

PropNex Ltd

Stronger 2H24 expected



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SINGAPORE | REAL ESTATE (AGENCIES) | 1H24 RESULTS

16 August 2024

- 1H24 results were below expectations. Revenue and PATMI were 39%/33% of our estimates. Earnings dragged down by a 20% YoY drop in new home sales revenue to S\$91mn. The lack of new launches in 1H24 was the reason for the weakness.
- Resale transactions were healthy and supported a 7.4% YoY growth in revenue to S\$161mn. This includes private, HDB, and landed resale. The large price gap between new home prices and declining affordability has sparked more interest in the resale market.
- We lower our FY24e earnings by 11% to S\$50.3mn. Our revenue is cut by 6% to account for the disappointing new homes revenue. Our DCF target price was lowered to S\$0.89 (prev. S\$0.97). We upgraded to BUY from ACCUMULATE due to the recent weakness in the share price. We expect a recovery in new home sales in 2H24. Around 6,500 units are expected to be launched in 2H24 (1H24: 2,408). The sales window will be tight in view of the festive periods. The outlook for 2025 may improve as interest rate cuts can build market confidence. PropNex enjoys a 66% market share in the number of agents in Singapore and a 63% share of home transactions (private and HDB resale). It pays an attractive dividend yield of ~8%, supported by net cash of S\$140mn.

BUY (Upgraded)

LAST DONE PRICE	SGD 0.785
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 0.890
TOTAL RETURN	21.0%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN) :	740.0
MARKET CAP (USD mn / SGD mn) :	441 / 581
52 - WK HI/LO (SGD) :	1.01 / 0.76
3M Average Daily T/O (mn) :	0.2

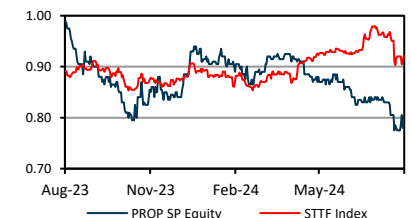
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.3%
SEONG KELVIN FONG KENG	8.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(6.6)	(10.3)	(12.8)
STTF	(4.6)	0.9	5.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY22	FY23	FY24e	FY25e
Revenue	1,029	838	836	873
Gross Profit	104.7	81.0	87.8	93.4
Operating Profit	77.9	55.0	58.0	63.0
PATMI	62.4	47.8	50.4	54.7
P/E (x)	9.3	12.2	11.5	10.6
P/B (x)	4.6	4.6	4.3	4.1
EPS (cents)	8.4	6.5	6.8	7.4
DPS (cents)	6.8	6.0	6.0	7.0
Dividend yield (%)	8.6	7.6	7.6	8.9
ROE (%)	49.3	37.9	37.2	38.5

Source: Company, PSR

Valuation Method

DCF (Cost of equity 11.8%, Terminal growth 1.5%)

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Results at a glance

SGD mn	1H24	1H23	YoY	Comments
Revenue	345.6	364.3	-5%	
- Agency services	251.9	248.7	1%	
a) Private resale	95.8	90.0	6%	Lower prices relative to new launch.
b) HDB resale	64.8	59.5	9%	
c) Rental	77.9	80.9	-4%	
- Project Marketing	91.3	113.5	-20%	Less project launches.
Staff costs	(10.0)	(8.0)	25%	
Gross profit	33.4	35.8	-7%	
Operating profit	20.6	25.5	-19%	
PATMI	18.6	22.1	-16%	
PATMI - adjusted	18.4	22.4	-18%	
Dividend (cents) - Final	2.25	2.50	-10%	87.6% payout ratio.

Source: Company, PSR

The Positive

+ Growth in resale revenue. The combined resale revenue of private and HDB properties grew 7.4% YoY to S\$161mn. The median transacted price gap between a new and resale home is 23% to 40%, depending on the region. Declining affordability and unit size are other drivers for resale. The median OCR new launch is S\$1.7mn per unit, equivalent to 750-800 sft. A similarly priced resale can purchase a 1000 sft or larger unit.

The Negative

- New launch revenue contracted for two years. Since the introduction of cooling measures in April 2023, we have seen 24 months of revenue contraction in project marketing or new home sales. 1H24 was hit hard by a dearth of new launches. There were only 2,408 units launched in 1H24 (1H23: ~3700 units), which includes a 512 executive condo (EC) development. PropNex market share in new launches in 1H24 was 55.5%.

Outlook

We expect a stronger 2H24 supported by new launches. The underlying driver or fuel for private property homes is HDB upgraders. HDB prices have risen around 43% since 1Q20, and the number of million-dollar resale flats continues to surge. Rising prices will raise home equity for upgraders. Any HDB cooling measure will be a risk for private home sales.

