FPA FINANCIAL
Investment Perspectives

25 January 2023

REAL ESTATE EQUITY RESEARCH

LHN Limited

SGX: 41O
Bloomberg: LHN:SP
ISIN code: SG1AH9000002

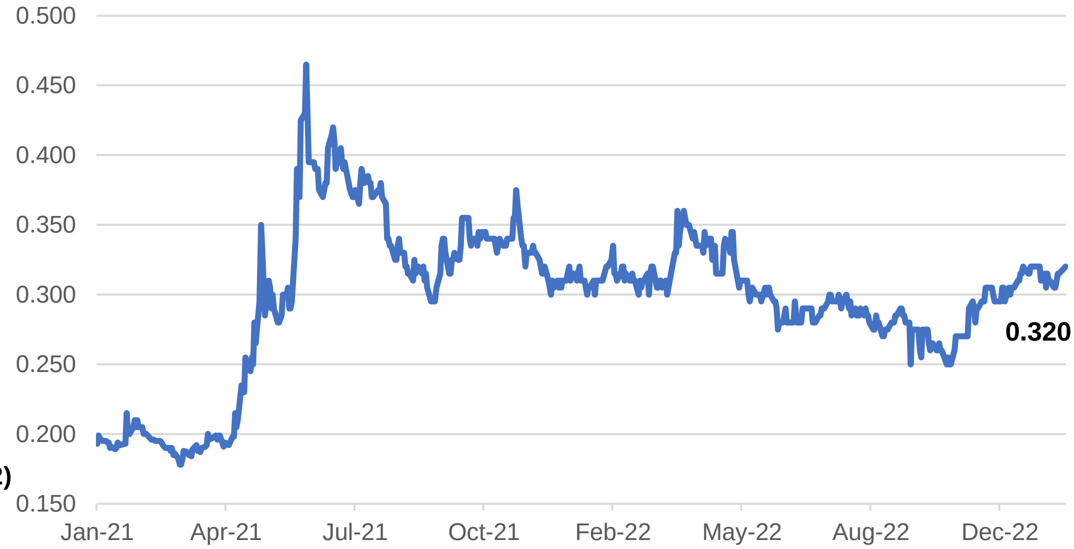
Country: Singapore
Industry: Real Estate Development & Operations

25 January 2023
RECOMMENDATION: BUY

Current price: S$0.320
Target price: S$0.450
Issued units: 408.945 million (30 Sep 22)
Market capitalisation: S$130.86 million

52-week range: S$0.250 - S$0.370

PRICE PERFORMANCE



COMPANY DESCRIPTION

LHN Limited and its subsidiaries (collectively defined herein as LHN) is a real estate management and logistics services group headquartered in Singapore with operations throughout Asia. LHN's businesses are divided into three separate and distinct business segments, namely, the space optimisation business, the facilities management business and the logistics services business. LHN is listed on the Catalist of the Singapore Exchange Securities Trading Limited (SGX-ST) and on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK).

SUMMARY

For the financial year ended 30 September 2022 (FY2022), LHN recorded revenue of S$111.8 million, a decrease of 7.6% yoy from S$121.0 million over the same period a year ago. The decrease was primarily due to the decrease in revenue from the Facilities Management Business which was partially offset by the increase in revenue from the Space Optimisation Business. At the same time, cost of sales also decreased by 3.1% yoy to S$52.7 million. Accordingly, LHN's gross profit decreased by 11.3% yoy to S$59.0 million in FY2022. During the period, LHN reported profit attributable to equity holders of the company of S$45.8 million, representing a 64.6% yoy increase from FY2021 mainly due to the share of result of associates & joint ventures and fair value gain on investment properties. This translates to an earnings per share of 11.21 cents. Meanwhile, LHN has declared a final dividend of 1.00 cents, on top of the interim dividend of 0.60 cents and special dividend of 0.15 cents paid on 17 June 2022 and 21 July 2022 respectively.

RECOMMENDATION

Based on LHN's reported NAV of S$0.45, LHN currently has a P/B multiple of 0.70x and is trading at a discount of approximately 30% to NAV. Our peer comparison results show that LHN's P/B of 0.70x is higher than the peer average P/B of 0.57x. At the same time, based on LHN's forward earnings per share of 7.41 cents for FY2023, the share is trading at a P/E of 4.32x, which is lower than its peer average P/E of 12.06x, suggesting that it may be undervalued in terms of P/E multiple. LHN's dividend yield of 5.00% is also relatively more attractive compared to its peers' yield of 3.04%. Adopting a relative valuation approach, we estimated a target price of S$0.257, S$0.892 and S$0.526 based on the peer average P/B, P/E and dividend yield comparison analysis respectively. By taking the average of our estimated target price from peer comparison analysis, we derived an estimated target price of S$0.558. However, based on the current market environment, we do not think it is possible for LHN's share price to rise beyond the P/B of 1.00x. We believe that it could be more reasonable for LHN's share price to trade at S$0.450, which represents a P/B of 1.00x. This target price represents a 40.63% upside from the current share price of S$0.320. We believe this upside could be justified by the possibility of a further improvement to LHN's financial performance as supported by the stable outlook for Singapore's economy and for the industries that LHN are operating in. Further, LHN's new acquisitions and new lease agreements could also underpin revenue and profit growth. Given the above, we maintain our buy recommendation on LHN.

KEY FINANCIALS Year ended Sep 30	Revenue (S$ million)	Profit [1] (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per unit (S$)	P/B (x)
2021 actual	121.0	28.1	6.94	4.61	1.75	5.5%	0.36	0.90
2022 actual	111.8	45.8	11.21	2.85	1.75	5.5%	0.45	0.70
2023 forecast	122.0	30.3	7.41	4.32	1.60	5.0%	-	-
2024 forecast	129.5	26.7	6.54	4.90	1.60	5.0%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.320

(1) Profit attributable to equity holders of the company

Source: LHN Limited, FPA Financial

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FINANCIAL ANALYSIS

In this section, we will provide a review of LHN's financial performance and capital management.

(I) Financial Review

Review of Full Year 2022 Results

Revenue

LHN's revenue decreased by approximately S$9.2 million or 7.6% year-on-year (yoy) from S$121.0 million in FY2021 to S$111.8 million in FY2022 as shown in **Exhibit 1**.

Exhibit 1: LHN's Revenue for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Revenue	111,772	120,977	-7.6%

Source: LHN

We conducted a further review of LHN's revenue based on its business segments. We note that the decrease in revenue for FY2022 was primarily due to the decrease in revenue from the Facilities Management Business which was partially offset by the increase in revenue from the Space Optimisation Business as shown in **Exhibit 2**.

Exhibit 2: LHN's Revenue by Business Segments

S$'000	FY2022	FY2021	y-o-y change
Space optimisation			
Industrial	18,877	17,663	6.9%
Commercial	7,555	7,735	-2.3%
Residential	16,160	12,998	24.3%
Subtotal	42,592	38,396	10.9%
Facilities management	41,871	55,419	-24.4%
Logistics services	27,309	27,162	0.5%
Total revenue	**111,772**	**120,977**	**-7.6%**

Source: LHN

(a) Space Optimisation Business

Industrial Properties

Revenue derived from Industrial Properties increased by approximately S$1.2 million or 6.9% yoy from approximately S$17.7 million in FY2021 to approximately S$18.9 million in FY2022 mainly due to contribution of revenue from the new property acquired and tenanted at 55 Tuas South Avenue 1 in the first quarter of FY2022.

Commercial Properties

Revenue derived from Commercial Properties decreased by approximately S$0.2 million or 2.3% yoy from approximately S$7.7 million in FY2021 to approximately S$7.5 million in FY2022 mainly due to decrease in revenue from subleases as a result of the expiry of three master leases during FY2021. This was partially offset by the (i) revenue contribution from 1557 Keppel Road due to occupancy build-up as renovation was completed in the third quarter of FY2021; and (ii) increase in revenue due to higher occupancy rates in other properties.

Residential Properties

Revenue derived from Residential Properties increased by approximately S$3.2 million or 24.3% yoy from approximately S$13.0 million in FY2021 to approximately S$16.2 million in FY2022 mainly due to the increase in revenue of approximately S$4.3 million from the co-living business in Singapore. This was partially offset by the decrease in revenue of approximately S$1.1 million from the overseas Residential Properties.

The increase in revenue from the co-living business in Singapore arose mainly from (i) the co-living space at 1557 Keppel Road which started generating revenue from the third quarter of FY2021 after completion of progressive renovations; (ii) the property at 320 Balestier Road which was acquired in the first quarter of FY2021 and contributed to the increase in revenue upon completion of progressive renovations in the first half of FY2022; (iii) the property at 75 Beach Road which was acquired in the fourth quarter of FY2021 and contributed to the increase in revenue upon completion of renovation in third quarter of FY2022; and (iv) higher occupancy rates from other co-living spaces in FY2022.

For the overseas Residential Properties, the decrease in revenue was mainly due to the decrease in revenue from the serviced residences in Cambodia and Myanmar due to lower occupancy rates.

(b) Facilities Management Business

Revenue derived from the Facilities Management Business decreased by approximately S$13.5 million or 24.4% yoy from approximately S$55.4 million in FY2021 to approximately S$41.9 million in FY2022 mainly due to decrease in facilities management services from the dormitory business. This was partially offset by the increase in revenue from the carpark business due to increase in number of carparks secured in Singapore in the second quarter of FY2021.

(c) Logistics Services Business

Revenue derived from the Logistics Services Business increased slightly by approximately S$0.1 million or 0.5% yoy from approximately S$27.2 million in FY2021 to approximately S$27.3 million in FY2022

Cost of Sales

Cost of sales decreased by approximately S$1.7 million or 3.1% yoy from approximately S$54.4 million in FY2021 to approximately S$52.7 million in FY2022. The decrease was mainly due to a decrease in (i) rental costs arising from the expiry of two short-term master leases in FY2021; and (ii) costs from the Facilities Management Business, in line with the decrease in revenue as shown in **Exhibit 3**.

Exhibit 3: LHN's Cost of Sales for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Cost of sales	(52,725)	(54,426)	-3.1%

Source: LHN

Gross Profit

Accordingly, gross profit decreased by approximately S$7.5 million from approximately S$66.5 million in FY2021 to approximately S$59.0 million in FY2022 mainly due to decrease in dormitory business under the Facilities Management Business, partially offset by the increase from the co-living business of the Residential Properties as shown in **Exhibit 4**.

Exhibit 4: LHN's Gross Profit for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Revenue	111,772	120,977	-7.6%
Cost of sales	(52,725)	(54,426)	-3.1%
Gross profit	**59,047**	**66,551**	**-11.3%**

Source: LHN

Other Income

Other gains/(loss) - net and other income decreased by approximately S$3.2 million or 21.1% yoy from approximately S$15.0 million in FY2021 to approximately S$11.8 million in FY2022 mainly due to (i) write-off of the leasehold building at 7 Gul Avenue under the Logistics Services Business where the existing building structure was demolished for redevelopment to an ISO tank washing depot and ISO tank storage yard; (ii) impairment loss on property, plant and equipment under the Space Optimisation Business; and (iii) decrease in net rental rebates received from Governments and landlords under the Space Optimisation Business and decrease in job support scheme due to the cessation of these schemes in relation to Covid-19.

The decrease was partially offset by the increase in (i) gains from subleases which were derived based on differences between the right-of-use asset derecognised and the net investment in sublease; (ii) increase in government grants such as the jobs growth incentive salary support scheme; and (iii) increase in net lease modifications under the Space Optimisation Business.

The summary of the total other income is shown in **Exhibit 5** on the next page.

Exhibit 5: LHN's Other Income for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Gain on disposal of property, plant and equipment	74	242	-69.4%
Write-off of property, plant and equipment	(196)	(18)	988.9%
Write-off of leasehold building	(4,833)	-	NM
Impairment loss on property, plant and equipment	(4,129)	-	NM
Gain from net investment in subleases	10,796	4,598	134.8%
Gain from termination of lease	-	2	NM
Lease modification gains/ (losses)	648	(435)	NM
Foreign exchange gains/ (losses)	721	(72)	NM
Handling charges	317	325	-2.5%
Interest income	1,440	1,350	6.7%
Vehicle related income	143	113	26.5%
Government grants	490	89	450.6%
Wage credit scheme and special employment credit	321	211	52.1%
Job support scheme	431	1,882	-77.1%
Job growth incentive	892	157	468.2%
Forfeiture of tenant deposit	255	242	5.4%
Services charges	223	207	7.7%
Miscellaneous charge to tenant	175	161	8.7%
Rental rebates	2,414	4,534	-46.8%
Other income	1,647	1,412	16.6%
Total other income	**11,829**	**15,000**	**-21.1%**

Source: LHN

Other Operating Expenses

Other operating expenses increased by approximately S$0.2 million or 64.2% yoy from approximately S$0.2 million in FY2021 to approximately S$0.4 million in FY2022 mainly due to increase in impairment losses on receivables under the Space Optimisation Business as shown in **Exhibit 6**.

