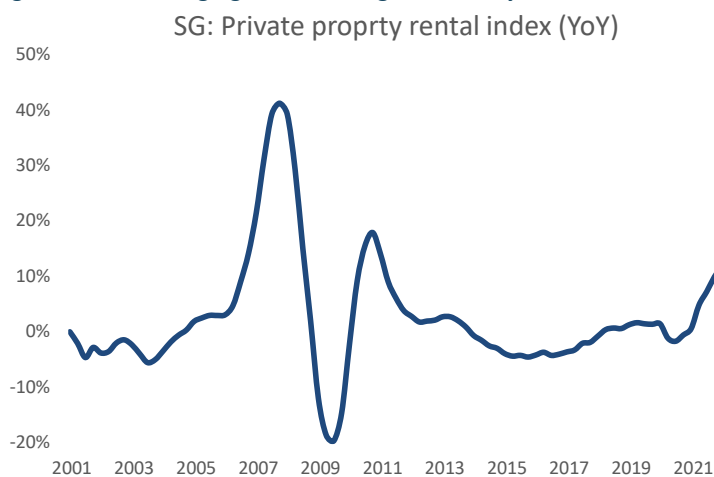
a) Space Optimization (38% of FY22 revenue)

- Industrial (17%): Expect muted growth from higher rental rates in Tampines.
- Commercial (7%): Modest growth from increased occupancy in existing portfolio such as 1557 Keppel Road.
- Residential (14%): Stellar growth is expected from Coliwoo, with a 60% jump in rooms and a rise in rental rates (Figure 1).

b) Facilities Management (38%): Growth driven by expansion in new car parks under management, and more contracts secured in facilities management. The sale of solar power will be a new revenue stream for this segment.

c) Logistics Services (24%): Expect 4% revenue growth in FY23e. The completion of a new ISO depot in 7 Gul Avenue (mid-2023) and higher utilization of container terminals in Thailand and Myanmar will be the key growth driver for this division. The new ISO depot can provide cleaning, repair, survey and storage services of ISO tanks that carry dangerous chemicals.

Figure 1: Rents surging 24% YoY, highest in 14 years



Source: CEIC, URA

Maintain BUY with a lower TP of S\$0.47 (prev. S\$0.51)

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Financials

Income Statement

Y/E Sep, SGD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	134,213	120,977	111,772	123,582	132,085
Cost of sales	(70,570)	(54,426)	(52,725)	(56,848)	(60,759)
Gross profit	63,643	66,551	59,047	66,734	71,326
Other income	17,103	15,000	11,829	10,000	11,000
Administrative expenses	(30,429)	(32,617)	(39,209)	(34,603)	(36,984)
Other expenses	(4,616)	(1,881)	(2,452)	(2,472)	(3,038)
Share of results of associates	555	3,666	16,466	3,000	4,000
Fair value gain/(loss) on IP	(11,809)	(11,598)	12,261	-	-
EBIT	34,447	39,121	57,942	42,660	46,304
Net Finance Inc/(Exp)	(5,127)	(4,863)	(4,930)	(6,290)	(6,965)
Profit before tax	29,320	34,258	53,012	36,370	39,339
Tax expense	(4,633)	(5,400)	(5,498)	(5,455)	(5,901)
Minority interest	(543)	(795)	(1,676)	(1,546)	(2,675)
PATMI	24,144	28,063	45,838	29,369	30,763
Adjusted PATMI	18,850	35,359	27,866	29,369	30,763

Per share data (SGD Cents)

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
EPS	6.0	6.9	11.2	7.2	7.5
Adj EPS	4.7	8.7	6.8	7.2	7.5
DPS	1.3	1.8	1.8	1.8	1.8
BVPS	30.7	36.5	47.0	53.1	59.8

Cash Flow

Y/E Sep, SGD '000	FY20	FY21	FY22	FY23e	FY24e
CFQ					
Profit before tax	29,320	34,258	53,012	36,370	39,339
Adjustments	32,173	29,808	11,105	18,791	19,026
WC changes	(12,486)	1,351	4,040	(306)	774
Cash generated from ops	48,452	61,751	51,691	51,855	55,140
Income tax paid	(669)	(4,875)	(5,219)	(5,455)	(5,901)
Cashflow from ops	48,560	56,910	46,656	47,914	51,139
CFI					
CAPEX, net	(22,212)	(19,604)	(7,691)	(8,000)	(10,000)
Others	11,694	(24,529)	(33,929)	(1,000)	(7,000)
Cashflow from investments	(10,518)	(44,133)	(41,620)	(9,000)	(17,000)
CFE					
Loans, net of repayments	19,124	34,610	46,999	4,840	2,140
Dividends paid	(3,069)	(7,019)	(7,143)	(5,874)	(6,153)
Others	(36,227)	(42,698)	(41,986)	(26,290)	(31,965)
Cashflow from financing	(20,172)	(15,107)	(2,130)	(27,323)	(35,977)
Net change in cash	17,870	(2,330)	2,906	11,591	(1,838)
CCE, end	39,127	36,801	39,743	51,334	49,496