An added driver for demand in 2024 and 2025 is the 1,386 ECs that will reach their 5-year minimum occupancy period this year. The estimated gains on these ECs are around S\$500k per unit. Interest rate cuts in 2025 can also boost demand.

- New launches:** Developers aim to launch as early as possible, not time the market. Delays lower IRR, raises interest expense, risks of bunching multiple projects, and faces the possibility of lower prices from new land sites. Only CCR projects may be intentionally delayed. Buyers are price sensitive, but there are sweet spots in new launches: OCR (S\$2000 to S\$2200 psf), RCR (S\$2400 – S\$2600 psf) and CCR (S\$3100 psf and below). The window to launch in 2H24 is narrow. The period to launch is from September to mid-November due to multiple school holidays and religious festivals.
 - CCR:** High-end or CCR projects remain a challenge due to the hefty 60% ABSD for foreign buyers. There is also less local interest in CCR due to the fewer support systems such as schools and amenities than in other regions. The attraction of CCR is the relative pricing and optionality that the ABSD will eventually be lowered.
 - Private resale:** Resale demand in OCR remains healthy due to the large price differential of around 40% between new and resale prices. There is greater resistance to the new launch price for OCR at the S\$2200 per level. Assuming the median (or sweet spot price) of S\$1.7mn, it is equivalent to only a 750 to 800 sft unit.
 - HDB:** Resale buyers are private property downgraders and few new residents or citizens. The HDB resale portal has been launched, but the process is still complex. Customers prefer a professionally trained salesperson to target the “S\$1mn” sale price. There are a few reasons for the healthy resale market. Firstly, attractive grants are still available. Secondly, new BTO unit prices are rising. A centrally located unit can be priced as high as S\$750k. With interest, S\$850k is the break-even selling price. Thirdly, the emergence of more private property buyers as the September 2022 rule (private property buyers can only purchase a resale HDB after 15 months) begins to lapse.
- OCR (Outer Core Region):** Areas outside the Central Region, including suburbs like Ang Mo Kio, Bedok, and Jurong.
 - RCR (Ring Core Region):** The area surrounding the CCR, including neighbourhoods like Newton, Orchard, and River Valley.
 - CCR (Central Core Region):** The central area, including the Central Business District (CBD), Marina Bay, and surrounding neighbourhoods like Tanjong Pagar and Raffles Place.

Figure 1: Raised expectations on HDB prices and volumes but cut new home volumes

YoY Change	2023	2024 (Feb24) PropNex	2024 (Aug24) PropNex
Private - New	-9.6%	+9% to +17%	-7% to -14%
- Resale	-19.2%	+15% to +24%	+15% to +24%
HDB	-4.2%	-3% to +1%	+5% to +8%
Price - Private	+6.8%	+3% to +4%	+4% to +5%
- HDB	+4.9%	+4% to +5%	+7% to +8%

Source: PropNex, PSR

Upgrade from ACCUMULATE to BUY with a lower TP of S\$0.89 (prev. S\$0.97)

We lower our FY24e earnings by 11% to S\$50.3mn. Our revenue is cut by 6% to account for the disappointing new launch revenue.

Financials

Income Statement

SGD mn, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
Revenue	957.5	1,029.2	838.1	835.8	872.8
Cost of services	(855.7)	(924.5)	(757.1)	(748.1)	(779.4)
Gross profit	101.8	104.7	81.0	87.8	93.4
Staff costs	(16.8)	(18.4)	(17.7)	(19.0)	(19.5)
Finance and other income	7.3	17.3	12.4	11.7	9.0
Other costs and expenses	(13.6)	(24.5)	(16.1)	(17.7)	(14.9)
Operating profit	78.3	77.9	55.0	58.0	63.0
Profit before tax	78.7	79.1	59.5	62.7	68.0
Tax	(13.5)	(13.7)	(9.9)	(10.7)	(11.6)
PAT	65.1	65.4	49.6	52.0	56.4
Minority Interest	(5.1)	(3.0)	(1.8)	(1.6)	(1.7)
PATMI	60.0	62.4	47.8	50.4	54.7
PATMI, adjusted	60.7	62.4	47.1	50.3	54.7

Per share data

SGD cents, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS	8.1	8.4	6.5	6.8	7.4
DPS	6.3	6.8	6.0	6.0	7.0
NAV per share	15.2	17.1	17.1	18.3	19.2

