

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 3 Sell 0

Current price:	S\$1.67
Target price:	S\$2.07
Previous target:	S\$2.07
Up/downside:	24.0%
CGS-CIMB / Consensus:	8.7%
Reuters:	PROP.SI
Bloomberg:	PROP SP
Market cap:	US\$450.5m
	S\$617.9m
Average daily turnover:	US\$0.14m
	S\$0.20m
Current shares o/s:	370.0m
Free float:	17.4%

*Source: Bloomberg

Key changes in this note

➤ No change



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.4	0.6	-14.8
Relative (%)	3.4	-1	-17.3

Major shareholders

	% held
P&N Holdings	64.8
Ismail Mohamed	9.2
Kelvin Fong	8.6

Analyst(s)

LOCK Mun Yee

T (65) 6210 8606

E munyee.lock@cgs-cimb.com

Propnex Ltd

Tracking slower market momentum

- 2Q/1H EPS of 3.54/7.30 Scts deemed in line, at 27%/55.6% of our full-year forecasts
- Higher agency services revenue partly offset lower project marketing contributions
- Reiterate Add, with an unchanged TP of S\$2.07

2Q22 results highlights

Propnex (PROP) reported a 11.4% yoy decline in 2Q22 revenue to S\$230.7m, while gross profit slipped 15% yoy to S\$23.7m, largely on slower project marketing revenue, partly offset by higher agency services revenue. As a result, GP margin slipped marginally to 10.3%. 2Q PATMI of S\$13.1m was 20.7% lower than a year ago, translating into an EPS of 3.54 Scts. 1HFY22 PATMI amounted to S\$27m, down 13.8% yoy, translating to an EPS of 7.3 Scts. PROP proposed an interim DPS of 5.5 Scts, or an annualised yield of 6.6%. Its gross cash balance stood at S\$133.9m (36.2 Scts/share) at end-2Q.

Project marketing revenue impacted by fewer launches

2Q commissions from project marketing services declined 29% yoy to S\$89.9m (1H: S\$183.4m, -19% yoy) due to fewer project launches while market transaction volumes fell 40.2% yoy in 1H22. For FY22F, management expects homes sales in Singapore to drop 30-40% yoy due to the impact from the property cooling measures announced in Dec 2021 and dwindling unsold inventory. That said, management indicated that it anticipates private home prices in Singapore to rise 7-8% in 2022F due to limited new launch supply. As at Aug 2022, PROP's sales force had grown to 11,745 agents, enabling it to garner more market share, in our view.

Agency services benefited from an improvement in market share

Meanwhile, PROP's commission from agency services rose 4.1% yoy in 2Q to S\$139.1m (1H: S\$254.7m, +12.3% yoy) as the group continued to expand its market share amid slower market volumes. In 1H, volume transaction in the private resale market fell 21.4% yoy while rental activity declined 8.9% yoy. There was also a 6% drop in Singapore's HDB resale market transaction volumes. PROP expects the overall private resale volume to shrink 15-20% yoy to 15k-16k in FY22F and projects HDB resale transactions to slide 5-10% for the year. During the quarter, PROP expanded its footprint to Australia with the establishment of an office in Melbourne. The team has secured a number of collaborations with builders and developers to market locations in both Melbourne CBD and in growth suburbs.

