



LHN Limited

(LHN SP/LHNL.SI)

FY22 set to outshine FY21

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- **Bottom-line growth.** Even though LHN's FY21 (YE 30 Sep 21) revenue declined 9.9% YoY to S\$121mn, net profit increased 16.9% YoY to S\$28.9mn.
- **Upgraded FY22 portfolio.** The 4 residential properties acquired in FY21 and 1 residential property acquired in 1QFY22 are expected to commence operations in FY22. These 5 properties will add a total of approximately 204 keys to LHN's Residential segment. In addition, full year revenue contribution is expected from the 2 newly acquired JV properties under the Industrial segment.
- **Prime area lease: Mount Elizabeth.** Through LHN's subsidiary Erinite Properties, the company has entered into a lease agreement with Eastern Realty for the Mount Elizabeth property, which is due to commence operations at the end of 2022. Approximately 400 keys would be added.
- **Potential spin-off.** LHN has proposed to spin-off and separate the listing of LHN Logistics on the Catalist board of SGX.
- We maintain an **OUTPERFORM** recommendation but revised our TP down to S\$0.44 based on a lower EPS and an unchanged 6.0x FY22F P/E.

Financials & Key Operating Statistics					
YE Sep (S\$'000)	2020	2021	2022F	2023F	2024F
Revenue	134,213	120,977	126,669	136,641	142,437
PATMI	24,144	28,063	29,313	32,040	33,625
EPS (cents)	6.00	6.94	7.25	7.93	8.32
EPS growth (%)		15.7	4.5	9.3	4.9
P/E (x)	5.0	4.3	4.1	3.8	3.6
DPS (Sing cents)	1.25	1.75	1.71	1.87	1.96
Div Yield (Y%)	4.2%	5.8%	5.7%	6.2%	6.5%
Net Profit Margin (%)	18.4%	23.9%	23.1%	23.4%	23.6%
Net Gearing (%)	22.9%	43.6%	27.1%	7.1%	(9.0%)
P/B (x)	1.0	0.8	0.7	0.6	0.5
ROE (%)	20.0%	19.5%	17.2%	16.4%	15.2%

Source: Company data, KGI Research

FY21 financials. LHN's FY21 revenue declined 9.9% YoY to S\$121mn, while net profit rose 16.9% YoY to S\$28.9mn. This was mainly due to better gross margins (FY20: 47.4%, FY21: 55%), increase in share of results of associates and JVs and the disposal of loss-making sites under the Industrial segment. This resulted in the improvement of net profit margin from 18% in FY20 to 23.2% in FY21. In terms of segmental revenue, Logistics and Facilities Management outperformed, increasing 7.8% and 40.1% respectively. On the other hand, Industrial, Commercial and Residential segment declined 34.3%, 50.4% and 51.8% respectively.

Hot spot: Mount Elizabeth. On 29 November, Erinite Properties, an indirect wholly-owned subsidiary of the company, had entered into a lease agreement with Eastern Realty for the Mount Elizabeth property. It would operate as a mixed development and is due to commence operations at the end of 2022, thereby contributing mostly to FY23's revenue.

Outperform - Maintain			
Price as of 22 Dec 21 (SGD)	0.30	Performance (Absolute)	
12M TP (\$)	0.44	1 Month (%)	-8.8
Previous TP (\$)	0.49	3 Month (%)	4.9
Upside, incl div (%)	50.7	12 Month (%)	80.4
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	122		
Issued Shares (mn)	415		
Vol - 3M Daily avg (mn)	0.9		
Val - 3M Daily avg (\$mn)	0.3		
Free Float (%)	45.8		
Major Shareholders		Previous Recommendations	
Hean Nerng Group	53.2%	28-Sep-21	OP S\$ 0.49

Industrial segment: Heavyweights are removed. Even though Industrial segment revenue declined 34.3% YoY to S\$17.7mn in FY21, the segment generated profits of S\$10.9mn, a turnaround from its loss-making position in FY20. Bottom-line improved mainly due to net fair value gains from JV properties and the disposal of loss-making sites such as 10 to 40 Tuas. On the other hand, top-line was impacted by the derecognition of revenue due to the expiry of 4 leases. Moving forward into FY22, we expect full year revenue contribution from the 2 newly acquired JV properties, namely 202 Kallang Bahru and 55 Tuas South Avenue 1, which would accelerate the segment's net profit growth.