Exhibit 6: LHN's Other Operating Expenses for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Other operating expenses			
Impairment loss on trade, other and lease receivables	(381)	(232)	64.2%

Source: LHN

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately S$0.5 million or 25.6% yoy from approximately of S$1.6 million in FY2021 to approximately S$2.1 million in FY2022 due to an increase in commission expenses and staff costs for the Space Optimisation Business as shown in **Exhibit 7**.

Exhibit 7: LHN's Selling and Distribution Expenses for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Selling and distribution expenses	(2,071)	(1,649)	25.6%

Source: LHN

Administrative Expenses

Administrative expenses increased by approximately S$6.6 million or 20.2% yoy from approximately S$32.6 million in FY2021 to approximately S$39.2 million in FY2022 as shown in **Exhibit 8**. The increase was mainly due to increase in (i) staff costs which is in line with the expansion of the co-living business; (ii) depreciation of property, plant and equipment mainly from the renovation under the Space Optimisation Business and additional carparks managed under the Facilities Management Business; (iii) listing expenses of LHN Logistics Limited and professional fees incurred mainly for the listing and spin-off of the logistics business; and (iv) other miscellaneous expenses due to business expansion.

Exhibit 8: LHN's Administrative Expenses for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Administrative expenses	(39,209)	(32,617)	20.2%

Source: LHN

Finance Cost

Finance cost increased by approximately S$0.1 million or 1.4% yoy from approximately S$4.86 million in FY2021 to approximately S$4.93 million in FY2022 as shown in **Exhibit 9**. This was due to increase in interest expenses as a result of the increase in bank borrowings. This was partially offset by the decrease in interest expenses on lease liabilities.

Exhibit 9: LHN's Finance Cost for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Finance cost	(4,930)	(4,863)	1.4%

Source: LHN

Share of Results of Associates and Joint Ventures

Share of results of associates and joint ventures increased by approximately S$12.8 million from approximately S$3.7 million in FY2021 to approximately S$16.5 million in FY2022 mainly due to (i) increase in share of net fair value gain on investment properties; and (ii) increase in operating profit from its joint ventures as shown in **Exhibit 10**.

Exhibit 10: LHN's Share of Results of Associates and Joint Ventures

S$'000	FY2022	FY2021	y-o-y change
Share of results of associates and joint ventures, net of tax	16,466	3,666	349.2%

Source: LHN

Fair Value Gain / (Loss) on Investment Properties

Fair value gain on investment properties was approximately S$12.3 million in FY2022 as compared to a fair value loss on investment properties of approximately S$11.6 million FY2021 as shown in **Exhibit 11**.

Exhibit 11: LHN's Fair Value Gain/ (Loss) on Investment Properties

S$'000	FY2022	FY2021	y-o-y change
Fair value gain/ (loss) on investment properties	12,261	(11,598)	NM

Source: LHN

Profit Before Income Tax

Consequently, LHN's profit before income tax increased by approximately S$18.8 million or 54.7% yoy from approximately S$34.2 million in FY2021 to approximately S$53.0 million in FY2022 as shown in **Exhibit 12**.

Exhibit 12: LHN's Profit Before Income Tax for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Revenue	111,772	120,977	-7.6%
Cost of sales	(52,725)	(54,426)	-3.1%
Gross profit	**59,047**	**66,551**	**-11.3%**
Other income	11,829	15,000	-21.1%
Other operating expenses			
Impairment loss on trade, other and lease receivables	(381)	(232)	64.2%
Selling and distribution expenses	(2,071)	(1,649)	25.6%
Administrative expenses	(39,209)	(32,617)	20.2%
Finance cost	(4,930)	(4,863)	1.4%
Share of results of associates and joint ventures, net of tax	16,466	3,666	349.2%
Fair value gain/ (loss) on investment properties	12,261	(11,598)	NM
Profit before income tax	**53,012**	**34,258**	**54.7%**

NM: Not meaningful
Source: LHN

Income Tax Expense

Income tax expenses increased slightly by approximately S$0.1 million or 1.8% yoy from approximately S$5.4 million in FY2021 to approximately S$5.5 million in FY2022 as shown in **Exhibit 13**.

Exhibit 13: Income Tax Expense for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Income tax expense	(5,498)	(5,400)	1.8%

Source: LHN

Profit for The Year

As a result, LHN's net profit increased by approximately S$18.6 million or 64.6% yoy from approximately S$28.9 million in FY2021 to approximately S$47.5 million in FY2022. This comprised a S$45.8 million profit attributable to equity holders of the Company and a S$1.7 million profit attributable to non-controlling interests as shown in **Exhibit 14**.

Exhibit 14: LHN's Profit After Tax for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Revenue	111,772	120,977	-7.6%
Cost of sales	(52,725)	(54,426)	-3.1%
Gross profit	**59,047**	**66,551**	**-11.3%**
Other income	11,829	15,000	-21.1%
Other operating expenses			
Impairment loss on trade, other and lease receivables	(381)	(232)	64.2%
Selling and distribution expenses	(2,071)	(1,649)	25.6%
Administrative expenses	(39,209)	(32,617)	20.2%
Finance cost	(4,930)	(4,863)	1.4%
Share of results of associates and joint ventures, net of tax	16,466	3,666	349.2%
Fair value gain/ (loss) on investment properties	12,261	(11,598)	-205.7%
Profit before income tax	**53,012**	**34,258**	**54.7%**
Income tax expense	(5,498)	(5,400)	1.8%
Profit for the year	**47,514**	**28,858**	**64.6%**
Profit attributable to:			
Equity holders of the Company	45,838	28,063	63.3%
Non-controlling interests	1,676	795	110.8%

Source: LHN

Earnings Per Share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares deemed to be in issue during each of the years ended 30 September 2022 and 2021. Accordingly, earnings per share increased by 61.4% yoy from 6.94 cents in FY2021 to 11.21 cents in FY2022 as shown in **Exhibit 15**.

Exhibit 15: LHN's Earnings Per Share for FY2022 and FY2021

S$'000	FY2022	FY2021	y-o-y change
Profit attributable to equity holders of the Company	45,838	28,063	63.3%
Weighted average number of ordinary shares ('000)	408,945	404,208	1.2%
Earnings per share (cents)	**11.21**	**6.94**	**61.4%**

Source: LHN

Dividends

In view of LHN's FY2022 financial results and in consideration of the uncertainties of the global economic recovery, LHN proposed a final dividend of 1.0 Singapore cent per ordinary share, subject to shareholders' approval at the upcoming annual general meeting, on top of the interim dividend of 0.6 Singapore cents and special dividend of 0.15 Singapore cents per ordinary share of the Company paid on 17 June 2022 and 21 July 2022 respectively as shown in **Exhibit 16**.

Exhibit 16: LHN Dividend Distribution For FY2022 and FY2021

	FY2022	FY2021
DIVIDENDS		
DIVIDEND PER SHARE (S'PORE CENTS)	Interim - 0.60 Special - 0.15 Final - 1.00* Total - 1.75	Interim - 0.75 Final - 1.00 Total - 1.75
DIVIDEND YIELD	5.7%	4.7%

Source: LHN

(II) Capital Management

Review of Balance Sheet

Net Asset Value

LHN reported total assets of S$468.9 million as at 30 September 2022 compared to of S$386.8 million a year ago. Property, plant and equipment (PPE) decreased by approximately S$5.9 million mainly due to (i) depreciation of PPE; (ii) write-off of leasehold building at 7 Gul Avenue under the Logistics Services Business where the existing building structure was demolished for redevelopment to an ISO tank washing depot and ISO tank storage yard; (iii) net derecognition of PPE due to recognition of net investment in sublease; and (iv) impairment loss on PPE. The decrease was partially offset by (i) additions to PPE mainly for renovation costs incurred under the Space Optimisation Business; and (ii) the reclassification of property at 72 Eunos from investment properties due to partial change in usage of the property to owner-occupied.

Investment properties increased by approximately S$66.7 million mainly due to (i) additions to investment properties mainly from the purchase of properties at 55 Tuas South Avenue 1, 298 River Valley and 52 Arab Street; (ii) net additions to investment properties (right-of-use) mainly from the Residential Properties; and (iii) fair value gains and lease modification adjustments. These were partially offset by the (i) abovementioned reclassification of property at 72 Eunos to PPE; and (ii) net derecognition of investment properties (right-of-use) due to recognition of net investment in sublease.

At the same time, total liabilities increased by S$38.2 million from S$238.5 million as at 30 September 2021 to S$276.7 million as at 30 September 2022. This was mainly due to the increase in bank borrowings by approximately S$46.8 million, mainly for the purchase of properties at 55 Tuas South Avenue 1, 298 River Valley and 52 Arab Street, renovation costs and working capital for the co-living business. Meanwhile, lease liabilities decreased by approximately S$10.9 million mainly due to repayments in FY2022.

Consequently, LHN recorded total equity or net assets of S$192.2 million as at 30 September 2022 compared to S$148.3 million a year ago. Excluding non-controlling interest of S$6.3 million, equity attributable to equity holders of the Company amounted to S$185.9 million as at 30 September 2022. Accordingly, LHN's net asset value (NAV) per share stood at 45.46 cents based on 408.9 million issued shares as at 30 September 2022 as shown in **Exhibit 17** on the next page.

Exhibit 17: Summary of LHN's balance sheet as at 30 Sep 2022 and 30 Sep 2021

[S$'000]	30-Sep-22	30-Sep-21
Total assets	468,886	386,808
Total liabilities	276,708	238,525
Total equity / net assets	192,178	148,283
Equity attributable to owners of the company	185,904	145,726
Equity attributable to non-controlling interests	6,274	2,557
No. of issued shares	408,945,000	408,945,000
NAV per share (cents)	45.46	35.63

Source: LHN

Bank Borrowings

During FY2022, LHN financed its operations primarily through a combination of cash flow generated from our operations, bank borrowings and lease liabilities.

LHN primarily obtained bank borrowings to finance its acquisition of properties and logistics equipment. LHN also had revolving loans for its short-term finance needs. LHN's borrowings as at 30 September 2022 were denominated in Singapore dollars, United States dollars and Renminbi with interest charged on these borrowings ranging from 1.38% to 5.70% per annum.

As at 30 September 2022, LHN had outstanding bank borrowings of S$148.2 million. These borrowings were secured by (i) legal mortgage of leasehold properties at 72 Eunos Avenue 7, 100 Eunos Avenue 7, 71 Lorong 23 Geylang, 7 Gul Avenue, 75 Beach Road, 320 Balestier Road, 115 Geylang Road, 55 Tuas South Avenue 1, 298 River Valley Road, 52 Arab Street in Singapore and Axis Residences in Cambodia; (ii) corporate guarantees provided by LHN; (iii) assignment of rental proceeds of the mortgaged properties; and (iv) personal guarantees provided by noncontrolling interest shareholders of certain non-wholly owned subsidiaries of the Company, where applicable

As at 30 September 2022, of LHN's total bank borrowings of S$148.2 million, S$128.9 million are non-current, secured borrowings while S$19.3 million are current, secured borrowings as shown in **Exhibit 18**.

Exhibit 18: Breakdown of LHN's Bank Borrowings

[S$'000]	30-Sep-22	30-Sep-21
Non-current, secured		
Bank borrowings repayable later than 1 year and no later than 2 years	18,760	9,919
Bank borrowings repayable later than 2 years and no later than 5 years	32,578	23,742
Bank borrowings repayable later than 5 years	77,516	56,161
Total non-current bank borrowings	**128,854**	**89,822**
Current, secured		
Bank borrowings repayable no later than 1 year	19,319	11,556
Total bank borrowings	**148,173**	**101,378**

Source: LHN

Gearing Ratio

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as the sum of bank borrowings, trade & other payables and lease liabilities less cash and cash equivalents. Total capital is calculated as equity plus net debt. Hence, LHN's gearing ratio as at 30 September 2022 stood at approximately 54.4% versus 56.6% a year ago, as shown in **Exhibit 19**.

Exhibit 19: LHN's Gearing Ratio as at 30 September 2022 and 30 September 2021

[S$'000]	30-Sep-22	30-Sep-21
Bank borrowings	148,173	101,378
Lease liabilities	81,376	92,336
Trade and other payables	37,115	35,414
Less: cash and bank balances	(39,727)	(36,786)
Less: fixed deposit	(1,584)	(1,384)
Less: long term fixed deposit	(500)	-
Net debt	**224,853**	**190,958**
Total equity	192,178	148,283
Total capital	417,031	339,241
Gearing ratio	**54.4%**	**56.6%**

Source: LHN

OPERATIONAL UPDATE

Since our last initiation report in January 2022, there have been a few new developments announced by LHN. We will now provide an operational update on the development.

(I) Completion Of The Proposed Spin-off And Successful Listing Of LHN Logistics

As mentioned in our initiation report on 19 January 2022, LHN announced that it was exploring the possibility to spin-off its Logistics Services Business via a proposed listing on Catalist of Singapore Exchange Securities Trading Limited (SGX-ST) and submissions to SGX-ST and The Stock Exchange of Hong Kong Limited (SEHK) have been made.

