

PropNex Ltd (PROP SP)

Awaiting recovery

1H24 profit below; retain HOLD and lower TP

1H24 PATMI of SGD19m (-13.8% YoY; -26.2% HoH) came in below our and market expectations at 41%/36% of MIBG/consensus' full year estimates. While both HDB and private resale volumes were relatively resilient, we note that private new home sales hit a two-decade low. Hence, we trim our FY24E-26E EPS forecasts by 10-14% on fewer transactions. We roll forward our valuation base to FY25E and cut our 12-month TP to SGD0.87 (-7%), still based on a target 15x PE. The group declared an interim DPS of SGD2.25 cents (1H23: 2.50 cents), representing a DPR of 87.6%. We maintain our HOLD rating, supported by a decent yield of over 6%.

1H topline hit by lower new home sales

1H24 revenue fell 5.1% YoY to SGD345.6m (-27% HoH), mainly due to lower commission income from project marketing services, which declined to SGD91.3m (-19.6% YoY; -29.2% HoH) during the period. This drop reflected fewer private new home sales with lack of new project launches, while buyers are also more selective now amid more choices. In contrast, the secondary market showed resilience, with the group's commission income from agency services increasing by 1.3% YoY to SGD251.9m in 1H24 (-26.4% HoH). Consequently, gross profit margin also narrowed to 9.7% in 1H (vs 1H23: 9.8%; 2H23: 9.5%) along with the shift in business mix.

Secondary market remains active

Looking ahead, management remains cautiously optimistic about the local residential property outlook given upcoming new launches (est. 16 projects with 6,501 units in 2H), stabilising home prices, as well as a potential easing of borrowing costs. For the private homes segment, PropNex is expecting moderate price growth of 4-5% in 2024 and lower sales volumes of between 5,500-6,000 units (excluding EC) for new homes, while private resale should increase to 13-14k units. For the HDB resale segment, the group projects stable resale volume of 28-29k units compared to 26,735 HDB resale units that were transacted in 2023.

Growing salesforce to expand market share

As at 7 Aug, the group's salesforce expanded to 12,700 (1 Jan 2024: 11,999), which puts it in a sweet spot to capture opportunities in the current active secondary market. In our view, this helped to substantially cushion the slow private new home sales given the softer take-up rate. Despite the macroeconomic headwinds, PropNex's balance sheet remains rock solid with net cash of SGD116m (debt-free), underpinned by its asset-light and strong cashflow generative business model.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,029	838	729	765	802
EBITDA	81	59	47	50	54
Core net profit	62	48	40	43	46
Core EPS (cts)	8.4	6.5	5.4	5.8	6.2
Core EPS growth (%)	3.0	(22.7)	(16.3)	7.2	7.1
Net DPS (cts)	6.8	6.0	5.0	5.3	5.5
Core P/E (x)	9.2	14.4	14.9	13.9	13.0
P/BV (x)	4.5	5.5	3.7	3.0	2.5
Net dividend yield (%)	8.8	6.5	6.2	6.5	6.8
ROAE (%)	52.6	38.1	27.9	23.7	20.7
ROAA (%)	18.5	13.3	11.7	11.8	11.2
EV/EBITDA (x)	5.3	9.5	9.3	7.8	6.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	59	64	na
MIBG vs. Consensus (%)	-	-	(31.8)	(33.5)	na

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HOLD

Share Price	SGD 0.81
12m Price Target	SGD 0.87 (+8%)
Previous Price Target	SGD 0.94

Company Description

PropNex is Singapore's largest listed real estate agency with about 12,000 salespeople

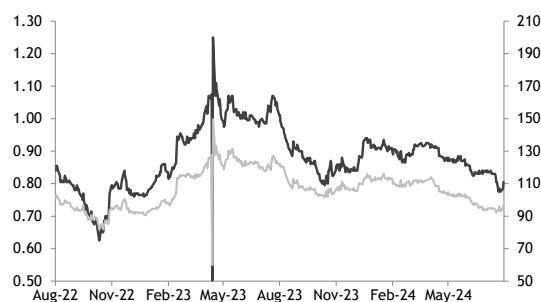
Statistics

52w high/low (SGD)	1.01/0.78
3m avg turnover (USDm)	0.1
Free float (%)	20.2
Issued shares (m)	740
Market capitalisation	SGD595.7M USD450M

