

Singapore Company Update

PropNex Ltd

Bloomberg: PROP SP | Reuters: PROP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Aug 2023

HOLD

Last Traded Price (10 Aug 2023): S\$1.05 (STI : 3,322.93)

Price Target 12-mth: S\$1.09 (4% upside) (Prev S\$0.94)

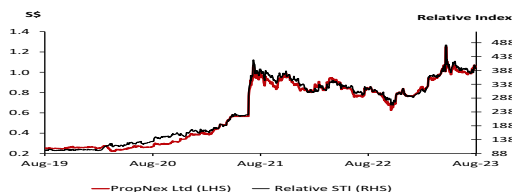
Analyst

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What's New

- Slower transaction activity leads to weaker 1H23 results, below expectations
- Robust new launch pipeline; more than doubled in 2022
- Revised down assumptions for property transaction volume by 7% to 22%
- Cut FY23F/24F earnings by 19%/9%; maintain HOLD with revised TP of S\$1.09 rolling valuation peg to FY24F

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	957	1,029	879	1,062
EBITDA	81.9	81.5	69.1	88.4
Pre-tax Profit	78.7	79.1	67.2	86.8
Net Profit	60.0	62.4	51.4	67.0
Net Pft (Pre Ex.)	60.0	62.4	51.4	67.0
Net Pft Gth (Pre-ex) (%)	106.3	3.9	(17.6)	30.4
EPS (S cts)	8.11	8.43	6.94	9.05
EPS Pre Ex. (S cts)	8.11	8.43	6.94	9.05
EPS Gth Pre Ex (%)	106	4	(18)	30
Diluted EPS (S cts)	8.11	8.43	6.94	9.05
Net DPS (S cts)	6.25	6.75	5.50	7.50
BV Per Share (S cts)	14.8	17.0	18.4	20.0
PE (X)	12.9	12.5	15.1	11.6
PE Pre Ex. (X)	12.9	12.5	15.1	11.6
P/Cash Flow (X)	9.4	15.1	10.9	9.4
EV/EBITDA (X)	7.7	7.8	8.8	6.7
Net Div Yield (%)	6.0	6.4	5.2	7.1
P/Book Value (X)	7.1	6.2	5.7	5.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	61.9	53.1	39.3	47.2
Earnings Rev (%):			(19)	(9)
Consensus EPS (S cts):			13.8	14.0
Other Broker Recs:		B: 4	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Expecting a better 2H23

Investment Thesis:

Leadership position with largest sales network. PropNex has the largest sales network in Singapore, with slightly more than 12,000 agents, almost 40% larger than its closest competitor. With a large sales force, PropNex is in a better position to increase market share in its various segments – new home sales, private resale, HDB resale, and rentals.

Resilient property market supported by strong pipeline of new launches, but price increase could be slower. The knee-jerk reaction to the three cooling measures (30 Sep 2022, 15 Feb 2023, and 27 Apr 2023) in less than a year has impacted 1H23 financials, given the delay in revenue recognition from the point of transaction. Overall, we expect buyers to remain cautious but overall transaction velocity to remain supported by a strong pipeline of new launches (c.8k units in 2H23) although sell-through rates are expected to be around c.30%-50% at launch weekends. The swing factor will come from foreign buyers looking to call Singapore home. Overall, we expect the price increase to be modest given the high overall quantum, constrained by macro headwinds including still high inflation and slower economic growth.

Revised down assumptions for property transaction volume by 7% to 22%. We have reduced our property transaction volume assumption for the various segments – private new home, private resale, and HDB resale – by 7% to 22% for FY23F and FY24F, on the back of the muted macro backdrop.

Maintain HOLD with revised TP of S\$1.09 (vs. S\$0.94 previously). Our TP of S\$1.09 is pegged to 12x PE, near its four-year average PE, as we rolled forward to FY24F earnings. We believe PropNex deserves a higher valuation vs. its peers, given its growing dominance in the Singapore property market. FY23F dividend yield of c.5.3% based on our projection of a c.80% payout ratio is attractive. Catalysts would include higher transaction activity and further price increases.