Reiterate Add rating

We keep our FY22-24F net profit estimates unchanged. While PROP has achieved 55.6% of our FY22F net profit forecast in 1H, we believe the slower pace of new launches in 1H and the time lag in profit recognition could be a drag on its performance in 2H22F yoy. Our TP is maintained at S\$2.07, based on a blend of net cash-adjusted P/E and DCF valuation. PROP trades at a cash-adjusted FY22F P/E of 10x. Potential re-rating catalysts: stronger-than-projected residential market performance and contributions from enbloc transactions.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues (S\$m)	515.6	957.7	774.1	748.2	779.1
Operating EBITDA (S\$m)	37.74	78.97	64.42	66.91	69.64
Net Profit (S\$m)	29.16	59.60	48.61	50.51	52.59
Normalised EPS (S\$)	0.08	0.16	0.13	0.14	0.14
Normalised EPS Growth	46%	104%	(18%)	4%	4%
FD Normalised P/E (x)	21.19	10.37	12.71	12.23	11.75
DPS (S\$)	0.06	0.13	0.11	0.11	0.11
Dividend Yield	3.29%	7.49%	6.29%	6.53%	6.80%
EV/EBITDA (x)	13.65	6.02	7.23	6.83	6.38
P/FCFE (x)	15.63	7.67	10.13	11.58	10.54
Net Gearing	(121%)	(129%)	(134%)	(129%)	(126%)
P/BV (x)	7.31	5.65	5.53	5.01	4.55
ROE	37.9%	61.4%	43.9%	42.9%	40.6%
Normalised EPS/consensus EPS (x)			0.97	1.01	1.02

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

PROP adopts a top-down approach in the management of sustainability issues material to its business and stakeholders. Its core values include Continuous Self-improvement, Autonomy and Entrepreneurship, Respect and Concern for Individuals, and Ethics, Honesty and Integrity (C.A.R.E.) to ensure the sustainability of its business. The group adopts CARE to empower people, empower society and empower customers. PROP adopted Community Chest as its main charity beneficiary since 2013, with an emphasis on adopting schools and centres that cater to children with special needs and disabilities.

Keep your eye on

As a people-oriented business, PROP's C.A.R.E. core values should enable it to achieve its vision to become the leader in any market it serves, as well as to enhance customer's experience through value-added professional service, in our view. PROP is the first real estate agency to set up the PropNex Real Estate Salespersons Chapter – Agents' Voice Matters, with a formalised framework supported by the Singapore Industrial and Services Employees' Union (SISEU) under the National Trades Union Congress (NTUC), to look into the welfare of real estate sales persons and to promote professionalism in enhancing business and industry practices.

Implications

Our current valuations have not ascribed a premium/discount for PROP's ESG achievements. As the company continues on its ESG journey, its overall ESG score should continue to improve.

ESG highlights

Some of PROP's ESG highlights in FY20 include 13 new hires (12.62% annual rate of new employee hires) as part of its move to retain or grow new talent. It also recruited 594 sales persons in FY20. To empower its customers, it held 131 consumer empowerment seminars/webinars. On the Environmental front, it reduced its electricity consumption and total carbon emission by 20.5% yoy to 525,637.4 kWh and 112.31tCO₂e total carbon emission, respectively. As such, it lowered its carbon emission to 0.2t/\$m per million dollar revenue carbon emission. In FY21, PROP contributed over S\$2m to charity and education bursaries in Singapore including the Community Chest, Chen Su Lan Children's Methodist Home and MENDAKI Singapore. It has also committed to make a S\$0.8m donation to the Community Chest of Singapore in FY22.

Implications

We have not applied any premium/discount for ESG in our fundamental valuations.

Trends

In addition to environmental improvements, the group also has not had any non-compliant incidents with relevant laws and regulations. There has also been no letter of complaints against the group from the Personal Data Protection Commission concerning breaches of customer privacy and loss of customer data.

Implications

We have not applied any premium/discount for ESG in our fundamental valuations. However, as the group continues to build on its ESG efforts, we believe these could lead to improved operational efficiencies and financial performance.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