On 29 April 2022, LHN announced that the Proposed Spin-Off and the Placement have been completed and the issued shares of LHN Logistics have been successfully listed and commenced trading on the Catalist Board of SGX-ST. Following the completion of the Proposed Spin-Off and the Placement, LHN retains an indirect shareholding interest in LHN Logistics Limited (LLL) through LHN Group Pte. Ltd., a wholly-owned subsidiary of the Company, of approximately 84.1%.

In addition, it was proposed that a special dividend of around 0.15 Singapore cents per share will be distributed to Qualifying Shareholders provided that (i) the Minority Shareholders approve the resolutions in relation to the Assured Entitlement Waiver as set out in the EGM Circular; and (ii) completion of the Proposed Spin-Off takes place. As both conditions for the Special Dividend have been fulfilled, the special dividend of 0.15 Singapore cents per share would be paid on 6 July 2022.

Based on the Placement Price of S$0.20 per share and the share capital of LHN Logistics upon completion of the Placement on 19 April 2022, the market capitalisation of LHN Logistics was expected to be approximately S$33.5 million.

We note that as at 19 January 2023, LLL's share price of S$0.168 and total issued shares of 167.70 million shares, LLL has a market capitalisation of S$28.17 million =[S$0.168 (share price) x 167.70 million (issued shares)]. As mentioned above, LHN has a 84.1% stake in LLL. Considering the above, LHN's value of investment in LLL is approximately S$23.69 million =[84.1% (equity stake) x S$28.17 million (market capitalisation of LLL]

In addition, we also note that LHN's issued and paid-up capital of LLL was S$17.4 million as at 30 September 2022. Given the above, compared to 30 September 2022, there is a gain of approximately S$6.3 million =[S$23.69 million (LHN's value of investment in LLL) – S$17.4 million (LHN's issued and paid-up capital of LLL)].

(II) Acquisition Of River Valley Property

On 29 April 2022, LHN announced the completion of the acquisition of the River Valley Property. The Consideration was S$8,500,000 exclusive of GST and was funded by LHN's internal sources of funding and bank borrowings.

<u>Information about the River Valley Property</u>

The River Valley Property is located at 298 River Valley Road, Singapore 238339, which has a land area of 205.4 sq.m and is a freehold property. The property will be delivered with vacant possession on completion. The total gross floor area of the proposed building is 571.22 sq.m (comprising commercial gross floor area of 146.04 sq.m and residential gross floor area of 425.18 sq.m).
<u>Rationale for Acquisition</u>

LHN intends to operate the River Valley Property as a co-living space, which will expand LHN's portfolio of properties under the co-living business in Singapore, increase the brand value of COLIWOO, provide potential capital appreciation to LHN and provide additional opportunities to generate revenue.

(III) Disposal Of Getgo Technologies

On 30 September 2022, LHN Mobility Pte. Ltd., an indirect wholly-owned subsidiary of LHN (the Seller), and the Buyers (Mr. Lim (chief marketing officer, shareholder and co-founder of GetGo Technologies) and Mr. Toh (chief executive officer, shareholder and co-founder of GetGo Technologies) have entered into the Share Purchase Agreement for the sale and purchase of the Sale Shares, pursuant to which the Seller agreed to sell and the Buyers agreed to buy the Sale Shares at the Consideration, being S$7,925,649. Assuming the disposal is completed, LHN expects to recognise an expected gain of approximately S$6.5 million for its proportionate share and will no longer have any interest in the company.

Information about Getgo Technologies

GetGo Technologies is a company incorporated in the Republic of Singapore on 18 August 2020 and is primarily engaged in carsharing service with more than 1,700 cars in over 1,300 locations in Singapore. GetGo Technologies are held approximately 20% by the Seller, 20% by Mr. Lim, 40% by Mr. Toh and the remaining 20% in aggregate by Lim Ah Poh, Tan Tuan Boon, Muhammad Malik Bin Badaruddin and Chan Jun Kai. Other than the Seller is an indirectly wholly-owned subsidiary of the Company, the other shareholders of GetGo Technologies are Independent Third Parties to LHN.

Rationale for Divestment

The Disposal will allow LHN to realise an expected gain of approximately S$6.5 million (net of tax) over the book value which makes it an attractive financial gain to LHN. The proceeds from the Disposal will be used for LHN's general working capital purposes. For reasons above, the Board considers that the Disposal and the transactions contemplated under the Share Purchase Agreement (including the Consideration) are fair and reasonable, on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

(IV) Disposal Of Joint Venture Company

On 30 November 2022, LHN and its joint venture partner entered into a sale and purchase agreement to sell their collective interests in the joint venture company, Coliwoo East Pte Ltd (the JV Company), to a third party for an aggregate consideration of S$46,600,000 plus the closing net asset and, on the occurrence of the hotel room demolition, a deduction of S$388,333. The disposal is still in its preliminary stage and is subject to, among others, approvals from the relevant authorities. Assuming the disposal is completed, LHN expects to recognise an estimated loss of S$1.6 million for its proportionate share and will no longer have any interest in the JV Company.

Information about the JV Company

The JV Company was incorporated on 22 September 2020 and became a joint venture company, which was held as to 50% by Coliwoo Holdings and 50% by the JV Partner, on 24 November 2020. The JV Company was accounted as a joint venture in the financial statements of LHN.

The principal asset of the JV Company is the Amber Property, which the JV Company has acquired from an Independent Third Party in June 2021. Subsequent to the completion of the acquisition of Amber Property, renovation work was carried out on the Amber Property. The renovation work was completed in February 2022 and the JV Company operated the Amber Property as a co-living property since then. The principal business of the JV Company is the operation of hotels.

Rationale for Divestment

The net proceeds to be received by LHN from the Disposal is expected to increase the cashflow, thus allowing LHN to use the proceeds for working capital. For reasons above, the Board considers that the Disposal and the transactions contemplated under the Sale and Purchase Agreement (including the Consideration) are fair and reasonable, on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

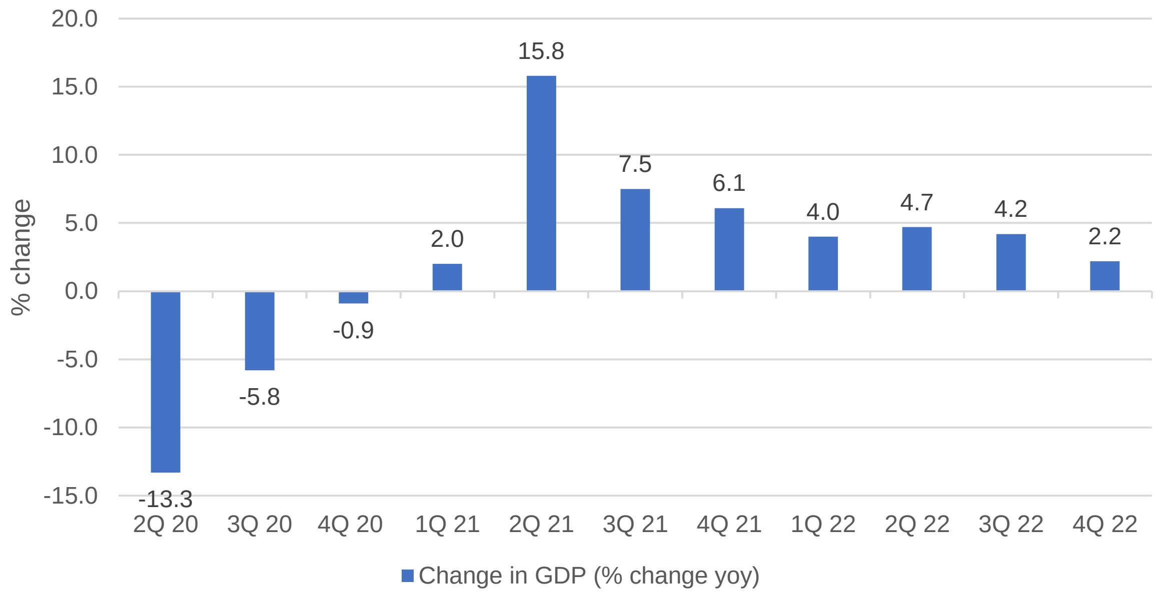
MARKET AND INDUSTRY OUTLOOK

(I) Market Outlook

Singapore's Economy

The Ministry of Trade and Industry (MTI) reported that based on advance estimates, the Singapore economy grew by 2.2% on a yoy basis in the fourth quarter of 2022, moderating from the 4.2% yoy growth in the previous quarter as shown in **Exhibit 20**. For the whole of 2022, the economy grew by 3.8% yoy , slower than the 7.6% yoy growth in 2021.

Exhibit 20: Change in Singapore Quarterly GDP (%, yoy)



Source: MTI

For 2023, MTI expects GDP growth rates in most major economies to moderate further from 2022 levels, with sharp slowdowns projected in the US and Eurozone. Meanwhile, global supply disruptions are likely to continue into 2023 as the war in Ukraine drags on, even though the extent and frequency of disruptions is expected to ease. MTI also highlighted significant uncertainties and downside risks in the global economy. First, with many advanced economies raising interest rates simultaneously to combat high inflation, the impact of tightening financial conditions on global growth could be larger than expected. Second, financial stability risks could intensify if there are disorderly market adjustments to monetary policy tightening in the advanced economies. A sharp re-pricing of assets could trigger capital outflows from the region and increase debt servicing burdens, thereby dampening regional economies' growth outlook. Third, further escalations in the war in Ukraine and geopolitical tensions among major global powers could worsen supply disruptions, dampen consumer and business confidence, as well as weigh on global trade.

Considering the above, MTI expects the growth of outward-oriented sectors in Singapore to weaken in tandem with the deterioration in external demand conditions. However, the growth prospects of several sectors remain positive. In particular, the continued recovery in air travel and international visitor arrivals will support the expansion of aviation- and tourism-related sectors. Taking these factors into account, and barring the materialisation of downside risks, MTI expects the Singapore economy to grow by "0.5 to 2.5 per cent" in 2023.

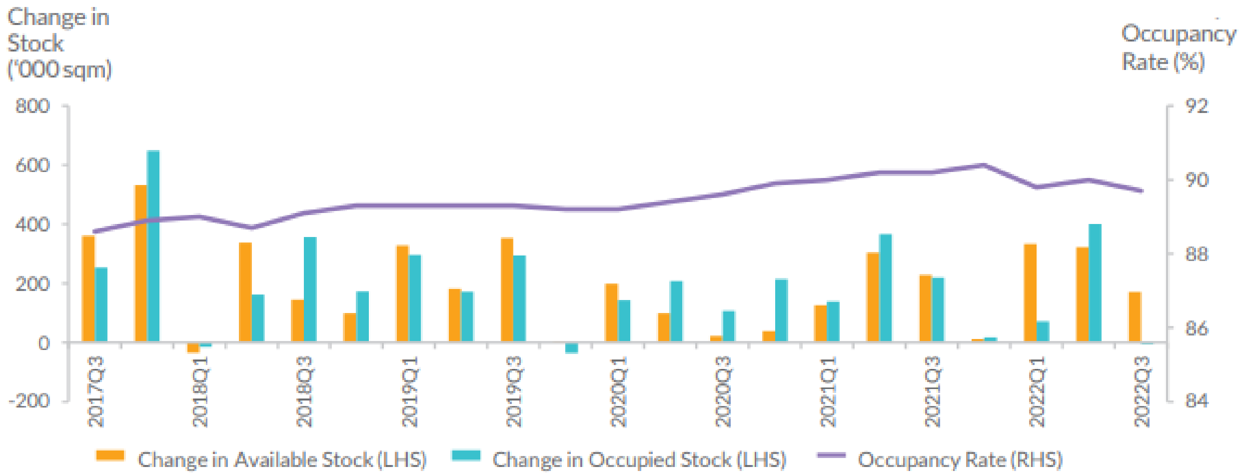
(II) Industry Outlook

(a) Space Optimisation Business

Industrial

LHN's extensive range of industrial spaces comprises of industrial buildings, factories, warehouses and land for open storage. According to JTC Market Report for Singapore's industrial property market, as at the end of 3Q 2022, there was 51.5 million sqm of industrial space. In 3Q 2022, overall occupancy rate for the industrial property market stands at 89.7%. This was a fall of 0.3 percentage points compared to the previous quarter and 0.5 percentage points compared to the previous year as shown in **Exhibit 21**.

