

LHN Ltd (LHN SP)

Capital recycling underway

Hopes rise for divestment approval; reiterate BUY

LHN has received JTC Corporation's email consent that it has no objection to grant the change of ownership for a property indirectly held by LHN Logistics. In addition, shareholders have voted overwhelmingly by 99.99% for the proposed sale of its logistics arm. This would fulfil two pre-conditions for the divestment to go through. As part of its capital recycling strategy, LHN has acquired two freehold assets to build up its Coliwoo presence in River Valley precinct. We remain positive on LHN and maintain our 12-month TP of SGD0.54, still based on 8x FY24E. Reiterate BUY.

Received shareholder approval

LHN's 84.05%-owned subsidiary, LHN Logistics, in Jun 2023 received an offer from Milkway International to acquire its logistics and transportation arm for SGD32m. Two pre-conditions for the deal to go through were 1) JTC's approval of ownership change for LHN Logistics' Singapore container depot; 2) shareholders' consent at the EGM held on 31 Jul 2023. Located at 7 Gul Avenue, the container depot has a land area of 22,480 sqm, handling up to 4,500 TEUs. Acquired from Amos Group for SGD13m in 2019, it is the only container depot owned by LHN in Singapore.

Expect more capital recycling in the pipeline

The fee payable to JTC related to the ownership change amounts to SGD4.1m, of which SGD3.1m will be paid by LHN, with the remainder paid by LHN Logistics, via a loan issued by LHN. We factor in net cash proceeds of SGD28.9m from the divestment and a loan to associate of SGD1m in our FY23E cashflow for LHN but our core net profit forecast is unchanged. Post the sale of LHN Logistics, LHN has potential divestments of Golden Mile carpark (est. SGD40m) and 55 Tuas South redevelopment (SGD21m), which could generate total cash proceeds of SGD0.15/sh.

New acquisition to gain market share

In Jul 2023, LHN acquired two freehold assets (286 & 288 River Valley) from two third-parties, for SGD11.5m and SGD11.75m, respectively. The two four-story buildings are now zoned for mixed use, with ground floor for commercial and higher floors for residential purposes (existing leases expire in Feb'24). Upon URA approval the two buildings will be converted to hotel/serviced residence use, and add to LHN's Coliwoo portfolio of about 2,000 keys. The combined cost of SGD23.25m will be funded via internal resources and bank borrowings. This will further expand its local residential business, increase the brand value of Coliwoo, and provide potential capital appreciation and new revenue streams to the group.

FYE Sep (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	121	112	117	123	136
EBITDA	61	47	76	59	62
Core net profit	34	20	25	29	32
Core EPS (cts)	8.4	4.9	6.2	7.1	7.9
Core EPS growth (%)	8.9	(41.8)	27.8	14.3	10.7
Net DPS (cts)	1.8	1.9	2.1	2.2	2.4
Core P/E (x)	4.1	5.6	6.1	5.3	4.8
P/BV (x)	1.0	0.6	0.8	0.8	0.8
Net dividend yield (%)	5.3	7.0	5.6	5.8	6.4
ROAE (%)	21.0	27.6	12.5	13.9	15.3
ROAA (%)	9.3	4.7	4.9	5.2	5.9
EV/EBITDA (x)	3.4	4.9	4.1	5.2	5.0
Net gearing (%) (incl perps)	43.6	56.4	70.3	70.3	70.3
Consensus net profit	-	-	na	na	na
MIBG vs. Consensus (%)	-	-	na	na	na

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BUY

Share Price	SGD 0.38
12m Price Target	SGD 0.54 (+42%)
Previous Price Target	SGD 0.54

Company Description

LHN Ltd. operates in four segments, namely space optimization, property development, facilities management and energy.

Statistics

52w high/low (SGD)	0.40/0.25
3m avg turnover (USDm)	0.4
Free float (%)	42.9
Issued shares (m)	409
Market capitalisation	SGD155.4M USD116M

Major shareholders:

LIM FAMILY /LHN/	54.0%
LIM BEE CHOO	1.0%
IFast Financial Pte Ltd. (Investment Man	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	43	29
Relative to index (%)	(1)	39	24

Source: FactSet

Abbreviations explained

URA: Urban Redevelopment Authority

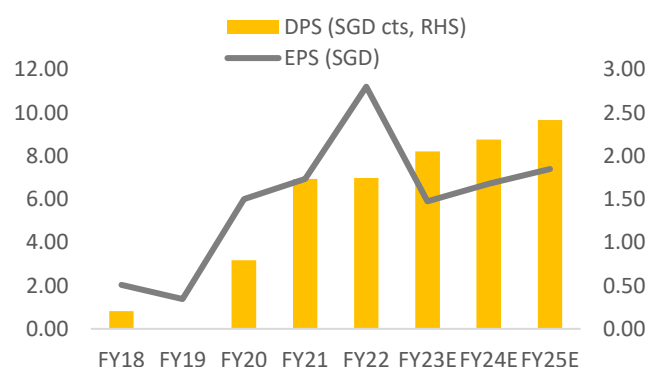
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OPPORTUNITY+