Figure 1: Results comparison

FYE Dec (\$m)	2Q		yoy %		2QFY22		2QFY21		yoy %	Prev.	FY22F Comments
	FY22	FY21	chg	chg	Cum	Cum	chg	chg			
Revenue	230.7	260.5	-11.4	-4.5	472.3	481.1	-1.8	774.1	Broadly in line. 2Q/1H22 at 29.8%/61% of our FY22F forecasts		
Operating costs	(215.6)	(239.3)	-9.9	(4.0)	(440.0)	(442.0)	-0.4	(712.8)			
EBITDA	15.1	21.2	-28.5	-11.1	32.3	39.1	-17.4	61.3			
EBITDA margin (%)	6.6%	8.1%			6.8%	8.1%		7.9%			
Depreciation/Amortisation	0.9	0.8	9.8	4.3	1.8	1.7	8.9	-3.5			
EBIT	16.0	22.0	-27.1	(10.4)	34.1	40.7	-16.3	57.8			
Interest expense	(0.0)	(0.0)	45.5	100.0	0.0	0.0	-7.7	0.0			
Interest & invnt inc	0.2	0.1	68.8	78.0	0.1	0.1	(3.2)	6.0			
Associates' contribution	0.0	(0.0)	n.m.	n.m.	0.0	0.0	-100.0	0.0			
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0			
Pretax profit	16.2	22.0	-26.5	-10.0	34.2	41.4	-17.5	63.7			
Tax	(2.8)	(3.8)	-27.9	(11.0)	(5.9)	(7.1)	-16.6	(11.0)			
Tax rate (%)	17.1%	17.5%			17.2%	17.0%		17.2%			
Minority interests	(0.3)	(1.7)	-81.6	(67.6)	(1.3)	(3.0)	-58.5	(4.1)			
Net profit	13.1	16.5	-20.7	(5.8)	27.0	31.3	-13.8	48.6			
EPS (Scts)	3.54	4.46	-20.7	(5.8)	7.30	8.47	-13.8	13.13	In line. 2Q/1H22 at 27%/55.6% of our FY22F forecasts		
Core profit	13.1	16.5	-20.7	(5.8)	27.0	30.7	-11.9	48.6	In line. 2Q/1H22 at 27%/55.6% of our FY22F forecasts		
Core EPS (Scts)	3.54	4.46	-20.7	(5.8)	7.30	8.29	-11.9	13.13	In line. 2Q/1H22 at 27%/55.6% of our FY22F forecasts		

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Results comparison

DCF Assumptions				
Cost of equity	9.80%			
Rf	2.00%			
Market risk premium	6.00%			
Beta	1.30			
Terminal growth	1%			
DCF				
	2022F	2023F	2024F	2025F
EBIT (1- Tax) (\$m)	52.61	54.68	56.94	
Depreciation&Amort (\$m)	7.09	7.09	7.09	
Working capital changes (\$m)	14.89	5.94	-0.73	
Capex (\$m)				
FCF (\$m)	44.81	55.83	64.76	51.23
Discount factor	1.00	1.00	0.83	
PV FCF (\$m)	44.81	55.83	53.71	38.70
Sum of PV FCF (\$m)	657.27			
Net Cash (Net Debt) (\$m)	145.60			
Equity value (\$m)	802.87			
Number of shares (m)	370.00			
Value per share (S\$)	2.17			
FY22F EPS (Scts)	13.13			
P/E multiple (x)	12			
Value per share (S\$)	1.97			
Avg DCF and PE	2.07			

