

**LHN LIMITED**

# BUY

Share Price: **S\$0.365**  
 Target Price: **S\$0.50**  
 Upside: **+37.0%**

## COMPANY DESCRIPTION

Established in 1991, LHN Limited is a real estate management services group with a track record in redesigning unused, old and under-utilised spaces to maximise their leasable area.

The Group has five main business segments: 1) Space Optimisation, 2) Facilities Management, 3) Energy, 4) Property Development, and 5) Logistics Services (carried out through LHN Logistics Limited (SGX stock code: GIH)).

|                                          |                                      |
|------------------------------------------|--------------------------------------|
| <b>Name</b>                              | <b>LHN LTD</b>                       |
| <b>Bloomberg Code</b>                    | <b>LHN SP Equity</b>                 |
| <b>3M Avg Daily Trading Vol (k)</b>      | <b>914.8</b>                         |
| <b>3M Avg Daily Trading Val (\$'000)</b> | <b>305.4</b>                         |
| <b>Major Shareholder / Holdings</b>      | <b>Kelvin Lim / Jess Lim (55.0%)</b> |
| <b>Shares Outstanding (m)</b>            | <b>408.9</b>                         |
| <b>Market Capitalisation (\$m)</b>       | <b>149.3</b>                         |
| <b>52 week Share Price High/Low</b>      | <b>0.385 / 0.250</b>                 |

## STOCK PRICE PERFORMANCE

|                            | <b>1M</b>  | <b>3M</b>   | <b>12M</b>  |
|----------------------------|------------|-------------|-------------|
| <b>Absolute Return (%)</b> | <b>5.6</b> | <b>35.3</b> | <b>43.1</b> |

## PRICE CHART



Source : Bloomberg

## TRANSFORMING INTO A CO-LIVING POWERHOUSE!

▶ We initiate a **BUY** rating on LHN Limited with a target price of **S\$0.50**, pegged to 7.5x core FY23F P/E (25% discount to core historical average P/E of 10.0x), equivalent to its mean P/B ratio of 1.0x since its IPO. LHN's co-living business (Coliwoo) is poised to be the key growth driver over the next few years with positive uplifts in demand, significant increases in capacities as well as higher room rates. Their solid track record of asset recycling initiatives to enhance ROEs for shareholders has allowed the market to re-rate its shares closer to its intrinsic value as well as allow management to implement a new dividend policy to distribute at least 30% of recurring earnings as dividends. Management has given a special dividend via the IPO of LHN Logistics last year, and with the upcoming complete disposal of LHN Logistics in Aug'23, there is a good chance for another special dividend given the huge one-off gain of **S\$21m** (5.1 S cts/share) and incoming proceeds of **S\$31.9m** (7.8 S cts/share).

**Coliwoo growth potential in thriving co-living business.** Higher residential rents and the return of foreigners have propped up demand for co-living spaces. As the market leader with 32% share, Coliwoo sees strong occupancy rates of 96.7% despite elevated monthly pricing of c.S\$2.9k to S\$5.8k. FY22's capacity of 1,015 keys will be boosted by another c.663 keys by end of FY23 and management targets to add at least 800 rooms/year for the next 3 years.

**Solid track record of asset-recycling initiatives.** LHN has a track record in buying underutilized properties / undervalued investments and selling them for a premium, such as the sale of Coliwoo Hotel Amber for S\$46.6m in Nov'22 (Purchased S\$27m in Mar'21) and GetGo Technologies for S\$7.9m in Sep'22 (invested S\$40k). A potential divestment of the 540-lots Golden Mile Tower carpark and the strata unit sale of food processing industrial building at 55 Tuas South can provide attractive gains and boost FY23F/FY24F earnings.

## KEY FINANCIALS

| <b>Sep YE</b>      | <b>FY20</b> | <b>FY21</b> | <b>FY22</b> | <b>FY23F</b> | <b>FY24F</b> |
|--------------------|-------------|-------------|-------------|--------------|--------------|
| Revenue (\$m)      | 134.2       | 121.0       | 111.8       | 122.1        | 136.2        |
| EBITDA (\$m)       | 55.4        | 58.0        | 78.4        | 71.0         | 72.3         |
| EBITDA Margin (%)  | 41.3        | 47.9        | 70.2        | 58.1         | 53.1         |
| PATMI (\$m)        | 24.1        | 28.1        | 45.8        | 33.3         | 34.1         |
| P/E (x)            | 6.2         | 5.3         | 3.3         | 4.5          | 4.4          |
| Core PATMI (\$m)   | 35.4        | 36.0        | 26.1        | 27.4         | 29.1         |
| Core P/E (x)       | 4.2         | 4.1         | 5.7         | 5.4          | 5.1          |
| P/B(x)             | 1.2         | 1.0         | 0.8         | 0.7          | 0.7          |
| ROE (%)            | 19.8        | 19.3        | 24.7        | 16.7         | 17.1         |
| EPS (\$)           | 6.00        | 6.94        | 11.21       | 8.15         | 8.34         |
| EPS Growth (%)     | 195         | 16          | 62          | -27          | 2            |
| DPS (\$)           | 1.25        | 1.75        | 1.75        | 2.30         | 2.30         |
| Dividend Yield (%) | 3.4         | 4.8         | 4.8         | 6.3          | 6.3          |

Source: LHN, Lim & Tan Research

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## LHN LIMITED

**Disposal of LHN Logistics to Provide Upside.** The recent general offer for LHN's logistics subsidiary, LHN Logistics (LHNLOG) for S\$0.2266 will provide LHN a gain of S\$21mln and cash proceeds of S\$31.9mln. The cash proceeds can be used to deleverage LHN's balance sheet and channel resources to its other core business segments. The gain is worth about 5.1 S cts/share and we believe special dividends to reward shareholders can provide a share price re-rating. Management has recently announced a 30% dividend payout policy of recurring earnings for FY23F/FY24F.

