

LHN Ltd (LHN SP)

Co-living to drive growth

Core profit above estimates; maintain BUY

LHN reported 1H FY24 core net profit of SGD13m, ahead of our/street expectation at 56%/58% of MIBG/consensus full year estimate. Notably, Coliwoo's occupancy in Mar'24 held up at 91.8%, while rental rates remain stable. We expect more positives from the maiden contribution from MOHH contracts and new Coliwoo projects, as well as ramping up of carparks in 2HFY24. The group has declared an interim DPS of SGD0.01, unchanged from last year. We roll forward our valuation base to FY25E, now based on its 5-year historical mean P/E multiple of 6.5x (from 8x previously). Maintain BUY with new TP of SGD0.43.

Coliwoo business underpins group revenue

Group revenue increased by 9%/27% HoH/YoY, excluding the discontinued logistics operation. Revenue from Coliwoo increased by 13%/91% HoH/YoY, partially offsetting the gap from disposing Logistics Group. Newly opened 404 Pasir Panjang, 99 Rangoon Road and 298 River Valley Road contributed to the increased revenue. In 2QFY24, management added 381 keys to its Coliwoo brand, bringing the total keys under Coliwoo brand to 2534. We expect four assets to commence operation in 2HFY24, including two MOHH lodging contracts totalling 350 keys. Accordingly, we raise our FY24-25E EPS by 7-9%.

Incremental upsides from ancillary services

While commercial space revenue dipped marginally, industrial segment saw improving revenue (8% HoH) led by higher renewal rates for its sub-leases. Facilities management revenue inched up in 1HFY24 as new contracts secured in 4QFY23 ramp up. Management intends to further build up its seasonal parking user base for carparks in HK. Additionally, solar services continue to drive performance for its energy segment.

Adding more capacity in the pipeline

Expected to be launched in FY25, the residential section of the GSM building, co-living apartments at 48 and 50 Arab Street and co-living serviced apartments at 260 Upper Bukit Timah Road will enable the LHN to meet its goal of adding 800 keys annually to Coliwoo's portfolio. We also expect the sale of 49 units at 55 Tuas South in FY25 to generate strong cashflow, thus strengthening its balance sheet and lower its current gearing of 58%.

FYE Sep (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	112	94	112	120	131
EBITDA	46	38	55	58	63
Core net profit	19	19	25	27	29
Core FDEPS (cts)	4.8	4.8	6.0	6.6	7.0
Core FDEPS growth(%)	(58.8)	(1.1)	25.8	10.4	5.8
Net DPS (cts)	1.8	2.0	2.0	2.5	3.0
Core FD P/E (x)	5.7	7.0	5.6	5.1	4.8
P/BV (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	5.9	6.0	7.5	9.0
ROAE (%)	27.6	19.0	11.1	12.0	12.7
ROAA (%)	4.4	3.8	4.3	4.5	4.7
EV/EBITDA (x)	2.5	7.0	5.6	5.3	4.9
Net gearing (%) (incl perps)	56.4	58.1	73.8	73.8	73.8
Consensus net profit	-	-	24	27	27
MIBG vs. Consensus (%)	-	-	3.4	1.0	7.6

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BUY

Share Price	SGD 0.34
12m Price Target	SGD 0.43 (+28%)
Previous Price Target	SGD 0.45

Company Description

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

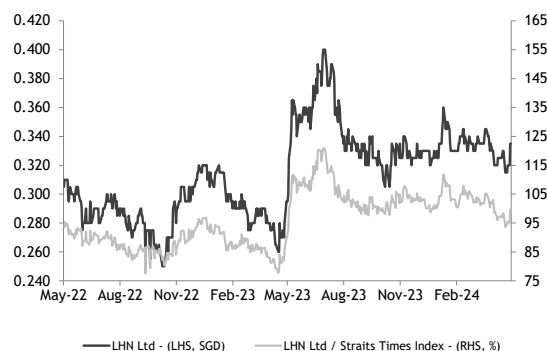
Statistics

52w high/low (SGD)	0.40/0.30
3m avg turnover (USDm)	0.1
Free float (%)	42.9
Issued shares (m)	409
Market capitalisation	SGD137.0M
	USD102M

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 (%)	2	2	14
Relative to index (%)	(2)	(3)	10

Source: FactSet

Acronyms explained:

