

COMPANY RESULTS

PropNex (PROP SP)

4Q19: A Strong Finish To 2019

4Q19 results came in better than expectations, bringing 2019 net profit to 114% of our forecast. PropNex is expected to ride on strong earnings visibility from a pipeline of 38 new projects (13,054 units), while its private and HDB resale segments are stabilising. While COVID-19 impact is limited so far, the group stands on a solid cash hoard of S\$81.6m (40% of its market cap) to drive future growth and dividend distributions.. Maintain BUY and raise target price to S\$0.68 (from S\$0.62).

4Q19 RESULTS

Year to 31 Dec (S\$m)	4Q19	4Q18	yoy % chg	2019	2018	yoy % chg
Revenue	131.0	83.0	57.9	419.8	431.5	(2.7)
Gross Profit	14.8	7.7	92.3	44.8	41.4	8.2
Profit After Tax	8.1	1.9	333.9	21.1	21.9	(3.7)
Net Profit	8.2	1.8	349.5	20.0	19.4	3.2
EPS (cent)	2.22	0.49	349.5	5.42	5.25	3.1

Source: PropNex

RESULTS

- **Results above expectations.** PropNex reported 4Q19 net profit of S\$8.2m (+349.5% yoy), bringing 2019 net profit to 114% of our forecast. 4Q19 revenue increased to S\$131.0m (+6.9% qoq, +57.9% yoy), due mainly to the increase in commission income from project marketing services (+243% yoy to S\$39.2m). The increase can be attributed to the higher number of units completed in 4Q19 following the recovery of the private residential market in 9M19 after the impact of additional cooling measures in Jul 18.
- **Dividend of 3.5 S cents/share, flat yoy.** The board has proposed a final dividend of 1.5 S cents and special dividend of 0.75 S cents, which brings total payout for 2019 to 3.5 S cents/share. This provides a dividend yield of 6.4% (based on closing price of S\$0.55) and represents a payout ratio of 64.6% (2018: 66.7%).
- **Market leader in project launches; strong earnings visibility from 2020 launch pipeline.** PropNex continues to expand its market share in new launches (48% in 2019), selling the most number of units among joint marketing agencies (JMA) for the top 10 selling projects in 2019, such as Treasure at Tampines (57.7%), Parc Esta (43.6%), Florence Residences (67.4%), Parc Clematis (41.4%), Piermont Grand (38.6%), Avenue South (49.6%) and The Tre Ver (49.6%).
- In 2019, private new residential sales registered 9,912 units (+12.7% yoy), demonstrating the appeal (and resilience) of Singapore's property industry despite global uncertainties and cooling measures. For 2020, 38 projects (13,054 units) are expected to be ready for launch, of which PropNex has been appointed to handle 25 projects (11,864 units). We believe PropNex will continue to ride on this pipeline with its strong execution along with sensitive pricing by developers amid the current low interest rate environment (ie supportive of home mortgages).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2018	2019	2020F	2021F	2022F
Net turnover	432	420	449	451	461
EBITDA	28	29	30	30	29
Operating profit	27	25	26	26	25
Net profit (rep./act.)	20	20	21	21	20
Net profit (adj.)	20	20	21	21	20
EPS (S cent)	5.3	5.5	5.7	5.7	5.4
PE (x)	10.4	10.0	9.7	9.7	10.2
P/B (x)	3.1	3.0	2.7	2.5	2.3
EV/EBITDA (x)	4.2	4.1	4.0	3.9	4.1
Dividend yield (%)	6.3	6.8	7.2	7.2	7.4
Net margin (%)	4.6	4.9	4.7	4.7	4.4
Net debt/(cash) to equity (%)	(113.1)	(117.7)	(121.4)	(124.0)	(123.8)
ROE (%)	46.4	30.0	29.1	27.0	23.6
Consensus net profit	-	-	17	18	-
UOBKH/Consensus (x)	-	-	1.21	1.21	-

Source: PropNex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.56
Target Price	S\$0.68
Upside	+22.9%
(Previous TP)	S\$0.62

COMPANY DESCRIPTION

Singapore's largest real estate agency with dominant market share of the residential primary private and HDB resale market.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PNEX:SP
Shares issued (m):	370.0
Market cap (S\$m):	205.4
Market cap (US\$m):	147.2
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

