

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

25 Feb 2022

HOLD

Last Traded Price (24 Feb 2022): S\$1.71 (STI : 3,276.06)

Price Target 12-mth: S\$1.71 (0%) (Prev S\$1.84)

Analyst

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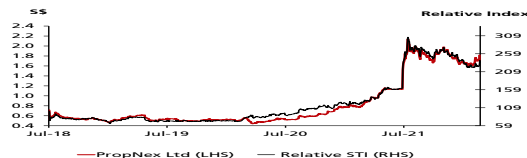


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What's New

- Stellar FY21 results, above expectations; resale segment saw the biggest jump in revenue
- Growing dominance in Singapore, with sales force +24.5% y-o-y
- But we cut FY22F/23F earnings by 15%/10% to factor lower transaction volume assumptions going forward
- Maintain HOLD with a lower TP of S\$1.71

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	516	957	791	844
EBITDA	40.3	81.9	65.4	69.9
Pre-tax Profit	37.2	78.7	63.3	68.0
Net Profit	29.1	60.0	48.6	52.1
Net Pft (Pre Ex.)	29.1	60.0	48.6	52.1
Net Pft Gth (Pre-ex) (%)	45.4	106.3	(19.1)	7.3
EPS (S cts)	7.86	16.2	13.1	14.1
EPS Pre Ex. (S cts)	7.86	16.2	13.1	14.1
EPS Gth Pre Ex (%)	45	106	(19)	7
Diluted EPS (S cts)	7.86	16.2	13.1	14.1
Net DPS (S cts)	5.50	12.5	12.0	12.0
BV Per Share (S cts)	22.9	29.6	30.7	32.8
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
Earnings Rev (%):			(15)	(10)
Consensus EPS (S cts):			14.5	14.0
Other Broker Recs:		B: 3	S: 0	H: 2

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

Overhang from cooling measures

Investment Thesis:

Overhang from recent cooling measures and higher interest rate environment. Our HOLD recommendation is premised on the stock's rich valuation (+1.8 SD of its historical mean) and the impact from the recent cooling measures, coupled with a higher interest rate environment.

Lower volume of new launches and units sold to weigh on FY22F earnings growth. We believe that PropNex's growth potential would be held back by lower volumes of new launches and units 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. However, this can be partly offset by the expected increase in market share with a 24.5% increase in the sales force from a year ago to cross the 11,000 mark.

Higher contribution from 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.

Valuation:

Maintain HOLD with a lower TP of S\$1.71. On the back of the 10-15% earnings cut on lower transaction assumptions, TP is reduced to S\$1.71 (S\$1.84 previously). This is based on 13x FY22F PE (previously 12x), which is at +1.8 SD of its historical mean. We believe PropNex deserves a higher rating given its growing dominance in the Singapore property market.

Where we differ:

We are slightly more cautious on earnings than consensus.

Key Risks to Our View:

Property cooling measures, a rise in interest rates, delays in new launches due to lockdowns, tightening of foreign worker policy, and rise of disruptors in the industry.

At A Glance

Issued Capital (m shrs)	370
Mkt. Cap (S\$m/US\$m)	633 / 467
Major Shareholders (%)	
P&N Holdings Pte Ltd	55.6
Gafoore Mohamed Ismail	9.3
Seong Kelvin Fong Keng	8.6
Free Float (%)	26.5
3m Avg. Daily Val (US\$m)	0.33

GIC Industry: Utilities / Water Utilities



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WHAT'S NEW

Strong FY21 results, riding on robust property market

Stellar FY21 results, above expectations. PropNex reported a 106.3% y-o-y jump in net profit for FY21 to S\$60.0m, 10% higher than our estimate. Revenue surged 86.5% to S\$957.5m. The strong performance was a result of higher number of transactions completed in the year, following improvements in both the Covid-19 situation and the economy.

Resale segment saw the biggest jump in revenue.

Revenue from Project Marketing, which accounted for 46% of FY21 revenue (FY20: 43%), doubled to S\$436m. Private resale jumped 127% y-o-y to \$213m, accounting for 22% (FY20: 18%) of total revenue. The HDB resale segment was up 48% to \$128m, making up 14% (FY20: 17%) of the total revenue for FY21.

