

LHN Limited

Co-living revenue doubles

SINGAPORE | REAL ESTATE | 2H23 RESULTS

- 2023 revenue was within expectations, but earnings were below expectations. Revenue and adjusted PATMI were 98%/90% of our FY23e forecasts (excluding logistics). 2H23 adjusted PBT was 5% YoY lower due to reduced sublease gains in the commercial segment.
- Co-living revenue and earnings jumped an estimated 115% and 97% YoY, respectively in 2H23. A special dividend of 1 cent was announced from the S\$18.1mn gain from the disposal of LHN Logistics. Bulk of the proceeds will be redeployed to expand the co-living franchise in Singapore with a target of 800 keys p.a. for three years (or 30% CAGR).
- We lower our FY24e earnings by 24% following the disposal of LHN Logistics. Consequently, our target price is reduced from S\$0.47 to S\$0.39. We peg our valuations to 6.5x FY24e P/E, while the industry is trading around 13x. Growth for LHN in FY24e will be driven by the Coliwoo expansion of 347 keys in the pipeline in Singapore and potential overseas expansion. FY25e earnings will be supported by a food factory development project worth an estimated S\$70mn. We maintain BUY. LHN is scaling up its co-living franchise and brand name in Singapore. The stock pays a dividend yield of 6%, and trades at a 39% discount-to-book value of S\$0.53.

Results at a glance

SGD '000	2H23	2H22	YoY	Comments
Revenue	50,761	38,848	30.7%	
- Industrial	11,611	8,202	41.6%	
- Commercial	2,975	3,820	-22.1%	
- Co-living	17,784	8,269	115.1%	414 keys from Coliwoo Orchard.
- Car park	12,232	10,811	13.1%	Higher volumes and rates.
Profit before tax	5,134	21,024	-75.6%	Decline in FV, sublease, associates
Adj PBT	17,010	17,945	-5.2%	Company estimate excl. corp.
- Industrial	7,193	7,279	-1.2%	
- Commercial	41	3,362	-98.8%	
- Residential	7,430	3,772	97.0%	Co-living and 85 Soho
- Facilities Mgmt	2,141	3,532	-39.4%	Largely car park.
PATMI	3,353	17,687	-81.0%	
DPS (cts) - Final	1.00	0.60	66.7%	
- Interim	1.00	-	n.m.	

Source: Company, PSR *FY22 and FY23 financials have reclassified logistics as discontinued operations

The Positive

+ Strong growth in co-living. Co-living revenue more than doubled to S\$17.8mn. Growth was driven by the new 411 key Coliwoo Orchard, launched in Feb 23. Room rates have been rising for Coliwoo and occupancy remains high at 94.7%. We expect 1H24 growth will be driven by Coliwoo Orchard and additional new projects, 404 Pasir Panjang (63 keys) and 48 & 50 Arab Street (26 keys). Both assets will be operational in 2Q24.

The Negative

- Lumpy commercial earnings. 2H23 PBT for commercial declined significantly due to lower gains from sublease. Such gains are lumpy and represent the fair value of the remaining lease of the asset once tenanted. Commercial recognised a S\$5.8mn upfront gain in FY22, based on pre-IFRS 16 reconciliation.



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BUY (Maintained)

CLOSING PRICE	SGD 0.325
FORECAST DIV	SGD 0.020
TARGET PRICE	SGD 0.39
TOTAL RETURN	26.2%

COMPANY DATA

Bloomberg CODE:	LHN SP
O/S SHARES (MN) :	408.9
MARKET CAP (USD mn / SGD mn) :	99 / 133
52 - WK HI/LO (SGD) :	0.41 / 0.26
3M Average Daily T/O (mn) :	0.85

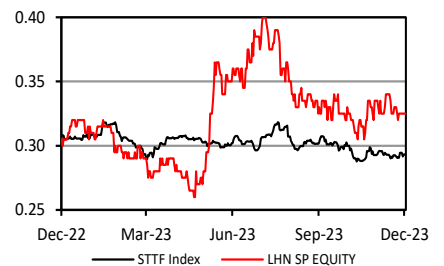
MAJOR SHAREHOLDERS

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

	1MTH	3MTH	YTD
COMPANY	(3.0)	(1.5)	8.0
STTF	0.2	(2.7)	(0.2)

PRICE VS. STTF



KEY FINANCIALS

Y/E Sep, SGD (mn)	FY22	FY23	FY24e	FY25e
Revenue	84.5	93.6	107.9	118.7
EBITDA	80.1	52.0	50.2	54.5
PATMI	48.9	18.5	24.5	29.0
Adj PATMI	24.0	20.1	24.5	29.0
EPS (SGD cents)	11.9	4.5	6.0	7.1
Adj EPS (SGD cents)	5.9	4.9	6.0	7.1
P/E (x)	5.5	6.6	5.4	4.6
Dividend Yield	5.4%	9.2%	6.2%	6.2%
ROE	25.4%	8.5%	10.6%	11.5%
ROA	10.4%	3.3%	4.6%	5.6%

Source: Company, PSR

VALUATION METHOD

6.5x FY24e PE adj.