Value Proposition

- LHN's co-living brand, Coliwoo, is the largest operator in Singapore by number of keys.
- After rapid expansion since 2019, Coliwoo is operating at 13 locations and preparing to launch three more assets.
- New dividend policy instated a minimum 30% payout ratio.
- FY23 P/E of less than 7x is undemanding compared to global peers in hospitality.
- Potential sale of LHN Logistics could generate cash proceeds of SGD32m and management doesn't rule out a special dividend payout.
- Potential divestments are supported by a portfolio of assets that are in the money, and LHN is tilting towards an asset-light strategy.

EPS and DPS Trend



Source: Company

Price Drivers

Historical share price trend



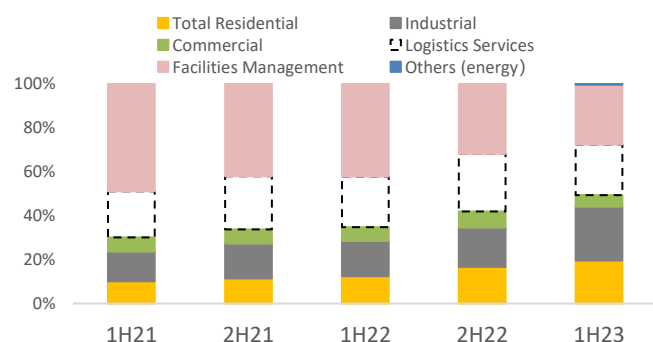
Source: Company, Maybank IBG Research

1. 2Q20 results hit by onset of Covid-19 pandemic.
2. Increase in the co-living among expatriates and students followed by gradual easing of pandemic restrictions.
3. Completed acquisitions of Amber, 115 Geylang and Beach Road Properties as well as announced acquisition of Tuas Properties. Placement agreement of 6.5m shares amounting to net sales proceeds of S\$2.1m, which are intended for general working capital purposes.
4. Listing of LHN Logistics Limited on 29 April 2022 and decreased revenue of S\$0.3m from commercial properties due to expiry of 3 master leases.
5. Received offer for sale of LHN Logistics and launch of Coliwoo Orchard @ 2 mount Elizabeth Link which achieved 75% occupancy at 1H23.

Financial Metrics

- Revenue growth in 1H23 boosted by co-living business in Singapore (+27%). We expect further growth led by co-living as more pipeline assets become operational.
- Contribution by total space optimisation business saw steady growth, reaching 50% of LHN's revenue in 1H23.
- Gearing is likely to remain stable as LHN intends to expand via joint venture and asset light strategy.

Revenue contribution by segments



Source: Company

Swing Factors

Upside

- Better than expected rental fees and occupancy
- Prolonged lack of supply of new hotel / co-living rooms in Coliwoo's key locations
- Sports events and entertainment create surge in ad hoc demands from travellers.
- Potential disposal of business segment
- Value-unlocking divestments that lead to special dividend for shareholders

Downside

- Surge of supply in key locations.
- Failure to renew lease for master-leased assets.
- Elevated interest rates until next re-financing in FY24.

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Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³ (Updated: 01 AUG 2023)	NA

Business Model & Industry Issues

- As a real estate management services company, LHN strives to be a sustainable player in the market and ensures it does its part in the grand scale of reducing its contribution to climate change.
- On a peer-to-peer basis, currently LHN sits comfortably above its peers regarding its efforts to reduce climate change and provide sustainable opportunities to its employees.
- The biggest threat to LHN exists in the form of rising property prices (average 4.9% YoY) and a competitive industry due to the nature of its co-living segment. This may potentially mean a higher cost of acquisition and LHN would require consistently good occupancy levels to sustain its growth. On the contrary, LHN's capital recycling model and revaluation strategies can help reduce their gearing.
For space optimisation to see continued growth, there may be increased consumption of energy and water which may impact its long-term ESG goals in reducing their utilities consumption. However, their efforts in sustainable practices should eventually offset this challenge.

Material E issues

- Two of its managed properties - 1557 Keppel Road and 202 Kallang Bahru - were BCA Green Mark certified.
- Installed water saving taps for 100% of its properties managed. However, more needs to be done to achieve its water consumption intensity target of a 5% reduction.
- 7% of energy consumption sourced through solar panel installations at several of its properties reaching 2,468kWp system capacity.
- City Developments Limited (CDL) issued a green bond in 2017 that raised SGD100m for promoting sustainability in its projects. LHN may also consider doing so after carefully evaluating the viability of such projects.
IOT Deployment in 2021 to better monitor energy consumption at managed properties by targeting increasing energy consumption.

