

Insights Direct Company Note

PropNex Ltd

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DBS Group Research . Equity

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ANALYST

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HOLD

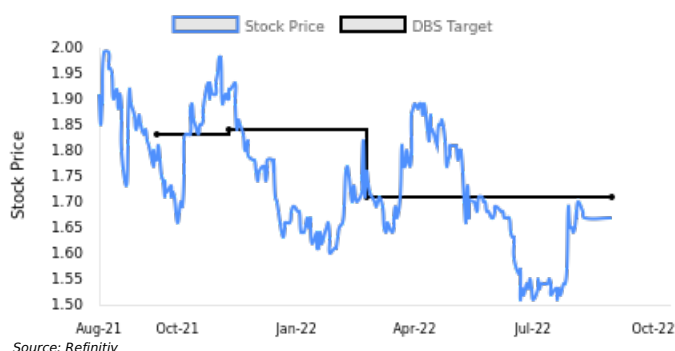
Price	Mkt Cap	Target Price	Total Return
SGD 1.67	SGD 617.90 M	SGD 1.71	9.6%

WHAT'S NEW

2022-08-10 21:38:12

- A decent set of results, inline
- Expanding to Australia; growing salesforce, on target to have 12,000 salesperson by end of 2022
- The group expects higher price increase, on the back of low inventory and resilient demand but sales volume to moderate for 2022

STOCK PRICE



FORECASTS AND VALUATION (SGD, M)

FY Dec	FY2020A	FY2021A	FY2022F	FY2023F
Revenue	515.6	957.5	790.8	844.1
EBITDA	40.25	81.89	65.38	69.85
Pre-tax Profit	37.16	78.67	63.27	68.03
Net Profit	29.09	60.01	48.55	52.10
Net Pft (Pre Ex.)	29.09	60.01	48.55	52.10
Net Pft Gth (Pre-ex) (%)	45.4	106.3	(19.1)	7.3
EPS (SGD)	7.86	16.22	13.12	14.08
EPS Pre Ex. (SGD)	7.86	16.22	13.12	14.08
EPS Gth Pre Ex (%)	45.4	106.3	(19.1)	7.3
Diluted EPS (SGD)	7.86	16.22	13.12	14.08
Net DPS (SGD)	5.50	12.50	12.00	12.00
BV Per Share (SGD)	22.85	29.58	30.70	32.78
PE (x)	21.8	10.5	13.0	12.1
PE Pre Ex. (x)	21.8	10.5	13.0	12.1
P/Cash Flow (x)	15.1	7.6	13.1	10.2
EV/EBITDA (x)	13.2	6.0	7.6	6.9
Net Div Yield (%)	3.2	7.3	7.0	7.0
P/Book Value (x)	7.5	5.8	5.6	5.2
Net Debt/Equity (x)	cash	cash	cash	cash
ROAE (%)	37.8	61.9	43.5	44.4

POSITIVES PRICED IN

INVESTMENT THESIS

Key arguments:

- **Overhang from recent cooling measures and higher interest rate environment.** Our HOLD recommendation is premised on the stock's rich valuation (+1.5 SD of its historical mean) and the impact from the recent cooling measures, coupled with a higher interest rate environment.
- **Expecting lower volume of new launches sold to weigh on FY22F earnings growth.** We believe that PropNex's growth potential may be held back by lower volumes of new launches sold in the next few years. This is based on depleting inventory of unsold new launches as well as construction delays. In addition, c.40% of the inventory of new launches are in the CCR, which are priced higher and have less demand.
- **Higher contribution from the resale segment to weigh on margins.** Due to the lower supply of new launches, we are expecting a higher contribution from the resale segment, which has lower gross profit margins.

Maintain HOLD and TP of S\$1.71, based on 13x FY22F PE, which is at c.1.5x SD of its historical mean.

What's new

WHAT'S NEW

Date

2022-08-10 21:38:12

Title

Results Analysis: 1H22 results inline; expect higher price increase but sales volume to moderate

- **A decent set of results, inline**
- **Expanding to Australia; growing salesforce, on target to have 12,000 salesperson by end of 2022**
- **The group expects higher price increase, on the back of low inventory and resilient demand but sales volume to moderate for 2022**
- **No change in forecasts, maintain HOLD and TP of S\$1.71**

A decent set of results, inline. PropNex reported 2Q22 net profit of S\$13.1m (-20.7% y-o-y; -5.8% q-o-q) on the back of the 11.4% y-o-y drop in revenue to \$230.7m. This was mainly due to lower contribution from project marketing services (new homes segment), a result of fewer project launches, partially offset by higher number of transactions completed for agency services (resale and rental). For 1H22 revenue of S\$472.3m is 1.8% lower y-o-y while net profit of S\$27m is down 13.9% y-o-y. Revenue and net profit account for 60% and 56% respectively of our full year forecasts, broadly inline as we are expecting a slightly weaker 2H22 on lower transaction activities.

An interim DPS of 5.5Scts was declared, representing an annualized yield of c.6.5%, based on share price of S\$1.70.

