

LHN Ltd (LHN SP)

Operations on track

3Q24 business update; maintain BUY

We attended LHN's briefing yesterday following the release of its 3Q24 business update on 21 Aug 2024. Management guided for stable operations at its Coliwoo assets, supported by incremental demand from more tourists and summer-holiday makers. The average occupancy rate of its co-living portfolio edged up from 91.8% in 1H24 to c.95% in 3Q24, helped by competitive pricing and the newly launched River Valley assets as they continue to be ramped up. Two Coliwoo assets leased to the Ministry of Health and Holdings (MOHH) are expected to start contributing from Sep'24 onwards. Maintain BUY and TP of SGD0.43, based on an undemanding 6.5x FY25E P/E.

Key takeaways of core business

LHN will launch 268 & 288 River Valley and two assets leased to the MOHH in 4Q24. Projects in the pipeline in FY25 include Arab street (1H25) and the GSM building (3Q25). Overall, LHN expects total number of keys to exceed 3,000 (+8%) by 2Q25. LHN targets its food processing factory (55 Tuas South Avenue) to achieve a Temporary Occupation Permit (TOP) in Sep'24, and the subsequent sale of 49 strata units (saleable area of 112,000 sqft) over the next 6-12 months. Management estimates SGD10m in pre-tax profit from the sale of the food factory. LHN owns 60% stake of this development project.

Increasing renewable capacity

In 3Q24, LHN secured 3 solar energy contracts with a combined capacity of approximately 0.8 MW. Supported by an attractive IRR of 20-30%, management intends to build upon its existing capacity of 6MWs. Despite the renewable energy market being competitive, management targets to increase solar energy capacity by 2 gigawatts per year.

Dry powder and minor crosswinds

LHN divested its 40% stake in the Bukit Timah Shopping Centre car park in Jul'24 for estimated net proceeds of SGD4m (after offsetting bank loans), which will be used for working capital or strategic M&As. Management is open to explore master lease opportunities in ASEAN, targeting around 200 keys. LHN manages 2 carparks with over 800 lots in Hong Kong but may look to exit its loss-making operations in the city at end of the year due to the challenging macro environment. LHN has a gearing of 58.1% as of 1H24 and 45% hedge-to-floating ratio, and hence, lower interest rates would benefit LHN.

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	5.7	5.1	4.9
P/BV (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	5.9	5.9	7.4	8.8
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	5.7	5.3	4.9
Net gearing (%) (incl perps)	56.4	58.1	73.8	73.8	73.8
Consensus net profit	-	-	23	29	32
MIBG vs. Consensus (%)	-	-	5.2	(5.4)	(10.0)

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BUY

Share Price	SGD 0.34
12m Price Target	SGD 0.43 (+27%)
Previous Price Target	SGD 0.43

Company Description

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

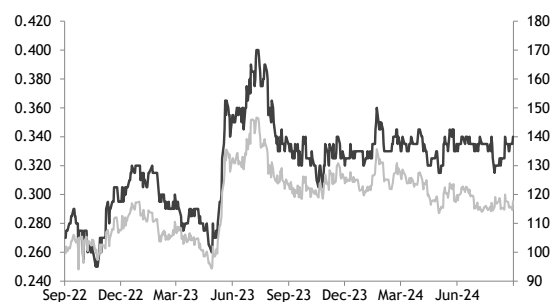
Statistics

52w high/low (SGD)	0.36/0.31
3m avg turnover (USDm)	0.0
Free float (%)	42.9
Issued shares (m)	409
Market capitalisation	SGD139.0M USD107M

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 (%)	5	1	1
Relative to index (%)	2	(3)	(6)

Source: FactSet

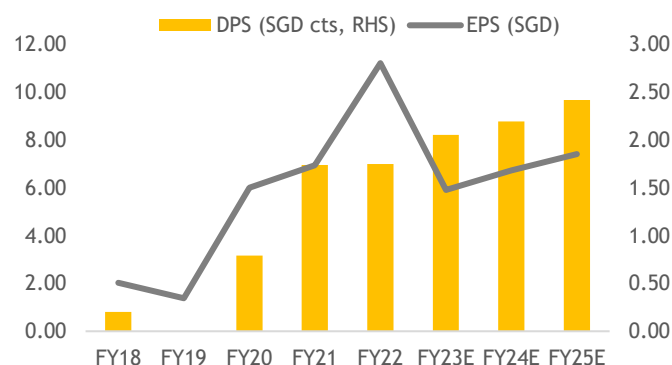
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Value Proposition

- 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.

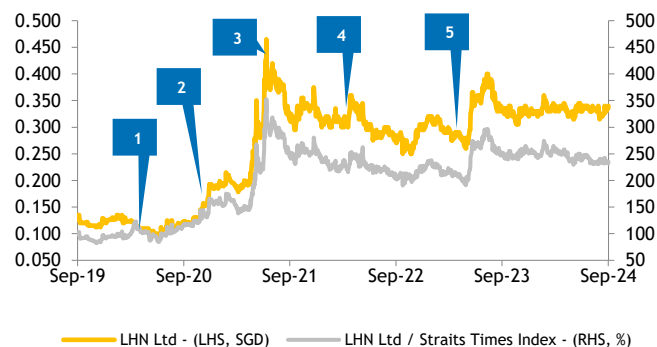
EPS and DPS trend



Source: Company

Price Drivers

Historical share price trend



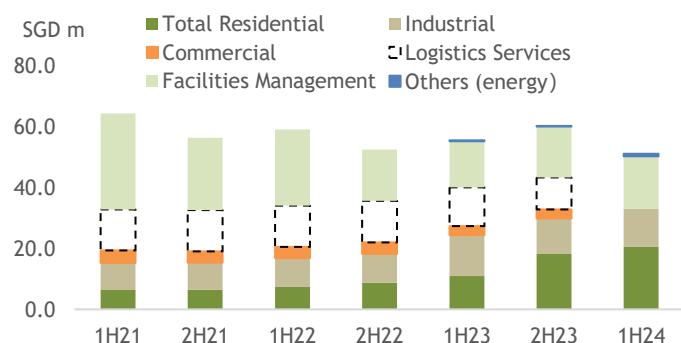
Source: Company, Maybank IBG Research

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 1H24 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 1H24 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

- Delay in pipeline.
- 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 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).

Business updates

Fig 1: Total number of keys

Lodging	Co-living (Singapore projects)		85 SOHO (Overseas projects)		Total
	Master Lease	Owned / JV	Master Lease	Owned / JV	
Sep'23 (4Q'23)	1387	294	275	108	2064
Dec'23 (1Q'24)	1408	362	275	108	2153
Mar'24 (2Q'24)	1789	362	275	108	2534
Jun'24 (3Q'24)	1851	550	275	108	2784
Change QoQ	62	188	0	0	250

Source: Company, Maybank IBG Research

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	3.3	5.7	5.1	4.9
Core P/E (x)	5.7	6.7	5.2	5.1	5.1
Core FD P/E (x)	5.7	7.0	5.7	5.1	4.9
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	5.9	7.4	8.8
FCF yield (%)	0.0	12.3	28.8	74.8	81.7
EV/EBITDA (x)	2.5	7.0	5.7	5.3	4.9
EV/EBIT (x)	4.0	7.4	8.8	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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