

PropNex Ltd

Expecting a stronger 2H23



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SINGAPORE | REAL ESTATE (AGENCIES) | 1H23 RESULTS

- 1H23 results were below expectations. Revenue and PATMI were 33%/30% of our FY23e forecast. Adjusted PATMI declined 24% YoY to S\$20.8mn. Cooling measures and a dearth of new launches pushed revenue lower.
- We expect the pick-up in new launches and market share to drive a stronger performance in 2H23. We expect 8,100 units to be launched in 2H23 compared with 1H23's 3,400. Market share from the recent launches has been around 43%.
- We lower our FY23e earnings by 9% to S\$62.1mn and reduce the DCF target price to S\$1.16 (prev. S\$1.20). Our recommendation is downgraded from BUY to ACCUMULATE. The dividend yield is attractive at 6.3%, well supported by FCF and S\$140mn net cash on balance sheet. We expected a rebound in 2H23 as it will benefit from larger number of new launches and market share gains. Meanwhile, private resale support will come from its large price discounts compared to new launches and surge in completions. HDB resale will be resilient from attractive grants and more units reaching their minimum occupancy period.

Results at a glance

SGD mn	1H23	1H22	YoY	Comments
Revenue	364.3	472.3	-23%	
- Agency services	248.7	286.9	-13%	
a) Private resale	90.0	135.8	-34%	
b) HDB resale	59.5	64.0	-7%	
c) Rental	80.9	68.0	19%	
- Project Marketing	113.5	183.4	-38%	Cooling measures dampen sales.
Staff costs	(8.0)	(9.1)	-12%	
Gross profit	35.8	47.8	-25%	
Operating profit	25.5	33.9	-25%	
PATMI	22.1	27.0	-18%	
PATMI - adjusted	20.8	27.3	-24%	Excluding provisions.
Dividend (cents) - Interim	2.50	2.75	-9%	84% payout ratio.

Source: Company, PSR

The Positive

+ Returning the surge in cash-flow. The highly cash generative model was evident despite the weakness in earnings. FCF generated in 1H23 improved to S\$30.0mn (1H22: S\$23mn). Capital expenditure remained minimal at S\$0.5mn. The net cash was generally stable at S\$139.6mn (1H22: S\$133.9mn). PropNex announced an interim dividend of 2.5 cents by raising the payout ratio from 75% to 84%. Our forecast dividends of 6.5 cents or S\$48mn is well sustained by FCF and strong net cash balance sheet.

The Negative

- Weakness in revenue. Revenue contraction has been larger than expected. Weakness was especially in private new launches and resale. Lack of new launches over the six months 4Q22 till 1Q23 and softness in sentiment post cooling measures drove volumes down.

13 August 2023

ACCUMULATE (Downgraded)

LAST DONE PRICE	SGD 1.030
FORECAST DIV	SGD 0.065
TARGET PRICE	SGD 1.160
TOTAL RETURN	18.9%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	1110.0
MARKET CAP (USD mn / SGD mn):	845 / 1143
52 - WK HI/LO (SGD):	1.25 / 0.62
3M Average Daily T/O (mn):	0.7

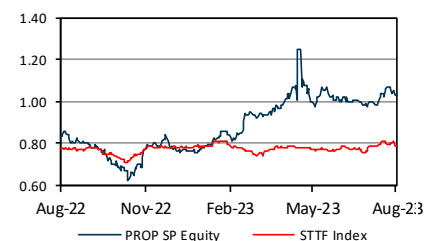
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	37.1%
ISMAIL MOHAMED	6.2%
SEONG KELVIN FONG KENG	5.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.6	2.0	38.9
STTF	5.1	3.4	4.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY21	FY22	FY23e	FY24e
Revenue	957	1,029	1,006	1,051
Gross Profit	101.8	104.7	103.7	108.3
Operating Profit	78.3	77.9	73.9	77.9
PATMI	60.0	62.4	63.3	67.4
P/E (x)	12.7	12.2	12.0	11.3
P/B (x)	6.8	6.0	5.3	4.7
EPS (cents)	8.1	8.4	8.6	9.1
DPS (cents)	6.3	6.8	6.5	7.5
Dividend yield (%)	6.1	6.6	6.3	7.3
ROE (%)	53.3	49.3	44.1	41.8

Source: Company, PSR

Valuation Method

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

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Outlook

PropNex has tempered down its expectation of transactions and prices (Figure 1). Nevertheless, we expect a healthy recovery for 2H23. The primary driver for private residential demand are HDB upgraders. HDB resale is riding on the back of attractive government grants (as much as S\$160k), wait times for BTO and strong rental market pushing renters to become owners.