Major shareholders:

P & N Holdings Pte Ltd	55.6%
Mohamed Ismail Gafoore	9.3%
Kelvin Fong Keng Seong	8.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(9)	(22)
Relative to index (%)	4	(7)	(20)

Source: FactSet

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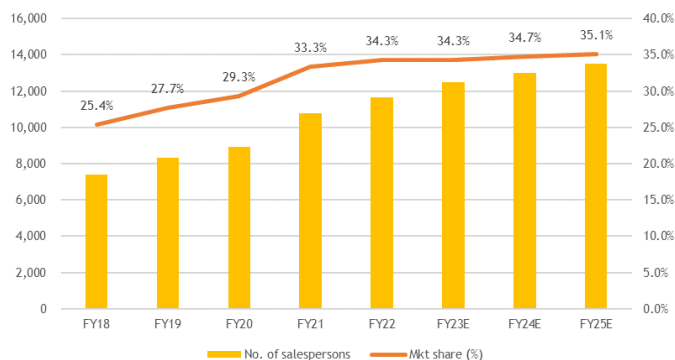
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OPPORTUNITY+

Value Proposition

- PropNex is Singapore’s largest listed real estate group with 12,233 professionals as at 15 Feb 2024.
- The Group leads in real estate agency services, with substantial market share in the residential segments of new project launches, private resale, HDB resale and rental.
- It aims to be the first to introduce new initiatives, especially in technological innovations with a focus on improving the productivity of its salespersons.
- PropNex recently expanded its brand to Australia and is also penetrating the GCB segment in 2022.

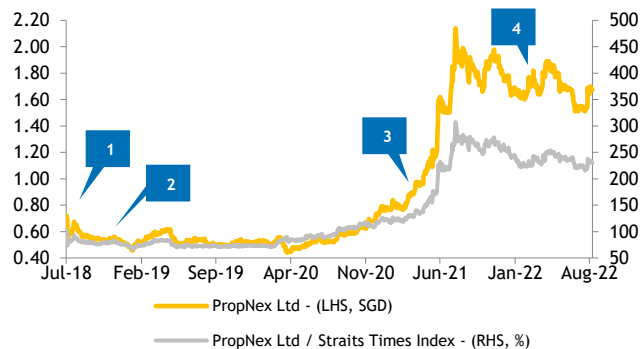
Growing salesforce and market share



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



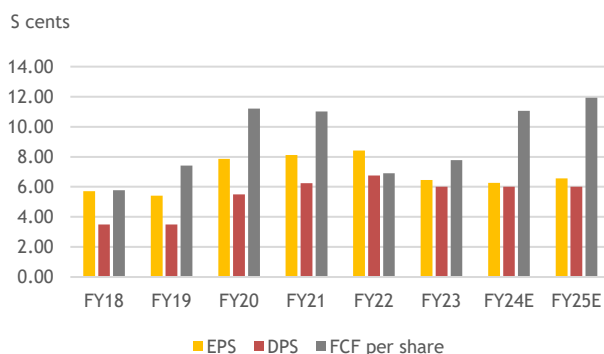
Source: Company, Maybank IBG Research

- In Jul 2018, PropNex made its trading debut on the SGX at IPO price of SGD0.65.
- Extends regional footprint to Vietnam with operations commencing in 3Q18.
- Acquires a 70% stake in Ovyv to expand into proptech with the provision of value-added real estate services.
- Strategic foray into Good Class Bungalow (GCB) luxury landed deals to further complement its existing presence in the high-end segment.

Financial Metrics

- PropNex enjoys positive operating leverage as group revenue registered a CAGR of 15% from FY20-23, while its PATMI rose over 16% in the same period.
- The Group is debt free with a robust balance sheet with cash and cash equivalents of SGD148m as at end-Dec 2023.
- Given its strong cash-generative business, PropNex has paid out >70% of its EPS as dividends in the past two financial years. This implies an attractive yield of almost 7%.

EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Higher-than-expected transaction volumes.
- Improvement in margins from rising operating leverage.
- Continued market share gains from other competitors.

Downside

- Introduction of new cooling measures may deter potential buyers as they adopt a wait-and-see approach and hold back on property purchases to monitor the impact.
- Uncertain macroeconomic environment may weigh on market sentiment and buying interest.
- The rise in interest rates may negatively impact sales due to steeper borrowing costs.

Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As Singapore's largest real estate agency, PropNex fulfils an important role within the real estate sector by facilitating the buying, selling, renting and leasing of properties in the country.
- PropNex provides gainful employment to thousands of employees and salespersons. Notably, the Group's salesforce continues to grow to about 12,000 as at 1 Jan 2024.
- Being a service-oriented company working closely with customers, PropNex needs to closely abide by the Personal Data Protection Act, ensuring the security of its customers' private data.
- Like other real estate practitioners, PropNex also adheres to the regulatory framework of the Estate Agents Act as guided by the Council for Estate Agencies - a government agency under the Ministry of National Development.

Material E issues

- The Group logs its electrical consumption at various corporate premises at HDB Hub, Branch Office and General Magnetic Building. Tabulations are based on utility bills from the electricity supplier.
- All electricity is purchased from the national grid and is produced almost entirely by the combustion of natural gas, which is classified as Scope 2 emissions.
- In 2023, a total 488,473kWh of electricity was used, which translates to emission intensity of 0.051 tCO₂e/m².
- No incident of non-compliance with environmental laws and regulations were identified within the reporting year.

Material S issues

- Technology in the real estate realm has disrupted and transformed how business is conducted, and will continue to play a pivotal role in the way corporations conduct their business.
- One of the Group's key strategies is to enhance its digital capabilities by improving its salespersons' productivity by providing relevant and reliable technological support.
- PropNex aims to scale up its sales force, while also focusing on information technology development & training programmes to enhance productivity levels across its business operations.

Key G metrics and issues

- The board has five directors, including the Executive Chairman and CEO, one Executive Director and three independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board spearheads its sustainability agenda, including determining the material ESG factors that the Group focuses on.
- Executive Chairman/CEO, Ismail Gafoore and Executive Director, Kelvin Fong own about 55.6% and 8.9% stakes in the company respectively.
- Key management/ directors' compensation accounted for about 4.9%/6.1% of total employee compensation in 2023.
- The external auditor is KPMG LLP.
- There were no non-compliant incidents with relevant laws and regulations that resulted in significant fines or legal actions against PropNex.
- There were also no letter of complaints against the Group from Personal Data Protection Commission (PDPC) concerning breaches of customer privacy and losses of customer data. It had no incidents of corruption in 2023.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 36)						
	Particulars	Unit	2021	2022	2023	APAC Realty (APAC SP, FY23)
E	Scope 1 GHG emissions	tCO2e	N/A	N/A	N/A	33.4
	Scope 2 GHG emissions	tCO2e	198.9	203.6	198.2	331.7
	Total	tCO2e	198.9	203.6	198.2	365.1
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	7.1
	Total	tCO2e	198.9	203.6	198.2	372.2
	Carbon emission intensity	tCO2e/m2	0.053	0.052	0.051	0.08
	Electricity consumption	MWH	490	502	488	619.7
	Energy intensity	MWh/m2	N/A	0.129	0.126	0.2
	Water intensity	Cu M/sqft	N/A	N/A	N/A	0.04
	Cases of environmental non-compliance	number	0	0	0	0
S	% of women in workforce	%	61.7%	62.7%	67.7%	56.9%
	% of women in management roles	%	22.2%	14.3%	21.4%	38.6%
	No. of consumer empowerment seminars	number	82	99	93	N/A
	Employee turnover	%	17.6%	19.6%	21.1%	31%
	Monetary contribution to local community	SGDm	1.12	1.34	1.03	N/A
G	CEO/MD salary as % of reported net profit	%	1.7%	1.7%	2.4%	17%
	Board salary as % of reported net profit	%	5.1%	5.1%	6.1%	3.8%
	Independent directors on the Board	%	60%	60%	60%	60%
	Female directors on the Board	%	0%	0%	0%	20%
	Shareholder payout	%	77%	80%	93%	75.4%

Qualitative Parameters (Score: 50)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	<i>Yes. The Sustainability Steering Committee will assist the board in integrating ESG considerations into the group's strategic formulation, as well as monitor, manage and report on its ESG performance.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No. But it will undertake further initiatives to promote environmental sustainability.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The group will continue to explore and consider various initiatives, such reducing space and effectively using energy efficient appliances and motion sensors for lights etc.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No</i>