Exhibit 21: Singapore's Industrial Properties Stock and Occupancy

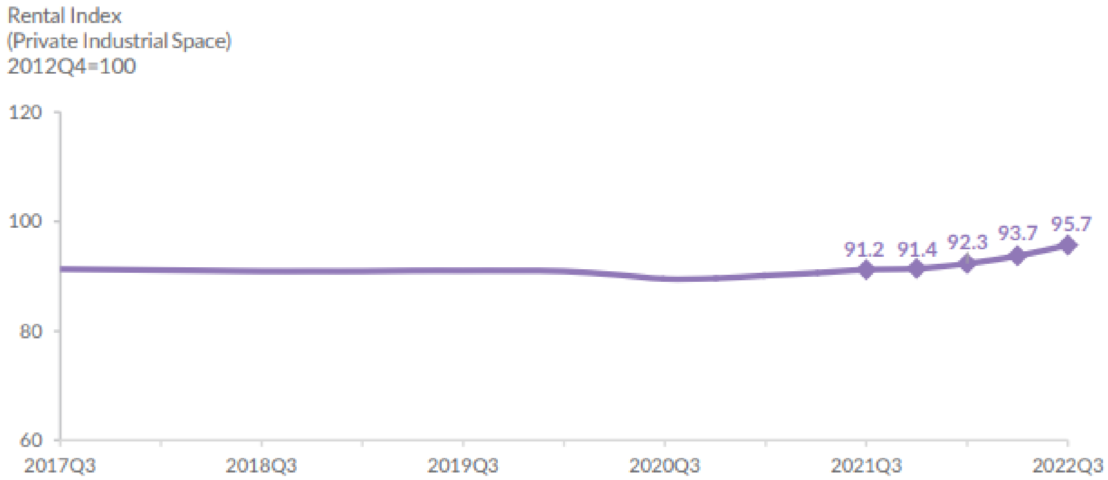


Source: JTC

The drop was mainly driven by a fall in occupancy of the single-user factory segment. Demand in this segment fell by 0.4% compared to the previous quarter. Similarly, occupancy rates of the multiple-user factory and warehouse segments also fell slightly by 0.2 and 0.1 percentage points respectively compared to the previous quarter, but this was mainly arising from new supply outstripping new demand. Meanwhile, occupancy rate of the business park segment inched up marginally by 0.1 percentage points compared to the previous quarter.

Meanwhile, according to JTC, rentals of industrial space continued to rise for the eighth straight quarter in Q32022. In 3Q2022, the rental index of all industrial space rose by 2.1% to 95.7 points compared to the 93.7 points in the previous quarter, and 4.9% compared to the previous year as shown in **Exhibit 22** on the next page.

Exhibit 22: Rental Indices of All Industrial Space



Source: JTC

JTC believes that barring any sharp slowdown in the global economy, demand for industrial space in 2022 and 2023 is expected to be healthy and occupancy relatively stable. JTC will continue to monitor the market closely and support the needs of industrialists.

CBRE noted that prime logistics continues to deliver strong rental growth. The prime logistics segment registered the highest rental growth of 3.2% qoq in 4Q2022. Broad-based demand was observed for the quarter, resulting in an increase in average warehouse rents by 1.7% qoq, and factory rents by 0.6% qoq. Full year rental growth for prime logistics and warehouses reached 10.2% and 6.6% yoy respectively as 2022 saw occupiers raising inventory levels amidst supply chain disruptions, increased freight costs and inflationary pressures. This pace is expected to moderate in 2023 as the economic outlook has weakened and occupiers become more cost sensitive. That said, the prime logistics segment continues to see an acute shortage of quality space as only a few projects are expected to complete by 2023 and most of this space has been pre-committed.

Colliers noted that the decline in overall occupancy of 0.3% during the quarter was driven mainly by a fall in occupancy of single-user factories where occupancy fell by 0.4% compared to the previous quarter. There were also slight declines seen for the occupancy rates of multi-user factory and warehouse segments, but this can be attributed to supply catching up with demand, with the delays in construction during the pandemic.Going forward, Colliers expects rental growth will continue across all sectors with the increase in service charges, as asset owners pass on higher operating costs to tenants. The increase could range from around 5% for warehouse and factories to 10% for business parks.

Knight Frank noted that although the global geopolitical and economic climate has started to turn tentative, tempering business sentiments and outlook in the manufacturing sector, the industrial price and rental indices continued to improve in a consistent manner - a pattern that has characterised the industrial market for the past two years. Knight Frank believes that industrial prices and rentals are enroute to grow by 3% to 5% for the whole of 2022 and would likely remain stable in moderate positive territory into 2023.

Residential

According to Urban Redevelopment Authority (URA), rentals of private residential properties increased by 8.6% qoq to 137.9 points in 3Q2022 from 127.0 points in 2Q2022, compared with the 6.7% qoq increase in the previous quarter as shown in **Exhibit 23**.

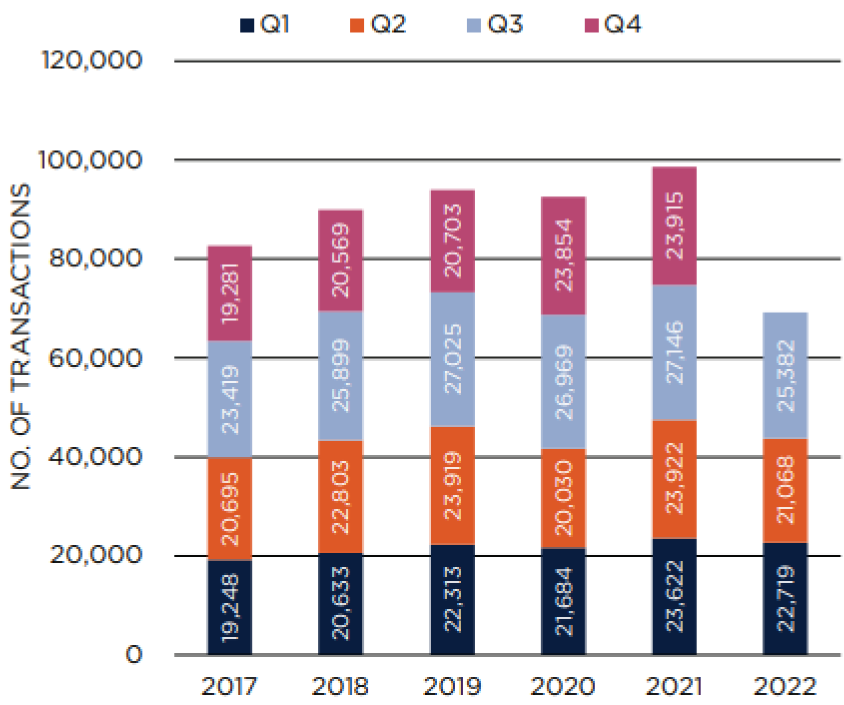
Exhibit 23: URA's Property Rent Index

Source: URA

According to LHN, rental price is expected to increase further due to the recent property cooling measure introduced by the Singapore government on 30 September 2022 which imposed a 15-month wait-out period on private residential property owners who wish to buy a Housing Development Board resale flat after the sale of their current private property.

Savills noted that after three consecutive quarters of decline in the leasing volume of private homes, the number of rental contracts rebounded in 3Q2022, rising by 20.5% qoq to 25,382 transactions. This was the largest quarterly increase since 3Q2020 when rental transactions rose 34.6% qoq. Despite the quarterly growth in the quarter, it was still 6.5% lower than the same period a year ago. The increase in leasing volume was largely attributed to a 47.6% surge in rental volume of landed homes, increasing from 1,228 transactions in 2Q2022 to 1,812 transactions in 3Q2022. For non-landed homes, there was also a sharp qoq increase of 18.8% to 23,570 transactions as shown in **Exhibit 24** on the next page.

Exhibit 24: Leasing Transaction Volumes of Private Residential Units, 2017 to 3Q2022



Source: Savills

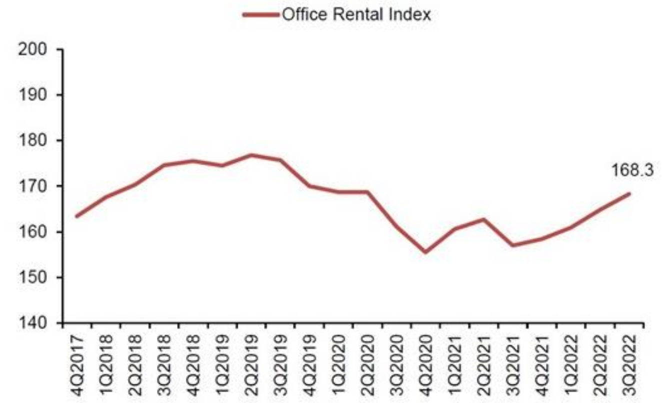
In terms of outlook, according to Savills, for 2023, private non-landed residential rents may rise by 5% to 10% yoy, at a much slower rate of increase compared to the 25% expected for 2022. Savills anticipates that it may take another 18 months before the market starts to cool down or correct. This is when the stock of delayed completions caused by the 2020 and 2021 pandemic induced disruptions get cleared up. For the high end non-landed segment in the Core Central Region (CCR), given the low availability of leasing stocks, rents for 2023 may rise by a significant 15% on a yoy basis.

CBRE noted that based on the URA Rental Index for all private residential properties, rents increased by 8.6% qoq and 23.9% yoy in 3Q2022, continuing their unabated rise after the 6.7% qoq increase in 2Q2022. Preliminary median psf rents for non-landed properties extended their rise in 4Q2022, buoyed by strong leasing demand from expatriates, Singaporeans waiting for their new homes to be ready amid delayed constructions and the adoption of hybrid working arrangements during the pandemic. This upward rental trend is likely to sustain until more significant supply is completed in 2023.

Commercial

According to URA, rentals of office space increased by 2.1% qoq to 168.3 points in 3Q2022 from 164.8 points in 2Q2022, compared with the 2.4% qoq increase in the previous quarter as shown in **Exhibit 25**.

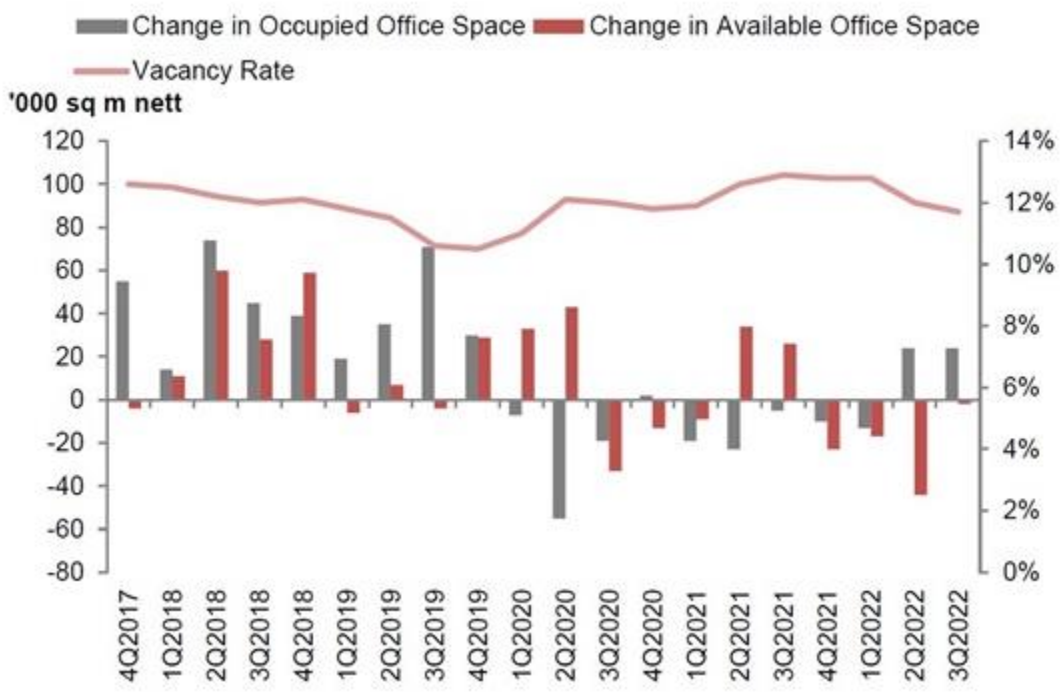
Exhibit 25: Office Rental Index



Source: URA

In addition, the amount of occupied office space increased by 24,000 sq m (nett) in 3Q2022, same as that in the previous quarter. The stock of office space decreased by 2,000 sq m (nett) in 3Q2022, compared with the decrease of 44,000 sq m (nett) in the previous quarter. As a result, the island-wide vacancy rate of office space decreased to 11.7% as at the end of 3Q2022, from 12.0% as at the end of the previous quarter as shown in **Exhibit 26**.

Exhibit 26: Office Space and Vacancy Rate



Source: URA

CBRE noted that prime rents continued to rise on the back of firm return-to-office demand and healthy building occupancies. Gross effective rents for Core CBD (Grade A) grew for the seventh consecutive quarter to $11.70 psf/mth by the end of 2022, reflecting a full year growth of 8.3% and surpassing the rental growth of 3.8% in 2021. That said, the pace of rental increase has slowed from 2.7% qoq in Q3 2022 to 0.9% qoq in Q4 2022. With the expected weaker demand conditions and economic growth in 2023, CBRE has trimmed its 2023's rental forecast. Core CBD (Grade A) rents is expected to increase by about 1.0% yoy, from the previous forecast of 4.0 - 5.0% yoy. That said, the softer market conditions in 2023 could be an opportune time for occupiers to reset and reassess their office requirements.

Savills's rental projections for CBD Grade A in 2022 remains at 3% YoY increase, with 2023 rents expected to rise by 2% YoY. This increase in gross rents is driven by inflationary pressures on the service charge element and some partial ability of landlords to pass those increases on due to the relative low levels of new supply. As 2023 progresses, especially towards the end of the year, multinational tenants will be the major driver for demand because of their need to be located in only Green rated buildings. Owing to the relative dearth of new supply, rents in the highest sub-grades would be able to stay firm as most of them have the Platinum Green Mark rating.

