

LHN Limited

Co-living profits tripled, more growth expected



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SINGAPORE | REAL ESTATE | 1H24 RESULTS

23 May 2024

- 1H24 revenue was within expectations, but earnings exceeded. Revenue and adjusted PATMI were 51%/65% of our FY24e forecast, respectively. Margins for co-living were higher than expected due to the high occupancy and room rates.
- 1H24 adj. PATMI rose 25% YoY to S\$16mn. Growth was driven by co-living revenue doubling and earnings tripled to S\$9mn. The number of keys rose 28% YoY to 2,151, but occupancy dipped 5% points to 92%. We believe room rates rose around 70% YoY due to the commencement of Coliwoo Orchard and the overall health of the residential rental market. Coliwoo has also started to manage 3rd party properties. LHN targets to grow co-living by 800 keys every year.
- We raised our FY24e earnings by 7% to account for the better-than-expected earnings from Coliwoo. Our target price is raised from S\$0.39 to S\$0.42. We peg our valuations to 6.5x FY24e P/E, while the industry is trading around 13x. We expect growth to remain stable for LHN in 2H24, supported by stable room rates. FY25e will be a banner year of growth. The number of keys in co-living will expand by at least 900 (187 in Coliwoo GSM Building and 700 healthcare professionals). In addition, the sale of 49 food processing industrial units will be another one-off gain from the property development business. We maintain our BUY recommendation. The Coliwoo franchise is scaling up and expanding into 3rd party management contracts. The stock pays a dividend yield of 6% and trades at a PE of 5.2x and 40% discount-to-book value of S\$0.55.

BUY (Maintained)

CLOSING PRICE	SGD 0.330
FORECAST DIV	SGD 0.020
TARGET PRICE	SGD 0.42
TOTAL RETURN	33.3%

COMPANY DATA

Bloomberg CODE:	LHN SP
O/S SHARES (MN) :	408.9
MARKET CAP (USD mn / SGD mn) :	100 / 135
52 - WK HI/LO (SGD) :	0.4 / 0.29
3M Average Daily T/O (mn) :	0.21

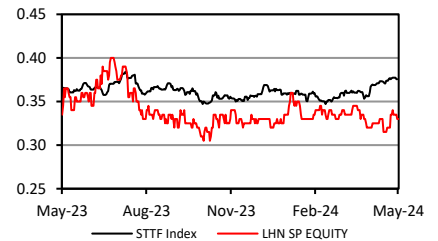
MAJOR SHAREHOLDERS

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

	1MTH	3MTH	YTD
COMPANY	3.1	1.5	6.1
STTF	5.5	4.7	4.2

PRICE VS. STTF



KEY FINANCIALS

Y/E Sep, SGD (mn)	FY22	FY23	FY24e	FY25e
Revenue	84.5	93.6	110.6	119.5
EBITDA	80.1	52.0	48.9	55.5
PATMI	48.9	18.5	23.2	29.9
Adj PATMI	24.0	20.1	26.2	29.9
EPS (SGD cents)	11.9	4.5	5.7	7.3
Adj EPS (SGD cents)	5.9	4.9	6.4	7.3
P/E (x)	5.6	6.7	5.2	4.5
Dividend Yield	5.3%	9.1%	6.1%	6.1%
ROE	25.4%	8.5%	10.1%	11.9%
ROA	10.4%	3.3%	4.2%	5.2%

Source: Company, PSR

VALUATION METHOD

6.5x FY24e PE adj.

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Results at a glance

SGD '000	1H24	1H23	YoY	Comments
Revenue	54,547	42,883	27.2%	
- Industrial	12,556	12,945	-3.0%	
- Commercial	2,794	2,936	-4.8%	
- Co-living	20,017	10,473	91.1%	Increase in rooms and rates.
- Car park	13,271	11,942	11.1%	
Profit before tax	15,253	17,849	-14.5%	
Adj PBT	17,769	15,633	13.7%	Excl. disposal gains and fair value.
- Industrial	8,323	12,482	-33.3%	Reduction in sublease gain.
- Commercial	186	1,250	-85.1%	
- Coliwoo	9,055	2,986	203.2%	
- Facilities Mgmt	1,771	2,609	-32.1%	Lower car park grants in Hong Kong.
Coliwoo (keys)	2,151	1,678	28.2%	
Coliwoo (Occupancy)	91.8%	96.7%	-5.1%	
Adj. PATMI	15,963	12,727	25.4%	Excl. forex and logistics income.
DPS (cts) - Interim	1.00	1.00	0.0%	

Source: Company, PSR

The Positive

+ Stellar earnings for Coliwoo. Co-living profit before tax tripled in 1H24 to S\$9mn. Revenue growth of 91% YoY to S\$20mn was supported by 28% growth in keys to 2,151 and an estimated 70% jump in room rates to S\$1,900 per month. The commencement of the 411 keys in Coliwoo Orchard in Feb 23 was a major boost to room rates. The residential rental index in Singapore is up 33% over the past 2-years but has started to stabilise.