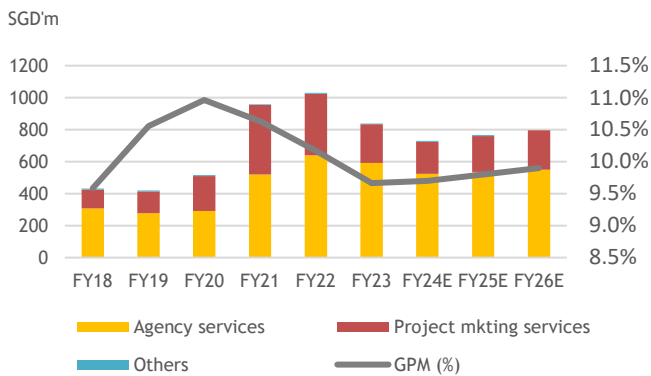
Target (Score: 100)			
Particulars	Target	Achieved	
Maintain zero letter of complaints from authorities concerning breaches of customer privacy/data	0	0	
Maintain zero non-compliant with environmental laws and regulations	0	0	
Maintain zero non-compliant with socio-economic laws and regulations	0	0	
Number of consumer empowerment seminars/webinars held	50	82	
Make monetary contribution to local charity beneficiaries	SGD0.5m	SGD2.1m	
Impact			
NA			
Overall Score: 55			
As per our ESG matrix, Propnex Ltd (PROP SP) has an overall score of 55.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	36	18
Qualitative	25%	50	13
Target	25%	100	25
Total			55

As per our ESG assessment, PropNex has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. Its overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50).

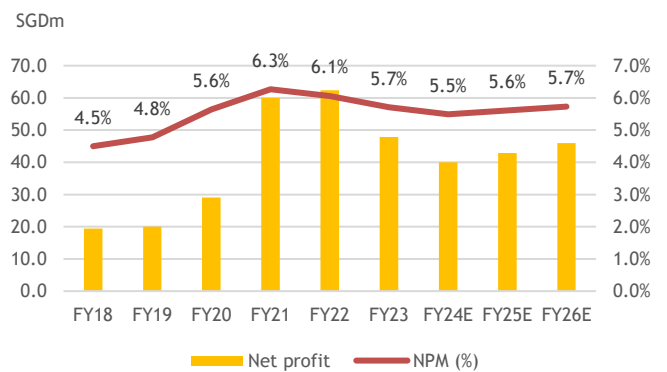
Focus charts

Fig 1: Revenue and gross profit margin trend



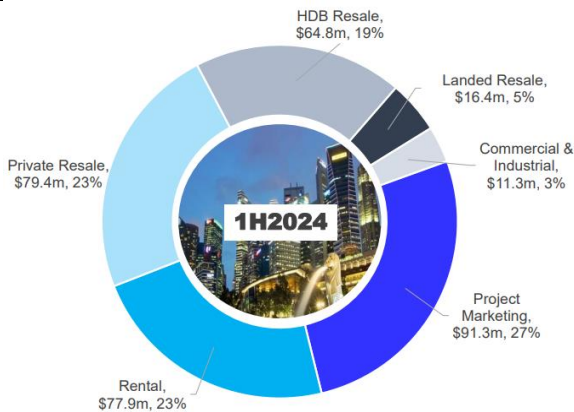
Source: Company, Maybank IBG Research

Fig 2: Net profit and net profit margin trend



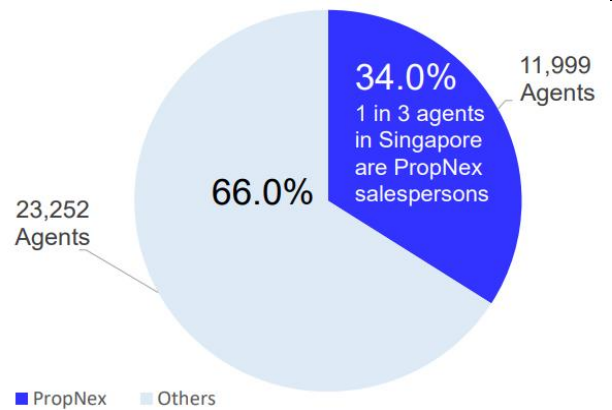
Source: Company, Maybank IBG Research

Fig 3: Revenue breakdown (1H24)