**Attractive Valuations and Resilient Balance Sheet Strength.** LHN trades at distressed valuations at 5.4x core forward P/E and 0.7x P/B for a growth company with sustainable cash flows, backed by a dividend yield of 6.3% based on 2.3 S cts/share. Compared to property peers, this implies a deep discount to larger and more established firms such as UOL and CDL who are trading at 14-15x forward P/E and has a much lower yield of 2.8% to 4.1%. Despite a relatively high net gearing ratio of 52.4%, LHN has managed its interest cost very well by locking in interest rates at <1.5% for most of their properties until around mid-2024 and possesses a healthy interest coverage ratio of 8x.

## Investment Merits

### Coliwoo will be the star performer in 2HFY23

- ▶ LHN's Coliwoo is the first-of-its-kind co-living establishment that caters to a diverse group of tenants such as free-lancers, expatriates, exchange students, medical tourists and even to younger Singaporeans in the early stage of their careers looking to seek independence. Despite competing with more established peers such as Ascott's Lyf and Cove, Coliwoo has emerged to be the market leader in Singapore with 32% market share by providing hotel-like quality accommodations with a full suite of room amenities at an affordable rate relative to what the market can currently offer.

#### Exhibit 1: LHN is the Market Leader in Co-Living Space

| Co-living Operator    | Market Share |
|-----------------------|--------------|
| Coliwoo by LHN        | 32%          |
| The Assembly Place    | 23%          |
| Lyf by Ascott Limited | 17%          |
| Hmlet                 | 14%          |
| Cove                  | 14%          |

Source: Cushman & Wakefield, Lim & Tan Research

Having propped up earnings with segment profit of S\$3.5m in FY22, LHN's residential segment is set to surpass its high of S\$8.5m segment profit in FY20. This can be attributed to the following:

**1. Spill-over demand from high rents in traditional housing sector**

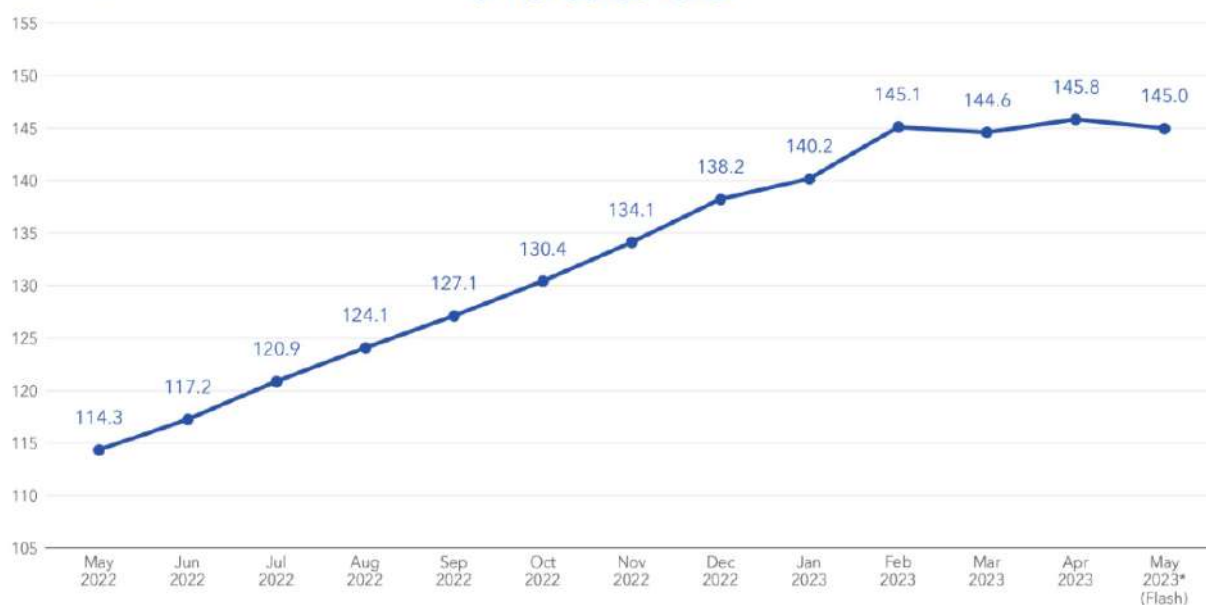
- In May, overall rents have increased 26.9% yoy, led by all regions (CCR, RCR, OCR), which will feed into rentals of Coliwoo

**Exhibit 2: Rents are Rising Over the Past Year**

### Rental Price

Index Base: 2015 Jan

### SPI for Condo Rental



Source: SRX/URA

**2. 663 new keys that will be launched throughout FY23, of which we understand roughly 75% has already been booked and will contribute to 2HFY23**

- FY22's \$3.5m residential segment profits (the bulk from Coliwoo) is made up of about 1,015 keys and capacity will be boosted by another c.663 keys by end of FY23. LHN's growth strategy is to expand their current properties portfolio through master leases and acquisitions, and targets to add at least 800 rooms/year for the next 3 years.

- The new addition in FY23 is mainly due to flagship Coliwoo Orchard at 2 Mount Elizabeth (411 keys) and Coliwoo Lavender at Lavender / Serangoon Road (105 keys). Coliwoo Orchard will cater to medical tourists, students and expats who are finding short to medium term accommodations. The good location in the heart of central Singapore with easy access to shopping, groceries and entertainment will also aid in catering to a diverse mix of tenants. With a buoyant rental market, LHN's pricing of about c.S\$2.9k to S\$5.8k with a flexible minimum stay of just 6 nights will boost earnings. We understand that it is now 75% filled and will reach 85% by next month. LHN aims to reach 95% occupancy by end of FY23.
- LHN Group has recently tendered for the GSM building at Middle Road, Singapore for S\$80mln and asset enhancement initiatives (AEI) cost of around S\$16mln will see LHN adding a further c.187 keys in their portfolio from 3Q2025. Additional projects in the pipeline include 404 Pasir Panjang (63 keys, operational 1Q2024) and 48 & 50 Arab Street (26 keys, operational 1Q2024).
- The recent re-opening of outbound travel in China has led to a faster than expected recovery in tourism with Chinese Tourism Academy forecasting a sustained and accelerated recovery throughout 2023.