- New launches: 2H23 will see a jump in new launches of 8,100 units, compared to 1H23 3,400 and 2022 4,258 units.
- Private resale: Ride on huge price discount compared to new launches (est. 58%) and surge in completed homes of around 19,200 in 2023.

Figure 1: 2023 expectations tempered down

(units)	2022	Old	New
Private residential price	8.6%	+6-8%	+4-5%
Private - new launch	7000	8,000-9,000	7,000-7,500
- resale	14,026	14,000-15,000	12,000-13,000
HDB - resale	27896	28,000-30,000	27,000-28,000

Source: PropNex, APAC Realty

Downgrade from BUY to ACCUMULATE with a lower TP of S\$1.16 (prev. S\$1.20)

We lower our FY23e earnings by 9% to S\$62.1mn and reduce the DCF target price to S\$1.16 (prev. S\$1.20). Our recommendation is downgraded from BUY to ACCUMULATE. PropNex is the market leader with a share of around 50% and pays an attractive dividend yield of 6%, well supported by a net cash balance of S\$140mn on the balance sheet and healthy operating cash flows.

Financials

Income Statement

SGD mn, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
Revenue	513.5	957.5	1,029.2	1,006.4	1,051.4
Cost of services	(457.9)	(855.7)	(924.5)	(902.8)	(943.1)
Gross profit	55.6	101.8	104.7	103.7	108.3
Staff costs	(14.1)	(16.8)	(18.4)	(17.5)	(19.5)
Finance and other income	7.6	7.3	17.3	10.9	9.9
Other costs and expenses	(12.4)	(13.6)	(24.5)	(18.3)	(14.9)
Operating profit	36.0	78.3	77.9	73.9	77.9
Profit before tax	36.6	78.7	79.1	78.7	83.7
Tax	(5.9)	(13.5)	(13.7)	(13.4)	(14.2)
PAT	30.7	65.1	65.4	65.3	69.5
Minority Interest	(2.1)	(5.1)	(3.0)	(2.0)	(2.1)
PATMI	29.1	60.0	62.4	63.3	67.4
PATMI, adjusted	29.1	60.7	62.4	62.1	67.4

Balance Sheet

SGD mn, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PP&E	2.6	2.0	1.4	1.9	2.3
Others	3.7	4.2	6.0	3.7	1.7
Total non-current assets	6.3	6.2	7.4	5.6	4.0
Trade & other receivables	80.6	142.7	223.4	181.2	157.7
Cash and cash equivalents	105.8	145.6	138.9	168.4	189.7
Total current assets	186.4	288.4	368.0	355.2	353.1
Total Assets	192.7	294.6	375.4	360.8	357.1
LIABILITIES					
Trade & other payables	94.3	164.3	228.3	198.6	179.2
Current tax liabilities	7.0	13.5	13.8	13.8	13.8
Others	2.6	2.7	3.8	1.8	1.8
Total current liabilities	103.9	180.5	245.9	214.2	194.8
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	1.0	1.3	2.8	2.8	0.8
Total non-current liabilities	1.2	1.5	2.9	2.9	0.9
Total Liabilities	105.1	182.0	248.9	217.1	195.7
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	44.1	69.0	85.1	100.4	116.0
Non-controlling interests	3.0	3.1	0.9	2.9	5.0
Total Equity	87.6	112.6	126.5	143.7	161.4

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	26.2	12.7	12.2	12.0	11.3
P/B (x)	8.7	6.8	6.0	5.3	4.7
Dividend Yield (%)	2.7	6.1	6.6	6.3	7.3