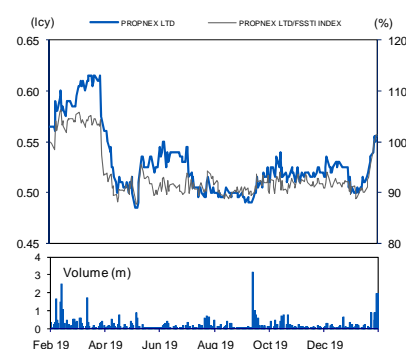
52-week high/low S\$0.615/S\$0.485

1mth	3mth	6mth	1yr	YTD
5.7	6.7	11.0	0.7	7.8

Major Shareholders

	%
P&N Holdings	55.6
Fong Kelvin	7.4
Ismail Mohamed	8.1
FY20 NAV/Share (S\$)	0.20
FY20 Net Cash/Share (S\$)	0.25

PRICE CHART



Source: Bloomberg

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- HDB resale: Catalyst from the Enhanced CPF Housing Grant.** Management is expecting sales volumes to breach 25,000 units in 2020. They expect the introduction of Enhanced CPF Housing Grant (with broader guidelines) in Sep 19 to increase affordability of homes for first-time buyers. We are already seeing the impact in the 4Q19 HDB resale statistics (6,339 units moved), which is impressive for a seasonally weak quarter. Based on management projections, some 24,163 HDB flats will also be reaching the minimum occupation period in 2020, which will further support resale demand.
- Private resale stabilising.** Management noted that demand has stabilised largely in 2H19 (where transaction volume was at about 2,200 units per quarter), and expects 2020 volume to cross the 10,000-unit mark.
- Strong cash hoard of S\$81.6m (40% of market cap) for potential distributions, acquisitions and organic growth.** Management alluded to its intention (not commitment) to pay out at least 50% of the group's net profit for dividends. They have also been looking into acquisition opportunities (ie such as its 20% stake in PropNex Malaysia's enlarged share capital) in a disciplined manner. The cash pile could also be invested in its people (training, boot-camps), technology and infrastructure, continuing to grow its agent network (8,452 sales persons as at 27 Feb 20).
- Appointment of new Chief Commercial Officer, Priveen Raj Naidu.** As part of the group's plans to evolve beyond a traditional property brand, PropNex has created a new role, where Mr Priveen will be in-charge of commercial strategy, developing complementary revenue streams, further enhancing efficiency, elevating the overall consumer experience, driving business growth, and increasing market share. Mr Priveen has almost two decades of experience across service, hospitality and airline industries. He previously founded an aviation consultancy, and worked in various capacities in firms, such as AirAsia and Singapore Tourism Board.
- Outlook: COVID-19 has limited impact.** The outbreak of Covid-19 (since Jan 20) has only limited impact, given that the first two months of 2020 with Chinese New Year holidays are usually quieter periods with fewer launches. The training and development of its sales people has not been affected. While there were initially fewer attendees at its consumer seminars (during the peak of the Covid-19 outbreak), the crowds have returned since.

EARNINGS REVISION/RISK

- We introduce our 2022 net profit forecast of S\$22m. We also raise 2020-21 net profit forecasts by 5-11% on the back of lower operating overheads assumptions.

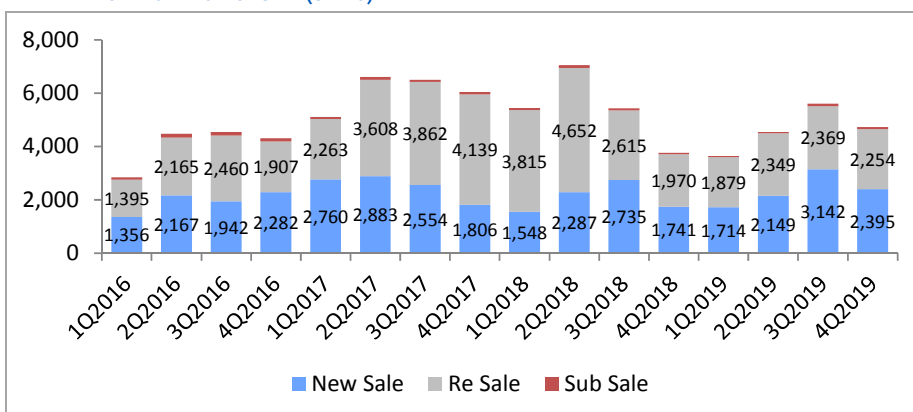
VALUATION/RECOMMENDATION

- Maintain BUY and raise target price to S\$0.68** (previously S\$0.62), based on 12x 2020F PE, with reference to its closest comparable, APAC Realty (11x) which is also predominantly Singapore-focused and similar in terms of commission structure and operating segments.

SHARE PRICE CATALYST

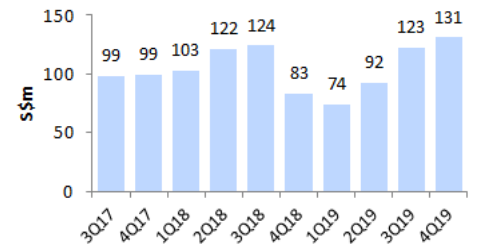
- Positive newsflow on new launches and take-ups.