### **3. Shorter average tenures of 3-6 months provide flexibility to adjust rent**

- LHN's Coliwoo properties consist of hotels (minimum 1-night stay), serviced apartments (minimum 6-nights stay) and co-living residences (minimum 3-months stay). Given how fast the property market is moving, a shorter term tenure allows LHN to consistently reprice their rooms to better suit prevailing market conditions. This works in favour of LHN as occupancy now stands at 96.7%. With this repricing power, LHN would be more nimble to adjust the rates upwards should rentals continue to rise.

**Exhibit 3: Flagship Coliwoo Orchard – Each Unit comes with a Personal Bathroom and Kitchenette**


Source: LHN

**Exhibit 4: Serviced Apartments/Co-living Residences vs Renting**

|                           | Serviced Apartments / Co-living Residences  | Renting                                                                              |
|---------------------------|---------------------------------------------|--------------------------------------------------------------------------------------|
| <b>Minimum Stay</b>       | 6 nights / 3 months                         | 6 months for HDB, 3 months for private property. Typical contract is at least 1 year |
| <b>Pricing*</b>           | S\$2900-S\$5800/month                       | ~S\$5000/month                                                                       |
| <b>Counterparty</b>       | Professional company                        | Landlord / Property Agent                                                            |
| <b>Housekeeping</b>       | Weekly                                      | Nil                                                                                  |
| <b>Social experiences</b> | Events, Communal Spaces                     | Nil                                                                                  |
| <b>Facilities</b>         | Kitchenette, washer-dryer, ensuite bathroom | Varies                                                                               |
| <b>Utilities</b>          | Included in Rent                            | Additional charges                                                                   |

\*surrounding areas near Orchard  
Source: Lim & Tan Research



## Additional drivers from carpark expansion and property development

- ▶ The carpark business has commenced the management of Defu Industrial City Car Park in Apr'23, comprising ~2,800 vehicle parking lots and 13% of the total vehicle parking lots managed by LHN. The carpark business saw revenue of S\$11.9mln in 1HFY23, up 27% yoy. Defu Industrial City, the largest high-rise multi-user industrial complex in Singapore, is part of the government's initiative to redevelop Defu Industrial Estate into "a Green and Sustainable Industrial Park of Tomorrow". We see the additions to uplift revenue contributions in 2HFY23.

In addition, LHN plans to redevelop 55 Tuas South into a 9-storey multi-user food processing industrial development with 49 strata units for sale. LHN has begun asset enhancement works in 2H2023 with the development expected to be completed and available for sale in FY24. Bought for S\$21mln in Oct'21, LHN will spend about S\$16mln on AEI costs and we estimate the units can potentially be sold for around S\$60mln in total. Uses include the production of plant-based food, central kitchens for restaurant chains and food manufacturing for export. We note that food factory spaces are generally only available at certain locations and as such, these properties are limited and highly sought after in Singapore.

### Exhibit 5: Property Development of a Food Processing Building

|                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>55 TUAS SOUTH</b></p> <p><b>No. of units:</b><br/>49</p> <p><b>Saleable Area:</b><br/>112,000 sqft</p> <p><b>Usages:</b><br/>9-Storey Multi-User<br/>Food Processing<br/>Industrial<br/>Development</p> <p><b>Expected<br/>Operational Date:</b><br/>3Q2024</p> |    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: LHN

Notwithstanding the above, LHN's recent investments have been very successful - an indication of management's ability to keep a keen eye on underutilized properties / undervalued investments and selling them for a premium. Several recent sales include:

- Coliwoo Hotel Amber for S\$46.6m in Nov'22 (Purchased for S\$27m in Mar'21). LHN owned a 50% JV interest in the property.
- GetGo Technologies, a carsharing platform for S\$7.9m in Sep'22 (which represents LHN's 20% interest in the company). Invested S\$40k.
- A potential divestment of the 540-lots Golden Mile Tower carpark (Purchased for S\$26m in Sep'16), where we estimate about S\$49m in proceeds based on the carpark portion of the latest Golden Mile Tower enbloc price. LHN owns 50% interest in the carpark property.

### **Potential Disposal of LHN Logistics to Provide Upside**

LHN Logistics (LHNLOG) is a Singapore-based logistics services company that provides comprehensive transportation services and container depot services. With over 70 prime movers, LHNLOG mainly serves Singapore and Malaysian customers by offering them a full suite of solutions via ISO tank and container transportation services (petrochemical, base oils, bulk cargo and bitumen).

On 4th June 2023, LHNLOG announced an S\$0.2266 pre-conditional voluntary general offer by RHT Capital on behalf of Milkway International Chemical Supply Chain Pte Ltd to take LHNLOG private. The offer price is final and the Offeror does not intend to revise the offer price.

The 2 pre conditions are:

1. Approval from LHN shareholders on SGX and HKEX (Fragrance Ltd is the controlling shareholder of LHN and has given an irrevocable undertaking to accept the offer)
2. Written consent from JTC Corporation for the change in LHN's indirect ownership in Hean Nerng Logistics with its holding of the property located at 7 Gul Avenue, Singapore 629651.

Having IPO'ed just a year ago at 20 S cts in Apr'23, and trading at 16.8 S cts before the announcement was made, the offer price of S\$0.2266 (11.9x forward P/E and 2.9x P/B) represents a 13.3% and 34.9% upside potential to investors respectively. Based on LHN's 84.05% shareholding interest in LHNLOG, LHN intends to use the cash proceeds of S\$31.9mln (7.8 S cts/share) for their general working capital purposes. We note that the offer is conditional on 50% of acceptances and given that there is already an 84.05% irrevocable undertaking, we believe the success of the offer now hinges on getting the consent from JTC Corporation.