Growth & Margins

Growth					
Revenue	22.3%	86.5%	7.5%	-2.2%	4.5%
Gross profit	25.4%	83.1%	2.8%	-1.0%	4.5%
PBT	43.2%	114.8%	0.5%	-0.5%	6.4%
PAT	45.2%	106.4%	3.9%	1.6%	6.4%

Margins

GP margin	10.8%	10.6%	10.2%	10.3%	10.3%
PBT margin	7.1%	8.2%	7.7%	7.8%	8.0%
PAT Margin	5.7%	6.3%	6.1%	6.3%	6.4%

Key Ratios

ROE (%)	33.2%	53.3%	49.3%	44.1%	41.8%
ROA (%)	15.1%	20.4%	16.6%	17.6%	18.9%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

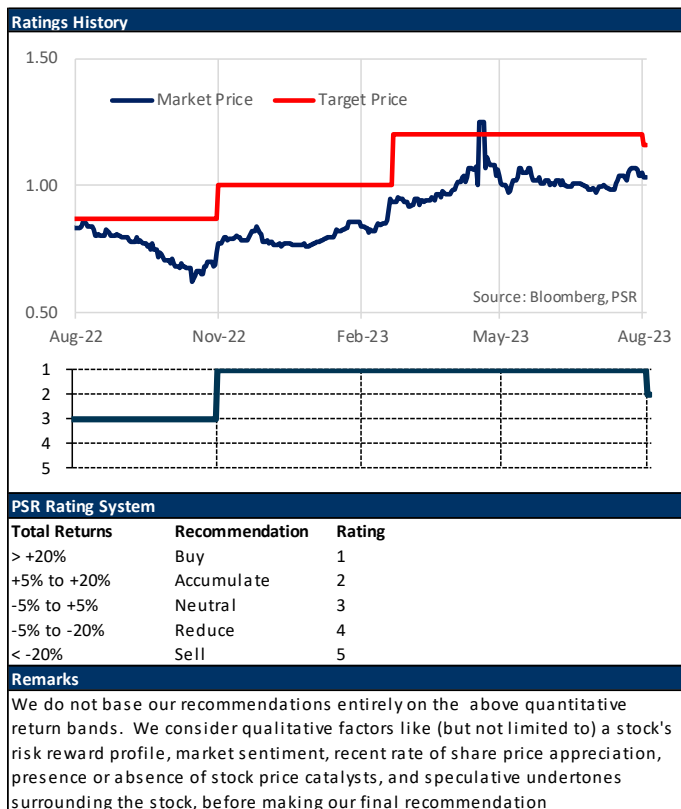
Per share data

SGD cents, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS	3.9	8.1	8.4	8.6	9.1
DPS	2.8	6.3	6.8	6.5	7.5
NAV per share	11.8	15.2	17.1	19.4	21.8

Cash Flow

SGD mn, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CFO					
PAT	31.2	65.1	65.4	65.3	69.5
Adjustments	10.6	17.3	16.7	16.1	16.8
WC changes	3.3	7.7	(17.2)	12.5	4.0
Interest and Taxes paid, others	(3.2)	(7.1)	(13.4)	(13.4)	(14.2)
Cashflow from operations	42.0	83.1	51.4	80.6	76.1
CFI					
Acquisition of plant and	(0.5)	(0.5)	(0.4)	(1.0)	(1.0)
Others	0.7	(0.0)	(4.0)	-	-
Cashflow from investments	0.2	(0.6)	(4.4)	(1.0)	(1.0)
CFF					
Payment of dividends	(15.4)	(40.4)	(51.5)	(48.1)	(51.8)
Others	(2.6)	(2.3)	(2.3)	(2.0)	(2.0)
Cashflow from financing	(18.0)	(42.7)	(53.8)	(50.1)	(53.8)
Net change in cash	24.2	39.8	(6.8)	29.5	21.3
CCE, end	105.7	145.6	138.8	168.3	189.7

Source: Company, Phillip Securities Research (Singapore) Estimates



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