Material S issues

- On average, each employee received approximately 15.9 training hours in FY22, as compared to 6.1 hours in FY21, resulting in a 205% increase, due to the increase in training programs conducted for all employees.
- Gender diversity is fairly high with a 58:42 ratio in FY22, and 40% represented in senior management, but diversity here can be improved, moving forward LHN plans to step up these figures.
- Consistent satisfaction scores exceeding target of 70% over the past three years.

Key G metrics and issues

- The board currently has 5 directors, including the executive chairman and Group Managing Director. The remaining 3 are independent non-executive directors.
- The remuneration and audit committees are chaired by independent directors.
- Executive Chairman Mr Kelvin Lim is the brother of the Group Managing Director Ms Jess Lim. They hold 54.04% and 0.98% stakes in the company, respectively.
- IFast Financial Pte Ltd. (Investment Management) owns about a 0.6412% stake in the company.
- There were no cases of non-compliance with all applicable laws and regulations concerning corruption in its operations in Singapore.
- A total of 337 employee leaving the company is due to the end of several contracts from its dormitory business. This is compensated by its new hire at 329 employees.
- LHN has a code of corporate governance that includes Anti-Corruption, Anti-Fraud and whistle-blowing policies in place that adhere to the local government's laws, regulations and has helped it generate 0 incidents of corruption.
- In the past 6 years, LHN Group has not received any substantiated complaints or identified leaks, thefts or losses of customer data, and has displayed a good cybersecurity track record and framework, according to the company.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	3.6	2.8	6.4	5.6	5.1
Core P/E (x)	4.1	5.6	6.1	5.3	4.8
P/BV (x)	1.0	0.6	0.8	0.8	0.8
P/NTA (x)	1.0	0.6	0.8	0.8	0.8
Net dividend yield (%)	5.3	7.0	5.6	5.8	6.4
FCF yield (%)	19.5	20.8	8.9	27.5	28.4
EV/EBITDA (x)	3.4	4.9	4.1	5.2	5.0
EV/EBIT (x)	4.3	7.8	6.8	7.6	7.2
INCOME STATEMENT (SGD m)					
Revenue	121.0	111.8	117.3	122.6	135.5
EBITDA	61.0	46.6	75.5	59.3	61.5
Depreciation	(18.8)	(20.5)	(19.0)	(18.9)	(18.7)
Amortisation	(0.0)	0.0	0.0	0.0	0.0
EBIT	47.1	29.2	45.4	40.4	42.8
Net interest income / (exp)	(4.9)	(4.9)	(9.0)	(9.0)	(7.8)
Associates & JV	3.7	16.5	2.8	2.8	2.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(11.6)	12.3	(3.0)	0.0	0.0
Pretax profit	34.3	53.0	36.2	34.2	37.8
Income tax	(5.4)	(5.5)	(5.4)	(5.1)	(5.7)
Minorities	0.0	1.7	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	28.1	45.8	24.2	27.6	30.6
Core net profit	33.8	19.9	25.4	29.1	32.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	36.8	39.7	35.2	25.2	10.2
Accounts receivable	51.8	42.2	36.8	36.8	36.8
Inventory	0.1	0.1	0.2	0.2	0.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	54.2	48.2	56.7	56.7	56.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	20.9	36.2	27.4	27.4	27.4
Other assets	223.0	302.3	410.2	410.2	410.2
Total assets	386.8	468.9	566.5	556.5	541.5
ST interest bearing debt	11.6	19.3	19.9	19.9	19.9
Accounts payable	35.4	37.1	41.9	41.9	41.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	89.8	128.9	160.5	150.5	135.5
Other liabilities	102.0	91.0	138.0	138.0	138.0
Total Liabilities	238.5	276.7	360.0	350.0	335.0
Shareholders Equity	145.7	185.9	199.2	199.2	199.2
Minority Interest	2.6	6.3	7.3	7.3	7.3
Total shareholder equity	148.3	192.2	206.5	206.5	206.5
Total liabilities and equity	386.8	468.9	566.5	556.5	541.5
CASH FLOW (SGD m)					
Pretax profit	34.3	53.0	36.2	34.2	37.8
Depreciation & amortisation	18.9	20.5	19.0	18.9	18.7
Adj net interest (income)/exp	3.5	3.4	8.2	9.0	7.8
Change in working capital	1.4	(1.4)	7.9	(0.0)	(0.0)
Cash taxes paid	(4.9)	(5.2)	(5.4)	(5.1)	(5.7)
Other operating cash flow	3.8	(29.3)	(44.0)	(5.5)	(5.7)
Cash flow from operations	56.9	41.2	22.3	51.4	53.0
Capex	(20.0)	(7.8)	(8.5)	(8.7)	(8.8)
Free cash flow	36.9	33.4	13.8	42.7	44.1
Dividends paid	(7.2)	(7.9)	(8.8)	(9.0)	(10.0)
Equity raised / (purchased)	2.2	3.6	0.0	0.0	0.0
Change in Debt	(5.3)	7.2	(13.6)	(56.2)	(72.9)
Other invest/financing cash flow	(28.9)	(33.9)	4.9	11.2	12.4
Effect of exch rate changes	0.0	0.0	(0.4)	0.0	0.0
Net cash flow	(2.3)	2.4	(4.0)	(11.3)	(26.3)

