

COMPANY UPDATE

LHN (LHN SP)

Embarking On New Plans To Drive Growth Trajectory

LHN has marked its foray into operating accommodations for healthcare professionals, which will further expand its co-living portfolio. While Coliwoo's growth has been anchored by a slew of new openings in Singapore, it is now preparing to venture into Indonesia as well. We continue to like LHN for its growth momentum across all its business segments and strength in capital recycling initiatives. Maintain BUY with an unchanged target price of S\$0.40.

WHAT'S NEW

- **High occupancy maintained for co-living portfolio in 1QFY24...** As of 1QFY24, LHN has 2,153 keys (FY23: 2,064 keys) across its local Coliwoo and overseas 85 SOHO projects. Overall occupancy rates remained high at over 90%, including Coliwoo's latest portfolio addition at 404 Pasir Panjang. Its 15th co-living asset, Coliwoo Hotel Pasir Panjang, was launched in Dec 23 and had already achieved over 60% occupancy two weeks into operations. The strong occupancy rate is mainly attributable to Coliwoo's strategically-positioned properties within the city fringe that are highly accessible, offering fully furnished units and affordable short- to long-term stays.
- **...and new MOH contract clinched will further strengthen its portfolio.** In Jan 24, LHN secured a contract with MOH Holdings (MOHH) to design, retrofit and operate two lodging facilities for healthcare professionals. The facilities – 100 Ulu Pandan Road and 60 Boundary Close – will accommodate approximately 700 healthcare professionals, and are expected to be operational in 2H24. We note that LHN won two out of five tenders launched in Aug 23, with the remaining three awarded to a JV between The Assembly Place and the TS Group. According to MOHH, another 11 sites may be put up for tender upon assessment of the initial five sites' operations. With the hostels adopting a co-living, hostel-type accommodation concept, LHN's expertise could lend it a competitive advantage.
- **Continued growth across other business segments.** Besides its space optimisation business, LHN also has facilities management and energy businesses that are seeing expansion. In 1QFY24, LHN managed to win 24 new facilities management contracts, providing services including cleaning, pest control and fumigation. It also expanded its carpark management to 80 in Singapore and two in Hong Kong (FY23: 79 in Singapore, one in Hong Kong), totalling over 26,800 lots. As for its energy business, as a core part of LHN's sustainability effort, it has secured seven solar energy contracts with an aggregate capacity of approximately 1.7 megawatts of renewable energy and installed three new electric vehicle (EV) charging stations in 1QFY24. To recap, LHN Energy had completed nine solar projects and operated 14 EV charging stations in FY23. In our view, LHN is likely to maintain its growth momentum across all its segments.

KEY FINANCIALS

Year to 30 Sep (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	84	94	106	120	132
EBITDA	37	39	31	33	37
Operating profit	17	19	20	21	23
Net profit (rep./act.)	47	40	24	25	26
Net profit (adj.)	20	17	18	19	21
EPS (\$ cents)	4.8	4.3	4.4	4.7	5.1
PE (x)	6.9	7.8	7.6	7.1	6.6
P/B (x)	0.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	7.3	6.9	8.8	8.1	7.4
Dividend yield (%)	5.2	9.0	6.0	6.6	7.5
Net margin (%)	56.2	42.9	22.4	20.7	19.9
Net debt/(cash) to equity (%)	58.3	58.6	55.3	47.5	40.0
Interest cover (x)	8.2	4.4	3.1	3.3	3.5
ROE (%)	28.6	20.0	10.6	10.4	10.3
Consensus net profit	-	-	22	24	24
UOBKH/Consensus (x)	-	-	0.83	0.79	0.87

Source: LHN, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.335
Target Price	S\$0.400
Upside	+19.4%

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 (\$m):	137.0
Market cap (US\$m):	101.9
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

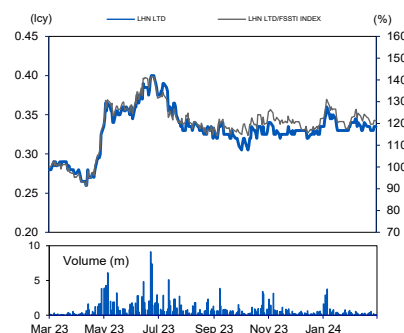
52-week high/low S\$0.400/S\$0.260

1mth	3mth	6mth	1yr	YTD
0.0	3.1	1.5	19.6	1.5

Major Shareholders

	%
Lim Lung Tieng	54.0
FY24 NAV/Share (\$)	0.57
FY24 Net Cash/Share (\$)	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. 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. In the nearer term, potential strata unit sale of the food processing industrial building at 55 Tuas South can provide further disposal gains in FY25, with the expected Temporary Occupation Permit dated 31 Aug 24. We have not factored any special dividend into our financial estimates.
- **Robust project pipeline under space optimisation business; eyeing Indonesia for growth.** Coliwoo has plans to further expand its footprint, with 2024 openings scheduled at 48 & 50 Arab Street and 288 River Valley. These properties are expected to contribute around 26 and 39 keys and commence operations in 2HFY24 and 4QFY24 respectively. On top of this, LHN's tender application for the GSM building has been approved on 9 Feb 24. This is estimated to contribute another 187 keys to its portfolio in FY25. We note that LHN has achieved its target of adding at least 800 rooms in FY23, and continues to maintain this goal for FY24. Additionally, the company plans to rebrand 85 SOHO, its overseas counterpart in Cambodia and China, to Coliwoo and expand the brand into Jakarta, Indonesia. With the rising popularity of co-living spaces due to Jakarta's high cost of living and lack of affordable housing options, LHN sees growth opportunity in the world's fourth-most populated country.
- **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

- None.

