

# LHN Limited

Both capacity and occupancy rising

## SINGAPORE | REAL ESTATE | 2H24 RESULTS

- FY24 revenue and adj. PATMI beat our expectations at 110%/119% of our FY24e forecast, respectively. Earnings beat expectations from lower administration expenses due to bonus provisioning and higher co-living revenue.
- Co-living remains the growth driver for LHN. The number of keys jumped 51% YoY to 2,541 (or +9.5% YoY excl. healthcare lodging). Occupancy climbed 3% points YoY to 97.5%. The strength of the Coliwoo brand is reflected by the estimated 70-80% direct sourcing of customers.
- We raise our FY25e earnings by 19% from lower administration costs and higher co-living revenue. Our target price is raised from S\$0.42 to S\$0.56 and the BUY recommendation is maintained. We peg our valuations to 6.5x FY25e P/E, a discount to the industry which is trading around 13x. Our valuations and forecast exclude the food processing development project, which we deem a one-off. Key earning drivers in FY25e are (i) Commencement of management fees from the 350 healthcare beds; (ii) Exit of loss-making Hong Kong car parks; and (iii) Sale of 49 food processing industrial units. FY26e will benefit from the addition of more than 330 Coliwoo keys. We believe LHN's co-living franchise is expanding into healthcare accommodation, while the Coliwoo brand is enjoying premium pricing and recognition. The stock trades at a forward PE of 5.1x, dividend yield of 5.4% and 27% discount-to-book value of S\$0.608.

### Results at a glance

SGD '000	2H24	2H23	YoY	Comments
<b>Revenue</b>	<b>66,474</b>	<b>50,761</b>	<b>31.0%</b>	
- Industrial	12,765	12,247	4.2%	
- Commercial	1,520	2,975	-48.9%	
- Co-living	32,408	17,784	82.2%	Increase in capacity and utilisation.
- Car park	14,149	12,232	15.7%	
<b>Profit before tax</b>	<b>15,253</b>	<b>17,849</b>	<b>-14.5%</b>	
<b>Adj PBT</b>	<b>16,519</b>	<b>20,904</b>	<b>-21.0%</b>	Excl. disposal gains and fair value.
- Industrial	7,932	7,231	9.7%	
- Commercial	740	69	972.5%	
- Coliwoo	6,218	8,449	-26.4%	Timing of start-up expenses.
- Facilities Mgmt	500	2,320	-78.4%	Losses in Hong Kong car park.
Coliwoo (keys)	2,541	1,681	51.2%	
Coliwoo (Occupancy)	97.5%	94.7%	3.0%	
Adj. PATMI	15,236	8,373	82.0%	Lower effective tax.
DPS (cts) - Final	1.00	1.00	0.0%	
- Special	1.00	1.00	0.0%	

Source: Company, PSR

### The Positive

**+ Capacity and utilisation growth.** Co-living revenue almost doubled due to an increase in capacity from Coliwoo and healthcare dorms (completed Aug 24). Utilisation rate spiked from 91.8% in 1H24 to 97.5% in 2H24. Demand from Coliwoo is largely from foreign guests. Margins were lower in 1H24 due to upfront expenses in new Coliwoo units, and the retrofit segment of healthcare dorm revenue.



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2 December 2024

### BUY (Maintained)

CLOSING PRICE	SGD 0.445
FORECAST DIV	SGD 0.024
TARGET PRICE	SGD 0.56
<b>TOTAL RETURN</b>	<b>31.2%</b>

#### COMPANY DATA

Bloomberg CODE:	LHN SP
O/S SHARES (MN) :	418.3
MARKET CAP (USD mn / SGD mn) :	138 / 186
52 - WK HI/LO (SGD) :	0.45 / 0.31
3M Average Daily T/O (mn) :	1.18

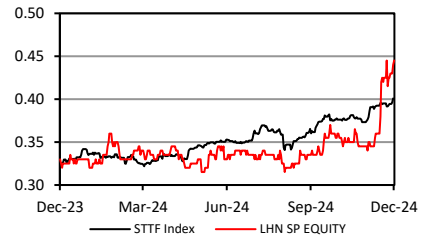
#### MAJOR SHAREHOLDERS

Hean Nerng Group Pte Ltd	52.8%
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#### TOTAL PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	27.5	31.3	45.8
STTF	6.2	9.3	21.6