MOHH: MOH Holdings

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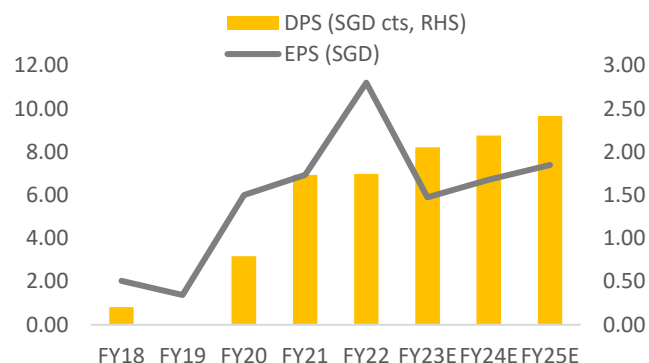
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Tear Sheet Insert

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 of a minimum 30% payout ratio.
- FY24E P/E of less than 7x is undemanding compared to global hospitality peers.
- Potential divestments are supported by a portfolio of assets that are in the money, and LHN is tilting towards an asset-light strategy.

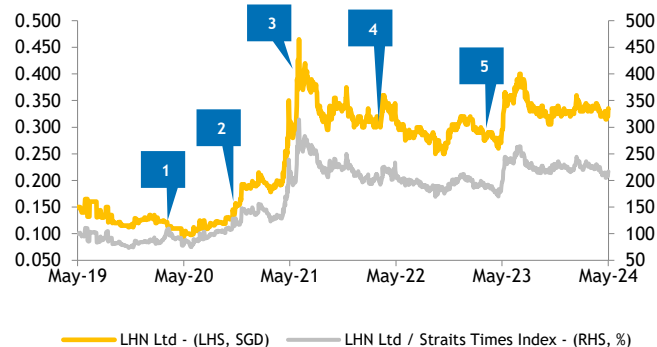
EPS and DPS trend



Source: Company

Price Drivers

Historical share price trend



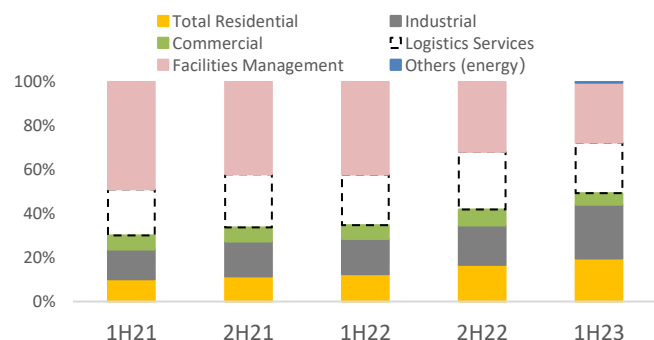
Source: Company, Maybank IBG Research

1. 2Q20 results hit by onset of Covid-19 pandemic.
2. Co-living gained popularity among expatriates and students after 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 of 6.5m shares amounting to net sales proceeds of SGD2.1m, which was intended for general working capital.
4. Listing of LHN Logistics Limited on 29 April 2022 and decreased revenue of SGD0.3m 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 in 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 assets in the pipeline become operational.
- Contribution from space optimisation business grew steadily, making up 50% of LHN’s 1H23 revenue.
- Gearing is likely to remain stable as LHN intends to expand via JVs and an asset-light strategy.

Revenue contribution by segment



Source: Company

Swing Factors

Upside

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

Downside

- Surge in supply of 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	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 on 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 of reducing 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 programmes 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).

1. Operational highlights

Fig 1: Total number of keys

	Co-living (Singapore projects)		85 SOHO		Total
	Master Lease	Owned / JV	Master Lease	Owned / JV	
Sep'23	1387	294	275	108	2064
Dec'23	1408	362	275	108	2153
Mar'24	1789	362	275	108	2534
Change QoQ	381	0	0	0	381

Source: Company, Maybank IBG Research

2. Financial highlights

Fig 2: Revenue growth from co-living business partially offsets the decline after disposing the Logistics Group

Segmental		1H22	2H22	1H23	2H23	1H24	HoH, %
Co-Living (Singapore)	SGD m	7.0	8.3	10.5	17.8	20.0	13%
85 SOHO (Overseas)	SGD m	0.4	0.5	0.4	0.5	0.6	17%
Total Residential	SGD m	7.4	8.8	10.9	18.3	20.6	13%
Industrial	SGD m	9.5	9.4	13.6	11.6	12.6	8%
Commercial	SGD m	3.7	3.8	2.9	3.0	2.8	-6%
Total Space Optimisation	SGD m	20.6	22.0	27.4	32.9	35.9	9%
Logistics Services (discontinued)		13.6	13.7	12.7	10.6	n/a	n.m.
Facilities Management	SGD m	25.0	16.8	15.2	16.7	17.2	3%
Others (inc.energy)	SGD m	0.0	0.0	0.3	0.3	0.8	209%
Corporate						0.5	n.m.
Total Revenue	SGD m	59.2	52.6	55.6	60.4	54.5	-10%

Source: Maybank IBG Research

Group revenue increased by 9%/27% HoH/YoY, excluding the discontinued logistics operation.

