

LHN Limited

Growth from new capacity

SINGAPORE | REAL ESTATE | 1H23 RESULTS

- 1H23 earnings was within expectations. Revenue and adjusted PATMI were 45%/48% of our FY23e forecasts. 1H23 adjusted PATMI declined 11% YoY to S\$14.1mn due to the completion of a worker dormitory contract in May22.
- Co-living and car park revenues jumped 50% and 28% YoY respectively in 1H23. The interim dividend was raised 67% to 1 cent, implying an annualised yield of 6%.
- 2H23e earnings growth will be supported by: 1) additional 516 keys of co-living capacity; and 2) Expansion of 2,800 car park lots. Meanwhile, FY24e will benefit from 3) commencement of a new ISO Tank Depot; 4) launch of food factory development project. Our FY23e earnings is unchanged. We maintain a BUY with an unchanged TP of S\$0.47. Core business valuations are pegged to 6.5x FY23e P/E, while the industry is trading around 13x. LHN is trading at 4x PE and a 28% discount to book value of S\$0.487.

Results at a glance

SGD '000	1H23	1H22	YoY	Comments
Revenue	55,618	59,181	-6.0%	
- Industrial	13,581	9,454	43.7%	Increase in rates and sublease.
- Commercial	2,936	3,735	-21.4%	
- Co-living	10,473	7,003	49.6%	18% YoY rise in capacity to 1678
- Car park	11,942	9,389	27.2%	Higher volumes and rates.
- Dorm	0	12,563	n.m.	Ceased since May22.
Profit before tax	20,336	35,895	-43.3%	
Adj PBT	18,186	15,124	20.2%	Company estimate.
- Industrial	12,520	4,096	205.7%	
- Commercial	1,278	5,408	-76.4%	
- Co-living	2,986	2,769	7.8%	
- Facilities Mgmt	2,685	2,625	2.3%	Largely car park.
- Dorm	0	3,989	n.m.	
Adj PATMI	14,191	15,870	-10.6%	PSR estimate.
DPS (cts)	1.00	0.60	66.7%	

Source: Company, PSR *Adj. PATMI is excludes other one-offs including unrealised FX loss.

The Positive

+ Growth in co-living and car park. Co-living revenue surged 50% to S\$10.4mn. The improvement came largely from higher room rates and a new 105 keys Coliwoo Lavender (opened in Sep22). The 411 key Coliwoo Orchard started only in Feb23. And contribution in 1H23 has been minimal. Car park revenue rose on the back of increased volumes. This was despite the number of car parks remaining flat at 74 (or ~21,500 vehicle parking lots).

The Negative

- Higher interest expense due to expansion. Interest expense almost doubled to S\$4.4mn in 1H23 due to higher interest rates and an increase in net debt to S\$144mn (1H22: S\$98mn). The rise in net debt was for the acquisition of GSM Building for S\$80mn. The property will be converted into 187 Coliwoo keys with two floors of retail. Other options for LHN to de-gear include monetising its 22 commercial and industrial properties. A further source of recycling capital is the completion of the 55 Tuas food factory project, where strata units will be sold.



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24 May 2023

BUY (Maintained)

CLOSING PRICE	SGD 0.350
FORECAST DIV	SGD 0.020
TARGET PRICE	SGD 0.47
TOTAL RETURN	40.0%

COMPANY DATA

Bloomberg CODE:	LHN SP
O/S SHARES (MN):	408.9
MARKET CAP (USD mn / SGD mn):	106 / 143
52 - WK HI/LO (SGD):	0.36 / 0.25
3M Average Daily T/O (mn):	0.41

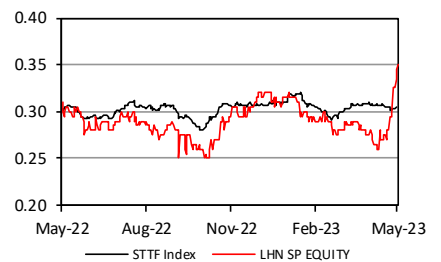
MAJOR SHAREHOLDERS

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

	1MTH	3MTH	YTD
COMPANY	25.5	19.0	11.5
STTF	(1.2)	(0.0)	1.2

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	62.7	64.2
PATMI	28.1	45.8	31.9	32.3
Adj PATMI	35.4	27.9	28.9	32.3
EPS (SGD cents)	6.9	11.2	7.8	7.9
Adj EPS (SGD cents)	8.7	6.8	7.1	7.9
P/E (x)	3.4	4.3	4.2	3.7
Dividend Yield	5.9%	5.9%	6.8%	6.8%
ROE	18.9%	23.9%	14.4%	13.0%
ROA	7.3%	9.8%	6.2%	6.0%

Source: Company, PSR

VALUATION METHOD

6.5x FY22e PE adj. + Subsidiary market cap

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Outlook

We believe there are multiple growth drivers ahead for LHN:

2H23 growth drivers

1. Expansion of co-living capacity and room rates

- Both Coliwoo Orchard and Lavender will contribute additional revenue from their recent opening of a combined capacity of 516 keys (~30% of total capacity). The target is to achieve 95% occupancy by end FY23 from the current 70%. Rental rates range from S\$2900-5800/month for Coliwoo Orchard and S\$2100-4800/month for Coliwoo Lavender.
- Room rates are riding on (i) increase residential rental market; (ii) surge in hotel RevPAR*.