#### PRICE VS. STTF



#### KEY FINANCIALS

Y/E Sep, SGD (mn)	FY23	FY24	FY25e	FY26e
Revenue	93.6	121.0	131.8	142.9
EBITDA	55.3	66.3	63.8	73.0
PATMI	18.5	47.3	35.4	42.3
Adj PATMI	22.3	31.2	35.4	42.3
EPS (SGD cents)	4.5	11.6	8.7	10.3
Adj EPS (SGD cents)	5.4	7.6	8.7	10.3
P/E (x)	8.2	5.8	5.1	4.3
Dividend Yield	6.7%	6.7%	5.4%	5.4%
ROE	8.5%	18.4%	12.7%	13.5%
ROA	3.3%	6.8%	4.9%	5.7%

Source: Company, PSR

#### VALUATION METHOD

6.5x FY25e adj. PE

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### The Negative

- **Losses in Hong Kong car parks (facilities management).** In FY24, the three car parks in Hong Kong incurred losses of around S\$2mn. The two loss-making car park lots have been returned to the authorities. Volume has been weaker than expected due to the slowdown in the underlying economy.

### Outlook

**Co-living expansion.** FY25e earnings will be supported by the 350-bed (or 700 healthcare professionals) contract secured in January 2024. The sites in Ulu Pandan and Boundary Close have been completed in August, and will provide management fee income in FY25e. So far the authorities have launched five sites to house 1,800 foreign healthcare professionals. Expectations are for more sites to be tendered out.

**Jump in Coliwoo capacity in FY26e.** Room rates for Coliwoo are still creeping up. The branding has allowed a high proportion of direct sourcing of tenants rather than third-party booking sites. We estimate direct sourcing of 70-80%. We are not expecting a material jump in capacity for Coliwoo until FY26e with the commencement of 141 Middle Road (210 keys), and 50 Armenian Street (120 keys). Meantime, Coliwoo's strategy is to raise the premium on their rental rates through better amenities and services. Rents range from S\$2,500 to S\$4,000 per month with 9 months average length of stay.

**Others.** (i) Industrial: Rents are healthy for private industrial space due to flexible rental arrangements including subletting; (ii) Facilities management: The exit of two parking lots in Hong Kong will raise profitability; (iii) Work + Store: Occupancy remains high at 99%. There are plans to add specialised storage to value-add the premises.; (iv) Property development: Marketing of the 49 units at 55 Tuas South is underway.

### Maintain BUY with higher TP of S\$0.56 (prev. S\$0.42)

We maintain a BUY with a higher TP of S\$0.56. Our valuations are pegged to 6.5x FY25e P/E. while the industry is trading around 13x. LHN is trading at 5.1x forward PE and a 27% discount to a book value of S\$0.608.

## Financials

### Income Statement

Y/E Sep, SGD '000	FY22	FY23	FY24	FY25e	FY26e
<b>Revenue</b>	<b>84,463</b>	<b>93,644</b>	<b>121,021</b>	<b>131,774</b>	<b>142,855</b>
Cost of sales	(34,501)	(35,659)	(58,808)	(54,027)	(52,999)
<b>Gross profit</b>	<b>49,962</b>	<b>57,985</b>	<b>62,213</b>	<b>77,747</b>	<b>89,856</b>
Other income	15,386	16,996	6,681	3,500	4,500
Administrative expenses	(31,094)	(34,668)	(21,754)	(28,990)	(32,857)
Other expenses	(2,338)	(4,189)	(3,298)	(2,635)	(2,857)
Share of results of associates	15,442	1,725	8,935	2,800	2,500
Fair value gain/(loss) on IP	12,261	(5,971)	10,459	-	-
<b>EBIT</b>	<b>59,619</b>	<b>31,878</b>	<b>63,236</b>	<b>52,421</b>	<b>61,142</b>
Net Finance Inc/(Exp)	(4,504)	(8,895)	(11,815)	(10,797)	(11,472)
<b>Profit before tax</b>	<b>55,115</b>	<b>22,983</b>	<b>51,421</b>	<b>41,624</b>	<b>49,670</b>
Tax expense	(4,980)	(4,065)	(3,548)	(5,827)	(6,954)
Minority interest	(1,275)	(381)	(583)	(358)	(427)
<b>PATMI</b>	<b>48,860</b>	<b>18,537</b>	<b>47,290</b>	<b>35,438</b>	<b>42,289</b>
Discontinued PAT	(2,621)	21,303	-	-	-
<b>Adjusted PATMI</b>	<b>23,949</b>	<b>22,260</b>	<b>31,199</b>	<b>35,438</b>	<b>42,289</b>