(b) Logistics Management

Transportation Services

According to Singapore Economic Development Board (EDB), the manufacturing output of chemicals decreased by 11.3% in November 2022 on a yoy basis. In particular, the petroleum segment grew 7.8% on account of higher demand for jet fuel driven by the relaxation of global air travel restrictions. Conversely, output of the other chemicals and specialties segments declined 9.5% and 12.8% respectively. The other chemicals segment recorded lower output of fragrances while the specialties segment recorded lower production of mineral oil additives and industrial gases. In addition, the petrochemicals segment saw output fall 17.5% due to weak market demand and plant maintenance shutdowns. On a year-to-date (YTD) basis, output of the chemicals cluster declined 5.1% compared to the same period a year ago.

According to LHN, Singapore's first phase of Tuas Port was officially opened on 1 September 2022 with a total of five berths expected to be in operation by the end of 2022. The new port is anticipated to open in four phases and will eventually be the world's biggest fully automated port upon completion in 2040. LHN's container depot business in Singapore is expected to benefit and expand from this positive outlook.

Container Depot Management Services

According to Maritime and Port Authority of Singapore (MPA), in November 2022, container throughput decreased by 3.5% month-on-month (mom) and 6.2% yoy to 2.96 million TEUs as shown in **Exhibit 27**.

Exhibit 27: Singapore Container Throughput (monthly)

Month	Container throughput ('000 Twenty-Foot-Equivalent Units)
2021-11	3,149.98
2021-12	3,188.66
2022-1	3,143.71
2022-2	2,843.53
2022-3	3,089.48
2022-4	3,042.01
2022-5	3,122.01
2022-6	3,166.23
2022-7	3,286.33
2022-8	3,262.31
2022-9	3,063.77
2022-10	3,061.84
2022-11	2,955.47

Source: MPA

SHARE PRICE DEVELOPMENT REVIEW

Since our initiation report issued on 19 January 2022, when LHN's share price closed at S$0.300, we note that the share price has risen. From then till present, the share price is up by about 7% to the current price of S$0.320 as shown in **Exhibit 28**.

Exhibit 28: LHN's Share Price

Source: Yahoo Finance, FPA Financial

Over the past one year, the share price traded between S$0.250 to S$0.370. The 52-week low of S$0.250 was reached on 1 November 2022 and the 52-week high of S$0.370 was reached on 4 April 2022.

On 22 February 2022, LHN announced that an indirect wholly-owned subsidiary of the Company, has entered into the Option to Purchase for the sale and purchase of the River Valley Property, which forms the binding sale and purchase agreement for the River Valley Property upon the execution of the Option to Purchase, pursuant to which the Purchaser agreed to purchase, and the Vendor agreed to sell the River Valley Property at the Consideration, being S$8,500,000 exclusive of GST. Upon the release of the announcement, LHN's share price rose by 1.62% to S$0.315 on the next day.

On 4 May 2022, LHN issued a positive profit alert for the six-month ended 31 March 2022 (1H2022). In the announcement, LHN expects to record a higher net profit before tax for 1H2022 of no less than approximately S$34 million as compared to the six months ended 31 March 2021 of approximately S$18.3 million. The higher net profit before tax for 1H2022 arises mainly from the Space Optimisation Business due to (i) gains from subleases which were derived based on differences between the right-of-use asset derecognised and the net investment in sublease, pursuant to IFRS 16; (ii) higher fair value gains on LHN's investment properties and joint ventures' investment properties; and (iii) increase in profit from LHN's co-living business under residential properties. As a result, LHN's share price closed 6.35% higher at S$0.335 on the next day.

On 12 May 2022, LHN announced that its profit attributable to owners of the company increased by 117.4% yoy to S$32.2 million in 1H2022 from S$14.8 million in 1H2021. LHN also proposed an interim dividend of 0.06 cents per share. However, LHN reported a 8.2% yoy decrease in revenue to S$59.2 million in 1H2022 from $64.5 million the year before. Revenue from LHN's core business of leasing out industrial, residential and commercial properties (which LHN describes as space optimisation) took a hit, falling 33.6% on the year. As a result, LHN share price fell by 5.80% to S$0.325 the next day.

On 10 November 2022, LHN issued a positive profit alert for the financial year ended 30 September 2022. In the announcement, LHN expects to record a higher net profit before tax for FY2022 of no less than approximately S$52 million as compared to the financial year ended 30 September 2021 of approximately S$34.3 million. The higher net profit before tax for FY2022 arises mainly from the Space Optimisation Business due to (i) gains from subleases which were derived based on differences between the right-of-use asset derecognised and the net investment in sublease; (ii) higher fair value gains on LHN's investment properties and joint ventures' investment properties; and (iii) increase in profit from LHN's co-living business under the residential properties. LHN's share price rose by 7.41% to S$0.290 the next day.

POTENTIAL CATALYSTS

(I) Acquisitions and New Lease Agreement

(a) Acquisition of 404 Pasir Panjang Road

On 16 September 2022, LHN entered into an option to purchase to acquire a property at 404 Pasir Panjang Road (Pasir Panjang Property), Singapore 118741, for a consideration of S$30 million. On 16 November 2022, LHN announced that it had completed the acquisition of the property.

<u>Information about 404 Pasir Panjang Road</u>

The Pasir Panjang Property is located at 404 Pasir Panjang Road Singapore 118741 (comprised in Lot 99380L of Mukim 3), which has a total land area of 1,544.6 sq.m and is an estate in fee simple property.

The Pasir Panjang Property is currently operated as the "Pasir Panjang Inn" by the Pasir Panjang Vendor and that a certificate of registration under the Hotels Act 1954 of Singapore is issued. No information on the net profits (both before and after taxation and extraordinary items) attributable to the Pasir Panjang Property is made available by the Pasir Panjang Vendor as the Pasir Panjang Purchaser is acquiring the property and not the business (including the business of Pasir Panjang Inn) of the Pasir Panjang Vendor. The Pasir Panjang Property is sold with vacant possession.

LHN intends to operate the Pasir Panjang Property as a co-living space. Once the Pasir Panjang Property commence operations, it will expand LHN's portfolio of properties under the co-living business in Singapore, increase brand value of COLIWOO, provide potential capital appreciation to LHN and provide additional opportunities to generate revenue.

<u>Financial Effect of the Pasir Panjang Acquisition</u>

The Pasir Panjang Property will be held as an investment property in LHN after completion of the Pasir Panjang Acquisition. The investment properties of LHN would be expected to increase by approximately S$30.9 million which consists of the Pasir Panjang Consideration, stamp duty and legal fee. Total assets of LHN would be expected to increase by approximately S$24.0 million and net asset value of LHN is expected to remain unchanged as the increase in investment properties mentioned above will be offset by the decrease of approximately S$6.9 million in cash and the remaining of approximately S$24.0 million will be financed by bank borrowings, which is expected to therefore increase total liabilities by the same amount.

(b) Acquisition of 48 Arab Street

On 23 September 2022, LHN entered into an option to purchase to acquire a property at 48 Arab Street, Singapore 199745, for a consideration of S$6,388,000. On 16 December 2022, LHN announced that it had completed the acquisition of the property.

<u>Information about 48 Arab Street</u>

The Arab Street Property is located at 48 Arab Street Singapore 199745, which has a total land area of 122.9 sq.m with a remaining lease of approximately 29 years. The Arab Street Property is currently used by the Vendor as a backpacker hostel.

No information on the book value nor the net profits (both before and after taxation and extraordinary items) attributable to the Arab Street Property is made available by the Vendor as the Purchaser is acquiring the property and not the business of the Vendor nor the holding company of the Arab Street Property. The Arab Street Property is sold with vacant possession.

Rationale for Acquisition

LHN intends to operate the Arab Street Property as a co-living space. Once the Arab Street Property commence operations, it will expand LHN's portfolio of properties under the co-living business in Singapore, increase brand value of COLIWOO, provide potential capital appreciation to LHN and provide additional opportunities to generate revenue.

Financial Effect of the 48 Arab Street

Coliwoo West Pte. Ltd, an indirect wholly-owned subsidiary of LHN had paid a deposit of S$319,400 exclusive of GST to the Vendor as at 23 September 2022. The remaining balance of S$6,068,600 exclusive of GST, being the total Consideration exclusive of GST less the sum of the deposit, was paid to the Vendor on 16 December 2022 and funded through a combination of internal sources of funding and bank borrowings.

(c) Lease Agreement for 18 Tampines Industrial Crescent

On 12 October 2022, LHN entered into a lease agreement for the tenancy at 18 Tampines Industrial Crescent (Tampines Property), Singapore, for a term of three years and 11 months commencing on 13 October 2022. Pursuant to IFRS 16, the lease will be recognised as an investment property (right-of-use asset) with a lease liability of approximately S$53.1 million, which is calculated with reference to the present value of the aggregated lease payments to be made during the term of three years and 11 months plus option to renew for a further term of three years.

Information about 18 Tampines Industrial Crescent

The Tampines Property is an industrial property under the Space Optimisation Business of LHN with an estimated floor area of approximately 42,000 sq.m. LHN subleases the Tampines Property to its tenants for Business 2 Clean and Light Industry business. By entering into the Lease Agreement, LHN Space Resources can continue to offer business spaces to its tenants under the Space Optimisation Business as part of its ordinary and usual course of business.

The terms of the Lease Agreement (including the rent and service charges) were determined after arm's length negotiations between the Parties and with reference to prevailing market rates in the vicinity and the rent and service charges payment made by LHN under the previous lease.

Financial Effect of the Tampines Property

Pursuant to IFRS16, the tenancy of the Tampines Property will be recognised as right-of-use asset under investment properties of approximately S$53.1 million, which is calculated with reference to the present value of the aggregated lease payments to be made under the Tampines Lease Agreement during the Term plus option to renew for a further term of three years. Along with the recognition of the right-of-use asset, a lease liability amounting to approximately S$53.1 million will be recognised. Net asset value of LHN is expected to remain unchanged as the increase in investment property will be offset by the increase in lease liability immediately after entering into the Tampines Lease Agreement. At the end of the Term including the option to renew for a further term of three years, the book value of the Tampines Property right-of-use asset will be zero.

(d) Projected Gearing Ratio After The Acquisitions

As noted on the page 23 and page 24, for the acquisition of the Pasir Panjang Property, approximately S$24.0 million will be financed by bank borrowings while for the acquisition of 48 Arab Street, S$6,068,600 will be funded through a combination of internal sources of funding and bank borrowings. In our projections, we would assume the full S$6,068,600 to be funded through bank borrowings. Considering the above, the total increase in bank borrowings from the acquisition of the two asset would be S$30.1 million =[S$24.0 million (bank borrowings for Pasir Panjang Property) + S$6.1 million (bank borrowings for 48 Arab Street)].

As noted on page 11, LHN's total borrowings amounted to S$148.2 million as at 30 September 2022. Considering the bank borrowings attributable to LHN after the acquisitions of S$30.1 million, the projected total borrowings would amount to S$178.2 million =[S$148.2 million (FY2022 actual bank borrowings) + S$30.1 million (projected bank borrowings attributable to LHN after acquisitions)]. Assuming the lease liabilities, trade & other payables, cash & bank deposit, fixed deposit, long term fixed deposit and total equity to remain unchanged as at 30 September 2022, the projected gearing would amount to 57.0% as shown in **Exhibit 29**.

Exhibit 29: Projected Gearing Ratio For LHN After Acquisitions

[S$'000]	30-Sep-22	After acquistions
Bank borrowings	148,173	178,242
Lease liabilities	81,376	81,376
Trade and other payables	37,115	37,115
Less: cash and bank balances	(39,727)	(39,727)
Less: fixed deposit	(1,584)	(1,584)
Less: long term fixed deposit	(500)	(500)
Net debt	**224,853**	**254,922**
Total equity	192,178	192,178
Total capital	417,031	447,100
Gearing ratio	**54.4%**	**57.0%**

Source: LHN, FPA Financial

(II) Pipeline Projects

In FY2023, LHN is expecting new Coliwoo properties to be launched in Singapore which aims to provide flexible and affordable residential offerings, on the back of rising rental rates in Singapore partly due to the recent new property cooling measures introduced by the Singapore government. The upcoming launch of Coliwoo properties will add a total estimated 700 keys to the co-living portfolio, bringing the total estimated keys to 1,972 for FY2023 as shown in **Exhibit 30**.

Exhibit 30: LHN's Pipeline Projects (by keys)

	Coliving – Singapore Projects		85 SOHO – Overseas Projects		
	Master Lease	Owned / Joint Venture	Master Lease	Owned / Joint Venture	Total
FY2022	811	204	117	108	1,240
FY2023*	1,327	262	275	108	1,972

* Include properties that are in FY2023 pipelines based on current projects secured.

Source: LHN

LHN added that their growth strategy is to expand its current properties portfolio in Singapore through master leases and acquisitions. LHN targets to add at least 800 rooms every year for the next 3 years.

