

PropNex Ltd

Every engine should be humming



SINGAPORE | REAL ESTATE (AGENCIES) | 4Q19 RESULTS

2 March 2020

- The more than 3-fold spike in 4Q19 net profit beat our earnings forecast. Revenue from new launches was far better than expected.
- Revenue surged on the back of the strong recovery in new project launches (+244% YoY) and stability in the resale market (+15% YoY).
- PropNex maintained full-year dividend at 3.5 cents, a dividend yield of 6.4%.
- We maintain our BUY recommendation. Our target price is raised to S\$0.70 (previously S\$0.59).** FY20e will be a year of growth, all three key business segments are recovering - new launches, HDB and private resale. PropNex stands out for its significant market share in Singapore (48% new launches), impressive unlevered ROE (28%), net cash balance sheet of S\$82mn and attractive dividend yield.

BUY (Maintained)

LAST DONE PRICE	SGD 0.545
FORECAST DIV	SGD 0.038
TARGET PRICE	SGD 0.700
TOTAL RETURN	35.4%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370
MARKET CAP (USD mn / SGD mn):	138 / 191
52 - WK HI/LO (SGD):	0.76 / 0.44
3M Average Daily T/O (mn):	0.34

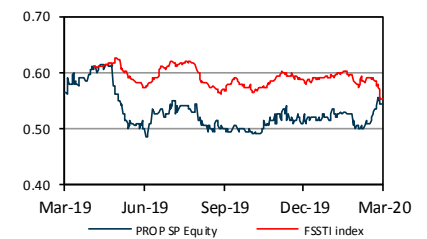
MAJOR SHAREHOLDERS (%)

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	8.6%
SEONG KELVIN FONG KENG	7.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(9.8)	(5.2)	N.A.
STI RETURN	(5.8)	0.4	(6.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY18	FY19	FY20e	FY21e
Revenue	431.5	419.8	444.9	465.1
Gross Profit	41.4	44.3	46.7	48.4
Operating Profit	26.4	25.6	29.4	31.5
PAT	19.4	20.0	23.3	25.1
P/E (x)	10.4	10.1	8.7	8.0
P/B (x)	2.9	2.8	2.5	2.2
EPS, SGD cents	5.2	5.4	6.3	6.8
Dividend yield, %	6.4	6.4	7.0	7.3
ROE	27.6%	27.9%	28.3%	26.8%
ROA	13.7%	13.0%	14.2%	14.1%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 10.0%, Terminal growth -2%)

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Results at a glance

(SGD mn)	4Q19	4Q18	YoY	Comments
Revenue	131.0	83.0	58%	Project marketing the key revenue driver
- Agency services	74.3	65.5	13%	
a) Private resale	24.6	21.3	15%	Stability creeping in.
b) HDB resale	20.8	20.3	2%	Proven to be stable and recurrent.
c) Rental	28.7	27.9	3%	Proven to be stable and recurrent.
- Project Marketing	55.4	16.1	244%	
Staff costs	(3.5)	(4.6)	-24%	Accrued bonus payments in earlier quarters.
Gross profit	14.9	7.7	93%	
Operating profit	9.8	2.1	370%	
PATMI	8.2	1.8	349%	
Dividend (Cts) - final	1.5	1.5	0%	Full-year dividend of 3.5 cents, similar to FY18.
- sp.	0.75	2.0	-63%	

Source: Company, PSR

The Positives

+ Robust share of new launches. Commission revenue from new launches (or project marketing) rose almost 2.5x to S\$55.4mn. Apart from the overall improvement in sales, PropNex market share of new launches rose to 48% in 2019 (FY18: 42.4%, 3Q19: 46.1%). In 2019, PropNex was involved in 47 projects (FY18: 30).

+ Private resale market stabilised. Even the resale market has started to recover for PropNex. There was a 15% YoY increase in revenues. Revenues on a QoQ basis was flat. This segment saw PropNex enjoy the largest rise in market share from 34.2% in 2018 to 45% in 2019.

The Negative

- Dividend below our forecast. DPS was marginally below our forecast of 3.7 cents. There is no formal policy but the company looks forward to paying at least 50% of earning. The payout this year is 65%. The business is highly cash generative and the company aims to pay consistent and attractive dividends. PropNex generated free cash flow of S\$27mn in FY19 (FY18: S\$21mn) against dividends payable of S\$14mn.

Outlook

We expect all three core business segments to enjoy growth in FY20e:

- New launches:** There are 38 new launches ready for FY20. In addition, PropNex is still marketing 104 existing projects. A reflection of the improved sentiment was the 70% take-up rate of The M project by Wing Tai over a weekend. There is demand if the project is appropriately priced and well designed with a good location.