Upon the disposal of LHNLOG, LHN will no longer hold any shares of LHNLOG. For illustrative purposes, assuming the disposal was done in FY22, the NTA of LHN would have increased from 45.46 S cts to 50.78 S cts (gain on disposal of S\$21.0mln), representing an 11.7% increase. FY22 EPS would have increased by 55.5%, from 11.21 S cts to 17.43 S cts (Gain on disposal of LHNLOG shares + removal of loss-making LHNLOG due to IPO expense incurred and leasehold building write-off at 7 Gul Avenue). Accordingly, gearing would also improve from 54% to 50%.

We see several positives from the potential disposal of LHNLOG:

- Cash proceeds can be used to deleverage LHN's balance sheet
- Divert focus back to its core property businesses upon disposal of logistics business
- Accelerate expansion in the midst of co-living boom
- Gain on disposal of LHNLOG can boost earnings by S\$21mln and valuations to just 2.7x FY23F P/E (we have not yet added the potential gain to our earnings estimates)
- Potential special dividends to reward shareholders

With the divestment of the logistics business, the remaining facilities management business (cleaning, building management, energy, car park management etc.) complements well with the space optimization business. The suite of facilities management services provides synergy and value-add to properties under the space optimization business, creating a comfortable and clean environment for the customers.

Another potential catalyst for share price re-rating is new coverage. With only 1 official broker coverage on LHN currently, more broker coverage, corporate initiatives and the recently increased number of press releases highlighting LHN suggest that management is keen on boosting its share price with its growth strategy and dividends, hence we believe that price discovery mechanisms could spark a re-rating of the counter. If management were to also increase their corporate actions to reward minority shareholders via higher dividends and also better investor relations coverages, it would also help to sustain the re-rating process.



## **Rising and Attractive Dividend yield of more than 6% in FY2023**

In FY22, LHN recorded S\$11.8mln in gains and other income, which was largely attributed to rental rebates and gains from net investment in subleases, mitigated by impairment and write offs in PPE and leasehold building, which were mostly one off. In FY23, LHN could see other one off income to boost overall earnings as well, such as their recent disposal of their stake in GetGo, a car-sharing start-up in Singapore for S\$7.9mln and see cash flows coming into FY23.

The disposal of LHN's 50% stake in Coliwoo East will also see cash-inflow of approximately S\$11.8mln for its proportionate share.

In 1HFY23, LHN has announced a fixed dividend policy of not less than 30% from its recurring earnings excluding fair value gains/losses on owned and joint venture investment properties, impairment/write-off of assets for FY23F and FY24F. Based on our earnings estimates of S\$33 million for FY23F, this translates to about 2.3 cents/share which implies an attractive forward dividend yield of 6.3% at its last traded price of 36.5 cents. Accordingly, LHN has already raised interim dividends from 0.6 S cts to 1 S cts.

## **Attractive Valuations and Resilient Balance Sheet Strength**

LHN Group is trading at distressed valuations at 5.4x core forward P/E and 0.7x P/B for a growth company with sustainable cash flows, with a 6.3% dividend yield based on a dividend of 2.3 S cts/share. Compared to property peers, this implies a deep discount to larger and more established firms such as UOL and CDL who are trading at 14-15x forward P/E and has a much lower yield of 2.8% to 4.1%. Furthermore, with such efficient use of debt, LHN has generated a 25% ROE which is far superior to the average property firms of 4%.

## LHN LIMITED

### Exhibit 6: Property Peers Comparison

| Name                        | Market Cap<br>(S\$bn) | Stock Perf<br>YTD% | PE (x)      | Forward<br>PE (x) | EV/ EBITDA<br>fwd(x) | P/B(x)     | ROE(x)    | Div Yield   |
|-----------------------------|-----------------------|--------------------|-------------|-------------------|----------------------|------------|-----------|-------------|
| LHN LTD                     | 0.2                   | 17.2%              | 5.7         | 5.4               | 5.9                  | 0.7        | 25%       | 6.3%        |
| HOTEL PROPERTIES LTD        | 2.0                   | 8.7%               | 30.6        | --                | 16.2                 | 1.2        | 4%        | 1.3%        |
| UOL GROUP LTD               | 5.5                   | -3.3%              | 11.1        | 15.3              | 16.3                 | 0.5        | 5%        | 2.8%        |
| HO BEE LAND LTD             | 1.4                   | -16.0%             | 8.2         | --                | --                   | 0.3        | 4%        | 3.9%        |
| HONGKONG LAND HOLDINGS LTD  | 11.9                  | -13.7%             | 44.9        | 10.1              | 15.1                 | 0.3        | 1%        | 5.5%        |
| CITY DEVELOPMENTS LTD       | 6.2                   | -16.5%             | 4.8         | 14.1              | 14.8                 | 0.7        | 15%       | 4.1%        |
| FRASERS PROPERTY LTD        | 3.4                   | -7.5%              | 3.6         | --                | --                   | 0.3        | 9%        | 3.5%        |
| YANLORD LAND GROUP LTD      | 1.5                   | -23.5%             | 5.3         | 3.5               | 5.8                  | 0.2        | 4%        |             |
| GUOCOLAND LTD               | 1.8                   | -6.8%              | 4.6         | --                | --                   | 0.4        | 9%        | 4.0%        |
| OXLEY HOLDINGS LTD          | 0.5                   | -13.8%             | 138.9       | --                | --                   | 0.5        | -2%       | 2.0%        |
| WING TAI HOLDINGS LTD       | 1.1                   | -1.3%              | 8.1         | --                | 20.3                 | 0.3        | 4%        | 4.1%        |
| BUKIT SEMBAWANG ESTATES LTD | 1.0                   | -12.2%             | 30.4        | --                | --                   | 0.7        | 2%        | 4.0%        |
| QUE LTD                     | 0.9                   | -16.8%             | 4.7         | --                | --                   | 0.2        | 5%        | 2.4%        |
| SINARMAS LAND LTD           | 0.9                   | 11.1%              | 2.5         | --                | --                   | 0.3        | 11%       | 0.7%        |
| GSH CORP LTD                | 0.3                   | 9.3%               | --          | --                | --                   | 1.2        | -6%       |             |
| FIRST SPONSOR GROUP LTD     | 1.2                   | -2.3%              | --          | --                | --                   | 0.6        | --        | 3.0%        |
| YOMA STRATEGIC HLDGS LTD    | 0.2                   | -21.4%             | --          | --                | --                   | 0.3        | -8%       |             |
| HONG FOK CORP LTD           | 0.8                   | 6.3%               | 3.0         | --                | --                   | 0.3        | 10%       | 1.0%        |
| FAR EAST ORCHARD LTD        | 0.5                   | -5.5%              | 21.9        | --                | --                   | 0.4        | 2%        | 3.9%        |
| BUND CENTER INVESTMENT LTD  | 0.4                   | -2.1%              | 123.7       | --                | --                   | 0.9        | 1%        | 7.4%        |
| TUAN SING HOLDINGS LTD      | 0.4                   | 0.0%               | 76.3        | --                | --                   | 0.3        | 0%        | 2.3%        |
| ASPIAL CORP LTD             | 0.2                   | -12.5%             | --          | --                | --                   | 0.5        | -4%       | 3.6%        |
| HIAP HOE LTD                | 0.3                   | -4.7%              | --          | --                | --                   | 0.5        | -3%       | 1.0%        |
| CENTURION CORP LTD          | 0.3                   | 11.9%              | 4.4         | 5.3               | 9.4                  | 0.5        | 11%       | 2.7%        |
| <b>Average</b>              |                       | <b>-4.8%</b>       | <b>28.0</b> | <b>8.9</b>        | <b>13.0</b>          | <b>0.5</b> | <b>4%</b> | <b>3.3%</b> |
| <b>Median</b>               |                       | <b>-5.1%</b>       | <b>8.1</b>  | <b>7.7</b>        | <b>14.9</b>          | <b>0.4</b> | <b>4%</b> | <b>3.5%</b> |