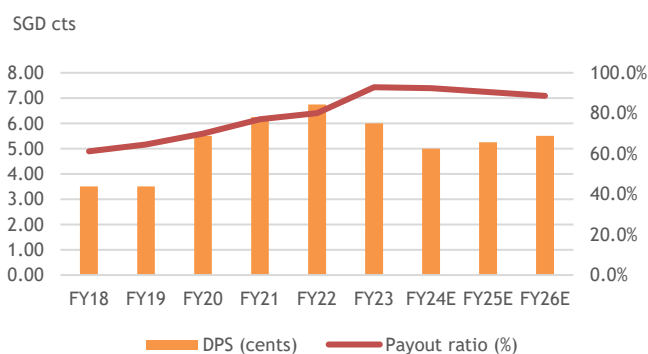
Source: Company

Fig 4: Market share by no. of agents



Source: Company

Fig 5: DPS and payout ratio



Source: Company

Fig 6: Earnings revisions

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGD m)	729	816	-10.6%	765	849	-9.8%	802	851	-5.8%
EBIT (SGD m)	44	54	-18.3%	48	57	-17.0%	51	59	-12.9%
EBITDA (SGD m)	47	57	-18.2%	50	61	-17.1%	54	63	-13.4%
PATMI (SGD m)	40	46	-13.7%	43	49	-12.4%	46	51	-10.2%
			Chg (ppt)			Chg (ppt)			Chg (ppt)
EBIT Margin	6.0%	6.6%	-0.6	6.2%	6.7%	-0.5	6.4%	6.9%	-0.5
Net Margin	5.5%	5.7%	-0.2	5.6%	5.8%	-0.2	5.7%	6.0%	-0.3

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	9.7	14.3	14.9	13.9	13.0
Core P/E (x)	9.2	14.4	14.9	13.9	13.0
P/BV (x)	4.5	5.5	3.7	3.0	2.5
P/NTA (x)	4.7	5.6	3.7	3.0	2.5
Net dividend yield (%)	8.8	6.5	6.2	6.5	6.8
FCF yield (%)	12.1	10.9	12.6	14.8	16.0
EV/EBITDA (x)	5.3	9.5	9.3	7.8	6.5
EV/EBIT (x)	5.5	10.1	9.9	8.3	6.9
INCOME STATEMENT (SGD m)					
Revenue	1,029.2	838.1	729.4	765.3	802.1
EBITDA	81.0	58.5	46.8	50.4	54.2
Depreciation	(3.3)	(3.2)	(2.7)	(2.6)	(2.5)
Amortisation	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	77.4	55.0	43.8	47.5	51.4
Net interest income / (exp)	1.2	4.5	5.7	5.6	5.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	78.6	59.5	49.5	53.1	56.9
Income tax	(13.7)	(9.9)	(8.4)	(9.0)	(9.7)
Minorities	(3.0)	(1.8)	(1.0)	(1.1)	(1.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	61.8	47.8	40.0	42.9	45.9
Core net profit	61.8	47.8	40.0	42.9	45.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	138.9	133.4	163.2	201.8	243.3
Accounts receivable	223.4	184.6	145.9	153.1	160.4
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1.4	1.2	1.1	1.1	1.0
Intangible assets	5.6	3.3	2.2	1.9	1.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	6.1	20.5	29.0	29.5	30.0
Total assets	375.4	343.0	341.4	387.3	436.3
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	228.3	200.7	164.7	172.6	180.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	21.0	16.0	14.0	13.0	12.0
Total Liabilities	248.9	216.8	178.9	185.8	192.9
Shareholders Equity	125.5	125.2	161.5	200.5	242.4
Minority Interest	0.9	1.1	1.0	1.0	1.0
Total shareholder equity	126.5	126.2	162.5	201.5	243.4
Total liabilities and equity	375.4	343.1	341.4	387.3	436.3
CASH FLOW (SGD m)					
Pretax profit	78.6	59.5	49.5	53.1	56.9
Depreciation & amortisation	3.6	3.5	3.0	2.9	2.8
Adj net interest (income)/exp	0.0	0.0	0.0	1.0	2.0
Change in working capital	(27.2)	3.2	14.8	22.8	24.6
Cash taxes paid	13.7	9.9	8.4	9.0	9.7
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	68.7	76.1	75.7	88.7	96.0
Capex	(0.4)	(0.7)	(0.5)	(0.5)	(0.5)
Free cash flow	68.3	75.4	75.2	88.2	95.5
Dividends paid	(46.3)	(48.1)	(37.0)	(38.9)	(40.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Other invest/financing cash flow	1.2	3.9	5.7	5.6	5.5
Effect of exch rate changes	0.0	0.0	0.0	1.0	2.0
Net cash flow	20.9	28.8	41.6	53.7	60.0

