

INITIATE COVERAGE

LHN (LHN SP)

Market Leader In Co-living Space; Upside From More Value Unlocking

LHN has established itself as the market leader in the newly-emerged co-living space in Singapore with a 32% market share and a robust growth pipeline. Demand for co-living space is expected to be driven by recovering foreign demand. We expect an about 70% increase in the number of co-living keys to drive LHN's FY23 core earnings by 46% yoy. More value unlocking activities after the divestment of the logistics business may lead to higher special dividends. Initiate coverage with BUY. Target price: S\$0.55.

INITIATE COVERAGE

- Real estate management group with market-leading position in the co-living space.** In 1HFY23, LHN derived the majority (75%) of its PBT from the space optimisation business, which focuses on recycling under-utilised properties through the acquisition and master leasing of commercial, industrial and residential properties. LHN entered the co-living space in 2019 and has become the market leader in Singapore with a 32% market share. As of 1HFY23, it owned and subleased 17 properties under the Coliwoo brand, with a total of 1,678 keys.
- Consumer demand remains strong in co-living segment.** Coliwoo caters to a diverse group of tenants such as freelancers, expatriates, exchange students, medical tourists and younger Singaporeans. Despite competing with established peers such as Ascott's Lyf and Cove, Coliwoo stands out with its ability to offer affordable accommodations in good locations with a full suite of room amenities. This is also evidenced by Coliwoo's strong occupancy rates of 96.7% as of 1HFY23, despite the monthly rental of S\$2,900 to S\$5,800 per room.
- Coliwoo expected to drive FY23 core earnings by 46% yoy from 70% increase in number of new keys** LHN's growth strategy is to expand its current property portfolio through master leases and acquisitions, and targets to add around 800 keys per year for the next three years. LHN's FY21/FY22 earnings of S\$6.5m/S\$3.5m from Coliwoo are made up of 976/1,602 keys respectively and the keys will increase by about 700 keys (+44% yoy) by end-FY23. As new keys will take 6-9 months to reach steady state, we expect Coliwoo's FY24/FY25 earnings to grow 211%/76% yoy to S\$11.0m/S\$19.4m respectively. This will likely lift LHN's FY23 core earnings by 46% yoy to S\$25m.
- Initiate coverage with BUY and a target price of S\$0.55**, pegged to 9x FY23F PE (based on long-term mean PE). We think that LHN's current valuation of 6x FY24F PE and dividend yield of 6.3% are attractive, given the group's leading market share in the co-living space, robust expansion pipeline and strong EPS growth.

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KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	121.0	111.8	123.2	125.1	146.3
EBITDA	50.9	37.9	37.4	44.1	50.0
Operating profit	32.0	17.4	25.8	29.4	34.4
Net profit (rep./act.)	28.0	45.8	52.1	32.5	36.1
Net profit (adj.)	36.0	17.1	24.9	27.5	31.1
EPS (S\$ cents)	8.9	4.2	6.1	6.7	7.6
PE (x)	4.1	8.7	6.0	5.4	4.8
P/B (x)	1.0	0.8	0.7	0.6	0.5
EV/EBITDA (x)	4.5	6.1	6.1	5.2	4.6
Dividend yield (%)	4.8	4.8	6.3	6.8	7.4
Net margin (%)	23.2	41.0	42.3	26.0	24.7
Net debt/(cash) to equity (%)	44.3	58.3	31.5	25.1	14.6
Interest cover (x)	10.5	7.7	4.1	4.4	4.5
ROE (%)	21.0	27.6	25.1	13.5	13.7
Consensus net profit	-	-	29	32	-
UOBKH/Consensus (x)	-	-	0.86	0.85	-

Source: LHN, Bloomberg, UOB Kay Hian

BUY

Share Price	S\$0.365
Target Price	S\$0.55
Upside	+50.6%

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):	408.9
Market cap (S\$m):	149.3
Market cap (US\$m):	110.0
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low S\$0.375/S\$0.250

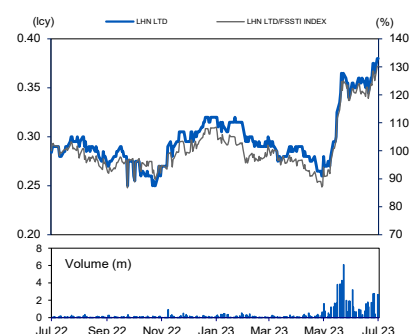
1mth	3mth	1mth	3mth	1mth
2.8	28.1	14.1	28.7	14.1

Major Shareholders

Lim Lung Tieng	54.0
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FY23 NAV/Share (S\$)	0.56
FY23 Net Cash/Share (S\$)	0.18