A final DPS of 7 Scts was proposed, bringing total dividends for FY21 to 12.5 Scts, representing dividend payout ratio of 77%, vs 70% in FY20.

Buoyant property market; overall home prices up 10.6% for 2021. Despite the on-going Covid-19 pandemic, residential home sales and rentals have consistently risen quarter on quarter while market transactions have surpassed 2020. All segments saw a strong surge in transaction volume, with the private resale segment recording the strongest growth of 87.9% y-o-y. For the whole of 2021, overall private home prices have risen by a strong 10.6%. Prices could ease 3% to 5% in 2022 as the new cooling measures weigh on investment demand.

Overall private residential market

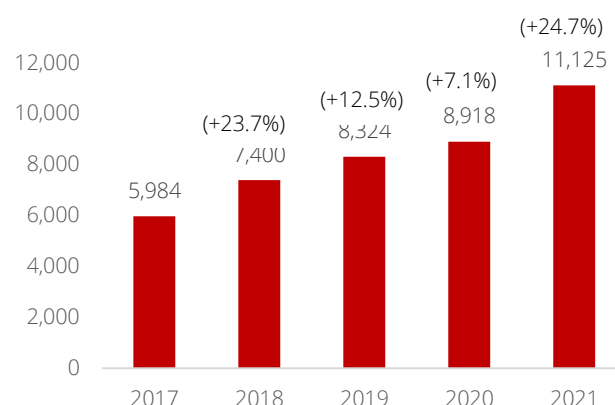
Key indicators	3Q21	4Q21	Change
Private Residential Market			
Price index	165.3	173.6	+5.0%
Rental index	111.3	114.2	+2.6%
Pipeline supply* (units)	47,715	46,276	-3.0%
Unsold units (excl. ECs)	17,140	14,154	-17.4%
Market Transaction			
Volume	2020	2021	Change
	(units)	(units)	(%)
New Homes (incl. ECs)	10,940	15,146	+38.4%
Private resale	10,927	20,530	+87.9%
HDB resale	24,748	31,017	+25.3%

*exclude ECs

Source: URA, Company, DBS Bank

Growing dominance in Singapore. Sales force crossed 11,125 as at 17 February 2022, further cementing its market leadership position. We can expect PropNex's market share for all the various segments to improve going forward with the 24.7% increase in sales force, compared to a year ago.

Growing sales force



Source: Company, DBS Bank

Strong balance sheet. The group remains debt free, and has a robust balance sheet with cash balance of S\$145.6m as at 31 December 2021, compared to S\$105.8m a year ago.

Expect private new home sales segment to be hardest hit by cooling measures. The momentum in the property market is expected to be dampened by the recent cooling measures. Hence, PropNex's growth would be held back. Coupled with the depleting inventory of unsold new launches as well as construction delays, resulting in fewer new launches available for sale, we expect the private new home sales segment to be the hardest hit. For the new home sales segment, we cut our projection by 18-26% to 9,000/10,000 units for FY22F/23F. Furthermore, as of 4Q21, c.40% of the inventory of unsold new launches and pipeline of new launches are in the CCR, which are priced higher and have less demand.

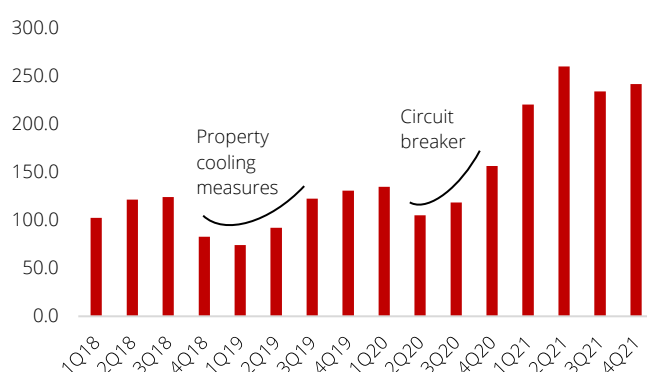
Impact on private resale and HDB resale more muted.

