

COMPANY RESULTS

LHN (LHN SP)

1HFY24: Earnings Beat On Co-living Growth; Robust Pipeline Ahead

LHN registered 1HFY24 core earnings of S\$13m (-15% yoy), ahead of our expectations by 22% on improved co-living margins. Revenue surged 27% yoy, on the back of 91% yoy higher co-living revenue. LHN also announced a similar interim dividend of 1.0 S cents/share, translating to an annualised dividend yield of 6%. We continue to like LHN for its robust pipeline, co-living portfolio and capital recycling strategy. Maintain BUY with an unchanged target price of S\$0.40.

1HFY24 RESULTS

Year to 30 Sep (\$m)	1HFY24	1HFY23	yoy % chg	2HFY23	hoh % chg
Revenue by segments:					
Space Optimisation	20.6	10.9	88.6	12.2	2.5
Facilities Management	17.2	15.2	13.6	16.2	6.7
Energy	0.8	0.3	209.0	0.3	196.8
Corporate	0.5	0.6	(14.5)	0.7	(21.3)
Total revenue	54.5	42.9	27.2	50.8	7.5
Gross profit*	34.8	25.6	36.0	32.4	7.4
Gross profit margin* (%)	63.8	59.7	+4.1ppt	63.8	n.m.
Core profit*	13.0	15.2	(14.6)		

Source: LHN, UOB Kay Hian. *Excludes discontinued operations, namely its 84.05%-owned subsidiary, LHN Logistics

RESULTS

- Earnings above expectations; higher-than-expected co-living margins.** LHN reported 1HFY24 revenue and core profit of S\$55m (+89% yoy, +3% hoh) and S\$13m (-15% yoy), making up 51%/72% of our full-year estimates respectively. Robust revenue growth was driven by co-living revenue, which almost doubled yoy to S\$20m. Co-living PBT margins also jumped 17ppt yoy to 45%, on the back of high occupancy rates and stable rental rates. This has contributed to the better-than-expected earnings.
- Co-living was the main revenue growth driver**, attributable to: a) new co-living spaces like 298 River Valley, b) full-period contributions from existing co-living spaces like 2 Mount Elizabeth Link and Lavender Collection, and c) higher rental rates from other co-living spaces. The number of keys surged 28% yoy to 2,151, while overall occupancy rate remained high at 92% (FY23: 95%) from strategic positioning of its properties. Facilities management revenue rose 14% yoy on more facilities management services and a greater number of carparks secured in 4QFY23, while energy business revenue tripled yoy from more solar panel projects. These were offset by lower industrial (-3% yoy) and commercial (-5% yoy) property revenues, due to the expiry of three master leases in FY23.
- Interim dividend proposed.** Management has proposed a similar interim dividend of 1.0 S cents/share (1HFY23: 1.0 S cents/share).

KEY FINANCIALS

Year to 30 Sep (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	84	94	113	122	132
EBITDA	37	39	36	40	43
Operating profit	17	19	25	27	29
Net profit (rep./act.)	47	40	23	29	32
Net profit (adj.)	20	16	24	25	27
EPS (S\$ cents)	4.8	3.9	5.7	6.0	6.3
PE (x)	6.8	8.6	5.8	5.5	5.2
P/B (x)	0.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	7.4	7.0	7.6	6.9	6.3
Dividend yield (%)	5.3	9.1	7.6	8.2	9.1
Net margin (%)	56.2	42.9	20.7	23.4	24.0
Net debt/(cash) to equity (%)	58.3	58.6	57.1	48.2	39.1
Interest cover (x)	8.2	4.4	3.6	4.0	4.1
ROE (%)	28.6	20.0	10.5	12.0	12.4
Consensus net profit	-	-	25	29	29
UOBKH/Consensus (x)	-	-	0.93	0.88	0.93

Source: LHN, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.33
Target Price	S\$0.40
Upside	+21.9%

COMPANY DESCRIPTION

LHN Group is an integrated real estate management service company with a market-leading position in the co-living space.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	LHN:SP
Shares issued (m):	418.3
Market cap (S\$m):	138.0
Market cap (US\$m):	102.4
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low S\$0.388/S\$0.296

1mth	3mth	1mth	3mth	1mth
4.8	3.0	4.6	(4.2)	3.0

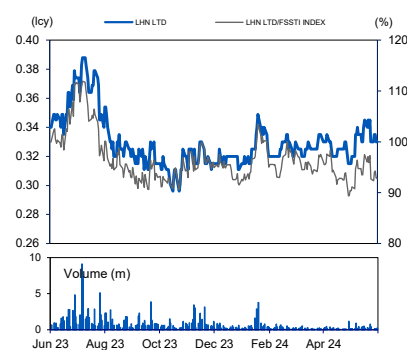
Major Shareholders

Lim Lung Tieng	54.0
-	-

FY24 NAV/Share (S\$) 0.55

FY24 Net Cash/Share (S\$) 0.31

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Value unlocking of more assets could lead to more special dividends.** LHN has a track record of buying underutilised or undervalued properties for asset enhancement initiatives, and selling them at a premium. In FY25, potential sale of the 49 food processing industrial units at 55 Tuas South can provide further disposal gains, with the Temporary Occupation Permit expected to be issued in 4QFY24. To recap, its FY23 divestments include: a) acquisition of Coliwoo Hotel Amber for S\$27m in Mar 21 and disposal of S\$47m in Nov 22, b) investment of S\$40,000 in GetGo Technologies and divestment for S\$7.9m, and c) disposal of 84.05% controlling interest in LHN Logistics for S\$31.9m. We have not factored any special dividends into our financial estimates.