Residential segment: Strength in Coliwoo. Residential segment revenue is broken up into 3 streams: Co-living, 85 SOHO, as well as dormitory set-up and retrofit. Revenue from the overall segment declined 51.8% YoY to S\$13.0mn in FY21, mainly attributable to dormitory set-up and retrofit, which plunged 99.7% to S\$42k in FY21. LHN's dormitory income is split into 2 segments, where monthly recurring management fees are recorded under the Facilities segment while one-time dormitory set up and retrofit fees upon new tenders are recorded under the Residential segment. The company managed to clinch new tenders in FY20 which resulted in a high base. Disregarding dormitory set up and retrofit, Residential segment revenue under co-living increased 19.2% YoY to S\$13mn in FY21.

Valuation & Action: We maintain LHN with an Outperform recommendation but revised our TP down to S\$0.44 based on a lower EPS. Our TP is based on an unchanged 6.0x FY22F P/E.

Risks: The uncertainty of Covid-19; bottom-line sensitive to fair value gains/losses which are largely fluctuating; higher construction and operating costs.

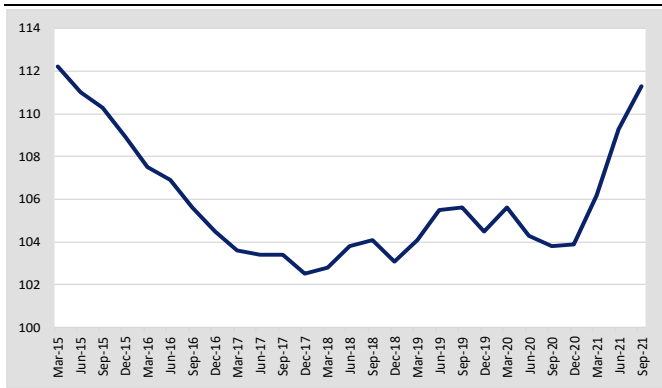
Sky-high private property rents remain a push factor. The Private Residential property index continued to rise and gained 1.8% QoQ to 111.3 in September. LHN’s Residential segment under co-living is expected to continue to benefit from rising private property rent prices, with expectations that expats increasingly pivot towards co-living spaces as an alternative form of housing. Co-living spaces are cheaper, more compact and have more flexible leasing terms. Currently, approximately 70% occupancy is made up of foreigners while the remaining are locals.

Amidst Covid-19 woes and border restrictions, the occupancy rate of LHN’s key property portfolios is at 99.5% as of FY21. Moving forward into FY22, the 4 residential properties acquired in FY21, namely 40/42 Amber Road (JV), 115 Geylang, 75 Beach Road and 320 Balestier Road are expected to commence operations. In addition, 471 Balestier (JV) acquired in 1QFY22 is also expected to commence operations. Coupled with the rising trend in locals moving out of their homes, as well as the push factor from rising private property rents, FY22’s Residential segment is set to outperform FY21.

Facilities management segment: The winner in FY21. LHN’s Facilities Management segment revenue surged 40.1% YoY, mainly due to the net addition of 33 carparks. The bulk of the segment’s revenue comes from carpark management, while dormitory management makes up approximately 20%. Buoyed by a steady flow of recurring income from dormitory management and the constant acquisition of carparks serving as a growth catalyst, the Facilities Management segment is set to be another growth driver for the company.

In addition, LHN carparks are equipped with EV charging points, which completes the package as a one-stop solution for EV cars. The company is also planning to build more charging stations in their carparks and in the long-term as EV cars gain a stronger foothold in Singapore, LHN would be the pioneer in this space.

