

COMPANY UPDATE

LHN (LHN SP)

3QFY24: Strategic Moves Pave The Way For Promising Future Growth

In LHN's 3QFY24 update, we see continued expansion across all its business segments. Coliwoo remains the key growth driver with 2,401 keys (+10% qoq), while the construction of its food factory is progressing well. LHN has been active in capital recycling, with the sale of its 40%-owned BTSC carpark and acquisition of a 50% stake in Wilmer Place. In both the facility management and energy businesses, more contracts were secured. Maintain BUY with an unchanged target price of S\$0.40.

WHAT'S NEW

- Coliwoo occupancy rises qoq; overall rate above 90%.** In 3QFY24, LHN successfully grew its Coliwoo co-living portfolio by 250 keys (or 10% qoq) to 2,401 in Singapore (1HFY24: 2,151 keys). The average occupancy rate improved from 91.8% in 1HFY24 to 95% in 3QFY24, driven by strategic pricing, tourism and talent influx, and new projects like Coliwoo Hotel Pasir Panjang. Management targets Coliwoo's portfolio to exceed 3,000 keys by 2Q25. Together with its industrial and commercial properties, overall occupancy is robust at over 90% as of Jun 24.
- Successful capital recycling initiatives.** LHN acquired Wilmer Place at 50 Armenian Street with a 50% share in a joint venture for S\$26.5m, of which LHN's share is S\$13.25m. This will be managed and operated as a co-living property under Coliwoo. Simultaneously, the Group divested its 40% stake in the Bukit Timah Shopping Centre (BTSC) carpark, which was acquired for S\$16m in Dec 20, for S\$22m in Jul 24. This is expected to generate around S\$4m in net proceeds for LHN and boost cash flow.
- Actively expanding energy capacity.** In 3QFY24, LHN secured two solar energy contracts, increasing total capacity to around 6.0 megawatts (MW) (+54% ytd). Post 3QFY24, we note that LHN has secured another three contracts with a combined capacity of around 0.8MW, further expanding total capacity by 13%. Management expects an IRR of 20-30%, and targets to increase its total capacity by 2MW annually. Also, the Group and its joint venture operate 17 electric vehicle (EV) charging stations in total, with an additional contract secured in 3QFY24 to install and manage more stations.
- Facilities management business sees growth.** Within the facilities management division, LHN secured 28 new contracts and renewed 16 existing ones. Leveraging advanced technologies to optimise space utilisation and enhance efficiency, LHN has also elevated its market presence in the parking sector. It now manages 94 carparks with over 25,000 lots in Singapore, reflecting a significant rise from 1HFY24 (78 vehicle parks with 24,000 spaces). LHN still manages three car parks in Hong Kong, but is looking to exit the market after contract expiry at end-24 due to continued underperformance.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	84	94	113	122	132
EBITDA	37	39	36	40	43
Operating profit	17	19	25	27	29
Net profit (rep./act.)	47	40	23	29	32
Net profit (adj.)	20	16	24	25	27
EPS (S\$ cents)	4.8	3.9	5.7	6.0	6.3
PE (x)	7.3	9.2	6.3	5.9	5.6
P/B (x)	0.8	0.7	0.6	0.6	0.6
EV/EBITDA (x)	7.7	7.2	7.9	7.1	6.6
Dividend yield (%)	4.9	8.5	7.0	7.6	8.5
Net margin (%)	56.2	42.9	20.7	23.4	24.0
Net debt/(cash) to equity (%)	58.3	58.6	57.1	48.2	39.1
Interest cover (x)	8.2	4.4	3.6	4.0	4.1
ROE (%)	28.6	20.0	10.5	12.0	12.4
Consensus net profit	-	-	23.7	28.5	30.2
UOBKH/Consensus (x)	-	-	1.00	0.88	0.88

Source: LHN, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.355
Target Price	S\$0.400
Upside	+12.7%

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):	418.3
Market cap (S\$m):	148.5
Market cap (US\$m):	115.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