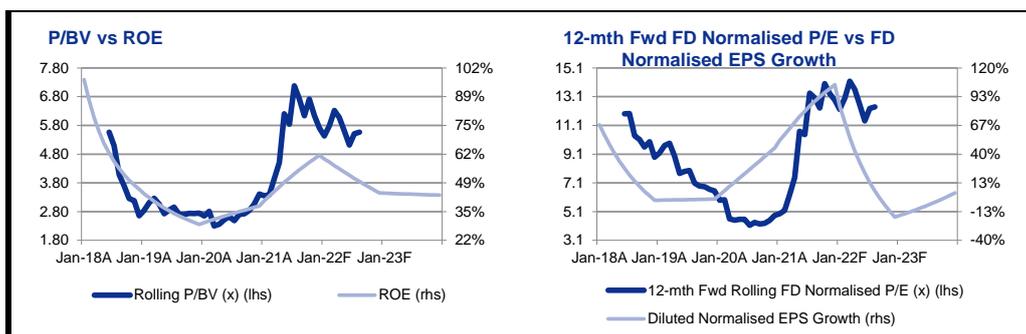
SOURCES: CGS-CIMB RESEARCH estimates

Figure 3: Singapore developers peer comparison table

Company	Bloomberg Ticker	Recom.	Price (lc)	Tgt Px (lc)	Mkt Cap (US\$ m)	Core P/E (x)			RNAV FY23F	Prem./(Disc.) to RNAV (%)	P/BV (x)		Div. Yield (%)	
						FY22F	FY23F	FY24F			FY22F	FY23F	FY22F	FY23F
APAC Realty Ltd	APAC SP	Add	0.71	0.84	183	9.8	8.2	7.4	n.a.	n.a.	1.64	1.49	7.6%	9.1%
Capitaland Investment	CLI SP	Add	4.10	4.59	15,308	22.1	21.1	19.0	5.10	-20%	1.22	1.18	1.6%	1.7%
City Developments	CIT SP	Add	8.25	8.97	5,455	16.0	10.1	14.6	16.30	-49%	0.74	0.66	2.4%	2.4%
Frasers Property Limited	FPL SP	Add	1.04	1.41	2,977	14.3	15.2	13.1	2.56	-59%	0.36	0.34	2.9%	3.8%
Hongkong Land Holdings Ltd	HKL SP	Add	5.06	6.10	11,810	13.1	12.3	11.2	10.20	-50%	0.33	0.29	4.3%	4.3%
Propnex Ltd	PROP SP	Add	1.67	2.07	450	12.7	12.2	11.7	n.a.	n.a.	5.53	5.01	6.3%	6.5%
UOL Group	UOL SP	Add	7.33	8.00	4,513	18.5	18.3	22.0	13.34	-45%	0.60	0.59	2.4%	2.4%
Wing Tai Holdings	WINGT SP	Add	1.69	1.98	937	15.1	20.3	na	3.96	-57%	0.34	0.32	3.0%	3.0%
Singapore average						16.5	15.1	15.0		-35%	0.56	0.52	2.8%	2.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Share price as at 10 Aug 2022

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	515.6	957.7	774.1	748.2	779.1
Gross Profit	56.5	102.0	83.5	85.4	88.8
Operating EBITDA	37.7	79.0	64.4	66.9	69.6
Depreciation And Amortisation	(1.2)	(1.0)	(1.0)	(1.0)	(1.0)
Operating EBIT	36.6	77.9	63.4	65.9	68.6
Financial Income/(Expense)	0.6	0.3	0.3	0.3	0.3
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	37.2	78.3	63.7	66.2	68.9
Exceptional Items					
Pre-tax Profit	37.2	78.3	63.7	66.2	68.9
Taxation	(5.9)	(13.5)	(11.0)	(11.4)	(11.9)
Exceptional Income - post-tax					
Profit After Tax	31.3	64.7	52.8	54.8	57.1
Minority Interests	(2.1)	(5.1)	(4.1)	(4.3)	(4.5)
Pref. & Special Div	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	29.2	59.6	48.6	50.5	52.6
Normalised Net Profit	31.3	64.7	52.8	54.8	57.1
Fully Diluted Normalised Profit	29.2	59.6	48.6	50.5	52.6

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	37.74	78.97	64.42	66.91	69.64
Cash Flow from Invnt. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	3.33	7.72	7.82	(1.89)	1.16
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1.18	1.33	1.33	1.33	1.33
Other Operating Cashflow	(0.34)	(0.12)	(0.32)	(0.32)	(0.32)
Net Interest (Paid)/Received	0.64	0.32	0.32	0.32	0.32
Tax Paid	(3.24)	(7.06)	(10.96)	(11.39)	(11.86)
Cashflow From Operations	39.30	81.16	62.62	54.97	60.28
Capex	(0.49)	(0.54)	(2.00)	(2.00)	(2.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments	(0.01)	(0.40)	0.00	0.00	0.00
Other Investing Cashflow	0.73	0.37	0.37	0.37	0.37
Cash Flow From Investing	0.23	(0.57)	(1.63)	(1.63)	(1.63)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(15.36)	(40.39)	(48.25)	(40.85)	(42.37)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(15.36)	(40.39)	(48.25)	(40.85)	(42.37)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	105.8	145.6	157.3	168.7	183.9
Properties Under Development					
Total Debtors	80.6	142.7	103.2	99.8	103.9
Inventories					
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	186.4	288.4	260.5	268.5	287.8
Fixed Assets	2.6	2.0	3.0	4.0	4.9
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.1	0.9	0.6	0.3	0.0
Total Other Non-Current Assets	3.5	3.3	3.3	3.3	3.3
Total Non-current Assets	6.3	6.2	6.8	7.5	8.2
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	94.3	164.3	132.6	127.3	132.5
Other Current Liabilities	9.6	16.2	16.2	16.2	16.2
Total Current Liabilities	103.9	180.5	148.8	143.5	148.7
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Provisions	1.2	1.5	1.5	1.5	1.5
Total Liabilities	105.1	182.0	150.3	144.9	150.2
Shareholders' Equity	84.6	109.4	111.8	123.4	135.7
Minority Interests	3.0	3.1	5.3	7.6	10.1
Total Equity	87.6	112.6	117.1	131.0	145.7