Figure 1: Property Rental Index: Private Residential (PR)



Source: Bloomberg

Forecasts

Revenue and cost of sales. Previously, we have forecasted FY21 revenue to be S\$135.4mn, a YoY increase of 0.9%. However, actual revenue fell short of expectations and declined 9.9% YoY. We thus lower our forecasted FY22F revenue to S\$126.7mn, which represents a YoY increase of 4.7% to FY21A revenue.

Residential segment revenue has been adjusted to reflect the 5 properties due to commence operations in FY22, namely 40/42 Amber Road (JV), 115 Geylang, 75 Beach Road, 471 Balestier (JV) and 320 Balestier. Out of the 204 keys expected to be added to FY22's residential portfolio, a total of approximately 105 keys are expected to contribute to revenue while the rest pertain to JV properties thereby contributing to bottom-line. We used revenue/key for actual FY21 Residential segment revenue to extrapolate FY22's forecast.

We did not forecast the share of results of associates and JVs but it should see a decent gain from FY21 given the added contribution from the 2 residential properties, 40/42 Amber Road and 471 Balestier, as well as 2 newly acquired JV properties, 202 Kallang Bahru and 55 Tuas South Avenue 1 under the Industrial segment.

For the other segments, we maintained the same growth rate, with Logistics and Facilities Management at 5% and Industrial and Commercial relatively flat at 1%. Similarly, for FY23, we used the same revenue/key model to include revenue contribution from the Mount Elizabeth property. Gross profit forecast for FY22 onwards has been updated to reflect FY21 gross margin of 55%.

Other income. Approximately half of LHN's other income consists of rental rebates (FY21: S\$4.5mn, FY20: S\$2.9mn) and gain from net investment in subleases (FY21: S\$4.6mn, FY20: S\$6.9mn). Rental rebates are introduced by Governments mainly to help tenants with their rental payments during the global pandemic outbreak, whereas net investment in subleases pertain to the transfer of derecognition of investment properties upon expiry of leases. We did not include the two components in our forecasted other income as they are likely not recurring.

Capex. We have included ROU capitalization of S\$11.3mn pertaining to the Mount Elizabeth lease for FY22 forecast. As for investment properties and PPE, we have used a 5% growth rate for FY23 onwards.

Summary. Based on FY21 actual results, we adjusted our FY22 revenue forecast to be 10.7% lower compared to our previous forecast, while net profit after tax forecast was adjusted 13.3% lower. Despite lowering our estimates, FY22 revenue and net profit after tax reflects a 4.7% and 4.5% YoY increase from FY21 actual results respectively.

S\$'000	Previous forecast			Updated forecast	
	2020A	2021F	2022F	2021A	2022F
Industrial	26,886	24,197	24,439	17,663	17,840
Commercial	15,606	12,485	12,610	7,735	7,812
Residential	26,985	24,287	26,715	12,998	14,307
Logistics	25,185	26,948	28,295	27,162	28,520
Facilities management	39,551	47,461	49,834	55,419	58,190
Total revenue	134,213	135,378	141,894	120,977	126,669
Cost of sales	70,570	66,322	69,514	54,426	56,987
Gross Profit	63,643	69,056	72,380	66,551	69,682
Net Profit After Tax	24,687	29,520	33,799	28,858	29,313

Valuations and peer comparison

LHN is a real estate management services group which specialises in Space Optimization, Facilities Management and Logistics Management. The company is unique in its space and has no Singapore-listed peers. Most Singapore-listed peers are in the property development business. Therefore, we used HK-listed peers as they better reflect valuation potential.

Hong Kong peers. We used HK-listed property services companies as our peers, where large-cap peers include Country Garden Services while mid-cap peers include Evergrande Property Services and Sunac Services. The 3 companies are currently trading at a 12M P/E of 32.3x, 7.4x and 20x respectively and a forward P/E of 28.3x, 6.9x and 16.7x respectively.