Source: Bloomberg, Lim & Tan Research

When compared to local hospitality REITs who generate income from selling hotel rooms, we find that valuations are cheaper than similar peers who are trading at average 5.8% yield and 0.8x P/B.

### Exhibit 7: Hospitality Peers Comparison

|                                   | Mkt Cap (\$ m) | Price as of 28th June 2023 (\$) | Consensus Target Price (\$) | Upside (%) | Float (%) | Current DPU (cents) | Forward DPU (cents) | Current Yield (%) | Forward Yield (%) | YTD Return (%) | Debt To Asset (%) | P/B (x)     |
|-----------------------------------|----------------|---------------------------------|-----------------------------|------------|-----------|---------------------|---------------------|-------------------|-------------------|----------------|-------------------|-------------|
| Hospitality                       |                |                                 |                             |            |           |                     |                     |                   |                   |                |                   |             |
| CapitaLand Ascott Residence Trust | SGD 3,774.9    | 1.080                           | 1.222                       | 13.1       | 70.5      | 6.10                | 6.70                | 5.6               | 6.2               | 5.9            | 39.2              | 0.95        |
| CDL Hospitality Trusts            | SGD 1,491.7    | 1.180                           | 1.347                       | 14.2       | 72.2      | 6.70                | 7.60                | 5.7               | 6.4               | -1.4           | 39.1              | 0.83        |
| Far East Hospitality Trust        | SGD 1,228.4    | 0.605                           | 0.749                       | 23.7       | 46.3      | 3.80                | 4.10                | 6.3               | 6.8               | 1.9            | 28.9              | 0.68        |
| Frasers Hospitality Trust         | SGD 905.3      | 0.470                           | N.A                         | N.A        | 37.4      | 2.70                | 3.00                | 5.7               | 6.4               | 8.4            | 36.4              | 0.73        |
| <b>Average:</b>                   |                |                                 |                             |            |           |                     |                     | <b>5.8</b>        | <b>6.5</b>        | <b>3.7</b>     | <b>35.9</b>       | <b>0.80</b> |

Source: Bloomberg, Lim & Tan Research

**LHN LIMITED**

Despite its high net gearing ratio of 52.4%, LHN has managed its interest cost very well by locking in interest rates at <1.5% for most of their properties until around mid-2024. As such, even in the midst of a hawkish environment, all-in cost of debt stands at under 4%. Interest coverage ratio stands at a healthy 8x.

Coupled with their strong cashflow generation from their recurring income streams from Coliwoo, carpark management etc., we have little doubt that LHN would be able to service its loans when they come due. And if a US recession were to materialize as yield curves indicate currently, the US Fed Reserve may start to cut interest rates sometime in 2H'23 or 1H'24, before LHN's loan tenure comes due for re-financing. Management thus believes that they have their financing costs under control notwithstanding the higher interest rate environment. In additional, management has indicated it intends to explore capital recycling and move towards an asset-light (AUM) model, which could support faster expansion into the co-living space without taking on too much additional debt.