Key Risks

Additional property cooling measures. Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	740
Mkt. Cap (S\$m/US\$m)	777 / 571
Major Shareholders (%)	
P&N HOLDINGS PTE LTD	55.6
Gafoore Mohamed Isma	9.3
Seong Kelvin Fong Ke	8.8
Free Float (%)	26.3
3m Avg. Daily Val (US\$m)	0.53
GIC Industry : Real Estate / Real Estate Management &	



[Watchlist the stock on Insights Direct to receive prompt updates](#)

WHAT'S NEW

1H23 results below estimates, expecting a better 2H23**Slower transaction activity leading to weaker 1H23 results.**

Revenue in 1H23 declined 22.9% y-o-y to \$364.3m, mainly due to fewer transactions completed for agency and project marketing services. Net profit was down 18.4% y-o-y as gross margin eased to 9.8% from 10.1% in 1H22 and 10.2% in 2H22. The weaker margin was mainly due to lower transactions. Overall, 1H23 revenue and net profit account for 36% and 35% of our forecasts, respectively, below expectations.

An interim DPS of 2.5 Scts was declared, representing a payout ratio for 1H23 of 83.9% vs. 80.1% in FY22.

1H23 revenue breakdown

Segment (\$m)	1H23	chg y-o-y (%)	% share
Project Marketing	113.5	-38.1	31
Rental	80.9	+19.0	22
HDB Resale	59.5	-7.1	17
Private Resale	72.3	-29.7	20
Landed Resale	17.7	-46.0	5
Commercial & Industrial	16.3	-11.5	5
Total	364.3	-22.9	100

Source: Company; DBS Bank

Dip in private home prices; HDB resale saw moderate increase.

Private home prices slipped for the first time in three years in 2Q23, affected by three rounds of cooling measures since December 2021, and the high interest rate environment. Meanwhile, HDB resale flat prices continued to rise at a more moderate pace while the growth in private home rentals slowed considerably in 2Q23. In 2Q23, overall private home prices declined by 0.2% q-o-q, reversing the 3.3% q-o-q growth in 1Q23, and marking the first quarterly contraction in the URA Property Price Index since 1Q20, where prices fell 1% q-o-q.

For the rental segment, the URA Rental Index continued to rise for the 11th consecutive quarter in 2Q23, albeit at a much slower pace. Rentals climbed by 2.8% q-o-q, compared to the 7.2% q-o-q growth in the previous quarter. On a y-o-y basis, private home rentals in 2Q23 were up by 28.5%.

More new launches in 2Q23 vs. 1Q23. Overall, developers sold 2,127 units of new private homes (excluding Executive Condominiums [EC]) in 2Q23, taking the half-year total to 3,383 units, which was lower than the 4,222 units moved in 1H2022. In 2Q23, developers launched 2,374 units (excluding EC) of new

homes for sale, rising by 81% from 1,312 units placed on the market in the previous quarter.

Robust new launch pipeline; more than doubled in 2022. PropNex has been appointed marketing agents for 33 projects in 2H23, with slightly over 8,000 units, vs. 4,528 units in 2022. As at July 2023, 13 projects have been launched this year.

PropNex expects overall prices to grow 4% to 5% y-o-y in 2023; volume to drop by about 10% to 20%. For the full year of 2023, the group estimates overall private home prices to grow by 4.0% to 5.0% and developers' sales to range from 7,000 to 7,500 units (excluding EC). The group estimates private resale volume to be in the region of 12,000 to 13,000 units as the high interest rates and tight resale stock continue to weigh on sales.

Revised down assumptions for property transaction volume by 7% to 22%. With three cooling measures (30 Sep 2022, 15 Feb 2023, and 27 Apr 2023) in less than a year, concerns remain that more measures could be in the pipeline. Coupled with the high interest rate environment, overall sentiment could be affected. Hence, we have reduced our property transaction volume assumption for the various segments – private new home, private resale, and HDB resale – by 7% to 22% for FY23F and FY24F.

Assumptions for private new home and private resale

2023 (units)	PropNex estimates	DBS estimates
Private new home	7,000-7,500	7,000
Private resale	12,000 – 13,000	12,000

Source: Company; DBS Bank

Cut earnings by 19%/9% for FY23F/FY24F on lower transaction assumption and margins. Maintain HOLD with revised TP of S\$1.09. We have cut earnings for FY23F/FY24F by 19%/9%. Net margin is lowered to 5.8% and 6.3% in FY23F and FY24F, respectively, from 6.3% and 6.5% previously. Lower transaction activity affects margins due to the lack of scale. Target price is revised to S\$1.09 (previously S\$0.94), pegged to 12x PE, near the +1SD level from its four-year average PE, as we rolled forward to FY24F earnings. Maintain HOLD; FY23F dividend yield of c.6% is attractive.