For the private resale segment, we have cut our projections by 6-10% cut to 15,000/16,000 and 11-12% for the HDB resale division to 26,500/27,000 units. We believe that the drop in the resale market will be more muted,

driven by a lack of supply of new launches, delays in BTO completions, and being a cheaper alternative to private new launches. Higher property prices are also expected to fuel HDB upgraders to private or larger HDB units. Other factors such as work-from-home are also adding to demand.

Good track record of weathering crisis. Post property cooling measures of higher ABSD and tightened LTV limits implemented in July 2018, PropNex's revenue was down for about four quarters and recovered strongly after that.

Revenue trend (\$m)



Source: Company; DBS Bank

But near term still impacted; cut transaction volume for the various segments. Though the property market is expected to recover over the longer term, there would be an impact in the near term. We have cut our transaction volume projections for the various segments. We are now projecting new home sales of 9,000/10,000 units for FY22F/23F, vs our previous projection of 12,200 for both years. For private resale segment, we project 15,000/16,000 for FY22F/23F, down from our previous expectation of 16,600 and 17,000 units respectively. Projection for HDB resale transaction has also been lowered by 11-12% to 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.

Potential upside to home prices. Factors that will lend support to private home prices in 2022 include attractive new launches, growing pool of upgraders as well as the positive economic outlook. In addition, the firm land prices paid by developers, higher construction costs, tight unsold supply, particularly in the OCR, may also exert some upward pressure on private home prices. Propnex projects private residential home prices to grow 3% to 5% in 2022, with the highest increase from the OCR segment of 3% to 5%, followed by RCR of 2% to 4% and CCR of -2% to 0%. Meanwhile prices for the HDB resale home are expected to grow by 6% to 8% in 2022.

Decent project pipeline. To date, PropNex has been appointed as marketing agency for 27 projects in 2022, with a total of 6,332 units slated to be launched in 2022.

Cut earnings by 10% to 15%; maintain HOLD with a lower TP of S\$1.71 We have revised down FY22F/23F earnings by 15%/10%, on the back of the lower transaction volume assumption as a result of the cooling measures announced in December last year. TP is lowered to S\$1.71 (previously S\$1.84) on 13x FY22F PE (previously 12x), which is at +1.8 SD of its historical mean. We believe PropNex deserves a higher rating given its growing dominance in the Singapore property market. Maintain HOLD.

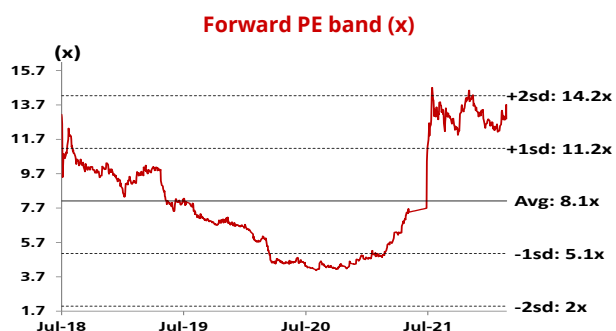
Company Background

PropNex Limited (PROP SP) is Singapore's largest listed real estate broker. It was listed on the Mainboard of 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.

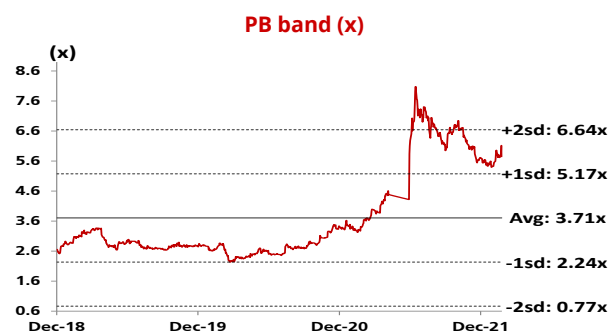
PropNex Ltd
Quarterly / Interim Income Statement (\$\$m)

FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Revenue	157	234	242	54.4	3.2
Cost of Goods Sold	(141)	(210)	(216)	53.6	3.0
Gross Profit	16.1	24.7	26.0	61.4	5.0
Other Oper. (Exp)/Inc	(6.5)	(6.1)	(7.5)	14.7	23.5
Operating Profit	9.55	18.7	18.5	93.3	(1.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.64	nm	nm
Associates & JV Inc	(0.1)	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.07	0.08	0.08	15.7	3.8
Exceptional Gain/(Loss)	(0.3)	0.0	(0.7)	(103.1)	nm
Pre-tax Profit	9.22	18.7	18.5	100.8	(1.2)
Tax	(1.2)	(3.2)	(3.2)	168.7	0.0
Minority Interest	(0.5)	(1.1)	(1.0)	(95.2)	(6.4)
Net Profit	7.49	14.5	14.3	90.3	(1.3)
Net profit bef Except.	7.82	14.5	14.9	90.8	3.2
EBITDA	10.3	19.5	20.2	95.4	3.6
Margins (%)					
Gross Margins	10.3	10.5	10.7		
Opg Profit Margins	6.1	8.0	7.6		
Net Profit Margins	4.8	6.2	5.9		

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

PropNex Ltd

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Private new launch	48%	49%	55%	57%	58%
Private resale market	45%	48%	50%	52%	51%
HDB resale market share	51%	57%	58%	60%	61%

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Agency Services	278	291	519	497	521
Project Marketing	135	219	436	290	320
Administrative Support	2.51	2.15	1.29	1.80	2.00
Training Services	1.59	1.23	1.42	1.40	1.40
Others	2.56	2.17	0.01	0.0	0.0
Total	420	516	957	791	844

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	420	516	957	791	844
Cost of Goods Sold	(376)	(459)	(856)	(707)	(755)
Gross Profit	44.3	56.5	102	83.8	88.6
Other Opng (Exp)/Inc	(19.9)	(19.9)	(24.0)	(21.7)	(22.0)
Operating Profit	24.4	36.6	77.8	62.2	66.6
Other Non Opng (Exp)/Inc	0.0	0.0	0.64	0.0	0.0
Associates & JV Inc	0.0	(0.1)	(0.1)	0.0	0.0
Net Interest (Exp)/Inc	1.12	0.64	0.32	1.13	1.41
Exceptional Gain/(Loss)	0.03	0.0	0.0	0.0	0.0
Pre-tax Profit	25.6	37.2	78.7	63.3	68.0
Tax	(4.5)	(5.9)	(13.6)	(10.8)	(11.6)
Minority Interest	(1.1)	(2.1)	(5.1)	(4.0)	(4.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	20.0	29.1	60.0	48.6	52.1
Net Profit before Except.	20.0	29.1	60.0	48.6	52.1
EBITDA	28.3	40.3	81.9	65.4	69.9
Growth					
Revenue Gth (%)	(2.7)	22.8	85.7	(17.4)	6.7
EBITDA Gth (%)	2.6	42.5	103.4	(20.2)	6.8
Opg Profit Gth (%)	(8.7)	49.8	112.5	(20.1)	7.2
Net Profit Gth (Pre-ex) (%)	(2.5)	45.4	106.3	(19.1)	7.3
Margins & Ratio					
Gross Margins (%)	10.6	11.0	10.6	10.6	10.5
Opg Profit Margin (%)	5.8	7.1	8.1	7.9	7.9
Net Profit Margin (%)	4.8	5.6	6.3	6.1	6.2
ROAE (%)	29.4	37.8	61.9	43.5	44.4
ROA (%)	13.5	16.8	24.6	17.4	19.0
ROCE (%)	29.0	36.3	59.5	42.1	41.7
Div Payout Ratio (%)	64.6	70.0	77.1	91.4	85.2
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