**Exhibit 8: Debt Analysis**

| In S\$'000              | 1HFY23  | FY22    | FY21    |
|-------------------------|---------|---------|---------|
| Cash                    | 37,813  | 41,311  | 38,170  |
| ST Debt                 | 55,442  | 49,178  | 49,262  |
| LT Debt                 | 251,132 | 180,371 | 144,452 |
| Total Debt              | 306,574 | 229,549 | 193,714 |
| Equity                  | 206,510 | 192,178 | 148,283 |
| Net Gearing             | 52.4%   | 44.6%   | 45.5%   |
| Operating Cash Flow     | 27,750  | 41,228  | 56,910  |
| Total Asset             | 566,487 | 468,886 | 386,808 |
| Debt To Asset           | 54%     | 49%     | 50%     |
| EBITDA                  | 34,558  | 78,437  | 57,975  |
| Interest Costs          | 4,424   | 4,930   | 4,863   |
| Interest Coverage Ratio | 8       | 16      | 12      |

\*Debt is calculated as bank borrowings + lease liabilities

\*Net Gearing is calculated as (Bank borrowings + lease liabilities – cash) / (Total equity + bank borrowings + lease liabilities)

Source: LHN, Lim & Tan Research

### Valuation

- ▶ We initiate a **BUY** rating on LHN Limited with a **12-month target price of S\$0.50**, pegged to 7.5x core FY23F P/E (25% discount to core historical average P/E of 10.0x), representing a potential upside of 37.0%. LHN currently trades at 5.4x core forward P/E, 0.5SD below its mean P/E since IPO and a 40% discount to its peers' 9.0x P/E. We continue to like LHN's 1) Coliwoo brand name in a booming co-living market, 2) strong pipeline of projects across all segments, 3) various initiatives currently being explored to enhance shareholder value, and 4) cheap valuations despite a brightening outlook.

**Exhibit 9: Core Forward P/E Ratio Stays Attractive**



Source: Bloomberg, Lim & Tan Research

## LHN LIMITED

LHN trades at 0.7x P/B based on its book-value/share of S\$0.487. At our target price of S\$0.50, the implied 1.0x P/B is aligned to its mean P/B since IPO.

**Exhibit 10: Price to Book Chart**



Source: Bloomberg, Lim & Tan Research

**Shareholder Statistics.** As of 8 Dec'22, Kelvin Lim (Executive Chairman of LHN) and Jess Lim (Executive Director of LHN) are the largest shareholders of LHN with a combined direct and deemed interest of 224,982,600 shares, representing about a 55% stake. Balance of approximately 45% of total outstanding shares are held as free float.

**Exhibit 11: List Of Major Shareholders**

| Name                  | Position    | % of Outstanding |
|-----------------------|-------------|------------------|
| Kelvin Lim / Jess Lim | 224,982,600 | 55%              |
| <b>Total</b>          |             | <b>55%</b>       |

Source: LHN, Lim & Tan Research

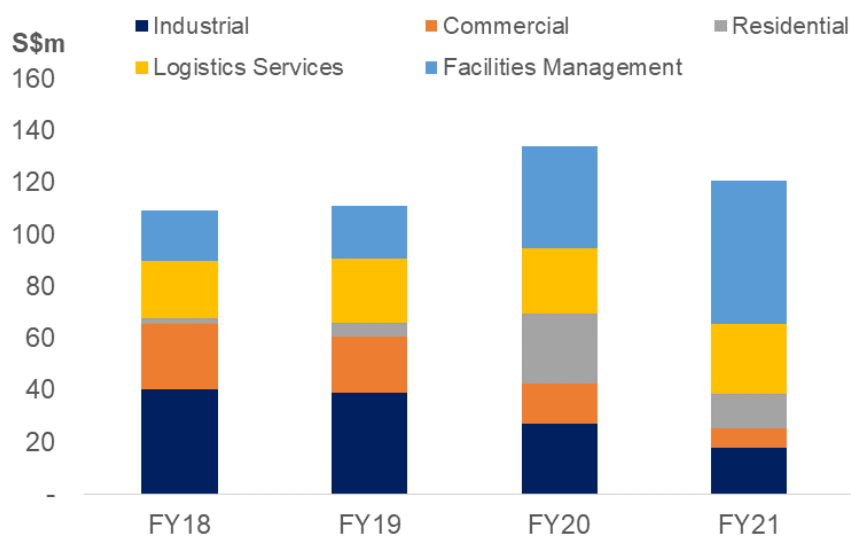


### Company Background

 LHN Limited first started out as a sawmill factory with its main business of timber trading. In 2001, the Group switched its focus to property leasing and started to diversify to logistics business in 2003. LHN is dual-listed on the Catalist board of SGX (Apr'15) and on the main board of HKSE (Dec'17). As at FY22, the Group operates under 3 main business segments: Space Optimisation (38%/79% of FY22 revenue/operating profit), Facilities Management (37%/39% of FY22 revenue/operating profit), and Logistics Services (24%/-11% of FY22 revenue/operating profit).

In total, the Group manages 43 commercial, industrial and residential properties, 4 container depots and 74 carparks covering >20,000 vehicle parking lots.

**Exhibit 12: Revenue Mix between Business Segments**



Source: LHN, Lim & Tan Research

## Space Optimisation

LHN's unique Space Optimisation core business is centered around recycling old, unused and under-utilised spaces. The Group develops its property portfolio through acquisition and master leasing commercial, industrial and residential properties. Through thoughtful design and careful spatial planning, the Group increases these properties' net lettable area and potential rental yield per square foot, thereby enhancing their value.

Three sectors under the Space Optimisation business include:

**Residential Space:** LHN offers a diverse range of residential types to both individual and corporate clients. Its portfolio includes corporate housing, serviced apartments, co-living spaces, co-living hotels and student hostels. LHN operates the co-living business with 17 properties in Singapore under Coliwoo and 4 properties overseas (Myanmar, Cambodia and China) under 85SOHO.

**Exhibit 13: Coliwoo Orchard and Coliwoo Balestier 320**



Source: LHN



**Commercial Space:** LHN specialises in providing strategically located and affordable spaces for commercial purposes, including offices, lifestyle and healthcare facilities, recreational centers, childcare centers, F&B establishments, and retail outlets. LHN manages 6 properties in Singapore and also owns 1 property in Indonesia under GreenHub.

**Industrial Space:** LHN's 16 industrial spaces offer space users easy routes for delivery and facilities access. With an extensive range of industrial properties comprising industrial buildings, factories, warehouses and land for open storage, space users can easily find the right option for the scale and nature of their businesses. Besides traditional industrial spaces, LHN also offers storage solutions under its Work+Store subsidiary. LHN has 7 Work+Store facilities in Singapore.