FYE 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(9.9)	(7.6)	4.9	4.5	10.5
EBITDA growth	2.2	(23.6)	62.0	(21.5)	3.8
EBIT growth	3.0	(37.9)	55.5	(11.0)	5.9
Pretax growth	16.8	54.7	(31.7)	(5.6)	10.7
Reported net profit growth	nm	63.3	(47.3)	14.3	10.7
Core net profit growth	9.3	(41.1)	27.8	14.3	10.7
Profitability ratios (%)					
EBITDA margin	50.5	41.7	64.4	48.4	45.4
EBIT margin	38.9	26.1	38.7	33.0	31.6
Pretax profit margin	28.3	47.4	30.9	27.9	27.9
Payout ratio	25.7	17.1	36.2	32.6	32.6
DuPont analysis					
Net profit margin (%)	23.2	41.0	20.6	22.5	22.6
Revenue/Assets (x)	0.3	0.2	0.2	0.2	0.3
Assets/Equity (x)	2.7	2.5	2.8	2.8	2.7
ROAE (%)	21.0	27.6	12.5	13.9	15.3
ROAA (%)	9.3	4.7	4.9	5.2	5.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	43.6	56.4	70.3	70.3	70.3
Net gearing (%) (excl. perps)	43.6	56.4	70.3	70.3	70.3
Net interest cover (x)	9.7	5.9	5.0	4.5	5.5
Debt/EBITDA (x)	1.7	3.2	2.4	2.9	2.5
Capex/revenue (%)	16.5	7.0	7.2	7.1	6.5
Net debt/ (net cash)	64.6	108.4	145.1	145.2	145.1

Source: Company; Maybank IBG Research

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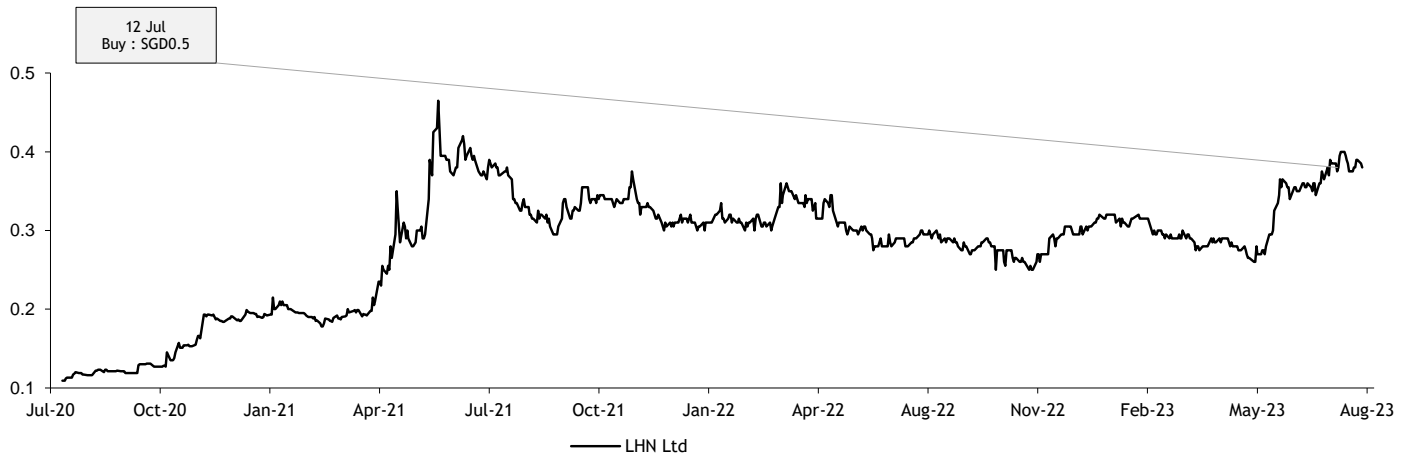
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