For LHN's valuation, we have pegged a 6.0x P/E to FY22F EPS, which represents approximately a quarter of the forward P/E average of HK-listed peers at 25.2x.

Summary: FY21 update. We have an unchanged 6.0x P/E pegged to FY22F EPS. However, we lowered our FY22 EPS forecast from 8.21 Sing Cents to 7.25 Sing Cents, given that FY21 results missed our expectations. Despite the lowered forecast, FY22F EPS still represents a 4.5% YoY increase from actual FY21A EPS of 6.94 Sing Cents.

Figure 6: Peer comparison table

Bloomberg Ticker	Company Name	Last Price (Local \$)	Currency Adj. Market Cap (Local \$'mn)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)	6M Average Daily Trading Volume (Local \$)	Price Performance (YTD)	
				FY20	FY21F		12M	Forward				Historical
LHN SP	LHN LTD	SGD 0.32	97	5.1	5.3	104.9	4.6	4.5	0.9	789	3.0	
HK Peers												
6098 HK	COUNTRY GARDEN SERVICES HOLD	47.25	20,395	0.5	0.9	-85.0	32.3	28.3	4.4	848,183	9.9	
1209 HK	CHINA RESOURCES MIXC LIFESTY	38.20	11,174	0.4	0.8	-101.3	N/A	47.3	5.5	192,604	6.3	
6666 HK	EVERGRANDE PROPERTY SERVICES	2.89	4,004	0.0	1.4	-126.6	7.4	6.9	2.2	285,610	5.7	
6049 HK	POLY PROPERTY SERVICES CO-H	55.05	3,904	0.8	1.1	-115.4	32.4	28.4	3.9	106,082	9.9	
1516 HK	SUNAC SERVICES HOLDINGS LTD	8.61	3,421	0.4	1.7	-97.9	20.0	16.7	2.2	238,868	9.8	
2669 HK	CHINA OVERSEAS PROPERTY HOLD	7.73	3,256	1.6	1.1	-166.7	31.2	27.4	10.4	60,655	1.3	
2869 HK	GREENTOWN SERVICE GROUP CO L	7.54	3,136	1.5	2.1	-43.4	22.4	21.0	2.9	79,766	20.7	
Simple average							24.3	25.2	4.5			