The Negative

- **Weaker facilities management earnings.** Facilities management earnings declined 32% YoY to S\$1.7mn despite revenue growth of 14% YoY to \$17.2mn. The number of car parks under management rose from 74 (~20k lots) to 81 (~25k lots). We believe the margin weakness was due to a loss of government grants. Nevertheless, the number of car park lots will grow with the recent contract award of another 900 car park lots.

Outlook

Coliwoo still the growth driver. We expect 2H24 earnings to be comparable to 1H24. Room rates for Coliwoo will be stable. After a stellar rise in residential rents of 50% over the past 3-years (Source: URA), rents have started to move sideways. Nevertheless, the demand for co-living remains healthy. Demand is now coming from corporate accounts as Coliwoo focus its marketing efforts on this segment. Co-living is still more than 50% cheaper than hotels and still provides services (housekeeping) and amenities (cooking, laundry, broadband) to its residents. Another driver is the increased number of residents in the country. In 2023, the population rose by 281,000 to 5.91mn, the highest annual increase on record and 6x the pre-pandemic average of 47,000. LHN targets to grow co-living by 800 keys every year.

FY25 is a banner year. In 2025, there will be 2 large additions to the co-living sector – 700 healthcare professionals * and 187 from the GSM Building (3QFY25). Another boost in earnings will be the property development project in 55 Tuas South to sell 49 units for the food processing industry. The expected launch is in 4QFY24.

Maintain BUY with higher TP of S\$0.42 (prev. S\$0.39)

We maintain a BUY with a higher TP of S\$0.42. Our valuations are pegged to 6.5x FY24e P/E, while the industry is trading around 13x. LHN is trading at 5.2x PE and a 40% discount to a book value of S\$0.55.

Figure 1: FY24/25 Co-living projects in pipeline

<u>Location</u>			<u>Keys</u>
268	River Valley	(Management contract)	30
48 & 50	Arab Street		26
288	River Valley		39
100	Ulu Pandan/60		700
	Boundary Close		
	GSM Building		187
	260 Upper Bukit Timah		n.a.
	50 Armenian Street		n.a.
			982

Source: Company, PSR

*In January 2024, LHN secured a contract to provide accommodation to around 700 healthcare professionals at 100 Ulu Pandan Road and 60 Boundary Close. The contract is expected to commence in 2H24.

Financials
Income Statement

Y/E Sep, SGD '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	120,977	84,463	93,644	110,562	119,474
Cost of sales	(54,426)	(34,501)	(35,659)	(40,355)	(44,205)
Gross profit	66,551	49,962	57,985	70,207	75,269
Other income	15,000	15,386	16,996	4,000	4,000
Administrative expenses	(32,617)	(31,094)	(34,668)	(32,063)	(33,453)
Other expenses	(1,881)	(2,338)	(4,189)	(3,317)	(3,704)
Share of results of associates	3,666	15,442	1,725	4,000	2,000
Fair value gain/(loss) on IP	(11,598)	12,261	(5,971)	(5,000)	-
EBIT	39,121	59,619	31,878	37,827	44,112
Net Finance Inc/(Exp)	(4,863)	(4,504)	(8,895)	(10,394)	(9,412)
Profit before tax	34,258	55,115	22,983	27,433	34,700
Tax expense	(5,400)	(4,980)	(4,065)	(3,841)	(4,511)
Minority interest	(795)	(1,275)	(381)	(400)	(302)
PATMI	28,063	48,860	18,537	23,192	29,888
Discontinued PAT	-	(2,621)	21,303	-	-
Adjusted PATMI	35,359	23,988	20,077	26,160	29,888

Per share data (SGD Cents)

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
EPS	6.9	11.9	4.5	5.7	7.3
Adj EPS	8.7	5.9	4.9	6.4	7.3
DPS	1.75	1.75	3.00	2.00	2.00
BVPS	36.5	47.0	53.3	56.1	61.5

Cash Flow

Y/E Sep, SGD '000	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	34,258	55,115	22,983	27,433	34,700
Adjustments	29,808	11,105	3,561	19,356	19,582
WC changes	1,351	(1,388)	16,166	(2,360)	2,772
Cash generated from ops	61,751	46,263	58,265	40,429	55,054
Income tax paid	(4,875)	(5,219)	(4,640)	(3,841)	(4,511)
Cashflow from ops	56,910	41,228	54,209	38,666	51,805
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	12,676	11,176
Dividends paid	(7,019)	(7,143)	(8,148)	(12,268)	(8,179)
Others	(42,698)	(41,986)	(47,720)	(40,394)	(41,412)
Cashflow from financing	(15,107)	(2,130)	(19,158)	(39,986)	(38,414)
Net change in cash	(2,330)	2,906	22,007	(16,320)	(2,609)
CCE, end	36,801	39,743	61,570	45,250	42,641