### Per share data (SGD Cents)

Y/E Sep	FY22	FY23	FY24	FY25e	FY26e
EPS	11.9	4.5	11.6	8.7	10.3
Adj EPS	5.9	5.4	7.6	8.7	10.3
DPS	1.75	3.00	3.00	2.40	2.40
BVPS	47.0	53.3	62.9	68.4	76.5

### Cash Flow

Y/E Sep, SGD '000	FY22	FY23	FY24	FY25e	FY26e
<b>CFO</b>					
<b>Profit before tax</b>	<b>55,115</b>	<b>22,983</b>	<b>51,421</b>	<b>41,624</b>	<b>49,670</b>
Adjustments	11,105	3,561	16,957	19,856	22,357
WC changes	(1,388)	16,166	(14,427)	18,275	(2,369)
<b>Cash generated from ops</b>	<b>46,263</b>	<b>58,265</b>	<b>31,957</b>	<b>76,955</b>	<b>67,157</b>
Income tax paid	(5,219)	(4,640)	(3,820)	(5,827)	(6,954)
<b>Cashflow from ops</b>	<b>41,228</b>	<b>54,072</b>	<b>28,409</b>	<b>73,453</b>	<b>61,158</b>
<b>CFI</b>					
CAPEX, net	(7,691)	(18,438)	(4,882)	(9,000)	(10,000)
Others	(28,501)	5,129	(95,037)	(32,000)	(32,000)
<b>Cashflow from investments</b>	<b>(36,192)</b>	<b>(13,309)</b>	<b>(99,919)</b>	<b>(41,000)</b>	<b>(42,000)</b>
<b>CFE</b>					
Loans, net of repayments	46,999	36,710	113,283	6,006	4,506
Dividends paid	(7,143)	(8,148)	(9,517)	(13,086)	(9,815)
Others	(41,986)	(48,399)	(47,500)	(52,797)	(54,472)
<b>Cashflow from financing</b>	<b>(2,130)</b>	<b>(19,837)</b>	<b>56,266</b>	<b>(59,878)</b>	<b>(59,781)</b>
Net change in cash	2,906	20,926	(15,244)	(27,425)	(40,624)
<b>CCE, end</b>	<b>39,743</b>	<b>60,489</b>	<b>45,139</b>	<b>17,714</b>	<b>(22,910)</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