Source: Bloomberg

Financial Summary

S\$'000

FYE 30 September					
INCOME STATEMENT (S\$'000)	2020	2021	2022F	2023F	2024F
Revenue	134,213	120,977	126,669	136,641	142,437
Cost of sales	(70,570)	(54,426)	(56,987)	(61,473)	(64,081)
Gross Profit	63,643	66,551	69,682	75,168	78,356
Other income	17,103	15,545	6,333	6,832	7,122
Selling and Distribution expenses	(1,433)	(1,649)	(1,540)	(1,661)	(1,731)
Administrative expenses	(30,429)	(32,635)	(31,445)	(33,920)	(35,359)
Share of results of associates and joint ventures, net o	555	3,666	–	–	–
Other operating expenses	(3,183)	(759)	(1,899)	(2,049)	(2,136)
Fair value gain/(loss) on investment properties	(11,809)	(11,598)	–	–	–
Profit from operation	34,447	39,121	41,132	44,370	46,252
Net finance (expense)/income	(5,127)	(4,863)	(6,327)	(6,327)	(6,327)
Profit before income tax	29,320	34,258	34,806	38,044	39,926
Income tax expense	(4,633)	(5,400)	(5,493)	(6,004)	(6,301)
Profit	24,687	28,858	29,313	32,040	33,625
NCI	543	795	–	–	–
PATMI	24,144	28,063	29,313	32,040	33,625
BALANCE SHEET (S\$'000)	2020	2021	2022F	2023F	2024F
Cash and cash equivalents	38,446	36,786	55,142	87,453	121,308
Trade and other receivables	44,424	31,754	31,754	31,754	31,754
Other current assets	26,007	31,999	31,999	31,999	31,999
Total current assets	108,877	100,539	118,895	151,206	185,061
Property, plant and equipment	40,363	54,167	46,923	39,109	30,963
Intangible assets	40	–	–	–	–
ROU Assets	35,184	30,629	41,929	41,929	41,929
Investment properties	115,578	166,570	166,570	166,570	166,570
Other non-current assets	43,706	34,903	34,903	34,903	34,903
Total non-current assets	234,871	286,269	290,325	282,511	274,365
Total assets	343,748	386,808	409,220	433,717	459,426
Loans and borrowings	10,725	11,556	11,556	11,556	11,556
Trade and other payables	45,734	35,457	35,457	35,457	35,457
Finance/lease liabilities	33,193	37,706	37,706	37,706	37,706
Other current liabilities	4,531	4,995	4,995	4,995	4,995
Total current liabilities	94,183	89,714	89,714	89,714	89,714
Loans and borrowings	55,997	89,822	89,822	89,822	89,822
Finance/lease liabilities	66,182	54,630	54,630	54,630	54,630
Other non-current liabilities	3,806	4,359	4,359	4,359	4,359
Total non-current liabilities	125,985	148,811	148,811	148,811	148,811
Total liabilities	220,168	238,525	238,525	238,525	238,525
Unitholders' funds and reserves	123,580	148,283	170,695	195,192	220,901
Total liabilities and equity	343,748	386,808	409,220	433,717	459,426
CASH FLOW STATEMENT (S\$'000)	2020	2021	2022F	2023F	2024F
Profit before tax	29,320	34,258	34,806	38,044	39,926
Adjustments	31,618	26,142	13,571	14,141	14,472
Operating cash flows before WC changes	60,938	60,400	48,376	52,185	54,398
Change in working capital	(12,486)	1,351	–	–	–
Income tax paid	120	(4,810)	(5,493)	(6,004)	(6,301)
Interest expenses paid	(12)	(31)	–	–	–
Cash flows from operations	48,560	56,910	42,883	46,181	48,097
Additions to PPE	(22,494)	(19,999)	–	–	–
Additions to ROU	–	(147)	(11,300)	–	–
Additions to investment property	(21)	(42,397)	–	–	–
Other investing cashflow	11,997	18,410	–	–	–
Cash flows from investing activities	(10,518)	(44,133)	(11,300)	–	–
Interest paid	(5,226)	(4,759)	(6,327)	(6,327)	(6,327)
Dividends paid	(3,190)	(7,221)	(6,901)	(7,543)	(7,916)
Interest paid	–	–	–	–	–
Other financing cashflow	(11,756)	(3,127)	–	–	–
Cash flows from financing activities	(20,172)	(15,107)	(13,227)	(13,869)	(14,242)
Net increase in cash	17,870	(2,330)	18,356	32,311	33,855
Beginning Cash	21,300	39,127	36,801	55,157	87,468
Effect of exchange rate fluctuations on cash held	(43)	4	–	–	–
Ending cash	39,127	36,801	55,157	87,468	121,323
Cash in balance sheet	38,446	36,786	55,142	87,453	121,308
KEY RATIOS	2020	2021	2022F	2023F	2024F
DPS (SGD cents)	1.25	1.75	1.71	1.87	1.96
Dividend yield (%)	4.2	5.8	5.7	6.2	6.5
NAV per share (SGD cents)	30.7	36.7	42.2	48.3	54.6
Price/NAV (x)	1.0	0.8	0.7	0.6	0.5
Profitability					
Gross Margin (%)	47.4	55.0	55.0	55.0	55.0
Net Margin (%)	18.4	23.9	23.1	23.4	23.6
ROA (%)	7.2	7.5	7.2	7.4	7.3
ROE (%)	20.0	19.5	17.2	16.4	15.2
Financial Structure					
Interest Coverage Ratio (x)	6.7	8.0	6.5	7.0	7.3
Gearing Ratio (%)	22.9	43.6	27.1	7.1	(9.0)

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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