Cash Flow

SGD mn, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CFO					
PAT	65.1	65.4	49.6	52.0	56.4
Adjustments	17.3	16.7	8.2	13.1	14.1
WC changes	7.7	(17.2)	14.0	0.7	0.4
Interest and Taxes paid, others	(7.1)	(13.4)	(13.6)	(10.7)	(11.6)
Cashflow from operations	83.1	51.4	58.3	55.2	59.4
CFI					
Caoex	(0.5)	(0.4)	(0.7)	(1.0)	(1.0)
Others	(0.0)	(4.0)	(10.8)	-	-
Cashflow from investments	(0.6)	(4.4)	(11.6)	(1.0)	(1.0)
CFE					
Payment of dividends	(40.4)	(51.5)	(49.8)	(42.6)	(50.0)
Others	(2.3)	(2.3)	(2.4)	(2.2)	(2.3)
Cashflow from financing	(42.7)	(53.8)	(52.2)	(44.8)	(52.3)
Net change in cash	39.8	(6.8)	(5.5)	9.4	6.1
CCE, end	145.6	138.8	133.4	142.8	148.9

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PP&E	2.0	1.4	1.2	1.8	2.2
Others	4.2	6.0	18.4	16.4	14.4
Total non-current assets	6.2	7.4	19.6	18.1	16.6
Trade & other receivables	142.7	223.4	184.6	125.4	130.9
Cash and cash equivalents	145.6	138.9	133.4	142.8	149.0
Total current assets	288.4	368.0	323.5	273.6	285.3
Total Assets	294.6	375.4	343.1	291.8	301.9
LIABILITIES					
Trade & other payables	164.3	228.3	200.7	142.1	148.1
Current tax liabilities	13.5	13.8	10.1	10.1	10.1
Others	2.7	3.8	4.9	4.9	4.9
Total current liabilities	180.5	245.9	215.7	157.2	163.2
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	1.3	2.8	0.9	(1.3)	(3.6)
Total non-current liabilities	1.5	2.9	1.1	(1.1)	(3.4)
Total Liabilities	182.0	248.9	216.8	156.1	159.8
EQUITY					
Share capital	57.5	57.5	57.5	57.5	57.5
Merger reserve	(17.7)	(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	69.0	85.1	84.7	92.6	97.4
Non-controlling interests	3.1	0.9	1.1	2.6	4.3
Total Equity	112.6	126.5	126.2	135.7	142.1

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	9.7	9.3	12.2	11.5	10.6
P/B (x)	5.2	4.6	4.6	4.3	4.1
Dividend Yield (%)	8.0	8.6	7.6	7.6	8.9

Growth & Margins

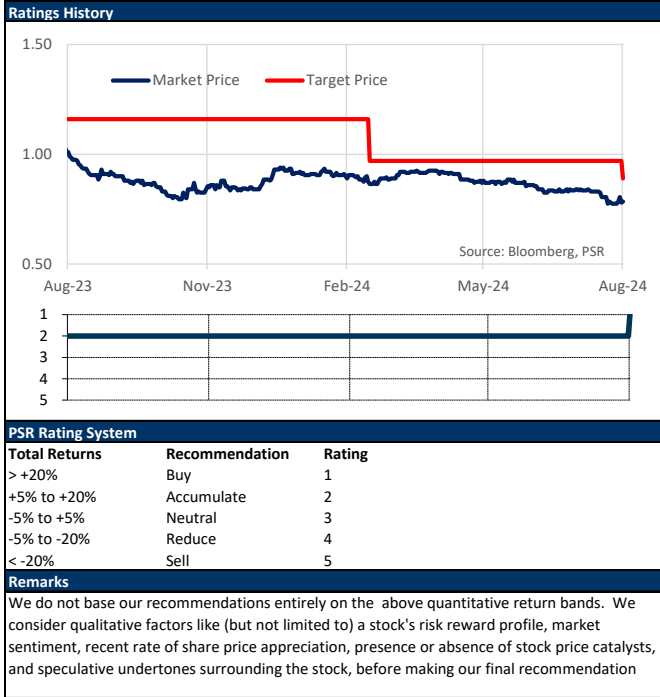
Growth					
Revenue	86.5%	7.5%	-18.6%	-0.3%	4.4%
Gross profit	83.1%	2.8%	-22.6%	8.4%	6.4%
PBT	114.8%	0.5%	-24.8%	5.3%	8.5%
PAT	106.4%	3.9%	-23.3%	5.5%	8.5%

Margins

GP margin	10.6%	10.2%	9.7%	10.5%	10.7%
PBT margin	8.2%	7.7%	7.1%	7.5%	7.8%
PAT Margin	6.3%	6.1%	5.7%	6.0%	6.3%

Key Ratios

ROE (%)	53.3%	49.3%	37.9%	37.2%	38.5%
ROA (%)	20.4%	16.6%	13.9%	17.3%	18.1%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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