*Although co-living requires minimum stay of 6 nights, the rates are attractive at S\$150 per night (vs average hotel rate in Singapore of S\$270). Online travel agencies are another source to secure tenants.

2. Growth of car park revenue

- Car park revenue has been rising on the back of higher increased volume post re-opening.
- Inclusion of Defu Industrial City car park of around 2,800 parking lots will boost capacity by 13% to ~21,500.

2024 growth drivers

3. Commencement of new ISO depot

- The new ISO depot in 7 Gul Avenue is expected to be completed in Jul23. This facility will provide cleaning, repair, survey and storage services of ISO tanks that carry dangerous chemicals. It can store up to 80 laden ISO Tank containers and capacity for 80 tank cleanings per day.

4. Development and sale of food factory

- LHN will be developing 55 Tuas into a food factory by selling 49 units on a strata basis. Supply for such properties in food zones is limited. Purchasers will use such units for the production of plant-based food, central kitchens for restaurants or food manufacturing for export. We estimate gross proceeds of around S\$60mn.

5. More Coliwoo keys in the pipeline

- In the pipeline are another 276 new keys of Coliwoo. These include GSM Building (187 keys, 3Q25); 404 Pasir Panjang (63 keys, 1Q24) and 48/50 Arab Street (26 keys, 1Q24).
- The target is 800 rooms every year for 3 years. These include an asset-light model that involve partners.

Maintain BUY with an unchanged TP of S\$0.47

We maintain a BUY with an unchanged TP of S\$0.47. Core business valuations are pegged to 6.5x FY23e P/E, while the industry is trading around 13x. LHN is trading at 4x PE and a 28% discount to book value of S\$0.487.

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)	(46,961)	(48,872)
Gross profit	63,643	66,551	59,047	76,621	83,214
Other income	17,103	15,000	11,829	18,000	8,000
Administrative expenses	(30,429)	(32,617)	(39,209)	(40,782)	(38,305)
Other expenses	(4,616)	(1,881)	(2,452)	(4,325)	(4,623)
Share of results of associates	555	3,666	16,466	3,000	2,000
Fair value gain/(loss) on IP	(11,809)	(11,598)	12,261	(3,852)	-
EBIT	34,447	39,121	57,942	48,661	50,286
Net Finance Inc/(Exp)	(5,127)	(4,863)	(4,930)	(9,735)	(9,887)
Profit before tax	29,320	34,258	53,012	38,926	40,400
Tax expense	(4,633)	(5,400)	(5,498)	(4,671)	(5,656)
Minority interest	(543)	(795)	(1,676)	(2,398)	(2,432)
PATMI	24,144	28,063	45,838	31,857	32,312
Adjusted PATMI	18,850	35,359	27,866	28,908	32,312

Per share data (SGD Cents)

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
EPS	6.0	6.9	11.2	7.8	7.9
Adj EPS	4.7	8.7	6.8	7.1	7.9
DPS	1.25	1.75	1.75	2.00	2.00
BVPS	30.7	36.5	47.0	54.0	60.9

Cash Flow

Y/E Sep, SGD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	29,320	34,258	53,012	38,926	40,400
Adjustments	32,173	29,808	11,105	22,237	22,884
WC changes	(12,486)	1,351	4,040	(7,227)	(627)
Cash generated from ops	48,452	61,751	51,691	50,936	60,657
Income tax paid	(669)	(4,875)	(5,219)	(4,671)	(5,656)
Cashflow from ops	48,560	56,910	46,656	47,780	55,965
CFI					
CAPEX, net	(22,212)	(19,604)	(7,691)	(8,000)	(10,000)
Others	11,694	(24,529)	(33,929)	(41,000)	(7,000)
Cashflow from investments	(10,518)	(44,133)	(41,620)	(49,000)	(17,000)
CFE					
Loans, net of repayments	19,124	34,610	46,999	23,040	340
Dividends paid	(3,069)	(7,019)	(7,143)	(5,782)	(6,462)
Others	(36,227)	(42,698)	(41,986)	(29,735)	(34,887)
Cashflow from financing	(20,172)	(15,107)	(2,130)	(12,477)	(41,008)
Net change in cash	17,870	(2,330)	2,906	(13,697)	(2,044)
CCE, end	39,127	36,801	39,743	26,046	24,003