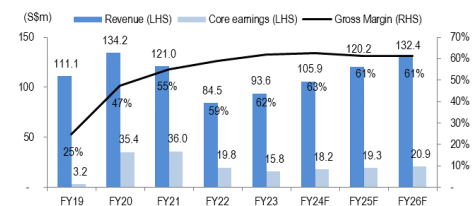
VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged PE-based target price of S\$0.40**, pegged to 9x FY24F PE, based on its long-term historical average PE. We like LHN for its attractive dividend yield of 6.0%, with its leading market share in the co-living space and steady expansion pipeline.

SHARE PRICE CATALYST

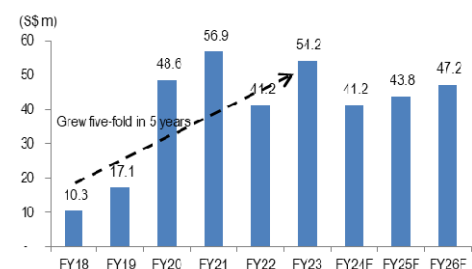
- Divestment of 55 Tuas South and other assets that may lead to special dividends.
- Higher-than-expected growth in co-living keys and occupancy rates.

REVENUE, CORE EARNINGS AND GROSS MARGIN



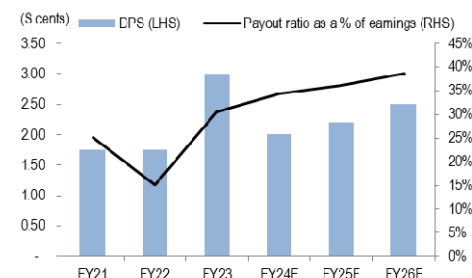
Source: LHN, UOB Kay Hian

OPERATING CASH FLOW HAS GROWN FIVE-FOLD IN FIVE YEARS



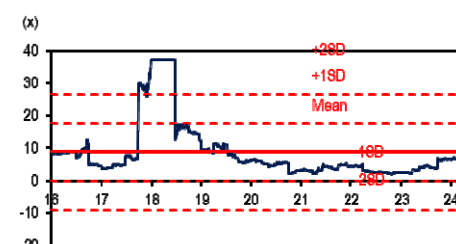
Source: LHN, UOB Kay Hian

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	105.9	120.2	132.4
EBITDA	39.2	30.6	33.2	36.6
Deprec. & amort.	20.1	11.0	12.6	13.8
EBIT	19.1	19.5	20.6	22.7
Total other non-operating income	11.0	17.2	17.4	17.6
Associate contributions	1.7	3.2	3.2	3.2
Net interest income/(expense)	(8.9)	(10.0)	(10.0)	(10.5)
Pre-tax profit	22.9	29.9	31.2	33.0
Tax	(4.1)	(4.2)	(4.4)	(4.6)
Minorities	21.3	(2.0)	(2.0)	(2.0)
Net profit	40.2	23.7	24.8	26.4
Net profit (adj.)	15.7	18.1	19.2	20.8

CASH FLOW

Year to 30 Sep (\$\$m)	2023	2024F	2025F	2026F
Operating	34.2	41.2	43.8	47.2
Pre-tax profit	44.3	30.0	31.3	33.1
Tax	(4.1)	(4.2)	(4.4)	(4.6)
Deprec. & amort.	20.1	11.0	12.6	13.8
Associates	(2.9)	(3.2)	(3.2)	(3.2)
Working capital changes	13.4	0.0	0.0	0.0
Non-cash items	(23.8)	(2.4)	(2.4)	(2.4)
Other operating cashflows	(12.8)	10.0	10.0	10.5
Investing	(13.0)	(24.4)	(14.4)	(14.4)
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	5.6	5.6	5.6
Others	22.2	0.0	0.0	0.0
Financing	(19.2)	(18.2)	(19.0)	(20.7)
Dividend payments	(8.1)	(8.2)	(9.0)	(10.2)
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	(1.4)	10.4	12.1
Beginning cash & cash equivalent	39.7	41.6	40.2	50.6
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	41.6	40.2	50.6	62.7

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	40.2	50.6	62.7
Other current assets	96.2	96.2	96.2	96.2
Total assets	554.1	571.7	589.6	607.8
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	231.8	247.7	263.9
Minority interest	1.9	3.9	5.9	7.9
Total liabilities & equity	554.1	571.7	589.6	607.8

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	41.8	28.9	27.6	27.6
Pre-tax margin	24.5	28.3	26.0	25.0
Net margin	42.9	22.4	20.7	19.9
ROA	7.9	4.2	4.3	4.4
ROE	20.0	10.6	10.4	10.3
Growth				
Turnover	10.9	13.1	13.5	10.2
EBITDA	5.9	(22.0)	8.5	10.2
Pre-tax profit	(58.4)	30.5	4.3	5.9
Net profit	(15.4)	(40.9)	4.6	6.3
Net profit (adj.)	(20.4)	15.2	6.1	8.2
EPS	(20.4)	15.2	6.1	8.2
Leverage				
Debt to total capital	43.6	41.7	39.9	38.2
Debt to equity	77.8	72.6	67.9	63.8
Net debt/(cash) to equity	58.6	55.3	47.5	40.0
Interest cover (x)	4.4	3.1	3.3	3.5

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