FINANCIAL PROJECTION

In this section, we will be providing our projections for LHN's revenue, earnings and dividend distribution in FY2023 and FY2024

(I) Revenue Projection

Space Optimisation

(a) FY2023

Industrial

As mentioned on page 3, revenue derived from Industrial Properties increased by 6.9% yoy in FY2022 mainly due to contribution of revenue from the new property acquired in the first quarter of FY2022. As noted on page 16, JTC, CBRE, Colliers and Knight Frank believe that demand for industrial space in 2023 is expected to be healthy and occupancy relatively stable. Further, we also expect a full year revenue contribution from the lease agreement for 18 Tampines Industrial Crescent, as noted on page 24. However, we note that this lease agreement is a renewal for LHN's existing property. Hence, the revenue contribution from the 18 Tampines Industrial Crescent property would have been included for the Industrial segment in FY2022.

Given the positive outlook in the industrial market, we expect LHN's revenue from its existing industrial properties to increase. Hence, we would assume Colliers' rental growth projection of 5% for our revenue projection for the industrial properties for FY2023. Accordingly, the projected revenue for existing industrial properties for FY2023 would be as follows:

- Projected revenue from industrial properties for FY2023 = 105.0% (projected growth) x S$18.9 million (FY2022 actual) = S$19.8 million

Commercial

As mentioned on page 4, revenue from Commercial Properties decreased by 2.3% yoy in FY2022 mainly due to decrease in revenue from subleases as a result of the expiry of three master leases during FY2021. However, CBRE noted that prime rents continued to rise on the back of firm return-to-office demand and healthy building occupancies and expects rent to increase by about 1.0% in 2023. In addition, Savills expects rents to rise by 2.0% in 2023 as believes that the increase in gross rents is expected to be driven by inflationary pressures on the service charge element and some partial ability of landlords to pass those increases on due to the relative low levels of new supply.

Considering the above, we would assume the revenue for commercial properties to increase by 1.5% in FY2023. This is the midway point of the projected rental growth of 1.0% and 2.0% by CBRE and Savills respectively. We note that the projections were for Core Grade A properties, but we would use this as a proxy for our revenue growth projections for commercial properties. Accordingly, the projected revenue for commercial properties for FY2023 would be as follows:

- Projected revenue from commercial properties for FY2023 = 101.5% (projected growth) x S$7.6 million (FY2022 actual) = S$7.7 million

Residential

As mentioned on page 4, revenue derived from Residential Properties increased by 24.3% yoy due to the increase in revenue from the co-living business in Singapore. However, recent data from Urban Redevelopment Authority (URA) showed that the rentals of private residential properties increased by 8.6 qoq in 3Q2022. Further, according to Savills, the rental transaction volume of private residential units also increased by 20.5% qoq in 3Q2022. Savills also believes that residential rents may rise by 5% to 10% yoy in 2023, as noted on page 18.

As noted on page 25, in FY2023, LHN is expecting new Coliwoo properties to be launched in Singapore which aims to provide flexible and affordable residential offerings, on the back of rising rental rates in Singapore. According to LHN, the number of keys for its Residential Properties is expected to increase from 1,240 in FY2022 to 1,972 in FY2023. We believe this would help to underpin growth in revenue for the residential properties for LHN.

Considering the positive data from URA and the projected 5% to 10% yoy rental increase in FY2023 from Savills, we would assume LHN's revenue from existing residential properties to increase by 7.5% in FY2023, which is the midway point of Savills' forecast. Accordingly, the projected revenue for existing residential properties for FY2023 would be as follows:

- Projected revenue from existing residential properties for FY2023 = 107.5% x S$16.2 million (FY2022 actual) = S$17.4 million

We would also be projecting the revenue contribution from the new residential properties to be launched in FY2023. We would assume the increase in keys as a proxy for the increase in revenue contribution. However, we believe that we should not recognise 100% of the increase in revenue based on the increase in keys as not all the new projects would record a full-year revenue contribution. Hence, we would be conservative and recognise 60% of the increase in revenue from new residential properties. Accordingly, the projected revenue from the new residential properties would amount to S$6.2 million as follows:

- Projected revenue from new residential properties for FY2023 = ((1,972 – 1,240) / 1,240) (projected increase in number of keys in FY2023) x S$17.4 million (projected revenue from existing residential properties for FY2023) x 60% (projected operational duration) = S$6.2 million

Accordingly, the projected revenue for residential properties for FY2023 would be as follows:

- Projected revenue for residential properties for FY2023 = S$17.4 million (projected revenue from existing properties for FY2023) + S$6.2 million (projected revenue from new residential properties) = S$23.5 million.

Total Revenue for Space Optimisation Segment (FY2023)

Consequently. our projected revenue for Space Optimisation segment in FY2023 would amount to S$51.0 million as shown in **Exhibit 31**.

Exhibit 31: Projected Revenue for Space Optimisation Segment in FY2023

	Actual		Forecast
S$'000	FY2021	FY2022	FY2023
Space optimisation			
Industrial	17,663	18,877	19,821
Commercial	7,735	7,555	7,668
Residential	12,998	16,160	23,525
Total	**38,396**	**42,592**	**51,014**

Source: LHN, FPA Financial

(b) FY2024

For FY2024, we would be conservative in our projections and will not be projecting any new acquisitions, lease agreements or any asset enhancement initiatives in FY2024. However, amid the stablisation of the virus situation, the acceleration in the reopening of borders and a stable economic growth in Singapore, we would expect LHN's revenue in FY2024 to improve and assume the revenue from the Space Optimisation segment to increase.

Considering the above, we would assume International Monetary Fund's (IMF) 5-year GDP growth projections for Singapore of 2.5% as a proxy for the increase in revenue across the Space Optimisation segment.

Industrial

Considering the projected 2.5% increase in revenue for FY2024, the projected revenue from industrial properties would be as follows:

- Projected revenue from existing industrial properties for FY2024 = 102.5% x S$19.8 million (projected FY2023) = S$20.3 million

Commercial

As we are assuming that LHN would not be acquiring new properties in FY2024, taking into consideration the 2.5% yoy increase in revenue for the commercial segment, the projected revenue from commercial properties would be as follows:

- Projected commercial revenue for FY2024 = 102.5% x S$7.7 million (projected FY2023) = SS$7.9 million

Residential

Given the stable outlook on Singapore's economy as discussed on the previous page and assuming a 2.5% yoy increase in revenue for FY2024, the projected revenue from existing residential properties would be as follows:

- Projected revenue from existing residential properties for FY2024 = 102.5% x S$17.4 million (projected FY2023 for existing residential properties) = S$17.8 million

For our FY2024 projections for the new residential properties, we would assume that all the projects secured in FY2023 is fully operational in FY2024 and would recognise 100% of the increase in revenue based on the increase in number of keys. Accordingly, the projected revenue from the new residential properties would amount to S$10.3 million as follows:

- Projected revenue from new residential properties for FY2024 = S$6.2 million (projected revenue from new residential properties for FY2023) / 60% (rebased to 100%) = S$10.3 million

Accordingly, the projected residential revenue for FY2024 would amount to S$28.1 million = [S$17.8 million (projected revenue from existing residential properties for FY2024) + S$10.3 million (full year contribution from the new residential properties)].

Revenue for Space Optimisation Segment (FY2024)

Consequently, the projected revenue for LHN's Space Optimisation segment for FY2023 and FY2024 would be S$51.0 million and S$56.2 million respectively, as shown in **Exhibit 32**.

Exhibit 32: Projected Revenue for LHN's Space Optimisation Segment for FY2023 and FY2024

	Actual		Forecast	
S$'000	FY2021	FY2022	FY2023	FY2024
Space optimisation				
Industrial	17,663	18,877	19,821	20,316
Commercial	7,735	7,555	7,668	7,860
Residential	12,998	16,160	23,525	28,061
Total	**38,396**	**42,592**	**51,014**	**56,238**

Source: LHN, FPA Financial

Facilities Management

With reference to **Exhibit 33**, we note that LHN's revenue from facilities management has been increasing from S$19.5 million in FY2018 to S$55.4 million in FY2021.

The increase in revenue from FY2018 to FY2019 was mainly due to the increase in revenue from car parking services with improved returns of LHN's existing car parks and increase car park rates, increase of revenue from the increase in car parks managed by LHN and the increase in revenue from new security contracts secured from an increase in demand of security services.

The increase in revenue from facilities management from S$39.6 million in FY2020 to S$55.4 million in FY2021 was attributable to new acquisitions and the commencement of operations of 33 new car parks in January 2021 awarded by JTC Corporation.

However, the revenue derived from the Facilities Management Business decreased from S$55.4 million in FY2021 to S$41.9 million in FY2022 mainly due to decrease in facilities management services from the dormitory business, as noted on page 4.

Exhibit 33: LHN's Revenue from Facilities management (FY2018 to FY2022)

S$'000	FY2018	FY2019	FY2020	FY2021	FY2022
Facilities management	19,480	20,367	39,551	55,419	41,871

Source: LHN

For FY2023 and FY2024's revenue projections for the Facilities Management segment, we would assume that LHN would not secure big contracts as seen in FY2018 to FY2021. Considering the above, we would assume the revenue growth for the Facilities Management segment to increase by 1.5% in FY2023, which is the midway point of the projected Singapore's 2023 GDP of between 0.5% and 2.5% by MTI. For FY2024, we would assume IMF's 5-year GDP growth projections for Singapore of 2.5% as a proxy for the increase in revenue for the Facilities Management segment.

Consequently, the projected revenue for the Facilities Management segment for FY2023 and FY2024 would amount to S$42.5 million and S$43.6 million respectively as follows:

- Projected revenue for the Facilities Management segment for FY2023 = S$41.9 million (actual FY2022) x 101.5% (projected growth) = S$42.5 million

- Projected revenue for the Facilities Management segment for FY2024 = S$42.5 million (projected FY20223) x 102.5% (projected growth) = S$43.6 million

Logistics Services

With reference to **Exhibit 34**, we note that LHN's revenue from Logistics Services had been increasing over the past 5 years from S$22.2 million in FY2018 to S$27.3 million in FY2022. We also note that over the past 5 years, the revenue from logistics services increased at a CAGR of 4.23% = [((S$27.3 million (FY2022) / S$22.2 million (FY2018))^(1/5)) -1]. CAGR is the measure of the annual growth rate over time while taking into account the effect of compounding.

Exhibit 34: LHN's Revenue from Logistics Services (FY2018 to FY2022)

S$'000	FY2018	FY2019	FY2020	FY2021	FY2022
Logistics services	22,204	24,937	25,185	27,162	27,309
CAGR					4.23%

Source: LHN, FPA Financial

Given the above, we would assume LHN's revenue from Logistics Services to increase at its CAGR of 4.23% yoy for FY2023 and FY2024. Accordingly, the projected revenue from logistics services for FY2023 and FY2024 would be S$28.5 million and S$29.7 million respectively as follows:

- Projected revenue for Logistics Services for FY2023 = S$27.3 million (actual FY2022) x 104.23% (projected growth) = S$28.5 million

- Projected revenue for Logistics Services for FY2024 = S$28.5 million (projected FY20223) x 104.23% (projected growth) = S$29.7 million

Total Revenue

Consequently, LHN's total projected revenue for FY2023 and FY2024 would amount to S$122.0 million and S$129.5 million respectively, as shown in **Exhibit 35**.

Exhibit 35: Projected Total Revenue for FY2023 and FY2024

	Actual		Forecast	
S$'000	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Space optimisation				
Industrial	17,663	18,877	19,821	20,316
Commercial	7,735	7,555	7,668	7,860
Residential	12,998	16,160	23,525	28,061
Total space optimisation	38,396	42,592	51,014	56,238
Facilities management	55,419	41,871	42,499	43,562
Logistics services	27,162	27,309	28,464	29,668
Total revenue	**120,977**	**111,772**	**121,977**	**129,468**

Source: LHN, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2023 and FY2024, we will now estimate LHN's earnings for these periods.

Gross Profit

For our gross profit projections, we will consider LHN's historical gross profit margins. We note that LHN's gross profit margin decreased from 55.0% in FY2021 to 52.8% in FY2022. In FY2022, high inflation, rising interest rates, and Russia's invasion of Ukraine, all of which have driven up operating costs. We believe that these challenges are likely to persist. Given the above, for FY2023 and FY2024, we would assume the same gross profit margin of 52.8% as in FY2022. Accordingly, the projected gross profit for FY2023 and FY2024 would be S$64.4 million and S$68.4 million respectively, as shown in **Exhibit 36**.

Exhibit 36: Projected Gross Profit for FY2023 and FY2024

	Actual		Forecast	
S$'000	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Total revenue	120,977	111,772	121,977	129,468
Cost of sales	(54,426)	(52,725)	(57,539)	(61,072)
Gross profit	**66,551**	**59,047**	**64,438**	**68,395**
Gross profit margin	55.0%	52.8%	52.8%	52.8%

Source: LHN, FPA Financial

Other Income

As mentioned on page 5, other income decreased by 21.1% yoy in FY2022 due to the write-off of a leasehold building, impairment loss on property, plant and equipment under the Space Optimisation Business and decrease in net rental rebates received from Governments and landlords. With reference to **Exhibit 36**, we note that LHN's other income varies due to writing off / impairment loss on property, plant & equipment, writing off of lease building and gain from investment in subleases. Considering the above, we would take the average other income recorded between FY2019 and FY2022 of S$12.2 million =[(S$5.0 million (actual FY2019) + S$17.1 million (actual FY2020) + S$15.0 million (actual FY2021) + S$11.8 million (actual FY2022)) / 4] for our projections for other income in FY2023 and FY2024.