3. Valuation

Fig 3: Change to our estimates

	Segmental	FY24E (old)	FY25E (old)	FY24 (New)	FY25E (new)	% change	% change
Total Space Optimisation	SGD m	81	96	76	83	(7%)	(13%)
Facilities Management	SGD m	34	35	34	35	2%	(0%)
Others (energy)	SGD m	1	1	1	1	100%	100%
Corporate	SGD m	1	1	1	1	(20%)	(20%)
Total Revenue	SGD m	117	132	112	120	(4%)	(9%)
Gross Profit	SGD m	70	79	69	73	(1%)	(8%)
Core profit attributable to equity holders	SGD m	23	25	25	27	7%	9%
EPS	SGD cts	5.6	6.0	6.0	6.6	6%	10%
P/E	x	8			6.50		
SP	SGD cts	45			43.0		

Source: Maybank IBG Research

While rental rates were largely stable for LHN, we lower our FY24-25E estimates by 7-13% to factor in the ramp up time for newly launched properties. Nonetheless, our core profit is raised by SGD1.5-2m (c.7-9%) on better gross margin in 1HFY24 and higher JV contribution.

We roll forward our valuation basis to FY25E and adopt a more conservative P/E multiple of 6.5x. Our TP is lowered to SGD0.43 accordingly.

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	3.3	5.6	5.1	4.8
Core P/E (x)	5.7	6.7	5.1	5.0	5.0
Core FD P/E (x)	5.7	7.0	5.6	5.1	4.8
P/BV (x)	nm	0.6	0.6	0.6	0.6
P/NTA (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	5.9	6.0	7.5	9.0
FCF yield (%)	0.0	12.3	29.3	75.9	82.9
EV/EBITDA (x)	2.5	7.0	5.6	5.3	4.9
EV/EBIT (x)	4.0	7.4	8.7	7.9	7.0

INCOME STATEMENT (SGD m)

Revenue	111.8	93.6	112.3	120.3	130.5
EBITDA	46.4	38.1	54.7	58.3	63.3
Depreciation	(20.5)	(20.1)	(19.5)	(19.3)	(19.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	29.0	36.1	35.3	39.0	44.1
Net interest income / (exp)	(4.9)	(8.9)	(11.5)	(11.9)	(12.0)
Associates & JV	16.5	1.7	5.5	5.6	5.9
Exceptionals	0.0	21.3	3.0	0.0	0.0
Other pretax income	12.3	(6.0)	(6.5)	(4.5)	(3.0)
Pretax profit	52.8	23.0	22.7	28.2	31.9
Income tax	(5.5)	(4.1)	(3.4)	(4.2)	(4.8)
Minorities	(1.7)	(2.0)	(1.3)	(1.4)	(1.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	45.8	38.2	24.5	27.1	28.6
Core net profit	19.0	19.5	24.5	27.1	28.6

BALANCE SHEET (SGD m)

Cash & Short Term Investments	39.7	41.6	45.6	56.2	63.0
Accounts receivable	42.2	32.2	32.9	32.9	32.9
Inventory	0.1	29.0	35.4	35.4	35.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	48.2	34.9	33.6	33.6	33.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	36.2	27.6	31.1	31.1	31.1
Other assets	302.3	388.9	417.0	417.0	417.0
Total assets	468.9	554.1	595.6	606.3	613.1
ST interest bearing debt	19.3	18.8	23.6	24.8	25.6
Accounts payable	37.1	42.2	35.4	35.4	35.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	128.9	149.5	190.0	199.5	205.5
Other liabilities	91.0	126.0	119.0	119.0	119.0
Total Liabilities	276.7	336.0	367.8	378.5	385.2
Shareholders Equity	185.9	216.2	225.3	225.3	225.3
Minority Interest	6.3	1.9	2.5	2.5	2.5
Total shareholder equity	192.2	218.0	227.9	227.9	227.9
Total liabilities and equity	468.9	554.1	595.6	606.3	613.1

CASH FLOW (SGD m)

