

LHN Limited

Building a real estate franchise with scale

SINGAPORE | REAL ESTATE | UPDATE

- We visited LHN's recently launched 411 keys co-living property in Orchard. The new project will raise LHN co-living capacity by around 40%.
- Co-living is a product with a flexible lease to serve the medium-term residential lease market. It fits in between tenants requiring longer stays than a hotel and shorter than a rented apartment. It is more affordable than service apartments with an added community experience.
- No change to our FY23e forecast. Coliwoo is a major earnings driver for LHN in FY23e. Capacity over FY21-FY23e is expected to double to around 1,600 keys. The current pipeline is 2,500 keys. Coliwoo Orchard can generate more than S\$15mn in revenue, doubling FY22 co-living revenue. We maintain a BUY with a lower TP of S\$0.47. Core business valuations are pegged to 6.5x FY23e P/E, while the industry is trading at 13x. The stock is also trading at 38% discount to book value of S\$0.455 with a dividend yield of around 6%.

Highlights

- Demand is healthy with a waiting list.** Since launch, the take-up rate has been encouraging. The good location near Orchard MRT and access to shopping, entertainment and Mount Elizabeth hospital will cater to a wide mix of tenants. Rental per month is more than S\$3,000. This is compared with surrounding area apartment rents of around S\$5,000 per month with a 1-2 year commitment. Another advantage of co-living over rental apartments is the ability to occupy immediately with all available utilities including internet, etc.
- Riding on the strong rental market.** Co-living will benefit from the buoyant rental market. The residential rental index is up 30% in 2022 and the re-opening of borders will further boost demand. The breakdown of tenants is around 70% foreigners, 20% locals and 10% students. LHN conducts direct marketing to corporates and nearby hospitals in addition to other marketing channels such as the internet, social media and property agents.
- Optimising space, sustainability driven and asset light.** After taking over the previous Fraser Residence, LHN drew on its sustainability-driven method to optimise the rental space without having to demolish and reconstruct the building. From the previous building's 72 units, 135 units with 411 keys product was created. LHN has built its chain of Coliwoo properties on a master lease basis.
- Multiple attractions.** Every unit comes complete with an attached bathroom, queen bed, TV, washing machine, kitchenette and refrigerator. Housekeeping of the unit is done once a week. The average daily rate per night is \$200 compared to nearby service apartments that are close to S\$400.
- Other co-living operators in Singapore.** The other co-living operator includes lyf (Ascott), YOLOLive, Hmlet, Login Apartment (Shanghai), COVE, CP Residences and Commontown (S Korea).

Maintain BUY with unchanged TP of S\$0.47

We maintain a BUY with an unchanged TP of S\$0.47. Valuations are attractive at 4x PE and a dividend yield of 6%. The two major earnings drivers will be the expansion of the Coliwoo footprint across Singapore and the completion of a new ISO depot by mid-2023.



StocksBnB.com

24 March 2023

BUY (Maintained)

CLOSING PRICE	SGD 0.280
FORECAST DIV	SGD 0.0175
TARGET PRICE	SGD 0.47
TOTAL RETURN	74.1%

COMPANY DATA

Bloomberg CODE:	LHN SP
O/S SHARES (MN):	408.9
MARKET CAP (USD mn / SGD mn):	86 / 115
52 - WK HI/LO (SGD):	0.37 / 0.25
3M Average Daily T/O (mn):	0.13

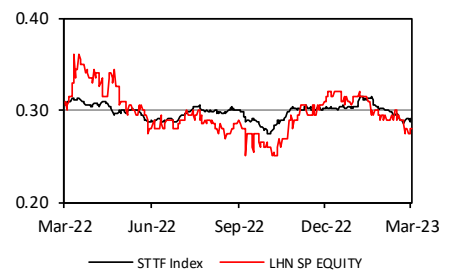
MAJOR SHAREHOLDERS

Hean Nerng Group Pte Ltd	54.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.4)	(6.6)	(9.5)
STTF	(4.9)	(3.1)	(3.1)

PRICE VS. STTF



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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Figure 1: Quick facts on Coliwoo Orchard

Launch Date:	27-Feb-23
No. of storey / Units:	22 / 411 keys
Location:	2 Mount Elizabeth Link
Amenities:	Pool, gym, communal lounge
Lease period:	1 Dec22 till 1 Dec37
Minium / Average stay:	6 nights / 4 to 7 months
Licence:	Service Apartment

Source: PSR, Company

Figure 2: Exterior of Coliwoo



Source: Coliwoo

Figure 3: Amenities include a swimming pool,



Source: Coliwoo

Figure 4: Outdoor area with BBQ pit,



Source: Coliwoo

Figure 5: Co-working Lounge, etc



Source: Coliwoo

Figure 5: Queen-sized bed with wardrobe and personal storage space



Source: PSR

Figure 5: Every room has fully fitted kitchenette with washing machine



Source: PSR

Figure 6: Study area in the room



Source: PSR

Figure 7: Attached bathroom in every room



Source: PSR

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
CFO					
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)
CFF					
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

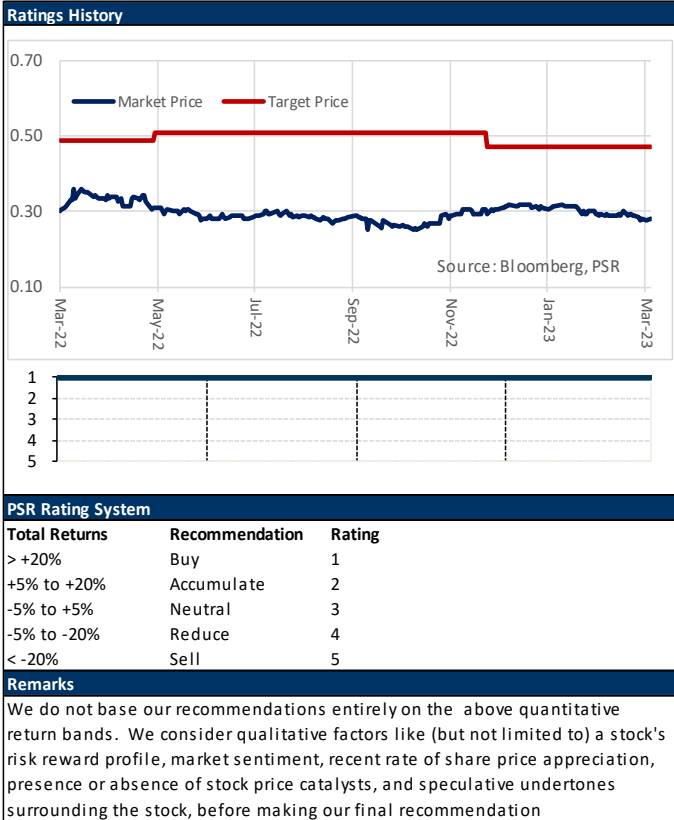
Source: Company, Phillip Securities Research (Singapore) Estimates

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					
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					
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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