Revenue segmental breakdown

	1H22 (S\$m)	% contribution	Y-o-Y change
Project marketing	183	39%	-19%
Private resale	121	26%	+12%
Rental	68	14%	+28%
HDB resale	64	14%	+7%
Landed	33	7%	+4%
TOTAL	472	100%	-2%

Source: Company; DBS Bank

Singapore Property Market

	1H21	1H22	% Change
Transaction Volume			
New homes (incl. ECs)	7,601	4,546	-40.2%
Resale	10,090	7,932	-21.4%
HDB Resale	14,644	13,753	-6.1%
	1Q22	2Q22	% Change
Price Index			
Private residential	174.8	180.9	+3.5%
Rental	119.0	127.0	+6.7%
HDB resale	159.5	163.9	+2.8%
Supply			
Pipeline supply	47,415	48,836	+3.0%
Unsold units (excl. ECs)	14,087	15,805	+12.2%

Source: Company; DBS Bank; URA

Lower margins. Net margin for 1H22 of 5.7% was lower than the 6.3% for FY21, partly due to lower contribution from the higher margin project marketing services segment, and also higher staff costs due to increase in headcount.

Expanding to Australia. PropNex has expanded its regional footprint into Victoria, Australia – marking its presence in the sixth market in the Asia Pacific. This is the first region outside South-East Asia. The rest of the markets include Singapore, Indonesia,

What's new

Malaysia, Vietnam and Cambodia.

Growing salesforce. PropNex is on track to bring its Singapore salesforce to 12,000 by end of 2022. As at 1st August, the group has 11,744 salespersons locally, with 948 experienced and new salespersons joined since January 2022. This translates to an 8.8% increase from the beginning of the year, higher than the average industry growth of c.6%.

Outlook

Expect higher price increase, on the back of low inventory and resilient demand. PropNex has upgraded its forecast and now expects a price growth of 7% to 8% for the full-year 2022, up from previous estimate of 3% to 5%. The Property Price Index (PPI) has already gained 4.2% in 1H22, from end of last year. The group expects private home prices to continue to increase gradually for the rest of the year, with upcoming launches stimulating price growth. In addition, the firm land prices, rising construction costs, and healthy homebuyer demand will also exert some upward pressure on home values. The faster pace of price increase in the primary market may channel some buyers to the resale market, where prices are rising at a slower pace.

Unsold stock has fallen to 15,805 units as at end of 2Q22, from close to 20,000 units a year ago. The bulk of the unsold units are in Core Central Region (6,036), followed by Rest of Central Region (5,383) and Outside Central Region (4,386).

PropNex's outlook predictions on expected average price for new projects

Region/Property Type	2015/2016 Pricing (\$psf)	2017/2018 Pricing (\$psf)	2019 -2021 Pricing (\$psf)	2022 Avg. Pricing (\$psf)
Core Central Region	2,000-2,500	2,600-3,200	2,600-3,500	>2,800/2,900
Rest of Central Region	1,400-1,500	1,500-1,700	1,800-2,400	2,400-2,700
Outside Central Region	950-1,000	1,100-1,300	1,400-1,800	1,900-2,300
Exec. Condominium	750	800-830	1,000-1,150	1,200-1,300

Source: Company: DBS Bank

PropNex expects sales volume for private residential market to moderate. The private new sale volume for 2022 is expected to drop by 30% to 40% from 2021, according to PropNex's projection. The resale segment is projected to fare slightly better, drop by 20% to 25%. PropNex has a larger market share in the resale segment as compared to the new home sale division.

Better 2H22 performance for HDB segment. For the HDB segment, 6,819 resale flats were transacted in 2Q22, dip 1.7% q-o-q and 3.5% y-o-y. A total of 13,753 resale flats were transacted in 1H22. PropNex expects 28,000 to 29,000 resale HDB units to be transacted for the whole 2022, implying a stronger 2H22 as compared to 1H22.

PropNex's projection for sales volume

	FY21	1H22	FY22	FY22 Y-o-Y change
Private new sale	13,027	4,222	8,000 to 9,000	Drop 30% to 40%
Private resale	19,962	7,613	15,000 to 16,000	Drop 20% to 25%
HDB resale	31,017	13,753	28,000 to 29,000	Drop 5% to 10%

Source: Company: DBS Bank

Appointed marketing agent for 27 new projects. PropNex was appointed marketing agent to 27 new home projects, with a total of more than 9,000 units to be marketed in 2022.

No change in forecasts, maintain HOLD and TP of S\$1.71. Though the property market is expected to recover over the longer term, there would still be an impact in the near term from the cooling measures, and also the rising interest rate environment.

Overall, we maintain our projections for new home sales of 9,000/10,000 units for FY22F/23F. For private resale segment, we project 15,000/16,000 for FY22F/23F. Projection for HDB resale transaction maintained at 26,500/27,000 units for FY22F/23F. Coupled with the depleting inventory of unsold units as well as construction delays, overall transaction value is expected to ease c.30% in FY22F, after a strong c.70% surge in FY21. No change to our earnings forecasts.

Maintain HOLD call on PropNex and TP of S\$1.71.

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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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Target Price & Ratings History



#	Date of Report	Closing Price	12-m Target Price	Rating
1	17 Sep'21	1.81	1.83	Hold
2	11 Nov'21	1.92	1.84	Hold
3	25 Feb'22	1.72	1.71	BUY
4	28 Feb'22	1.72	1.71	BUY

Analysts: Lee Keng Ling

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