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Value unlocking of more assets and moving to an asset-light model...** In the 1HFY23 results press release, LHN highlighted that it is exploring options to further enhance shareholder value and is considering capital recycling to move towards an asset-light model. On 9 Jun 23, LHN received an offer to take over its 84%-owned subsidiary LHN Logistics. This is expected to generate a disposal gain of S\$21m and cash proceeds of S\$32m (21% of LHN's market cap).
- ...could lead to more special dividends.** LHN owns 12 properties, estimated to be worth S\$178m as of FY22, which could be divested to unlock more value. We believe this will be supported by LHN's track record in buying underutilised or undervalued properties for asset enhancement initiatives, and selling them for a premium. Notable divestment successes include: a) acquisition of Coliwoo Hotel Amber for S\$27m in Mar 21 and disposal for S\$47m in Nov 22, and b) investment of S\$40,000 in GetGo Technologies and divestment for S\$7.9m in Sep 22. In the nearer term, potential divestment of the 540-lot Golden Mile Tower carpark and strata unit sale of food processing industrial building at 55 Tuas South can provide further disposal gains. We have not factored any special dividend into our financial estimates.
- Strong operating cash flow, which has grown four-fold in four years.** LHN has a track record of growing its operating cash flow, from around S\$10m in FY18 to around S\$41m in FY22. Excluding FY21, where LHN's facility segment enjoyed a one-off boost from the dormitory management business, as the segment's revenue doubled yoy to S\$40m, LHN has grown its operating cash flow by four-fold, from S\$10m in FY18 to S\$41m in FY22. 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

- Revenue and core earnings growth to be driven by expansion in co-living segment.** For FY23-25, we estimate total revenue at S\$123.2m-146.3m (CAGR of 9%) and core earnings at S\$24.9m-31.2m (CAGR of 22%). Excluding one-off gains of S\$29m in FY23, this will drive earnings growth of 46%/10%/13% for FY23/24/25 respectively. In addition, we expect revenue growth from the co-living and industrial segments in FY24 to more than offset the loss of revenue from the logistics segment after the completion of disposal in end-FY23.

VALUATION/RECOMMENDATION

- Initiate coverage with BUY and a target price of S\$0.55**, pegged to 9x FY23F PE, based on its long-term historical average PE. We think LHN deserves a re-rating vs its own historical valuation band, as it is shifting towards a more sustainable and scalable revenue model that relies more heavily on the space optimisation areas (including the co-living, industrial and commercial segments). We also like LHN for its attractive dividend yield of 6.3%, with its leading market share in the co-living space, robust expansion pipeline and strong EPS growth.

SHARE PRICE CATALYST

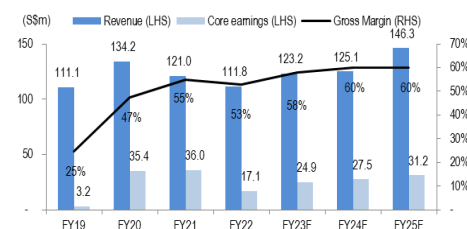
- Divestment of subsidiary LHN Logistics or other assets.
- Higher-than-expected growth in co-living keys.

PEER COMPARISON

Company	Ticker	Price @ 30-Jun-23 (lcy)	Market Cap (US\$m)	PE			P/B		Yield		ROE	ROE
				2022 (x)	2023 (x)	2024 (x)	2022 (x)	2023 (x)	2022 (%)	2023 (%)	2022 (%)	2023 (%)
Hotel Properties	HPL SP	3.87	1,491	30.6	22.8	19.4	1.23	1.18	1.0	2.1	3.9	5.1
Capitaland Ascott T	CLAS SP	1.08	2,764	17.2	18.9	18.9	0.94	0.94	5.3	5.6	4.8	4.2
Cdl Hosp	CDREIT SP	1.22	1,121	7.0	19.1	17.4	0.85	0.85	4.6	5.5	12.6	4.1
Far East Hosp	FEHT SP	0.63	930	6.1	18.5	17.5	0.70	0.69	5.2	6.0	11.8	3.7
Frasers Hosp	FHT SP	0.47	669	15.5	23.5	20.4	0.73	0.75	3.5	5.7	4.7	2.7
Average				15.3	20.6	18.7	0.9	0.9	3.9	5.0	7.6	4.0
LHN	LHN SP	0.365	110	3.3	5.1	4.6	0.80	0.68	4.8	6.3	27.6	14.4