In addition, as noted on page 13, LHN announced the disposal of Getgo Technologies and Coliwoo East Pte Ltd (the JV Company) for an expected gain of approximately S$6.5 million and an estimated loss of S$1.6 million respectively. Accordingly, the projected other income for FY2023 would amount to S$17.1 million =[S$12.2 million (average between FY2019 and FY2022) + S$6.5 million (expected gain from disposal of Getgo Technologies) + (S$-1.6 million) (expected loss from the disposal of JV Company)] as shown in **Exhibit 37.**

Exhibit 37: Projected Other Income for FY2023 and FY2024

	Actual				Forecast	
S$'000	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Other income	5,012	17,103	15,000	11,829	17,136	12,236

Source: LHN, FPA Financial

Other Operating Expenses

As noted on page 6, other operating expenses increased 64.2% yoy from S$0.2 million in FY2021 to S$0.4 million in FY2022 mainly due to increase in impairment losses on receivables. For both FY2023 and FY2024, we would assume the impairment loss on trade, other and lease receivables to remain unchanged at S$0.4 million as recorded in FY2022 as shown in **Exhibit 38**.

Exhibit 38: Projected Other Operating Expenses for FY2023 and FY2024

	Actual		Forecast	
S$'000	FY2021	FY2022	FY2023	FY2024
Other operating expenses				
Impairment loss on trade, other and lease receivables	(232)	(381)	(381)	(381)

Source: LHN. FPA Financial

Selling & Distribution and Administrative Expenses

As noted on page 7, the increase in selling & distribution expenses and administrative expenses were mainly due to the increase in commission expenses and staff costs, which is in line with the expansion of its residential business segment. We note that from FY2020 to FY2022, the percentage of expense to revenue for both selling & distribution expenses and administrative expenses increased to 1.85% and 35.08% respectively.

Considering the above, we would assume the average percentage of expense to revenue for selling & distribution expenses and administrative expenses between FY2020 and FY2022 for the projections for expenses in FY2023 and FY2024. The average percentage of expense to revenue for selling & distribution would be 1.43% =[(1.07% (actual FY2020) + 1.36% (actual FY2021) + 1.85% (actual FY2022)) / 3] while the average percentage of expense to revenue for administrative expense would be 28.24% =[(22.67% (actual FY2020) + 26.96% (actual FY2021) + 35.08% (actual FY2022)) / 3]

Accordingly, the projected selling & distribution expenses for FY2023 and FY2024 would amount to S$1.7 million and S$1.8 million respectively while the administrative expenses for FY2023 and FY2024 would amount to S$34.4 million and S$36.6 million respectively as shown in **Exhibit 39**.

Exhibit 39: Projected Selling & Distribution and Administrative Expenses for FY2022 and FY2023

	Actual				Forecast	
S$'000	FY2020	FY2021	FY2022	Average	FY2023	FY2024
Total revenue	134,213	120,977	111,772	-	121,977	129,468
Selling and distribution expenses	(1,433)	(1,649)	(2,071)	1.43%	(1,742)	(1,849)
% of expense to revenue	*1.07%*	*1.36%*	*1.85%*		*1.43%*	*1.43%*
Administrative expenses	(30,429)	(32,617)	(39,209)	28.24%	(34,444)	(36,559)
% of expense to revenue	*22.67%*	*26.96%*	*35.08%*		*28.24%*	*28.24%*

Source: LHN. FPA Financial

Finance Cost

As at 30 September 2022, LHN's total bank borrowings were S$148.2 million and the interest expense paid on bank borrowings was S$3.1 million. Hence, the estimated effective interest rate on LHN's bank borrowings was 2.06% = [(S$3.1 million (interest expense on borrowings in FY2022) / S$148.2 million (total bank borrowings in FY2022)].

We also note that, in its December meeting, the Federal Reserve (Fed) officials approved an interest-rate increase of 0.5 percentage point and signaled plans to lift rates through the spring, though likely in smaller increments, to combat high inflation. As a result, the benchmark federal funds rate was raised to a range of between 4.25% and 4.5%, a 15-year high. Furthermore, in the newly released economic projections, most Fed officials penciled in plans to raise the fed-funds rate to a peak level between 5% and 5.5% in 2023 and is expected to maintain that in 2024. Hence, there is a possibility that we could expect an upward pressure on interest rates for FY2023 and FY2024.

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for FY2022 was 2.38% while the 10-year bond yield for FY2023 for the first 3 months of FY2023 was 3.10%. Singapore's SGS 10-year bond yield increased by 72bps in the first 3 months of FY2023 versus the average yield for FY2022 as shown in **Exhibit 40**.

Exhibit 40: Singapore SGS 10-Year Bond Yield

FY2022	10-year bond yield (%)	FY2023	10-year bond yield (%)
Oct-21	1.84%	Oct-22	3.43%
Nov-21	1.70%	Nov-22	3.07%
Dec-21	1.67%	Dec-22	3.09%
Jan-22	1.77%	Jan-23 (1)	2.80%
Feb-22	1.90%		
Mar-22	2.34%		
Apr-22	2.53%		
May-22	2.71%		
Jun-22	2.98%		
Jul-22	2.66%		
Aug-22	2.98%		
Sep-22	3.48%		
Average	**2.38%**	**Average**	**3.10%**
Change			**72bps**

(1) As at 13 January 2023

Source: MAS, FPA Financial

In addition, as noted on page 25, the projected total debt after the acquisition of the Pasir Panjang Property and 48 Arab Street amounted to S$178.2 million. As noted on page 28, for the remainder of FY2023 and FY2024, we are not projecting any new acquisitions. Hence, we would assume that all the bank borrowings would be refinanced when it expires and there will not be additional borrowings. Hence, the projected bank borrowings for FY2023 and FY2024 would be S$178.2 million as shown in **Exhibit 41**.

Exhibit 41: Projected Bank Borrowings for FY2023 and FY2024

[S$'000]	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Total bank borrowings	101,378	148,173	178,242	178,242

Source: LHN, FPA Financial

Considering that the average SGS 10-year bond yield reached 3.10% in the first 3 months of FY2023 and that US interest rate is expected to stay elevated in FY2023 and FY2024, we would assume the estimated effective interest rate on LHN's bank borrowings to increase to 3.10% for FY2023. For FY2024, as the SGS 10-year bond yield increased by 72bps in the first 3 months of FY2023 from FY2022, we would assume the estimated effective interest rate on LHN's bank borrowings to increase by 72bps to 3.82% = [3.10% (FY2022 estimated effective interest rate) + 72bps (expected increase in interest rates)]. Assuming no further debt repayment or additional borrowings during these periods, the projected interest expense on borrowings for FY2023 and FY2024 would be S$5.0 million as follows:

- Interest expense on borrowings in FY2023 = 3.10% (projected effective interest rate in FY2023) x S$178.2 million (projected total bank borrowings in FY2023) = S$5.5 million

- Interest expense on borrowings in FY2024 = 3.82% (projected effective interest rate in FY2024) x S$178.2 million (projected total bank borrowings in FY2024) = S$6.8 million

Meanwhile, we would assume the interest expense on lease liabilities from hire purchase agreement and lease agreement to be the same as FY2022. Consequently, the total finance cost for FY2023 and FY2024 would be S$7.4 million and S$8.7 million respectively as shown in **Exhibit 42**.

Exhibit 42: Projected Finance Cost for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Interest expense on borrowings	2,035	3,056	5,525	6,804
Interest expense on lease liabilities from hire purchase agreement	165	138	138	138
Interest expense on lease liabilities from lease agreement	2,663	1,928	1,928	1,928
Interest expense on others	-	79	79	79
Less: amount capitalised	-	(271)	(271)	(271)
Total finance cost	**4,863**	**4,930**	**7,399**	**8,678**

Source: LHN, FPA Financial

Share of Results of Associates and Joint Ventures

As noted on page 7, the increase in share of results of associates and joint ventures was mainly due to the net fair value gain on investment properties in FY2022. For FY2023 and FY2024, we would assume the share of results of associates and joint ventures to be zero.

Fair Value Loss on Investment Properties

As noted on page 8, the increase in fair value loss on investment properties to S$12.3 million in FY2023 was mainly due to higher fair value gain on investment properties. For FY2023 and FY2024, we would assume fair value loss on investment properties to be zero.

Profit before Income Tax

Given the above projections, we would estimate a profit before tax of S$37.6 million in FY2023 and S$33.2 million in FY2024 as shown in **Exhibit 43**.

Exhibit 43: Projected Profit Before Income Tax for FY2023 and FY2024

	Actual	Forecast	
S$'000	FY2022	FY2023	FY2024
Space optimisation			
Industrial	18,877	19,821	20,316
Commercial	7,555	7,668	7,860
Residential	16,160	23,525	28,061
Total space optimisation	42,592	51,014	56,238
Facilities management	41,871	42,499	43,562
Logistics services	27,309	28,464	29,668
Total revenue	**111,772**	**121,977**	**129,468**
Cost of sales	(52,725)	(57,539)	(61,072)
Gross profit	**59,047**	**64,438**	**68,395**
Other income	11,829	17,136	12,236
Other operating expenses			
Impairment loss on trade, other and lease receivables	(381)	(381)	(381)
Selling and distribution expenses	(2,071)	(1,742)	(1,849)
Administrative expenses	(39,209)	(34,444)	(36,559)
Finance cost	(4,930)	(7,399)	(8,678)
Share of results of associates and joint ventures, net of tax	16,466	-	-
Fair value gain on investment properties	12,261	-	-
Profit before income tax	**53,012**	**37,609**	**33,165**

Source: LHN, FPA Financial

Income Tax Expense

According to LHN, tax has been provided at the applicable tax rate on the estimated assessable profit during the financial years. We note that LHN's effective tax rate for FY2021 and FY2022 were 16% and 10% respectively. For FY2022, LHN's tax effected tax rate were much lower due to a S$4.0 million adjustment of non-taxable income.

As we do not have sufficient information to appropriately estimate the effective tax rate, we would assume the impact of a 17.0% Singapore income tax rate to be levied on LHN's profit before income tax for FY2023 and FY2024. Accordingly, we would derive projected income tax expense of S$6.4 million and S$5.6 million for FY2023 and FY2024 respectively as shown in **Exhibit 44**.

Exhibit 44: Projected Income Tax Expense For FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Profit before income tax	34,258	53,012	37,609	33,165
Income tax expense	(5,400)	(5,498)	(6,393)	(5,638)
Effective tax rate	16%	10%	17%	17%

Source: LHN, FPA Financial

Profit for the Year

Adjusting for income tax expense, the projected profit for the year for FY2023 and FY2024 would be S$31.2 million and S$27.5 million respectively as follows:

- Total projected profit after taxation for FY2023 = S$37.6 million (projected FY2023 profit before income tax) – S$6.4 million (projected FY2023 income tax)] = S$31.2 million
- Total projected profit after taxation for FY2024 = S$33.2 million (projected FY2024 profit before income tax) – S$5.6 million (projected FY2024 income tax)] = S$27.5 million

We note that percentage of non-controlling interest to revenue vary from 2.25% to 3.66% between FY2020 and FY2022 as shown in **Exhibit 45**. We would assume the percentage of non-controlling interest to profit for the year of 2.91%, which is the average percentage of NCI compared to profit of the year between FY2020 and FY2022. Accordingly, the projected non-controlling interest for FY2023 and FY2024 would amount to S$0.9 million and S$0.8 million as follows:

- Projected non-controlling interest for FY2023 = 2.91% x S$31.2 million (projected profit for the year for FY2023) = S$0.9 million
- Projected non-controlling interest for FY2024 = 2.91% x S$27.5 million (projected profit for the year for FY2024) = S$0.8 million

Exhibit 45: Projected Non-Controlling Interest For FY2023 and FY2024

S$'000	Actual			Forecast	
	FY2020	FY2021	FY2022	FY2023	FY2024
Profit for the year	24,687	28,858	47,514	31,215	27,527
Profit attributable to:					
Equity holders of the Company	24,144	28,063	45,838	30,306	26,725
Non-controlling interests (NCI)	543	795	1,676	909	802
% of NCI	2.25%	2.83%	3.66%	2.91%	2.91%

Source: LHN, FPA Financial

Accordingly, profit attributable to equity holders of the company for FY2022 and FY2023 would be S$30.3 million and S$26.7 million respectively, as shown in **Exhibit 46**.

