

COMPANY UPDATE

LHN (LHN SP)

Dividend Upside From Sale Of LHN Logistics; Coliwoo To Continue Expansion

LHN has received a general conditional voluntary offer of S\$0.2266/share for LHN Logistics by Milkyway Chemical, after satisfying all the pre-conditions of the deal set in Jun 23. We estimate that LHN could offer up to 1.2 S cents/share of additional dividend, from the gain of approximately 4.4 S cents/share. LHN also continues to rapidly expand its Coliwoo portfolio, having recently acquired three properties. Maintain BUY. Target price: S\$0.55.

WHAT'S NEW

- Potential estimated dividend upside of 1.2 S cents/share from divestment of LHN Logistics.** On 2 Aug 23, Shanghai-listed company Milkyway Chemical made a general conditional voluntary offer of S\$0.2266/share for LHN's 84.05%-owned subsidiary, LHN Logistics. This comes after satisfaction of two pre-conditions of the deal: a) JTC's approval for LHN's ownership change in HN Logistics with relation to the container depot in Singapore, and b) shareholders' approval on 31 Jul 23. Its container depot in Singapore is located at 7 Gul Avenue (total land area of about 22,480 sqm) and can handle up to 4,500 TEUs. JTC's approval comes with a S\$4.1m fee payable to JTC, of which S\$3.1m will be borne by LHN and the remaining will be loaned by LHN to HN Logistics. Meanwhile, an outstanding 99.99% of shareholders voted in favour of the potential disposal of LHN Logistics during the EGM held on 31 Jul 23. If the general offer is accepted, this will generate a disposal gain of S\$18m and cash proceeds of S\$28.9m (20% of LHN's market cap). The gain translates to 4.4 S cents/share, and given that LHN has recently announced a 30% dividend payout policy (excluding fair value gain/loss), we estimate that a potential special dividend of up to 1.2 S cents/share could be declared, to reward shareholders from the completion of the deal.
- New property acquisitions under Coliwoo to drive revenue and earnings growth.** LHN acquired two freehold properties – 286 & 288 River Valley Road – for S\$11.5m and S\$11.75m respectively on 26 Jul 23 and a freehold property located at 99 Rangoon Road for S\$14.5m on 7 Aug 23. The two River Valley properties are four-storey mixed-use buildings with total land area of 388.4 sqm, and will be funded by internal resources and bank borrowings. LHN plans to convert the buildings into serviced residences or hotels under the Coliwoo brand upon Urban Redevelopment Authority (URA) approval. This pair will expand Coliwoo's presence in the River Valley neighbourhood, which currently comprises Coliwoo River Valley 298, a four-storey serviced apartment located along the same road. The 16-room co-living residence was acquired in Feb 22 and commenced operations in 2H23. As for the four-storey Rangoon property of 242.6 sqm, existing leases expire in Feb 24 and LHN intends to operate it as a student hostel thereafter. These recent acquisitions, which will likely commence operations in 2024, are in line with LHN's expansion agenda and will bolster Coliwoo's brand value.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	121	112	123	125	146
EBITDA	51	38	37	44	50
Operating profit	32	17	26	29	34
Net profit (rep./act.)	28	46	52	32	36
Net profit (adj.)	36	17	25	27	31
EPS (S\$ cents)	8.9	4.2	6.1	6.7	7.6
PE (x)	3.9	8.4	5.7	5.2	4.6
P/B (x)	1.0	0.8	0.6	0.6	0.5
EV/EBITDA (x)	4.4	5.9	6.0	5.1	4.5
Dividend yield (%)	5.0	5.0	6.6	7.1	7.7
Net margin (%)	23.2	41.0	42.3	26.0	24.7
Net debt/(cash) to equity (%)	44.3	58.3	31.5	25.1	14.6
Interest cover (x)	10.5	7.7	4.1	4.4	4.5
ROE (%)	21.0	27.6	25.1	13.5	13.7
Consensus net profit	-	-	26	30	32
UOBKH/Consensus (x)	-	-	0.94	0.93	0.98

Source: LHN, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.35
Target Price	S\$0.55
Upside	+56.8%

COMPANY DESCRIPTION

LHN Group is an integrated real estate management service company with a market-leading position in the co-living space.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	LHN:SP
Shares issued (m):	408.9
Market cap (S\$m):	143.1
Market cap (US\$m):	106.7
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