**Exhibit 14: Work+Store @ Aljunied**



Source: LHN

As at 31 March 2023, the occupancy rates across certain properties (excluding joint venture properties and properties that are under progressive handover) under the Space Optimisation Business are as follows:

**Exhibit 15: Occupancy rates remain high**

|           | Industrial        |            | Commercial       | Residential |
|-----------|-------------------|------------|------------------|-------------|
|           | Traditional Space | Work+Store | Commercial Space | Coliwoo     |
| Occupancy | 95.6%             | 97.9%      | 91.1%            | 96.7%       |

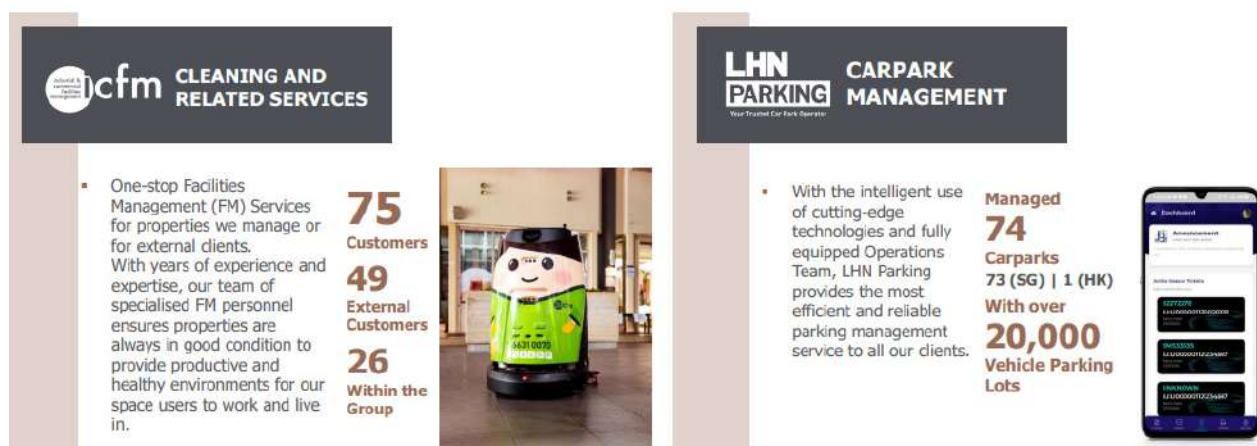
Source: LHN, Lim & Tan Research

## Facilities Management

LHN's Facilities Management Business primarily generates revenue from its 2 sub-businesses under car park management services and property maintenance services such as cleaning, provision of amenities and utilities, and repair and general maintenance principally to the properties it leases and manages, as well as to external parties.

The Group currently manage 73 public and private carparks in Singapore with over 20,000 vehicle parking lots as well as 1 public carpark in Hong Kong.

**Exhibit 16: Facilities Management Business**



Source: LHN

## Energy Business

LHN's sustainable energy focused subsidiary, LHN Energy has been a core part of the Group's sustainability efforts; finding efficient and innovative solutions for renewable energy production. Using the experience gained from internal servicing, LHN Energy also provides this expertise to the open market.

LHN currently have a portfolio of 18 solar projects in Singapore and provision of Electric Vehicle (EV) charging stations at 8 carpark locations across the island.



**Exhibit 17: Energy Business**



Source: LHN



## Property Development Business

The Property Development Business engages in (a) property development activities such as the acquisition, development and/or sale of various types of properties; and (b) property investment activities relating to the business of property development, property investment and property management.

## Logistics Services

LHN's Logistics Services is contributed by its listed subsidiary, LHN Logistics Limited ("LHNLOG"), where it provides comprehensive logistics management services from transportation to container depot services.

For Transportation, LHNLOG owns a fleet of vehicles to handle transportation of different types of oil, oil-related and petro-chemical products, as well as trucking of ISO tanks.

For Container Depot, LHNLOG provides a wide range of container depot services in Singapore and container depot management services in Singapore, Thailand and Myanmar. Services includes container handling and storage, container surveying, container cleaning, and container repair and maintenance services, with their main customers being major shipping lines and container leasing companies.

**Exhibit 18: Transportation and Container Depot Services**



Source: LHN



### Key Risks

-  LHN is a property counter and recent developments like the focus on co-living (Coliwoo) have made it more sensitive to the property cycle, which has surged post-Covid-19. This has led to the Singapore Government imposing yet another cooling measure which imposes a 60% ABSD (Additional Buyer's Stamp Duty) for foreigners even for their first property. On one hand, this helps LHN's co-living properties for the short-medium term due to foreigners now taking a wait-and-see approach and thus might opt to rent instead. In the longer term, if more cooling measures are imposed, this might actually impede rent in the longer term and weigh on LHN's earnings.

LHN is quite leveraged at 52.4% net gearing as of 1HFY23. With higher interest costs and the hawkish environment, this adds on to both their interest costs and business risk. At the moment, we understand that currently, about 60% of their loans are <1.5% which expires around mid-2024 and the others are at prevailing interest rates. As such, their all-in interest cost is <4%. However when this expires and LHN is forced to refinance, we think LHN would have to absorb the increased interest cost if interest rates continue to remain hawkish. On LHN's side, they have accounted for this higher interest rates in future projects and similarly, we have forecasted the increased cost into our forward earnings and find that if they can still maintain their current operations at current rates, this risk would be minimized.

Additionally, most of the properties under the Space Optimisation Business are obtained through master leases. An unsuccessful renewal or re-tender of the master leases will disrupt business operations and impact its financials. It will also take more time and cost to identify new properties and perform optimisation work before launching in the market.