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD '000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Trade and other receivables	43,366	31,754	25,406	28,424	30,380
Cash and bank balances	38,446	36,786	39,727	51,318	49,480
Inventories	75	90	136	124	132
Total current assets	108,877	100,539	100,019	114,616	114,742
PPE	47,183	54,167	48,241	47,248	47,504
Investment properties	115,578	166,570	233,267	253,267	278,267
Others	72,110	65,532	87,359	86,336	88,118
Total non-current assets	234,871	286,269	368,867	386,851	413,889
Total Assets	343,748	386,808	468,886	501,466	528,631
LIABILITIES					
Trade and other payables	43,701	35,392	37,094	39,793	42,532
Lease liabilities	33,193	37,706	29,859	29,859	29,859
Bank borrowings	10,725	11,556	19,319	19,319	19,319
Others	6,564	5,060	4,407	4,407	4,407
Total current liabilities	94,183	89,714	90,679	93,378	96,117
Lease liabilities	66,182	54,630	51,517	51,517	46,517
Bank borrowings	55,997	89,822	128,854	133,694	135,835
Others	3,806	4,359	5,658	5,658	5,658
Total non-current liabilities	125,985	148,811	186,029	190,869	188,010
Total Liabilities	220,168	238,525	276,708	284,248	284,126
Net assets	123,580	148,283	192,178	217,219	244,504
Equity					
Share capital	63,407	65,496	65,496	65,496	65,496
Reserves	58,234	80,230	120,408	143,903	168,514
Non-controlling interests	1,939	2,557	6,274	7,820	10,495
Shareholder Equity	123,580	148,283	192,178	217,219	244,504

Valuation Ratios

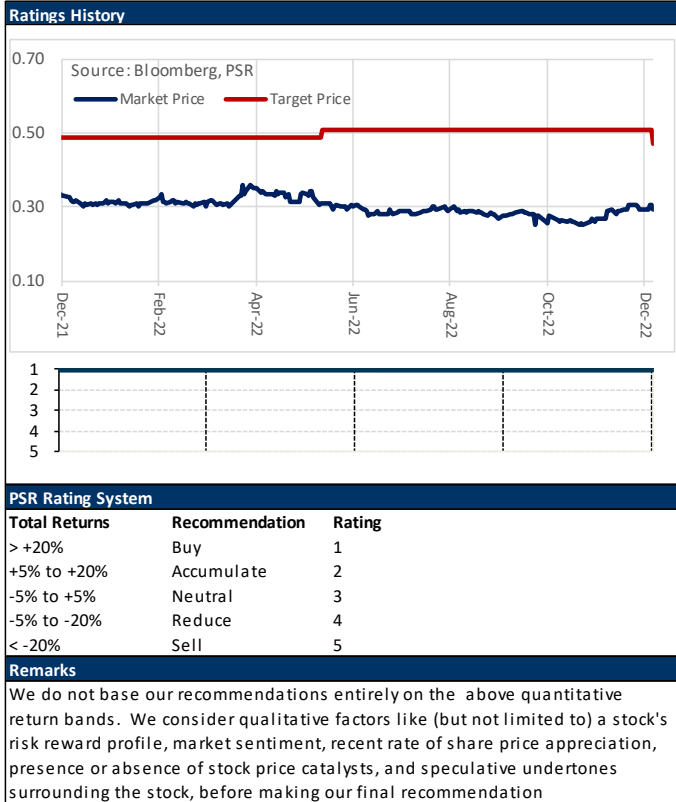
Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	6.3	3.4	4.3	4.1	3.9
P/B (x)	1.0	0.8	0.6	0.6	0.5
EV/EBITDA (x)	2.7	3.2	3.0	4.1	3.9
Dividend Yield (%)	4.2%	5.9%	5.9%	5.9%	5.9%

Growth & Margins

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	20.8%	-9.9%	-7.6%	10.6%	6.9%
EBITDA	227.1%	4.7%	35.3%	-27.7%	6.3%
EBIT	235.8%	13.6%	48.1%	-26.4%	8.5%
Net profit	194.9%	16.2%	63.3%	-35.9%	4.7%
Margins					
Gross margin	47.4%	55.0%	52.8%	54.0%	54.0%
EBITDA margin	41.3%	47.9%	70.2%	45.9%	45.6%
EBIT margin	25.7%	32.3%	51.8%	34.5%	35.1%
Net profit margin	18.0%	23.2%	41.0%	23.8%	23.3%

Key Ratios

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
ROE	19.5%	18.9%	23.9%	13.5%	12.6%
ROA	7.0%	7.3%	9.8%	5.9%	5.8%
Net Gearing	22.9%	43.6%	56.4%	46.8%	43.2%



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