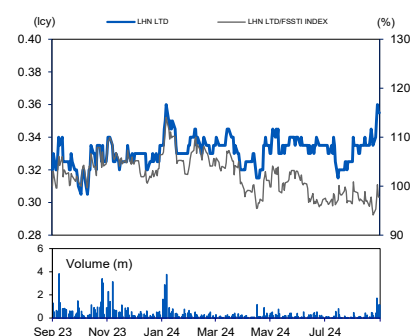
52-week high/low	S\$0.360/S\$0.300			
1mth	3mth	1mth	3mth	1mth
9.2	4.4	6.0	6.0	7.6

Major Shareholders

Lim Lung Tieng	54.0%
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FY24 NAV/Share (S\$)	0.55
FY24 Net Cash/Share (S\$)	0.31

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Potential special payouts with more assets unlocked.** The construction of LHN's food processing factory at 55 Tuas South is progressing as planned, and management expects it to obtain Temporary Occupation Permit and commence pre-sales in Sep 24. With excellent connectivity to the Tuas 2nd Link and future Tuas Mega Port, management is confident in the competitive pricing of the 49 strata units. It expects to generate a pre-tax profit of S\$10m from the sale, of which LHN holds a 60% stake. Besides this, the Golden Mile Tower will be put up for tender, with LHN owning 50% of the carpark. We have not factored in any special dividends into our financial estimates.
- Robust project pipeline for Coliwoo...** Coliwoo continues to expand its footprint in Singapore, with the recently launched 268 River Valley quickly achieving a 60% sign-up rate within two weeks of operation. The two lodging facilities with MOH Holdings (MOHH) of around 351 keys have also been completed in end-Aug 24. Management shared that the facilities are fully occupied and expected to contribute from Sep 24. Upcoming projects include 288 River Valley, 48 & 50 Arab Street and the GSM building, which are slated to open in 4QFY24, 1QFY25 and 3QFY25 respectively. We expect LHN to achieve its target of 3,000 keys under its co-living portfolio by 2Q25.
- ...with plans for expansion in the ASEAN region.** LHN is also exploring opportunities for regional expansion, with a focus on master leases and target of around 200 keys to ensure scalability and profitability. Management aims to capitalise on the region's rapid urbanisation, growing mobile workforce and demand for flexible, affordable housing to boost occupancy and overall financial performance.

EARNINGS REVISION/RISK

- Earnings revision: None.**

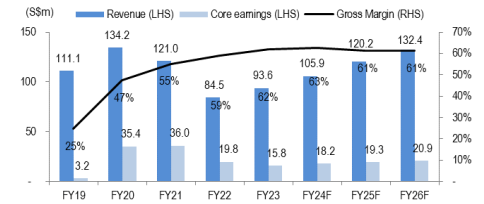
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged PE-based target price of S\$0.40**, pegged to 9x FY24F PE, based on its long-term historical average PE. We like LHN for its attractive dividend yield of 7.0%, with its leading market share in the co-living space and steady expansion pipeline.

SHARE PRICE CATALYST

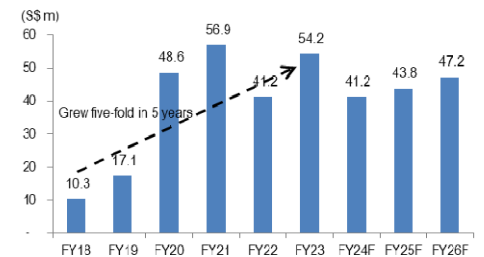
- Divestment of 55 Tuas South and other assets that may lead to special dividends.
- Higher-than-expected growth in co-living keys and occupancy rates.