52-week high/low S\$0.400/S\$0.250

1mth	3mth	1mth	3mth	1mth
(9.1)	29.6	16.7	18.6	9.4

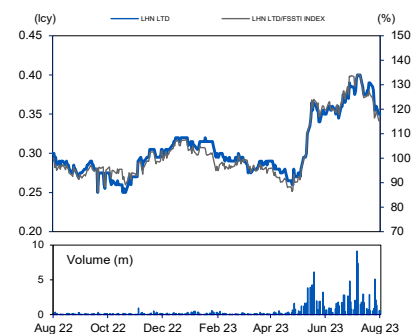
Major Shareholders

Lim Lung Tieng	54.0
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FY23 NAV/Share (S\$) 0.56

FY23 Net Cash/Share (S\$) 0.18

PRICE CHART



Source: Bloomberg

ANALYST(S)

Heidi Mo
 +65 6590 6630
 heidimo@uobkayhian.com

STOCK IMPACT

- Value unlocking of more assets and moving to an asset-light model could lead to more special dividends.** In the 1HFY23 results press release, LHN highlighted that it is exploring options to further enhance shareholder value and is considering capital recycling to move towards an asset-light model. It has a track record in buying underutilised or undervalued properties for asset enhancement initiatives, and selling them for a premium. Notable divestment successes include: a) acquisition of Coliwoo Hotel Amber for S\$27m in Mar 21 and disposal of S\$47m in Nov 22, and b) investment of S\$40,000 in GetGo Technologies and divestment for S\$7.9m in Sep 22. In the nearer term, potential divestments of the 540-lot Golden Mile Tower carpark and strata unit sale of food processing industrial building at 55 Tuas South can provide further disposal gains. We have not factored any special dividend into our financial estimates.
- Strong operating cash flow, which has grown four-fold in four years.** LHN has a track record of growing its operating cash flow, from around S\$10m in FY18 to around S\$41m in FY22. Excluding FY21, where LHN's facility segment enjoyed a one-off boost from the dormitory management business, as the segment's revenue doubled yoy to S\$40m, LHN has grown its operating cash flow by four-fold, from S\$10m in FY18 to S\$41m in FY22. We expect LHN's continued expansion in the co-living and industrial segments to sustain growth in operating cash flow and core earnings.
- Coliwoo expected to drive FY23 core earnings by 46% yoy from 70% increase in number of new keys.** LHN's growth strategy is to expand its current property portfolio through master leases and acquisitions, and targets to add around 800 keys per year for the next three years. LHN's FY21/FY22 earnings of S\$6.5m/S\$3.5m from Coliwoo are made up of 976/1,602 keys respectively and the keys will increase by about 700 keys (+44% yoy) by end-FY23. As new keys will take 6-9 months to reach steady state, we expect Coliwoo's FY24/25 earnings to grow 211%/76% yoy to S\$11.0m/S\$19.4m.

EARNINGS REVISION/RISK

- None.

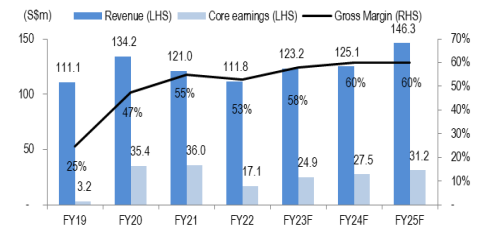
VALUATION/RECOMMENDATION

- Maintain BUY with a PE-based target price of S\$0.55**, pegged to 9x FY23F PE, based on its long-term historical average PE. We like LHN for its attractive dividend yield of 6.3%, with its leading market share in the co-living space, robust expansion pipeline and strong EPS growth.

SHARE PRICE CATALYST

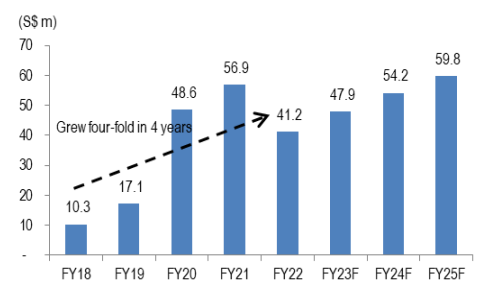
- Divestment of subsidiary LHN Logistics or other assets.
- Higher-than-expected growth in co-living keys.