Source: Company, Phillip Securities Research (Singapore) Estimates

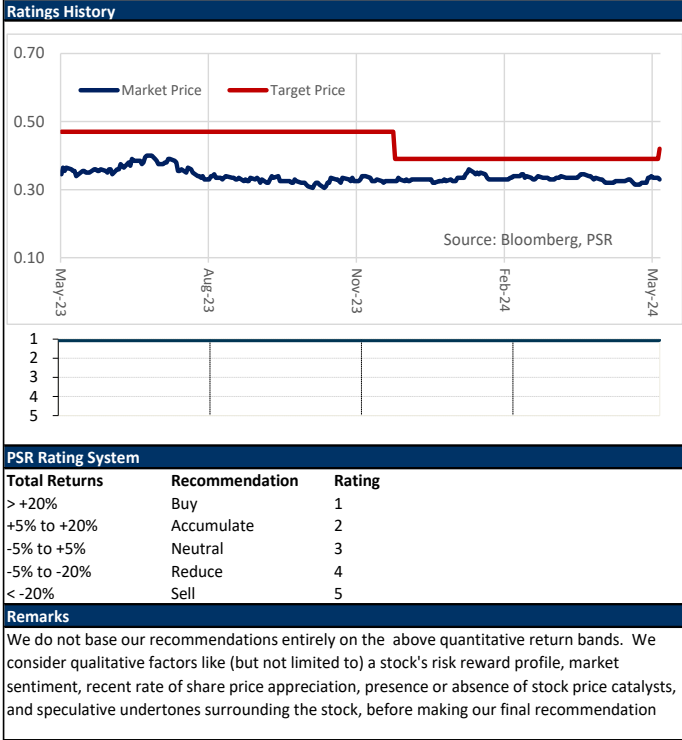
Balance Sheet

Y/E Sep, SGD '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Trade and other receivables	31,754	25,406	12,858	13,267	14,337
Cash and bank balances	36,786	39,727	41,555	25,235	22,626
Inventories	90	136	13	111	119
Total current assets	100,539	100,019	137,785	111,972	100,441
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	80,914	82,324
Total non-current assets	286,269	368,867	416,288	444,248	470,816
Total Assets	386,808	468,886	554,073	556,221	571,258
LIABILITIES					
Trade and other payables	35,392	37,094	42,208	40,355	44,205
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	95,027	98,877
Lease liabilities	54,630	51,517	79,812	59,812	37,812
Bank borrowings	89,822	128,854	149,453	162,129	173,306
Others	4,359	5,658	9,879	9,879	9,879
Total non-current liabilities	148,811	186,029	239,144	231,820	220,997
Total Liabilities	238,525	276,708	336,024	326,848	319,874
Net assets	148,283	192,178	218,049	229,373	251,384
Equity					
Share capital	65,496	65,496	65,496	65,496	65,496
Reserves	80,230	120,408	150,698	161,622	183,331
Non-controlling interests	2,557	6,274	1,855	2,255	2,557
Shareholder Equity	148,283	192,178	218,049	229,373	251,384

Valuation Ratios

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	3.8	5.6	6.7	5.2	4.5
P/B (x)	0.9	0.7	0.6	0.6	0.5
EV/EBITDA (x)	3.5	3.1	5.1	6.0	5.5
Dividend Yield (%)	5.3%	5.3%	9.1%	6.1%	6.1%
Growth & Margins					
Growth					
Revenue	-9.9%	-30.2%	10.9%	18.1%	8.1%
EBITDA	4.7%	38.2%	-35.1%	-6.0%	13.7%
EBIT	13.6%	52.4%	-46.5%	18.7%	16.6%
Net profit	16.2%	74.1%	-62.1%	25.1%	28.9%
Margins					
Gross margin	55.0%	59.2%	61.9%	63.5%	63.0%
EBITDA margin	47.9%	94.9%	55.5%	44.2%	46.5%
EBIT margin	32.3%	70.6%	34.0%	34.2%	36.9%
Net profit margin	23.2%	57.8%	19.8%	21.0%	25.0%
Key Ratios					
ROE	18.9%	25.4%	8.5%	10.1%	11.9%
ROA	7.3%	10.4%	3.3%	4.2%	5.2%
Net Gearing	43.6%	56.4%	58.1%	67.9%	67.4%

Note# FY21 includes the logistics operations financials.



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