PRIVATE HOME SALES VOLUME (UNITS)



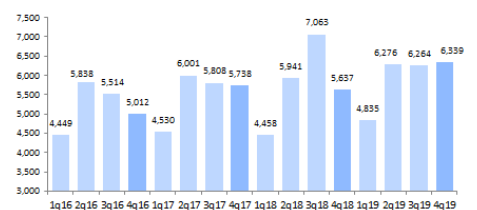
Source: URA REALIS, UOB Kay Hian

QUARTERLY REVENUE (S\$'000)



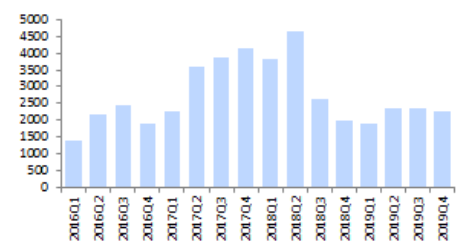
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HDB RESALE



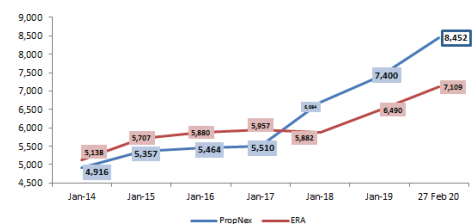
Source: HDB, UOB Kay Hian

PRIVATE RESALE



Source: REALIS, UOB Kay Hian

TOTAL AGENT NUMBERS



Source: CEA, Data.gov.sg, UOB Kay Hian

PRIVEEN RAJ NAIDU, CHIEF COMMERCIAL OFFICER



Source: PropNex

PROFIT & LOSS

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Net turnover	419.8	449.0	451.2	461.5
EBITDA	28.7	29.7	29.8	28.7
Deprec. & amort.	3.8	4.0	4.0	4.2
EBIT	24.8	25.6	25.7	24.6
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	1.1	1.2	1.4	1.5
Pre-tax profit	26.0	26.9	27.1	26.1
Tax	(4.5)	(4.7)	(4.7)	(4.8)
Minorities	(1.1)	(1.1)	(1.1)	(1.2)
Net profit	20.4	21.1	21.3	20.1
Net profit (adj.)	20.4	21.1	21.3	20.1

CASH FLOW

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Operating	29.3	27.5	27.9	26.3
Pre-tax profit	25.6	26.9	27.0	27.7
Tax	(4.5)	(4.7)	(4.7)	(4.8)
Deprec. & amort.	3.8	4.0	4.0	4.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	0.6	0.0	0.2	(2.3)
Non-cash items	1.3	1.2	1.4	1.5
Other operating cashflows	2.5	0.0	0.0	0.0
Investing	(1.0)	(3.2)	(3.4)	(3.6)
Capex (growth)	(1.9)	(2.0)	(2.0)	(2.0)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.8	(1.2)	(1.4)	(1.5)
Financing	(22.4)	(14.0)	(14.7)	(14.8)
Dividend payments	(13.0)	(14.0)	(14.7)	(14.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(9.4)	0.0	0.0	0.0
Net cash inflow (outflow)	5.9	10.2	9.8	7.9
Beginning cash & cash equivalent	75.7	81.6	91.8	101.6
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	81.6	91.8	101.6	109.6

BALANCE SHEET

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Fixed assets	3.5	3.7	3.8	3.8
Other LT assets	6.0	0.0	0.0	0.0
Cash/ST investment	81.6	91.8	101.6	109.6
Other current assets	63.5	67.9	68.2	69.8
Total assets	154.6	163.5	173.6	183.2
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	79.5	84.0	86.6	88.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3.0	0.1	0.1	0.1
Shareholders' equity	69.3	75.7	82.0	88.5
Minority interest	2.6	3.7	4.8	6.0
Total liabilities & equity	154.4	163.5	173.6	183.2

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	6.8	6.6	6.6	6.2
Pre-tax margin	6.2	6.0	6.0	5.7
Net margin	4.9	4.7	4.7	4.4
ROA	13.8	13.2	12.6	11.3
ROE	30.0	29.1	27.0	23.6
Growth				
Turnover	(2.7)	6.9	0.5	2.3
EBITDA	2.9	3.5	0.3	(3.4)
Pre-tax profit	(2.6)	3.5	0.9	(3.6)
Net profit	3.6	3.1	1.0	(5.3)
Net profit (adj.)	3.6	3.1	1.0	(5.3)
EPS	3.6	3.1	1.0	(5.3)
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(117.7)	(121.4)	(124.0)	(123.8)

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