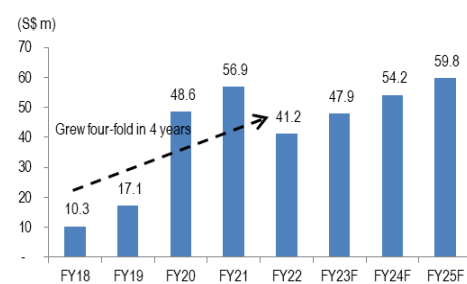
Source: Bloomberg, UOB Kay Hian

REVENUE, CORE EARNINGS AND GROSS MARGIN



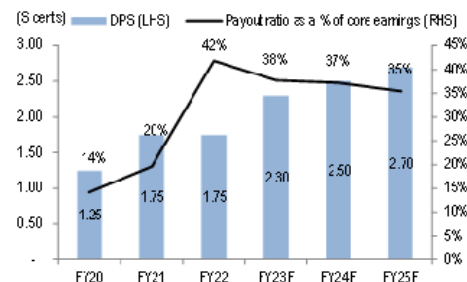
Source: LHN, UOB Kay Hian

OPERATING CASH FLOW HAS GROWN FOUR-FOLD IN FOUR YEARS



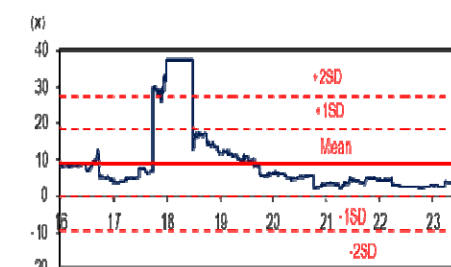
Source: LHN, UOB Kay Hian

DPS AND DIVIDEND PAYOUT RATIO



Source: LHN, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	111.8	123.2	125.1	146.3
EBITDA	37.9	37.4	44.1	50.0
Deprec. & amort.	20.5	11.6	14.7	15.6
EBIT	17.4	25.8	29.4	34.4
Total other non-operating income	24.1	42.2	17.2	17.4
Associate contributions	16.5	2.6	2.6	2.6
Net interest income/(expense)	(4.9)	(9.2)	(10.0)	(11.0)
Pre-tax profit	53.0	61.5	39.2	43.3
Tax	(5.5)	(7.4)	(4.7)	(5.2)
Minorities	(1.7)	(2.0)	(2.0)	(2.0)
Net profit	45.8	52.1	32.5	36.1
Net profit (adj.)	17.1	24.9	27.5	31.1

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	41.2	47.9	54.2	59.8
Pre-tax profit	53.0	61.5	39.2	43.4
Tax	(5.0)	(7.4)	(4.7)	(5.2)
Deprec. & amort.	20.5	11.6	14.7	15.6
Associates	(16.5)	(2.6)	(2.6)	(2.6)
Working capital changes	(1.4)	0.0	0.0	0.0
Non-cash items	(14.2)	(24.4)	(2.4)	(2.4)
Other operating cashflows	4.8	9.2	10.0	11.0
Investing	(36.2)	7.2	(25.0)	(15.0)
Capex (growth)	(56.4)	(20.0)	(30.0)	(20.0)
Investments	(3.6)	0.0	0.0	0.0
Proceeds from sale of assets	0.1	27.2	5.0	5.0
Others	23.7	0.0	0.0	0.0
Financing	(2.1)	(18.6)	(20.2)	(22.0)
Dividend payments	(7.1)	(9.4)	(10.2)	(11.0)
Issue of shares	5.0	0.0	0.0	0.0
Proceeds from borrowings	70.8	0.0	0.0	0.0
Loan repayment	(23.8)	0.0	0.0	0.0
Others/interest paid	(47.0)	(9.2)	(10.0)	(11.0)
Net cash inflow (outflow)	2.9	36.4	9.0	22.7
Beginning cash & cash equivalent	36.8	39.7	76.2	85.2
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	39.7	76.2	85.2	107.9

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	306.6	315.0	330.3	334.7
Other LT assets	62.2	62.1	62.1	62.1
Cash/ST investment	39.7	76.2	85.2	107.9
Other current assets	60.3	60.3	60.3	60.3
Total assets	468.9	513.6	537.9	565.0
ST debt	19.3	19.3	19.3	19.3
Other current liabilities	71.4	71.4	71.4	71.4
LT debt	128.9	128.9	128.9	128.9
Other LT liabilities	57.2	57.2	57.2	57.2
Shareholders' equity	185.9	228.6	250.9	276.0
Minority interest	6.3	8.3	10.3	12.3
Total liabilities & equity	468.9	513.6	537.9	565.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	33.9	30.4	35.3	34.2
Pre-tax margin	47.4	49.9	31.3	29.6
Net margin	41.0	42.3	26.0	24.7
ROA	10.7	10.6	6.2	6.6
ROE	27.6	25.1	13.5	13.7
Growth				
Turnover	(7.6)	10.2	1.6	16.9
EBITDA	(25.6)	(1.1)	17.8	13.3
Pre-tax profit	54.8	16.0	(36.3)	10.7
Net profit	63.4	13.7	(37.7)	11.3
Net profit (adj.)	(52.5)	45.8	10.2	13.4
EPS	(53.0)	45.8	10.2	13.4
Leverage				
Debt to total capital	43.5	38.5	36.2	33.9
Debt to equity	79.7	64.8	59.1	53.7
Net debt/(cash) to equity	58.3	31.5	25.1	14.6
Interest cover (x)	7.7	4.1	4.4	4.5

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