Paul Chew (+65 6212 1851)

Head of Research

paulchewkl@phillip.com.sg

Outlook

We expect another year of growth for LHN in FY24e

- a) Residential: Co-living growth will stem from 411 Coliwoo Orchard contribution in 1H24, an additional 347 new keys (Figure 1) and firm rental rates in Singapore
- b) Facilities management: Growth in car park usage and new locations will be a driver to revenue. LHN currently manages 80 car parks (including 1 in Hong Kong), with over 26,000 parking lots.
- c) Industrial: Supply is tight due to difficulty in obtaining approval to sublet space. LHN's work plus store concept catering to small and medium e-commerce operators will enjoy healthier demand.
- d) New areas: Other potential growth opportunities include co-living projects around the region and management of healthcare dorms.

Figure 1: FY24 Coliwoo projects in pipeline

<u>Location</u>	<u>Keys</u>
404 Pasir Panjang	63
48 and 50 Arab Street	26
286 & 288 River Valley	39
99 Rangoon Road	32
GSM Building	187
	347

Source: Company, PSR

The sale of 49 units of the food factory development project in 55 Tuas South Ave 1 will be the major engine for earnings growth in FY25e. Our forecast does not incorporate these development earnings.

Maintain BUY with lower TP of S\$0.39 (prev. S\$0.47)

We maintain a BUY with a lower TP of S\$0.39. Our valuations are pegged to 6.5x FY24e P/E, while the industry is trading around 13x. LHN is trading at 5x PE and a 39% discount to book value of S\$0.53.

Financials

Income Statement

Y/E Sep, SGD '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	120,977	84,463	93,644	107,943	118,691
Cost of sales	(54,426)	(34,501)	(35,659)	(39,399)	(43,916)
Gross profit	66,551	49,962	57,985	68,544	74,775
Other income	15,000	15,386	16,996	8,000	8,000
Administrative expenses	(32,617)	(31,094)	(34,668)	(35,621)	(37,981)
Other expenses	(1,881)	(2,338)	(4,189)	(3,778)	(3,679)
Share of results of associates	3,666	15,442	1,725	2,000	2,000
Fair value gain/(loss) on IP	(11,598)	12,261	(5,971)	-	-
EBIT	39,121	59,619	31,878	39,145	43,115
Net Finance Inc/(Exp)	(4,863)	(4,504)	(8,895)	(10,394)	(9,412)
Profit before tax	34,258	55,115	22,983	28,750	33,703
Tax expense	(5,400)	(4,980)	(4,065)	(4,025)	(4,381)
Minority interest	(795)	(1,275)	(381)	(247)	(293)
PATMI	28,063	48,860	18,537	24,478	29,028
Discontinued PAT	-	(2,621)	21,303	-	-
Adjusted PATMI	35,359	23,988	20,077	24,478	29,028

Per share data (SGD Cents)

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
EPS	6.9	11.9	4.5	6.0	7.1
Adj EPS	8.7	5.9	4.9	6.0	7.1
DPS	1.75	1.75	3.00	2.00	2.00
BVPS	36.5	47.0	53.3	56.4	61.5

Cash Flow

Y/E Sep, SGD '000	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	34,258	55,115	22,983	28,750	33,703
Adjustments	29,808	11,105	3,561	19,356	19,650
WC changes	1,351	(1,388)	16,166	(2,999)	3,216
Cash generated from ops	61,751	46,263	58,265	43,107	54,569
Income tax paid	(4,875)	(5,219)	(4,640)	(4,025)	(4,381)
Cashflow from ops	56,910	41,228	54,209	41,160	51,381
CFI					
CAPEX, net	(19,604)	(7,691)	(18,438)	(8,000)	(9,000)
Others	(24,529)	(28,501)	5,394	(7,000)	(7,000)
Cashflow from investments	(44,133)	(36,192)	(13,044)	(15,000)	(16,000)
CFE					
Loans, net of repayments	34,610	46,999	36,710	18,818	12,353
Dividends paid	(7,019)	(7,143)	(8,148)	(12,268)	(8,179)
Others	(42,698)	(41,986)	(47,720)	(50,394)	(51,412)
Cashflow from financing	(15,107)	(2,130)	(19,158)	(43,845)	(47,238)
Net change in cash	(2,330)	2,906	22,007	(17,685)	(11,857)
CCE, end	36,801	39,743	61,570	43,885	32,029