REVENUE, CORE EARNINGS AND GROSS MARGIN



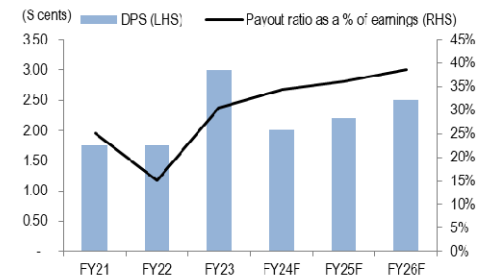
Source: LHN, UOB Kay Hian

OPERATING CASH FLOW HAS GROWN FIVE-FOLD IN FIVE YEARS



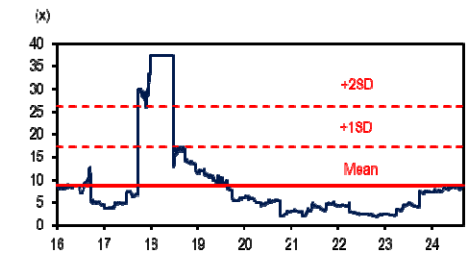
Source: LHN, UOB Kay Hian

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)	2023	2024F	2025F	2026F
Net turnover	93.6	112.9	122.1	132.3
EBITDA	39.2	36.1	39.6	43.1
Deprec. & amort.	20.1	11.0	12.6	13.8
EBIT	19.1	25.0	27.1	29.3
Total other non-operating income	11.0	9.5	13.4	15.1
Associate contributions	1.7	5.0	5.2	5.4
Net interest income/(expense)	(8.9)	(10.0)	(10.0)	(10.5)
Pre-tax profit	22.9	29.5	35.6	39.3
Tax	(4.1)	(4.1)	(5.0)	(5.5)
Minorities	21.3	(2.0)	(2.0)	(2.0)
Net profit	40.2	23.3	28.6	31.8
Net profit (adj.)	15.7	23.7	25.1	26.5

CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	34.2	46.8	49.7	52.9
Pre-tax profit	44.3	29.5	35.6	39.3
Tax	(4.1)	(4.1)	(5.0)	(5.5)
Deprec. & amort.	20.1	11.0	12.6	13.8
Associates	(2.9)	(5.0)	(5.2)	(5.4)
Working capital changes	13.4	0.0	0.0	0.0
Non-cash items	(23.8)	5.3	1.6	0.1
Other operating cashflows	(12.8)	10.0	10.0	10.5
Investing	(13.0)	(30.4)	(16.5)	(14.8)
Capex (growth)	(68.3)	(30.0)	(20.0)	(20.0)
Investments	(11.7)	0.0	0.0	0.0
Proceeds from sale of assets	44.8	(0.4)	3.6	5.3
Others	22.2	0.0	0.0	0.0
Financing	(19.2)	(20.5)	(21.3)	(23.0)
Dividend payments	(8.1)	(10.5)	(11.3)	(12.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	63.2	0.0	0.0	0.0
Loan repayment	(26.5)	0.0	0.0	0.0
Others/interest paid	(47.7)	(10.0)	(10.0)	(10.5)
Net cash inflow (outflow)	2.0	(4.1)	11.9	15.1
Beginning cash & cash equivalent	39.7	41.6	37.5	49.4
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	41.6	37.5	49.4	64.5

BALANCE SHEET

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Fixed assets	352.3	371.3	378.7	384.9
Other LT assets	64.0	64.0	64.0	64.0
Cash/ST investment	41.6	37.5	49.4	64.5
Other current assets	96.2	96.2	96.2	96.2
Total assets	554.1	569.0	588.4	609.6
ST debt	18.8	18.8	18.8	18.8
Other current liabilities	78.0	78.0	78.0	78.0
LT debt	149.5	149.5	149.5	149.5
Other LT liabilities	89.7	89.7	89.7	89.7
Shareholders' equity	216.2	229.1	246.5	265.7
Minority interest	1.9	3.9	5.9	7.9
Total liabilities & equity	554.1	569.0	588.4	609.6

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	41.8	31.9	32.4	32.6
Pre-tax margin	24.5	26.1	29.2	29.7
Net margin	42.9	20.7	23.4	24.0
ROA	7.9	4.2	4.9	5.3
ROE	20.0	10.5	12.0	12.4
Growth				
Turnover	10.9	20.6	8.2	8.3
EBITDA	5.9	(8.0)	9.9	8.9
Pre-tax profit	(58.4)	28.4	20.9	10.3
Net profit	(15.4)	(41.9)	22.7	11.0
Net profit (adj.)	(20.4)	50.4	5.9	5.8
EPS	(20.4)	47.0	5.9	5.8
Leverage				
Debt to total capital	43.6	41.9	40.0	38.1
Debt to equity	77.8	73.5	68.3	63.3
Net debt/(cash) to equity	58.6	57.1	48.2	39.1
Interest cover (x)	4.4	3.6	4.0	4.1

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