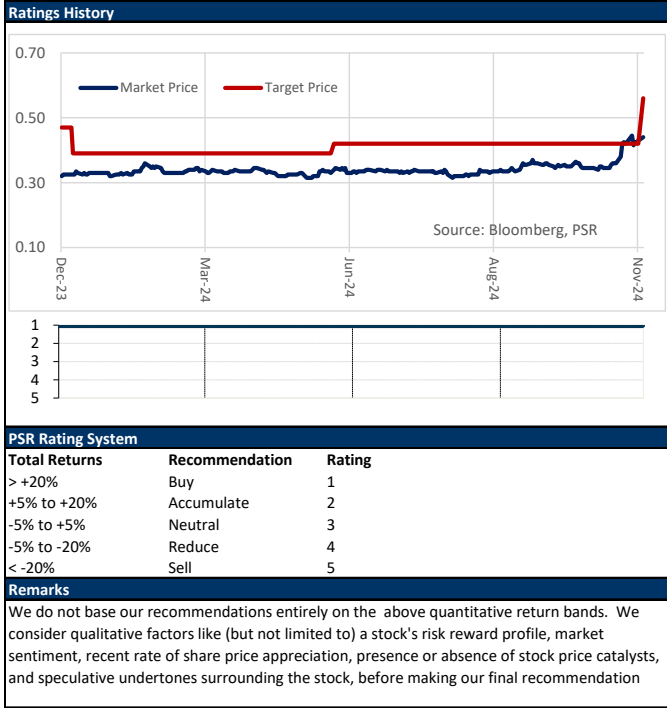
### Balance Sheet

Y/E Sep, SGD '000	FY22	FY23	FY24	FY25e	FY26e
<b>ASSETS</b>					
Trade and other receivables	25,406	12,858	13,052	15,813	17,143
Cash and bank balances	39,727	41,555	46,503	19,078	(21,546)
Inventories	136	13	44	132	143
<b>Total current assets</b>	<b>100,019</b>	<b>137,785</b>	<b>126,681</b>	<b>102,105</b>	<b>62,822</b>
PPE	48,241	34,874	31,719	32,065	32,811
Investment properties	233,267	303,761	457,978	507,978	557,978
Others	87,359	77,653	80,401	82,471	84,387
<b>Total non-current assets</b>	<b>368,867</b>	<b>416,288</b>	<b>570,098</b>	<b>622,514</b>	<b>675,176</b>
<b>Total Assets</b>	<b>468,886</b>	<b>554,073</b>	<b>696,779</b>	<b>724,618</b>	<b>737,997</b>
<b>LIABILITIES</b>					
Trade and other payables	37,094	42,208	32,904	54,027	52,999
Lease liabilities	29,859	32,144	33,552	33,552	33,552
Bank borrowings	19,319	18,846	25,747	25,747	25,747
Others	4,407	3,682	4,145	4,145	4,145
<b>Total current liabilities</b>	<b>90,679</b>	<b>96,880</b>	<b>96,348</b>	<b>117,471</b>	<b>116,443</b>
Lease liabilities	51,517	79,812	64,227	42,227	19,227
Bank borrowings	128,854	149,453	255,837	261,843	266,349
Others	5,658	9,879	23,331	23,331	23,331
<b>Total non-current liabilities</b>	<b>186,029</b>	<b>239,144</b>	<b>343,395</b>	<b>327,401</b>	<b>308,907</b>
<b>Total Liabilities</b>	<b>276,708</b>	<b>336,024</b>	<b>439,743</b>	<b>444,872</b>	<b>425,350</b>
<b>Net assets</b>	<b>192,178</b>	<b>218,049</b>	<b>257,036</b>	<b>279,746</b>	<b>312,647</b>
<b>Equity</b>					
Share capital	65,496	65,496	68,340	68,340	68,340
Reserves	120,408	150,698	185,841	208,193	240,667
Non-controlling interests	6,274	1,855	2,855	3,213	3,640
<b>Shareholder Equity</b>	<b>192,178</b>	<b>218,049</b>	<b>257,036</b>	<b>279,746</b>	<b>312,647</b>

### Valuation Ratios

Y/E Sep	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	7.6	8.2	5.8	5.1	4.3
P/B (x)	0.9	0.8	0.7	0.7	0.6
EV/EBITDA (x)	5.4	5.6	6.3	7.1	6.8
Dividend Yield (%)	3.9%	6.7%	6.7%	5.4%	5.4%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	-30.2%	10.9%	29.2%	8.9%	8.4%
Adj. EBITDA	2.7%	0.7%	20.0%	-3.8%	14.4%
EBIT	52.4%	-46.5%	98.4%	-17.1%	16.6%
Adj. Net profit	-32.3%	-7.1%	40.2%	13.6%	19.3%
<b>Margins</b>					
Gross margin	59.2%	61.9%	51.4%	59.0%	62.9%
EBITDA margin	65.0%	59.0%	54.8%	48.4%	51.1%
EBIT margin	70.6%	34.0%	52.3%	39.8%	42.8%
Net profit margin	57.8%	19.8%	39.1%	26.9%	29.6%
<b>Key Ratios</b>					
ROE	25.4%	8.5%	18.4%	12.7%	13.5%
ROA	10.4%	3.3%	6.8%	4.9%	5.7%
Net Gearing	56.4%	58.1%	91.5%	96.0%	100.3%

Note# FY21 includes the logistics operations financials.



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