Exhibit 46: Projected Profit for the Year for FY2023 and FY2024

	Actual	Forecast	
S$'000	**FY2022**	**FY2023**	**FY2024**
Space optimisation			
Industrial	18,877	19,821	20,316
Commercial	7,555	7,668	7,860
Residential	16,160	23,525	28,061
Total space optimisation	42,592	51,014	56,238
Facilities management	41,871	42,499	43,562
Logistics services	27,309	28,464	29,668
Total revenue	**111,772**	**121,977**	**129,468**
Cost of sales	(52,725)	(57,539)	(61,072)
Gross profit	**59,047**	**64,438**	**68,395**
Other income	11,829	17,136	12,236
Other operating expenses			
Impairment loss on trade, other and lease receivables	(381)	(381)	(381)
Selling and distribution expenses	(2,071)	(1,742)	(1,849)
Administrative expenses	(39,209)	(34,444)	(36,559)
Finance cost	(4,930)	(7,399)	(8,678)
Share of results of associates and joint ventures, net of tax	16,466	-	-
Fair value gain on investment properties	12,261	-	-
Profit before income tax	**53,012**	**37,609**	**33,165**
Income tax expense	(5,498)	(6,393)	(5,638)
Profit for the year	**47,514**	**31,215**	**27,527**
Profit attributable to:			
Equity holders of the Company	45,838	30,306	26,725
Non-controlling interests	1,676	909	802

Source: LHN, FPA Financial

Earnings per Share

Consequently, assuming the latest available number of ordinary shares in issue as at 30 September 2022, for our FY2023 and FY2024 EPS projections, we project an earnings per share of 7.41 cents for FY2023 and 6.54 cents in FY2024. We have summarised our projected earnings per share in **Exhibit 47**.

Exhibit 47: Projected Earnings Per Share for FY2023 and FY2024

	Actual	Forecast	
S$'000	**FY2022**	**FY2023**	**FY2024**
Profit attributable to equity holders of the Company	45,838	30,306	26,725
Number of ordinary shares in issue ('000)	408,945	408,945	408,945
Earnings per share (cents)	**11.21**	**7.41**	**6.54**

Source: LHN, FPA Financial

(III) Dividend Projection

With our projected profit for the year, we would now estimate LHN's dividend payment to equity holders of the Company. According to LHN's FY2022 annual report, LHN will declare and/or recommend the payment of dividends to the Shareholders for approval after considering LHN's ability to pay dividends, which will depend upon, among other things, its cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions and so on.

We note that LHN's dividend payout ratio in FY2021 and FY2022 was 25% and 16% respectively. In addition, as noted on page 10, LHN prosed a final dividend of 1.0 Singapore cent per ordinary share, on top of the interim dividend of 0.6 Singapore cents and special dividend of 0.15 Singapore cents per ordinary share. Assuming LHN does not distribute the special dividend of 0.15 Singapore cents, the dividend distribution would amount to 1.60 cents. Accordingly, for our dividend distribution projections, we would assume a dividend distribution of 1.60 for both FY2023 and FY2024. Accordingly, the projected dividend payout ratio would amount to 22% and 24% for FY2023 and FY2024 respectively, which is within its historical range of 16% to 25% as shown in **Exhibit 48**.

Exhibit 48: Projected Dividend Distribution for FY2023 and FY2024

	Actual		Forecast	
S$'000	FY2021	FY2022	FY2023	FY2024
Profit attributable to equity holders of the Company	28,063	45,838	30,306	26,725
Earnings per share	6.94	11.21	7.41	6.54
Dividend (cents)	1.75	1.75	1.60	1.60
Dividend payout ratio	25%	16%	22%	24%

Source: LHN, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

As noted on page 7, LHN's share of results of associates and joint ventures increased by approximately S$12.8 million from approximately S$3.7 million in FY2021 to approximately S$16.5 million in FY2022 mainly due to (i) increase in share of net fair value gain on investment properties; and (ii) increase in operating profit from our joint ventures. In addition, LHN's fair value gain on investment properties was approximately S$12.3 million in FY2022 as compared to a fair value loss on investment properties of approximately S$11.6 million FY2021. The increase in share of results of associates & joint ventures and fair value gain has caused the increase in LHN's earnings in FY2022.

Considering the above, in our peer comparison analysis, we would assume that LHN's earnings would not be affected by its share of results of associates & joint ventures and its fair value gain. Hence, we would assume LHN's forward earnings per share of 7.41 cents and dividend distribution of 1.60 cents as projected for FY2023 for our peer comparison analysis.

As noted on page 1, LHN is a real estate management company which provides space optimisation, facilities management and logistics management services. We consulted LHN and its management believes that LHN has no close peers given the diversified business that it operates in.

For the selection of LHN's peer companies, as there are currently no co-living listed REITs, we decided to use hospitality REITs as a proxy. Considering the above, we selected Frasers Hospitality Trust (FHT) and ARA US Hospitality Trust (AHT) as LHN's peer companies for its co-living property holding investments. We also selected GKE Corporation Limited and Vibrant Group as its peer companies in the warehousing and logistics management services segment. **Exhibit 49** summarises the data for the peer comparison analysis.

Exhibit 49: Peer Comparison

Company	Stock code	Price (Local $) as at initiation report (1)	Price (Local $) as at 25 Jan 2023	Market cap (Local $ million)	EPS (2) (Local cents)	P/E (x)	DPU (2) (Local cents)	Dividend yield (%)	NAV per share (Local $)	P/B (x)
LHN Limited (3) (4)	41O	0.300	0.320	130.86	7.41	4.32	1.60	5.00	0.45	0.70
Peer companies:										
Frasers Hospitality Trust (4)	ACV	0.455	0.480	924.52	3.03	15.84	1.64	3.41	0.65	0.74
GKE Corporation Limited (4)	595	0.114	0.089	68.99	0.61	14.59	0.20	2.25	0.12	0.77
Vibrant Group (4)	BIP	0.098	0.082	57.23	1.43	5.73	0.15	1.83	0.33	0.25
ARA US Hospitality Trust (5)	XZL	0.505	0.380	216.30	(1.09)	NM	1.78	4.68	0.72	0.53
Peer average	-	-	-	-	-	**12.06**	-	**3.04**	-	**0.57**

Figures have been rounded. NM: not meaningful
(1) As at 19 Jan 22
(2) Trailing 12-month data
(3) Forward PE and dividend yield
(4) Currency in SGD
(5) Currency in USD
Source: Respective company data, FPA Financial

(a) P/B Multiple

Based on the results in **Exhibit 49** on the previous page, we note that LHN is currently trading at a P/B multiple of 0.70x, which is higher than the peer average P/B of 0.57x. Adopting a relative valuation approach, we estimated a target price of S$0.257 if LHN were to trade at the peer average P/B multiple of 0.57x as follows:

- Estimated target price = [peer average P/B] x [LHN's NAV per share] = 0.57 x S$0.45 = S$0.257

The estimated target price of S$0.257 would imply a downside potential of 19.69% from the current price of S$0.320.

(b) P/E Multiple

Furthermore, based on the results in **Exhibit 49** on the previous page, we also note that LHN is currently trading at a P/E multiple of 4.32x, which is lower than the peer average P/E of 12.06x, which may suggest that it is undervalued at the current share price of S$0.320. Similarly, adopting a relative valuation approach, we estimated a target price of S$0.892 if LHN were to trade at the peer average P/E of 12.06x as follows:

- Estimated target price = [peer average P/E] x [LHN's EPS] = 12.06 x S$0.074 = S$0.892

The estimated target price of S$0.892 would imply an upside potential of 178.75% from the current price of S$0.320.

(c) Dividend Yield

In addition, based on the results in **Exhibit 49** on the previous page, we note that LHN's dividend yield of 5.00% is relatively more attractive than the peer average dividend yield of 3.04%. Adopting a relative valuation approach, we estimated a target price of S$0.526 as follows:

- Estimated target price = [(LHN's dividend yield/ peer average dividend yield) x LHN's current price] = (5.00% / 3.04%) x S$0.320 = S$0.526

The estimated target price of S$0.526 would imply an upside potential of 64.38% from the current price of S$0.320.

(d) Estimated Target Price

Adopting a relative valuation approach, we estimated a target price of S$0.257, S$0.892 and S$0.526 based on the peer average P/B, P/E and dividend yield comparison analysis respectively. By taking the average of our estimated target price, we derived a target price of S$0.558 as follows:

- Estimated target price = [(Estimated target price from P/B analysis + Estimated target price from P/E analysis) + Estimated target price from dividend yield analysis / 3] = (S$0.257 + S$0.892 + S$0.526) / 3 = S$0.558

The estimated target price of S$0.558 would imply an upside potential of 74.38% from the current price of S$0.320. However, based on the current market environment, we do not think it is possible for LHN's share price to rise beyond the P/B of 1.00x. Considering the above, we believe that it could be more reasonable for LHN's share price to trade at S$0.450, which represents a P/B of 1.00x. Accordingly, this estimated target price would represent a 40.63% upside from the current price of S$0.320.

INVESTMENT RECOMMENDATION

Based on LHN’s reported book value of S$0.45 as at 30 September 2022, it currently has a P/B of 0.70x and is trading at a discount of approximately 30% to NAV. Meanwhile, our peer comparison analysis results show that LHN’s P/B of 0.70x is higher than the peer average P/B of 0.57x. We adopted a relative valuation approach to derive an estimated target price of S$0.257 if LHN were to trade at its peer average P/B of 0.57x.

At the same time, based on LHN’s forward 12 months earnings of 7.41 cents for FY2023, it has a P/E of 4.32x. Our peer comparison analysis results show that LHN’s P/E of 4.32x is lower than the peer average P/E of 12.06x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S$0.892 if LHN were to trade at its peer average P/E of 12.06x.

Our peer comparison analysis results also show that LHN’s dividend yield of 5.00% is relatively more attractive than the peer average dividend yield of 3.04%. Adopting a relative valuation approach, we estimated a target price of S$0.526.

Taken together, by calculating the average of our estimated target price based on the P/B, P/E and distribution yield peer comparison analysis, we derived a target price of S$0.558 = [(S$0.257 + S$0.892 + S$0.526) / 3]. However, based on the current market environment, we do not think it is possible for LHN’s share price to rise beyond the P/B of 1.00x. Considering the above, we believe that it could be more reasonable for LHN’s share price to trade at S$0.450, which represents a P/B of 1.00x.

With the stable outlook for Singapore’s economy and a positive outlook for the industries LHN are operating in, we expect LHN’s financial performance to continue to improve in FY2023 and FY2024. Further, there are also potential catalysts for LHN such as new acquisitions and new lease agreements which will underpin revenue and profit growth.

Considering the above, we will maintain our buy recommendation on LHN. Our target price of S$0.450 implies a potential upside of 40.63% from the current share price of S$0.320 However, there are still risks to our target price which we will highlight in the next section.

RISKS TO THE TARGET PRICE

In this section, we highlight below risk factors that may limit the potential upside to LHN's target price.

(I) Weak Global Economic Recovery

After a tentative recovery in 2021, increasingly gloomy developments in 2022 began to materialise. Global output fell in the second quarter of this year as a result of declines in China and Russia. A number of upsets have hit an already fragile global economy, including higher-than-anticipated global inflation, especially in the US and major European economies, tighter financial conditions, a worse-than-anticipated slowdown in China due to COVID-19 outbreaks and lockdowns, and more negative effects from the conflict in Ukraine. In its latest World Economic Outlook, the International Monetary Fund (IMF) projects the global economy to grow by 3.2% in 2022, slower than the 6.0% in 2021 and 0.4 percentage points lower than its April's forecast. For 2023, IMF projects global economy to grow by 2.7%, slower than the 3.2% projected in 2022 and 0.9 percentage points lower than its April forecast.

Further, high uncertainties also surround this outlook as risks are heavily skewed to the downside. If labor markets are tighter than expected or inflation expectations unanchor, inflation may be harder to control than expected. Debt distress in developing and emerging market economies may result from tighter international financial conditions. In addition, geopolitical fragmentation could also prevent international cooperation and trade from progressing. Given this, it is possible that inflation will rise even more, global growth will continue to slow down, and this will hinder the recovery of the world economy. This could weigh on the performance of LHN's earnings performance going forward.

(II) Higher Operating Cost Due To The Potential Resurgence of Covid-19

The Covid-19 pandemic have disrupted and caused a shortages in the global supply chain. This has impacted the real estate industry in terms of higher construction cost and construction delays. If there is a resurgence of the Covid-19 situation, there is a possibility that construction cost would continue to rise and would put pressure on LHN to manage its profit margins. At the same time, with longer delays to its construction works, LHN would be unable to lease out its properties. This would negatively impact LHN's financial performance.

(III) Currency Risk

We note that LHN is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Singapore dollars. With all other variables being held constant, a 5% strengthening/weakening of the HKD and USD against Singapore Dollar at the reporting date would have either increased or decreased LHN's net profit after tax by the amounts (nearest thousand) shown in **Exhibit 50** on the next page.

Exhibit 50: Sensitivity Analysis of Currency Risk on LHN's (Loss)/ Profit after Taxation In FY2022

	As at 30 September	
	2022	2021
The Group	**S$'000**	**S$'000**
HKD against SGD		
– Strengthened	**5**	11
– Weakened	**(5)**	(11)
USD against SGD		
– Strengthened	**(193)**	(161)
– Weakened	**193**	161

Source: LHN

In addition, LHN is exposed to currency translation risk upon translation of the net assets in foreign operations into LHN's reporting currency in SGD. During FY2022, LHN recorded an exchange gain of S$721,000. LHN has not carried out any hedging activities against foreign exchange fluctuations.

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