- **Robust project pipeline for Coliwoo portfolio to support growth.** In 2HFY24, Coliwoo's new co-living properties, 268 & 288 River Valley, are expected to be operational. Two lodging facilities with MOH Holdings (MOHH), accommodating roughly 700 healthcare professionals, total to around 351 keys and are expected to begin operations in 2H24. For FY25, the GSM building and co-living apartments at 48 & 50 Arab Street and at 260 Upper Bukit Timah Road are expected to be launched, contributing approximately 275 keys in total. As elevated interest rates and cooling measures potentially defer property purchases, LHN is likely to benefit from boosted rental demand. We expect LHN to achieve its annual target of adding at least 800 keys to its co-living portfolio.

- **Strong operating cash flow, which has grown five-fold in five years.** LHN has a track record of growing its operating cash flow, from around S\$10m in FY18 to around S\$54m in FY23. We expect LHN's continued expansion in the co-living and industrial segments to sustain growth in operating cash flow and core earnings.

EARNINGS REVISION/RISK

- **We have raised our core earnings estimates by 30%/30%/28% for FY24/25/26 respectively**, after accounting for higher-than-expected co-living margins and LHN's upcoming co-living project launches.

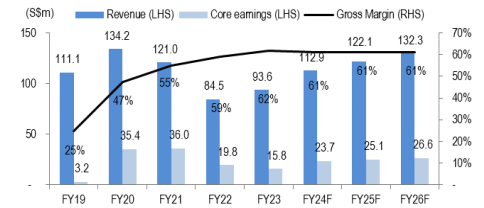
VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged PE-based target price of S\$0.40.** We have rolled over our base year to FY25F, pegged to 7x FY25F PE based on its long-term historical mean PE. We like LHN for its attractive dividend yield of 7.6%, with its leading market share in the co-living space and strong expansion pipeline.

SHARE PRICE CATALYST

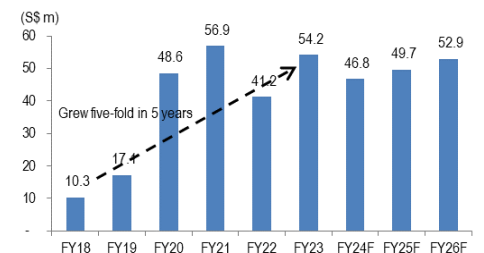
- Divestment of 55 Tuas South and other assets.
- Higher-than-expected growth in co-living keys and occupancy rates.

REVENUE, CORE EARNINGS AND GROSS MARGIN



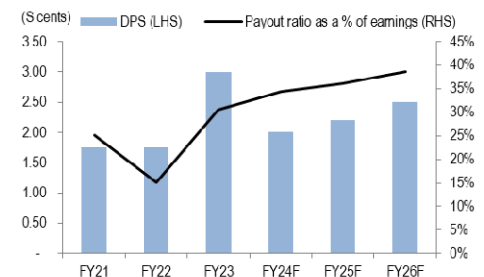
Source: LHN, UOB Kay Hian

OPERATING CASH FLOW HAS GROWN FIVE-FOLD IN FIVE YEARS



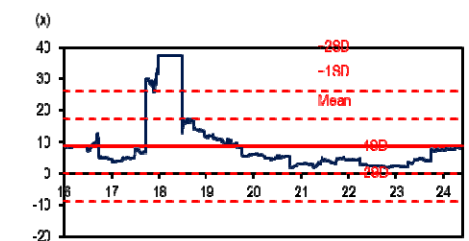
Source: LHN, UOB Kay Hian

DPS AND DIVIDEND PAYOUT RATIO



Source: LHN, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	93.6	112.9	122.1	132.3
EBITDA	39.2	36.1	39.6	43.1
Deprec. & amort.	20.1	11.0	12.6	13.8
EBIT	19.1	25.0	27.1	29.3
Total other non-operating income	11.0	9.5	13.4	15.1
Associate contributions	1.7	5.0	5.2	5.4
Net interest income/(expense)	(8.9)	(10.0)	(10.0)	(10.5)
Pre-tax profit	22.9	29.5	35.6	39.3
Tax	(4.1)	(4.1)	(5.0)	(5.5)
Minorities	21.3	(2.0)	(2.0)	(2.0)
Net profit	40.2	23.3	28.6	31.8
Net profit (adj.)	15.7	23.7	25.1	26.5

CASH FLOW

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

BALANCE SHEET

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

KEY METRICS

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

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