REVENUE, CORE EARNINGS AND GROSS MARGIN



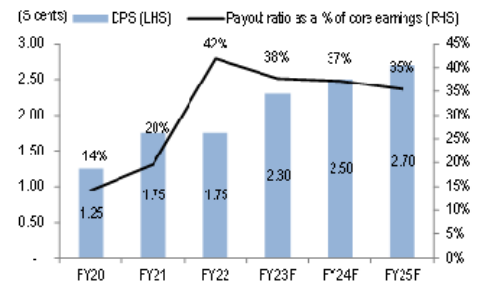
Source: LHN, UOB Kay Hian

OPERATING CASH FLOW HAS GROWN FOUR-FOLD IN 4 YEARS



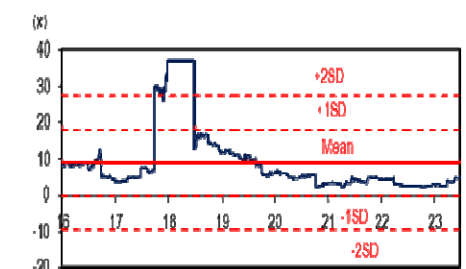
Source: LHN, UOB Kay Hian

DPS AND DIVIDEND PAYOUT RATIO



Source: LHN, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Net turnover	111.8	123.2	125.1	146.3
EBITDA	37.9	37.4	44.1	50.0
Deprec. & amort.	20.5	11.6	14.7	15.6
EBIT	17.4	25.8	29.4	34.4
Total other non-operating income	24.1	42.2	17.2	17.4
Associate contributions	16.5	2.6	2.6	2.6
Net interest income/(expense)	(4.9)	(9.2)	(10.0)	(11.0)
Pre-tax profit	53.0	61.5	39.2	43.3
Tax	(5.5)	(7.4)	(4.7)	(5.2)
Minorities	(1.7)	(2.0)	(2.0)	(2.0)
Net profit	45.8	52.1	32.5	36.1
Net profit (adj.)	17.1	24.9	27.5	31.1

CASH FLOW

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Operating	41.2	47.9	54.2	59.8
Pre-tax profit	53.0	61.5	39.2	43.4
Tax	(5.0)	(7.4)	(4.7)	(5.2)
Deprec. & amort.	20.5	11.6	14.7	15.6
Associates	(16.5)	(2.6)	(2.6)	(2.6)
Working capital changes	(1.4)	0.0	0.0	0.0
Non-cash items	(14.2)	(24.4)	(2.4)	(2.4)
Other operating cashflows	4.8	9.2	10.0	11.0
Investing	(36.2)	7.2	(25.0)	(15.0)
Capex (growth)	(56.4)	(20.0)	(30.0)	(20.0)
Investments	(3.6)	0.0	0.0	0.0
Proceeds from sale of assets	0.1	27.2	5.0	5.0
Others	23.7	0.0	0.0	0.0
Financing	(2.1)	(18.6)	(20.2)	(22.0)
Dividend payments	(7.1)	(9.4)	(10.2)	(11.0)
Issue of shares	5.0	0.0	0.0	0.0
Proceeds from borrowings	70.8	0.0	0.0	0.0
Loan repayment	(23.8)	0.0	0.0	0.0
Others/interest paid	(47.0)	(9.2)	(10.0)	(11.0)
Net cash inflow (outflow)	2.9	36.4	9.0	22.7
Beginning cash & cash equivalent	36.8	39.7	76.2	85.2
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	39.7	76.2	85.2	107.9

BALANCE SHEET

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Fixed assets	306.6	315.0	330.3	334.7
Other LT assets	62.2	62.1	62.1	62.1
Cash/ST investment	39.7	76.2	85.2	107.9
Other current assets	60.3	60.3	60.3	60.3
Total assets	468.9	513.6	537.9	565.0
ST debt	19.3	19.3	19.3	19.3
Other current liabilities	71.4	71.4	71.4	71.4
LT debt	128.9	128.9	128.9	128.9
Other LT liabilities	57.2	57.2	57.2	57.2
Shareholders' equity	185.9	228.6	250.9	276.0
Minority interest	6.3	8.3	10.3	12.3
Total liabilities & equity	468.9	513.6	537.9	565.0

KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	33.9	30.4	35.3	34.2
Pre-tax margin	47.4	49.9	31.3	29.6
Net margin	41.0	42.3	26.0	24.7
ROA	10.7	10.6	6.2	6.6
ROE	27.6	25.1	13.5	13.7
Growth				
Turnover	(7.6)	10.2	1.6	16.9
EBITDA	(25.6)	(1.1)	17.8	13.3
Pre-tax profit	54.8	16.0	(36.3)	10.7
Net profit	63.4	13.7	(37.7)	11.3
Net profit (adj.)	(52.5)	45.8	10.2	13.4
EPS	(53.0)	45.8	10.2	13.4
Leverage				
Debt to total capital	43.5	38.5	36.2	33.9
Debt to equity	79.7	64.8	59.1	53.7
Net debt/(cash) to equity	58.3	31.5	25.1	14.6
Interest cover (x)	7.7	4.1	4.4	4.5

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