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Trade and other receivables	31,754	25,406	12,858	12,953	14,243
Cash and bank balances	36,786	39,727	41,555	23,870	12,014
Inventories	90	136	13	108	119
Total current assets	100,539	100,019	137,785	120,290	109,734
PPE	54,167	48,241	34,874	34,573	34,732
Investment properties	166,570	233,267	303,761	328,761	353,761
Others	65,532	87,359	77,653	78,914	80,324
Total non-current assets	286,269	368,867	416,288	442,248	468,816
Total Assets	386,808	468,886	554,073	562,539	578,551
LIABILITIES					
Trade and other payables	35,392	37,094	42,208	39,399	43,916
Lease liabilities	37,706	29,859	32,144	32,144	32,144
Bank borrowings	11,556	19,319	18,846	18,846	18,846
Others	5,060	4,407	3,682	3,682	3,682
Total current liabilities	89,714	90,679	96,880	94,071	98,588
Lease liabilities	54,630	51,517	79,812	59,812	37,812
Bank borrowings	89,822	128,854	149,453	148,271	140,623
Others	4,359	5,658	9,879	9,879	9,879
Total non-current liabilities	148,811	186,029	239,144	217,962	188,314
Total Liabilities	238,525	276,708	336,024	312,033	286,902
Net assets	148,283	192,178	218,049	250,506	291,649
Equity					
Share capital	65,496	65,496	65,496	65,496	65,496
Reserves	80,230	120,408	150,698	162,908	183,757
Non-controlling interests	2,557	6,274	1,855	2,102	2,395
Shareholder Equity	148,283	192,178	218,049	230,506	251,649

Valuation Ratios

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	3.7	5.5	6.6	5.4	4.6
P/B (x)	0.9	0.7	0.6	0.6	0.5
EV/EBITDA (x)	3.4	3.1	5.0	5.5	5.2
Dividend Yield (%)	5.4%	5.4%	9.2%	6.2%	6.2%

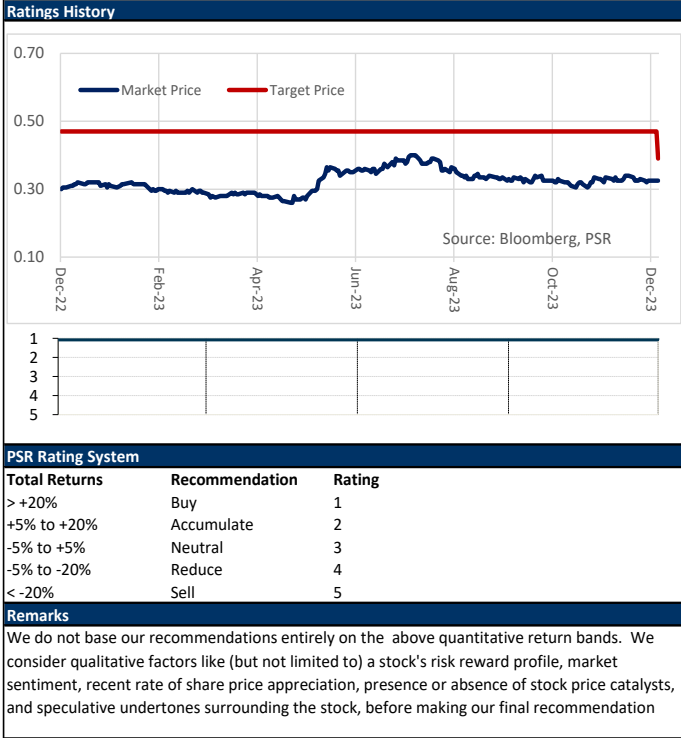
Growth & Margins

Growth					
Revenue	-9.9%	-30.2%	10.9%	15.3%	10.0%
EBITDA	4.7%	38.2%	-35.1%	-3.5%	8.7%
EBIT	13.6%	52.4%	-46.5%	22.8%	10.1%
Net profit	16.2%	74.1%	-62.1%	32.0%	18.6%
Margins					
Gross margin	55.0%	59.2%	61.9%	63.5%	63.0%
EBITDA margin	47.9%	94.9%	55.5%	46.5%	46.0%
EBIT margin	32.3%	70.6%	34.0%	36.3%	36.3%
Net profit margin	23.2%	57.8%	19.8%	22.7%	24.5%

Key Ratios

ROE	18.9%	25.4%	8.5%	10.6%	11.5%
ROA	7.3%	10.4%	3.3%	4.4%	5.0%
Net Gearing	43.6%	56.4%	58.1%	62.1%	58.6%

Note# FY21 includes the logistics operations financials.



Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli – qystina@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggymak@phillip.com.sg
US Tech Analyst (Software/Services)

 Ambrish Shah – amshah@phillipventuresifsc.in
US Tech Analyst (Digital Media & Entertainment)

 Jonathan Woo – jonathanwookj@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCC)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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