Company Background

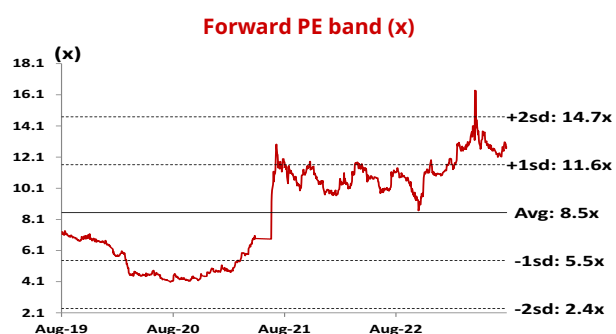
PropNex Limited (PROP SP) is Singapore's largest listed real estate broker. It was listed on the Mainboard of the Singapore Exchange on 2 July 2018 and is an integrated real estate services group that offers real estate brokerage, training, property management, and real estate consultancy services.

Interim Income Statement (\$m)

FY Dec	1H2022	2H2022	1H2023	% chg yoy	% chg hoh
Revenue	472	557	364	(22.9)	(34.6)
Cost of Goods Sold	(425)	(500)	(329)	(22.6)	(34.3)
Gross Profit	48	57	36	(25.1)	(37.1)
Other Oper. (Exp)/Inc	(14)	(13)	(18)	26.8	30.8
Operating Profit	34	43	18	(46.3)	(58.1)
Other Non Opg (Exp)/Inc	0	1	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	1	2	nm	nm
Exceptional Gain/(Loss)	0	0	7	-	nm
Pre-tax Profit	34	45	27	(19.5)	(38.9)
Tax	(6)	(8)	(5)	(23.1)	(42.2)
Minority Interest	(1)	(2)	(1)	28.7	(49.1)
Net Profit	27	35	22	(18.2)	(37.7)
Net profit bef Except.	27	35	15	(45.3)	(58.3)
EBITDA	36	46	20	(44.0)	(56.4)
Margins (%)					
Gross Margins	10.1	10.2	9.8		
Opg Profit Margins	7.2	7.8	5.0		
Net Profit Margins	5.7	6.4	6.1		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
Private new launch market share (%)	49	55	57	58	58
Private resale market share (%)	48	50	52	51	52
HDB resale market share (%)	57	58	60	61	61

Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Agency Services	291	519	641	557	627
Project Marketing	219	436	384	318	429
Administrative Support	2.15	1.29	1.83	2.50	3.00
Training Services	1.23	1.42	2.94	2.00	2.50
Others	2.17	0.01	0.06	0.0	0.0
Total	516	957	1,029	879	1,062

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	516	957	1,029	879	1,062
Cost of Goods Sold	(459)	(856)	(925)	(790)	(953)
Gross Profit	56.5	102	105	89.7	108
Other Opng (Exp)/Inc	(19.9)	(24.0)	(27.3)	(23.9)	(23.1)
Operating Profit	36.6	77.8	77.4	65.8	85.2
Other Non Opng (Exp)/Inc	0.0	0.64	0.52	0.0	0.0
Associates & JV Inc	(0.1)	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.64	0.32	1.15	1.35	1.62
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	37.2	78.7	79.1	67.2	86.8
Tax	(5.9)	(13.6)	(13.7)	(11.4)	(14.8)
Minority Interest	(2.1)	(5.1)	(3.0)	(4.4)	(5.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	29.1	60.0	62.4	51.4	67.0
Net Profit before Except.	29.1	60.0	62.4	51.4	67.0
EBITDA	40.3	81.9	81.5	69.1	88.4
Growth					
Revenue Gth (%)	22.8	85.7	7.5	(14.5)	20.7
EBITDA Gth (%)	42.5	103.4	(0.4)	(15.3)	28.0
Opg Profit Gth (%)	49.8	112.5	(0.4)	(15.0)	29.4
Net Profit Gth (Pre-ex) (%)	45.4	106.3	3.9	(17.6)	30.4
Margins & Ratio					
Gross Margins (%)	11.0	10.6	10.2	10.2	10.2
Opg Profit Margin (%)	7.1	8.1	7.5	7.5	8.0
Net Profit Margin (%)	5.6	6.3	6.1	5.8	6.3
ROAE (%)	37.8	61.9	53.1	39.3	47.2
ROA (%)	16.8	24.6	18.6	15.2	20.5
ROCE (%)	36.3	59.5	52.2	38.5	44.9
Div Payout Ratio (%)	70.0	77.1	80.1	79.2	82.9
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Interim Income Statement (\$\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	481	476	472	557	364
Cost of Goods Sold	(430)	(426)	(425)	(500)	(329)
Gross Profit	51.1	50.7	47.8	56.9	35.8
Other Oper. (Exp)/Inc	(10.5)	(13.6)	(13.9)	(13.4)	(17.6)
Operating Profit	40.7	37.1	33.9	43.5	18.2
Other Non Opg (Exp)/Inc	0.0	0.64	0.0	0.52	0.0
Associates & JV Inc	(0.1)	0.0	(0.1)	0.05	0.0
Net Interest (Exp)/Inc	0.16	0.16	0.23	0.92	1.94
Exceptional Gain/(Loss)	0.66	(0.7)	0.0	0.0	7.31
Pre-tax Profit	41.4	37.3	34.1	45.0	27.5
Tax	(7.1)	(6.5)	(5.9)	(7.8)	(4.5)
Minority Interest	(3.0)	(2.1)	(1.3)	(1.8)	(0.9)
Net Profit	31.3	28.7	27.0	35.4	22.1
Net profit bef Except.	30.7	29.3	27.0	35.4	14.7
EBITDA	42.3	39.6	35.7	45.9	20.0