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	26,030	23,987
Inventories	75	90	136	124	132
Total current assets	108,877	100,539	100,019	89,328	89,249
PPE	47,183	54,167	48,241	47,248	47,504
Investment properties	115,578	166,570	233,267	293,267	318,267
Others	72,110	65,532	87,359	86,336	86,118
Total non-current assets	234,871	286,269	368,867	426,851	451,889
Total Assets	343,748	386,808	468,886	516,179	541,138
LIABILITIES					
Trade and other payables	43,701	35,392	37,094	32,873	34,210
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	86,458	87,795
Lease liabilities	66,182	54,630	51,517	51,517	46,517
Bank borrowings	55,997	89,822	128,854	151,894	152,235
Others	3,806	4,359	5,658	5,658	5,658
Total non-current liabilities	125,985	148,811	186,029	209,069	204,410
Total Liabilities	220,168	238,525	276,708	295,527	292,205
Net assets	123,580	148,283	192,178	220,651	248,933
Equity					
Share capital	63,407	65,496	65,496	65,496	65,496
Reserves	58,234	80,230	120,408	146,483	172,333
Non-controlling interests	1,939	2,557	6,274	8,672	11,104
Shareholder Equity	123,580	148,283	192,178	220,651	248,933

Valuation Ratios

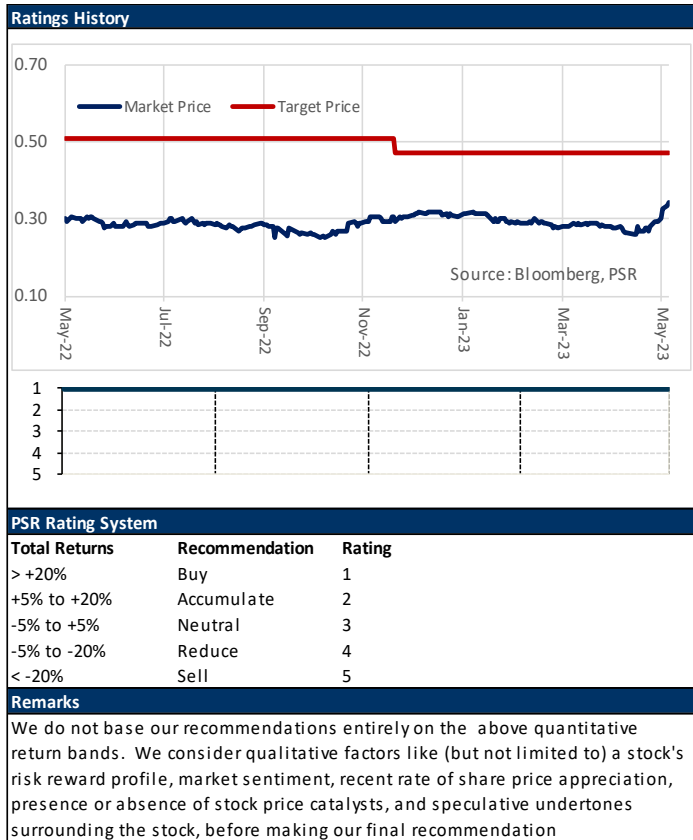
Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	6.3	3.4	4.3	4.2	3.7
P/B (x)	1.0	0.8	0.6	0.5	0.5
EV/EBITDA (x)	2.7	3.2	3.0	4.4	4.3
Dividend Yield (%)	4.2%	5.9%	5.9%	6.8%	6.8%

Growth & Margins

Growth					
Revenue	20.8%	-9.9%	-7.6%	10.6%	6.9%
EBITDA	227.1%	4.7%	35.3%	-20.1%	2.5%
EBIT	235.8%	13.6%	48.1%	-16.0%	3.3%
Net profit	194.9%	16.2%	63.3%	-30.5%	1.4%
Margins					
Gross margin	47.4%	55.0%	52.8%	62.0%	63.0%
EBITDA margin	41.3%	47.9%	70.2%	50.7%	48.6%
EBIT margin	25.7%	32.3%	51.8%	39.4%	38.1%
Net profit margin	18.0%	23.2%	41.0%	25.8%	24.5%

Key Ratios

ROE	19.5%	18.9%	23.9%	14.4%	13.0%
ROA	7.0%	7.3%	9.8%	6.2%	6.0%
Net Gearing	22.9%	43.6%	56.4%	65.8%	59.3%



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