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.5	(18.6)	(13.0)	4.9	4.8
EBITDA growth	14.9	(27.8)	(20.0)	7.7	7.5
EBIT growth	9.3	(28.9)	(20.4)	8.4	8.2
Pretax growth	(0.2)	(24.3)	(16.8)	7.3	7.2
Reported net profit growth	3.1	(22.7)	(16.3)	7.2	7.1
Core net profit growth	3.1	(22.7)	(16.3)	7.2	7.1
Profitability ratios (%)					
EBITDA margin	7.9	7.0	6.4	6.6	6.8
EBIT margin	7.5	6.6	6.0	6.2	6.4
Pretax profit margin	7.6	7.1	6.8	6.9	7.1
Payout ratio	80.8	92.9	92.4	90.6	88.6
DuPont analysis					
Net profit margin (%)	6.0	5.7	5.5	5.6	5.7
Revenue/Assets (x)	2.7	2.4	2.1	2.0	1.8
Assets/Equity (x)	3.0	2.7	2.1	1.9	1.8
ROAE (%)	52.6	38.1	27.9	23.7	20.7
ROAA (%)	18.5	13.3	11.7	11.8	11.2
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	63.9	87.6	81.6	70.3	70.3
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	70.3	102.0	99.8	87.9	88.0
Dividend cover (x)	1.2	1.1	1.1	1.1	1.1
Current ratio (x)	1.5	1.5	1.8	2.0	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.9	2.1	2.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.0	0.1	0.1	0.1	0.1
Net debt/ (net cash)	(138.9)	(133.4)	(163.2)	(201.8)	(243.3)

Source: Company; Maybank IBG Research

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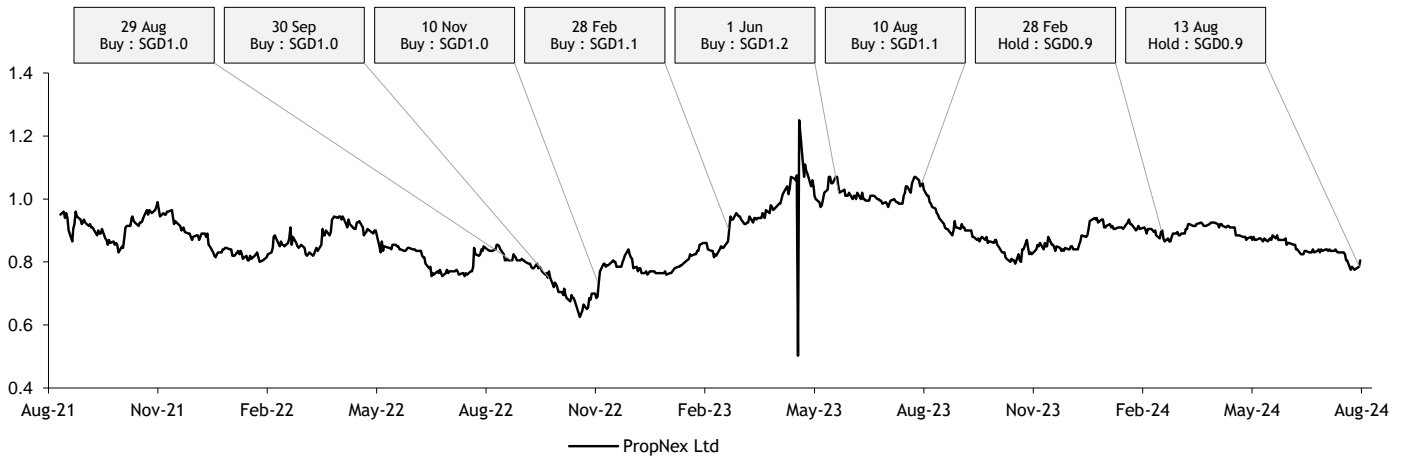
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