Growth

Revenue Gth (%)	74.8	(1.0)	(0.9)	17.9	(34.6)
EBITDA Gth (%)	112.3	(6.2)	(10.0)	28.5	(56.4)
Opg Profit Gth (%)	123.8	(8.7)	(8.6)	28.2	(58.1)
Net Profit Gth (%)	120.0	(8.5)	(5.9)	31.2	(37.7)

Margins

Gross Margins (%)	10.6	10.6	10.1	10.2	9.8
Opg Profit Margins (%)	8.4	7.8	7.2	7.8	5.0
Net Profit Margins (%)	6.5	6.0	5.7	6.4	6.1

Balance Sheet (\$\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	5.75	4.92	6.39	7.25	7.75
Invt in Associates & JVs	0.05	0.0	0.0	0.0	0.0
Other LT Assets	0.52	1.26	0.97	0.58	0.55
Cash & ST Invt	106	146	145	172	195
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	80.6	143	223	123	148
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	193	295	375	302	352
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	94.3	164	228	143	172
Other Current Liab	9.63	16.2	17.6	15.2	18.6
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.23	1.49	2.93	2.93	2.93
Shareholder's Equity	84.6	109	126	136	148
Minority Interests	3.03	3.14	0.94	5.31	10.4
Total Cap. & Liab.	193	295	375	302	352
Non-Cash Wkg. Capital	(23.3)	(37.8)	(22.5)	(35.1)	(42.6)
Net Cash/(Debt)	106	146	145	172	195
Debtors Turn (avg days)	51.0	42.6	64.9	71.9	46.6
Creditors Turn (avg days)	66.5	55.4	77.8	86.1	60.5
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	3.0	3.9	3.1	2.6	3.2
Current Ratio (x)	1.8	1.6	1.5	1.9	1.8
Quick Ratio (x)	1.8	1.6	1.5	1.9	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	37.2	78.7	79.1	67.2	86.8
Dep. & Amort.	3.74	3.54	3.61	3.23	3.23
Tax Paid	(3.2)	(7.1)	(13.4)	(13.8)	(11.4)
Assoc. & JV Inc/(loss)	0.07	0.05	0.0	0.0	0.0
Chg in Wkg.Cap.	3.33	7.72	(17.2)	15.0	4.12
Other Operating CF	0.90	0.16	(0.7)	0.0	0.0
Net Operating CF	42.0	83.1	51.4	71.6	82.7
Capital Exp.(net)	(0.5)	0.05	(0.4)	(3.7)	(3.7)
Other Invt.(net)	0.0	0.0	(5.9)	0.0	0.0
Invt. in Assoc. & JV	0.0	0.0	0.69	0.0	0.0
Div from Assoc & JV	0.0	(1.0)	0.0	0.0	0.0
Other Investing CF	0.73	0.37	1.18	0.0	0.0
Net Investing CF	0.23	(0.6)	(4.4)	(3.7)	(3.7)
Div Paid	(15.4)	(40.4)	(51.5)	(40.7)	(55.5)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(2.6)	(2.3)	(2.3)	0.0	0.0
Net Financing CF	(18.0)	(42.7)	(53.8)	(40.7)	(55.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	24.2	39.8	(6.8)	27.2	23.5
Opg CFPS (S cts)	5.22	10.2	9.28	7.65	10.6
Free CFPS (S cts)	5.60	11.2	6.90	9.17	10.7

Source: Company, DBS Bank

Target Price & Ratings 12-mth History

Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Sep 22	0.75	0.60	FULLY VALUED
2:	11 Nov 22	0.77	0.81	HOLD
3:	01 Mar 23	0.95	0.94	HOLD

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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