Pretax profit	52.8	23.0	22.7	28.2	31.9
Depreciation & amortisation	20.5	20.1	19.5	19.3	19.2
Adj net interest (income)/exp	3.4	7.2	9.0	11.9	12.0
Change in working capital	(1.4)	16.2	(5.2)	0.0	0.0
Cash taxes paid	(5.2)	(4.6)	(3.4)	(4.2)	(4.8)
Other operating cash flow	(29.3)	(26.7)	(3.6)	48.8	55.2
Cash flow from operations	41.0	35.7	38.8	104.0	113.5
Capex	(7.8)	(18.8)	1.2	0.0	0.0
Free cash flow	33.2	16.9	40.1	104.0	113.5
Dividends paid	(7.9)	(8.6)	(8.2)	(10.2)	(12.3)
Equity raised / (purchased)	3.6	0.0	0.4	0.0	0.0
Change in Debt	7.2	(3.3)	(9.9)	(83.6)	(85.3)
Other invest/financing cash flow	(33.9)	(6.0)	(31.8)	9.5	10.4
Effect of exch rate changes	0.0	(0.2)	0.0	0.0	0.0
Net cash flow	2.2	(1.2)	(9.3)	19.7	26.4

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.6)	(16.2)	19.9	7.1	8.5
EBITDA growth	(24.0)	(17.8)	43.5	6.5	8.6
EBIT growth	(38.4)	24.6	(2.3)	10.5	13.2
Pretax growth	54.1	(56.5)	(1.1)	24.1	13.1
Reported net profit growth	63.3	(16.6)	(35.9)	10.4	5.8
Core net profit growth	na	2.6	25.8	10.4	5.8
Profitability ratios (%)					
EBITDA margin	41.5	40.7	48.7	48.4	48.5
EBIT margin	25.9	38.6	31.4	32.4	33.8
Pretax profit margin	47.2	24.5	20.2	23.5	24.4
Payout ratio	nm	21.3	33.4	37.8	42.9
DuPont analysis					
Net profit margin (%)	41.0	40.8	21.8	22.5	21.9
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	2.5	2.6	2.6	2.7	2.7
ROAE (%)	27.6	19.0	11.1	12.0	12.7
ROAA (%)	4.4	3.8	4.3	4.5	4.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.6	1.6	1.6
Net gearing (%) (incl perps)	56.4	58.1	73.8	73.8	73.8
Net gearing (%) (excl. perps)	56.4	58.1	73.8	73.8	73.8
Net interest cover (x)	5.9	4.1	3.1	3.3	3.7
Debt/EBITDA (x)	3.2	4.4	3.9	3.8	3.7
Capex/revenue (%)	7.0	20.1	nm	0.0	0.0
Net debt/ (net cash)	108.4	126.7	168.1	168.1	168.1

Source: Company; Maybank IBG Research

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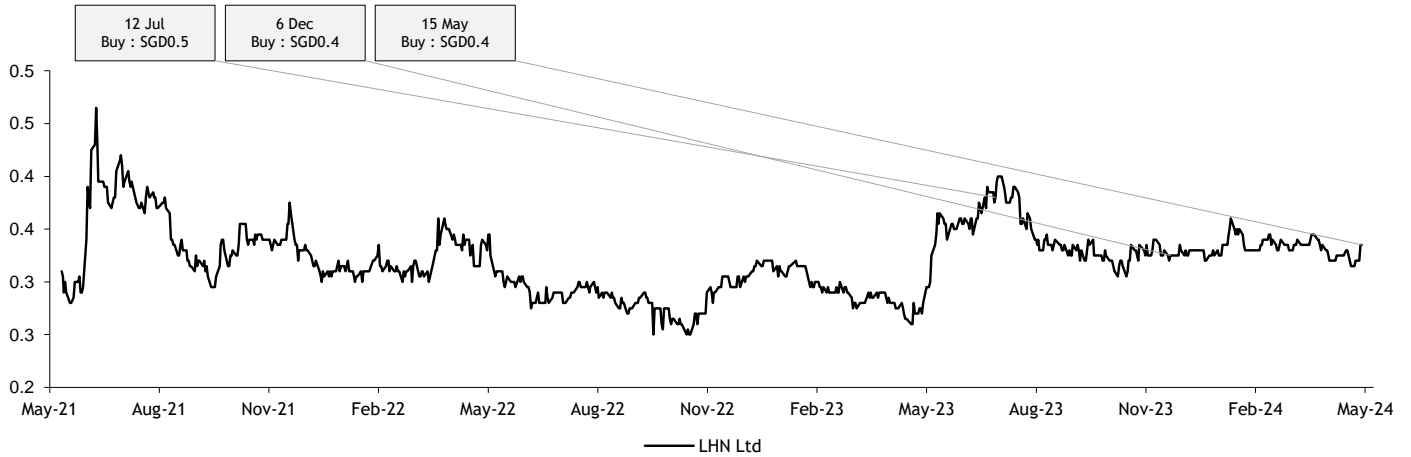
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