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	22.8%	85.7%	(19.2%)	(3.3%)	4.1%
Operating EBITDA Growth	48%	109%	(18%)	4%	4%
Operating EBITDA Margin	7.32%	8.25%	8.32%	8.94%	8.94%
Net Cash Per Share (S\$)	0.29	0.39	0.43	0.46	0.50
BVPS (S\$)	0.23	0.30	0.30	0.33	0.37
Gross Interest Cover	411	1,812	1,474	1,532	1,595
Effective Tax Rate	15.9%	17.3%	17.2%	17.2%	17.2%
Net Dividend Payout Ratio	69.8%	77.6%	79.9%	79.9%	79.9%
Accounts Receivables Days	51.13	42.56	57.99	49.51	47.83
Inventory Days	-	-	-	-	-
Accounts Payables Days	66.16	55.15	78.46	71.55	68.87
ROIC (%)	(549%)	(457%)	(201%)	(170%)	(190%)
ROCE (%)	45.6%	77.2%	54.8%	52.8%	49.3%
Return On Average Assets	17.7%	26.4%	18.7%	20.1%	19.8%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Agency services (S\$m)	291.4	341.3	377.3	372.9	388.7
Project marketing services (S\$m)	218.7	435.5	390.6	369.2	384.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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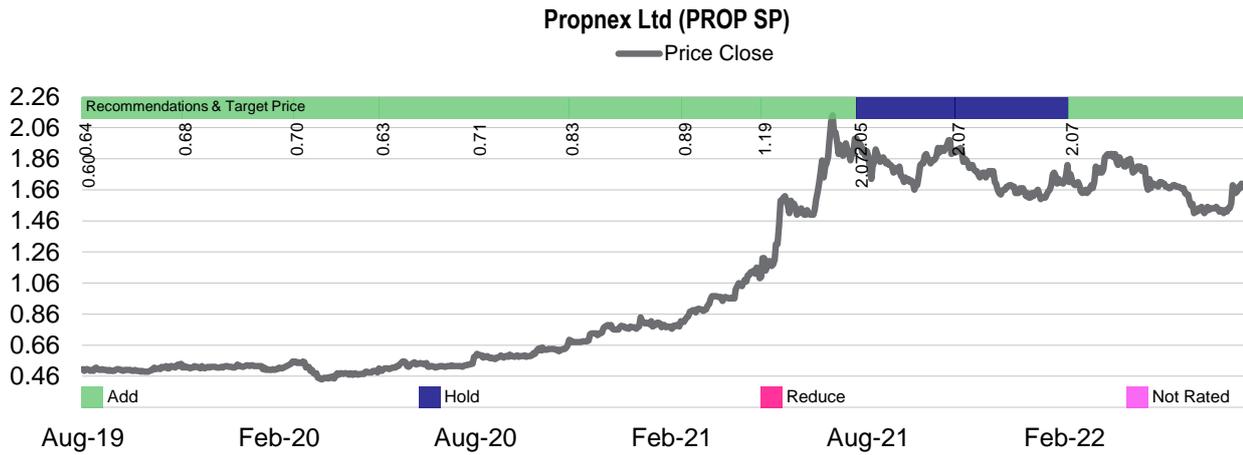
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Add The stock's total return is expected to exceed 10% over the next 12 months.

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