- b. **Private resale:** Cooling measures in July 2018 resulted in a buyers' market. Demand has started to recover as the discount between resale and private begin to widen. Sidelined buyers will look to narrow this discount. Private resale transaction for the industry was between 13,000 to 14,000 in 2017 and 2018. This collapsed to around 9,000 in 2019. The normalisation of transactions back to 10,000 per annum will be a growth impetus for FY20e.
- c. **HDB resale:** The enhanced CPF grant and higher-income ceiling offered to HDB resale buyers in September 2019 helped to pad transactions. In 4Q19, HDB resale transaction rose 12.5% YoY.

The rise in market share for PropNex was due to multiple initiatives, including intense training, improving the mindset of agents, deeper analysis of projects and better script and sales materials to agents to understand the projects and opportunities available from new launches or new pricing from developers.

We have seen the result of these initiatives in the recent financials and market share data:

Figure 1: Market share rising in multiple segments

Market share	2017	2018	2019
New launch	43%	42%	48%
Private resale	26%	34%	45%
HDB resale	45%	50%	51%
Private leasing	23%	27%	29%

Source: Company, PSR

Maintain BUY with a higher target price of S\$0.70 (previously S\$0.59)

Our target price is raised on the back of the 33% increase in our FY20e earnings forecast.

Financials

Income Statement

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
Revenue	331.9	431.5	419.8	444.9	465.1
Cost of services	(298.1)	(390.2)	(375.5)	(398.2)	(416.8)
Gross profit	33.8	41.4	44.3	46.7	48.4
Staff costs	(8.3)	(12.1)	(12.8)	(13.0)	(13.5)
Finance and other income	2.9	4.2	6.9	5.2	5.2
Other costs and expenses	(6.2)	(7.1)	(12.8)	(9.5)	(8.6)
Operating profit	22.2	26.4	25.6	29.4	31.5
Share of results in joint venture	(0.0)	-	-	-	-
Profit before tax	22.2	26.4	25.6	29.4	31.5
Tax	(3.3)	(4.4)	(4.5)	(5.0)	(5.4)
Minority Interest	(2.6)	(2.5)	(1.1)	(1.2)	(1.0)
PATMI	16.3	19.4	20.0	23.3	25.1

Per share data

SGD cents, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS	4.4	5.2	5.4	6.3	6.8
DPS	2.6	3.5	3.5	3.8	4.0
NAV per share	5.7	19.0	19.4	22.2	25.3

Cash Flow

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	18.9	21.9	21.1	24.4	26.2
Adjustments	4.8	4.7	8.2	5.5	4.9
WC changes	1.1	(0.5)	5.0	(7.7)	0.1
Interest and Taxes paid, others	(1.1)	(3.0)	(5.0)	(5.0)	(5.4)
Cashflow from operations	23.7	23.2	29.3	17.1	25.8
CFI					
Acquisition of plant and equipment	(1.5)	(1.8)	(1.9)	(2.0)	(2.0)
Others	0.1	0.5	0.8	-	-
Cashflow from investments	(1.4)	(1.3)	(1.0)	(2.0)	(2.0)
CFE					
Payment of dividends	(10.8)	(13.3)	(19.6)	(14.1)	(14.8)
Others	-	39.4	-	-	-
Cashflow from financing	(10.8)	26.1	(22.4)	(15.1)	(15.8)
Net change in cash	11.5	48.0	5.9	0.1	8.0
CCE, end	27.6	75.6	81.5	81.6	89.6

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PP&E	1.7	2.8	3.5	6.8	10.8
Others	0.01	0.19	5.87	4.07	2.57
Total non-current assets	1.8	3.0	9.4	10.9	13.4
Trade & other receivables	62.9	63.5	63.5	71.2	74.4
Cash and cash equivalents	27.7	75.7	81.6	81.7	89.7
Total current assets	90.6	139.1	145.1	152.9	164.1
Total Assets	92.4	142.1	154.4	163.8	177.5
LIABILITIES					
Trade & other payables	67	66	72	72	75
Current tax liabilities	-3.2	-4.9	-4.3	-4.3	-4.3
Others	0.6	0.9	1.0	1.0	1.0
Total current liabilities	71	72	80	78	81
Deferred tax liability	0.14	0.17	0.19	0.19	0.19
Total non-current liabilities	0.14	0.17	3.05	3.05	3.05
Total Liabilities	71.2	71.7	82.5	81.5	83.9
EQUITY					
Share capital	0.4	57.5	57.5	57.5	57.5
Merger reserve	-	(17.7)	(17.7)	(17.7)	(17.7)
Translation reserve	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Capital reserve	0.6	0.6	0.6	0.6	0.6
Accumulated profits	17.1	26.4	28.9	38.1	48.4
Non-controlling interests	3.1	3.5	2.6	3.7	4.8
Total Equity	21.2	70.4	71.9	82.3	93.6