**Appendix**
**Exhibit 19: LHN Coliwoo Properties**
**RESIDENTIAL SPACE CONCEPT**
**Our Current 17 Locations Islandwide in Singapore**

 Self-operated under Coliwoo  
 Sub-lease to operator



Source: LHN

**Exhibit 20: LHN Logistics Business Segment**
**OTHER BUSINESS UNITS**
**LOGISTICS SERVICES**

The logistics management business unit includes transportation in Singapore and Malaysia and container depot services in Singapore, Thailand and Myanmar. On 29 April 2022, the Group successfully spun-off its Logistics Services Business with LHN Logistics Limited shares (SGX stock Code: GIH) being listed and commenced trading on the Catalyst Board of the SGX-ST on the same day.

**LHN GROUP LOGISTICS**
**TRANSPORTATION**

- We offer a wide range of services, from bulk transportation of chemicals in ISO Tanks, containers and Flexitanks, oversized project cargo transportation to transit yard provision.



**70+** Prime Movers  
**360+** Trailers


**CONTAINER DEPOT SERVICES**

- Our Container Depot Services Division provides a wide range of container depot services for major shipping lines and container leasing companies. We provide our customers fast turnaround for their containers with the support of our experienced workforce and advanced automated technologies.

|                  |                 |                   |
|------------------|-----------------|-------------------|
| Up to            | Up to           | Up to             |
| <b>19,000</b>    | <b>4,000</b>    | <b>4,500</b>      |
| TEUs in Thailand | TEUs in Myanmar | TEUs in Singapore |

Source: LHN

**Management Team**
**Exhibit 21: LHN Key Management**

| Name                                                                                                         | Position                                                                                | Work Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Mr Kelvin Lim</p>        | <p>Executive Chairman,<br/>Executive Director &amp;<br/>Group Managing<br/>Director</p> | <p>Mr Kelvin Lim is a controlling shareholder of the Company and was first appointed to the Board on 10 July 2014 and was last re-elected on 29 January 2021. He is currently the Executive Chairman, the Executive Director, the Group Managing Director and a member of the Nominating Committee.</p> <p>Kelvin brings over 20 years of experience in the property leasing, logistics services and facilities management business. He is primarily responsible for the Group's business development and overall management, including investment activities, operations and marketing efforts.</p> <p>Kelvin is a patron in the Bukit Batok East Citizen's Consultative Committee, Chairman of Singapore Wushu Dragon &amp; Lion Dance Federation Management Committee, Honorary Chairman of the Singapore Lim See Tai Chong Soo Kiu Leong Tong Family Self-management Association and consultant to the Youth Wing, member of the Lions Club of Singapore Nee Soon Mandarin and vice-president of the National Arthritis Foundation of Singapore. For his contributions to society, Kelvin was awarded the public service medal (Pingat Bakti Masyarakat ("PBM")) in 2012.</p> |
| <p>Ms Jess Lim</p>         | <p>Executive Director &amp;<br/>Group Deputy Managing<br/>Director</p>                  | <p>Ms Jess Lim is a controlling shareholder of the Company and has been appointed to the Board since 10 July 2014 and was last re-elected on 28 January 2022. Jess is currently the Group Deputy Managing Director.</p> <p>Jess has over 20 years of extensive and varied experience in business management and supply chain management comprising of over 15 years' experience in the leasing and facilities management business and over 10 years' experience in the logistics services business. She is responsible for the corporate development, the overall administration and oversees the Group's finance, human resource, information systems and contracts administration functions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p>Ms Ch'ng Li-Ling</p>   | <p>Lead Independent Non-<br/>Executive Director</p>                                     | <p>Ms Ch'ng Li-Ling is the Chairwoman of the Remuneration Committee and a member of both the Audit and Nominating Committees. Li-Ling was appointed as the Lead Independent Non-executive Director on 5 June 2017. She was first appointed to the Board as an Independent Non-executive Director on 10 March 2015 and was last re-elected on 28 January 2022.</p> <p>Li-Ling is one of the founding members of RHTLaw Asia, where she presently heads the firm's Financial Services (Regulatory) Practice. Her areas of practice has included corporate and security laws, capital markets, mergers and acquisitions, securities and financial services regulatory compliance, and corporate governance.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <p>Mr Eddie Yong</p>      | <p>Independent Non-<br/>Executive Director</p>                                          | <p>Mr Eddie Yong is the Chairman of the Nominating Committee and a member of both the Audit and Remuneration Committees. He was first appointed to the Board as an Independent Non-executive Director on 10 March 2015 and was last re-elected on 30 January 2020.</p> <p>Eddie has over 40 years of experience in the real estate industry ranging from land acquisition, planning and real estate development, marketing and asset management. He is currently a Managing Partner of Equity &amp; Land LLP.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p>Mr Gary Chan</p>       | <p>Independent Non-<br/>Executive Director</p>                                          | <p>Mr Gary Chan is the Chairman of the Audit Committee and a member of both the Nominating and Remuneration Committees. He was first appointed to the Board as an Independent Non-executive Director on 5 June 2017 and was last re-elected on 29 January 2021. Gary has many years of experience in accounting, corporate finance, private equity and financial consultation while advising companies across multiple disciplines and various industries.</p> <p>Gary joined CFO (HK) Limited in 2014 and presently serves as the Chief Executive Officer of the Greater China business of the CFO Centre Group. He is the Chairman of ESG Chapter – Forbes Global Alliance in 2022.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <p>Ms Yeo Swee Cheng</p>  | <p>Chief Financial Officer</p>                                                          | <p>Ms Yeo Swee Cheng first joined the Group in May 2011 as Group Finance Manager and was promoted to Group Financial Controller in July 2014 before advancing to her current position in July 2015.</p> <p>Swee Cheng is primarily responsible for all finance related areas of the Group including treasury, audit and taxation functions. She supports the management on all strategic and financial planning matters in relation to the Group's business to ensure sound management of the Group's funds.</p> <p>Swee Cheng has over 20 years of extensive experience in financial accounting, corporate finance, treasury and taxation matters.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

Source: LHN, Lim & Tan Research

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