Valuation Ratios

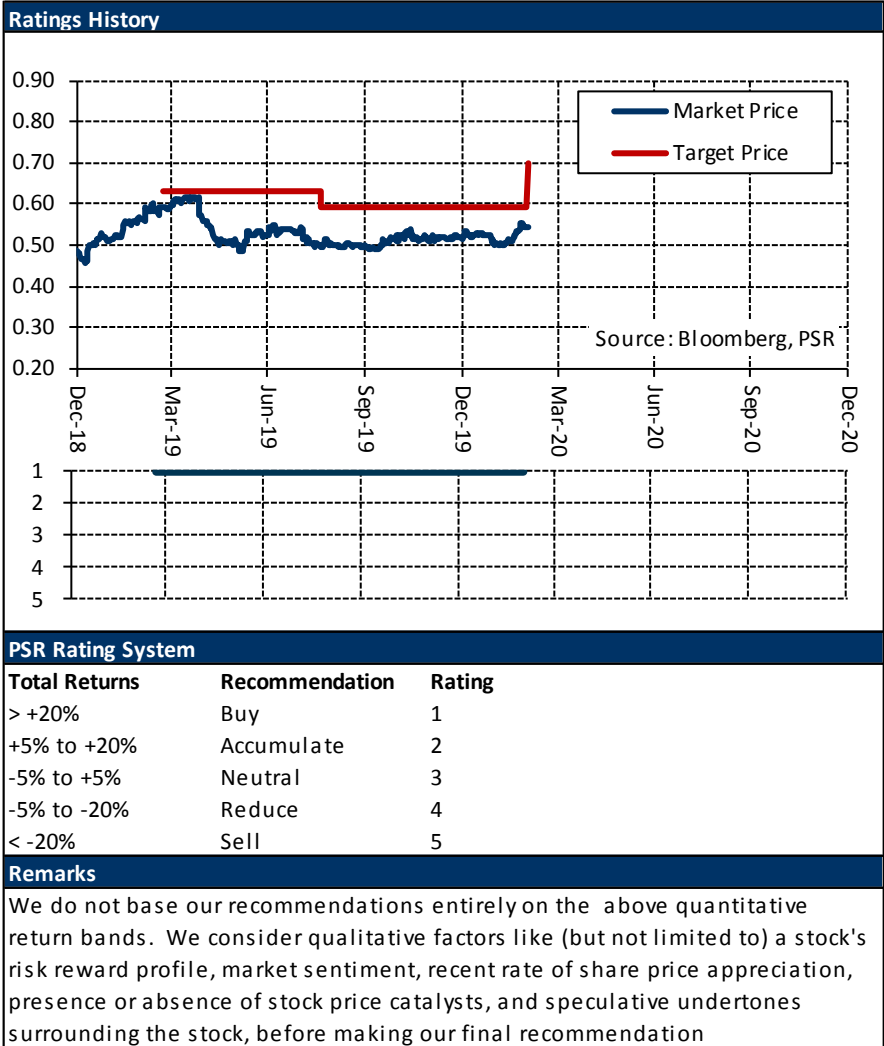
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	12.4	10.4	10.1	8.7	8.0
P/B (x)	9.5	2.9	2.8	2.5	2.2
Dividend Yield (%)	4.8	6.4	6.4	7.0	7.3

Growth & Margins

Growth					
Revenue	35.4%	30.0%	-2.7%	6.0%	4.5%
Gross profit	76.4%	22.5%	7.1%	5.4%	3.6%
PBT	122.4%	19.0%	-3.0%	15.1%	7.0%
PAT	113.7%	19.3%	3.2%	16.0%	8.0%
Margins					
GP margin	10.2%	9.6%	10.6%	10.5%	10.4%
PBT margin	6.7%	6.1%	6.1%	6.6%	6.8%
PAT Margin	4.9%	4.5%	4.8%	5.2%	5.4%

Key Ratios

ROE (%)	76.9%	27.6%	27.9%	28.3%	26.8%
ROA (%)	17.6%	13.7%	13.0%	14.2%	14.1%
Gearing (x)	n.a.	n.a.	n.a.	n.a.	n.a.



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