PropNex Ltd
Quarterly Income Statement (\$\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	157	221	260	234	242
Cost of Goods Sold	(141)	(197)	(233)	(210)	(216)
Gross Profit	16.1	23.3	27.8	24.7	26.0
Other Oper. (Exp)/Inc	(6.5)	(4.6)	(5.9)	(6.1)	(7.5)
Operating Profit	9.55	18.7	22.0	18.7	18.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.64
Associates & JV Inc	(0.1)	0.0	(0.1)	0.0	0.0
Net Interest (Exp)/Inc	0.07	0.08	0.09	0.08	0.08
Exceptional Gain/(Loss)	(0.3)	0.66	0.0	0.0	(0.7)
Pre-tax Profit	9.22	19.4	22.0	18.7	18.5
Tax	(1.2)	(3.2)	(3.8)	(3.2)	(3.2)
Minority Interest	(0.5)	(1.4)	(1.7)	(1.1)	(1.0)
Net Profit	7.49	14.9	16.5	14.5	14.3
Net profit bef Except.	7.82	14.2	16.5	14.5	14.9
EBITDA	10.3	19.5	22.8	19.5	20.2

Growth

Revenue Gth (%)	32.3	40.7	18.1	(10.0)	3.2
EBITDA Gth (%)	7.9	88.6	17.0	(14.5)	3.6
Opg Profit Gth (%)	10.8	95.5	17.9	(15.2)	(1.1)
Net Profit Gth (Pre-ex) (%)	15.0	81.8	16.3	(12.5)	3.2

Margins

Gross Margins (%)	10.3	10.6	10.7	10.5	10.7
Opg Profit Margins (%)	6.1	8.5	8.4	8.0	7.6
Net Profit Margins (%)	4.8	6.7	6.3	6.2	5.9

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	8.82	5.75	4.92	6.75	7.25
Invts in Associates & JVs	0.0	0.05	0.0	0.0	0.0
Other LT Assets	0.55	0.52	1.26	0.47	0.47
Cash & ST Invts	81.6	106	146	145	159
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	63.5	80.6	143	110	118
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	154	193	295	263	285
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	71.7	94.3	164	128	137
Other Current Liab	7.80	9.63	16.2	12.9	13.7
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	3.05	1.23	1.49	1.49	1.49
Shareholder's Equity	69.3	84.6	109	114	121
Minority Interests	2.55	3.03	3.14	7.11	11.5
Total Cap. & Liab.	154	193	295	263	285
Non-Cash Wkg. Capital	(16.0)	(23.3)	(37.8)	(30.2)	(32.4)
Net Cash/(Debt)	81.6	106	146	145	159
Debtors Turn (avg days)	55.2	51.0	42.6	58.4	49.4
Creditors Turn (avg days)	67.5	66.5	55.4	75.7	64.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.8	3.0	3.9	2.8	3.1
Current Ratio (x)	1.8	1.8	1.6	1.8	1.8
Quick Ratio (x)	1.8	1.8	1.6	1.8	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	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	25.6	37.2	78.7	63.3	68.0
Dep. & Amort.	3.83	3.74	3.54	3.23	3.23
Tax Paid	(5.0)	(3.2)	(7.1)	(13.5)	(10.8)
Assoc. & JV Inc/(loss)	0.0	0.07	0.05	0.0	0.0
Chg in Wkg.Cap.	5.03	3.33	7.72	(4.8)	1.32
Other Operating CF	(0.1)	0.90	0.16	0.0	0.0
Net Operating CF	29.3	42.0	83.1	48.2	61.8
Capital Exp.(net)	(1.9)	(0.5)	0.05	(3.7)	(3.7)
Other Invt.(net)	(0.4)	0.0	0.0	0.0	0.0
Invt. in Assoc. & JV	0.02	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	(1.0)	0.0	0.0
Other Investing CF	1.20	0.73	0.37	0.0	0.0
Net Investing CF	(1.0)	0.23	(0.6)	(3.7)	(3.7)
Div Paid	(19.6)	(15.4)	(40.4)	(44.4)	(44.4)
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	(2.7)	(2.6)	(2.3)	0.0	0.0
Net Financing CF	(22.4)	(18.0)	(42.7)	(44.4)	(44.4)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	5.94	24.2	39.8	0.11	13.7
Opg CFPS (S cts)	6.57	10.4	20.4	14.3	16.4
Free CFPS (S cts)	7.42	11.2	22.5	12.0	15.7

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Sep 21	1.81	1.83	HOLD
2:	11 Nov 21	1.92	1.84	HOLD

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

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

Completed Date: 25 Feb 2022 16:23:47 (SGT)

Dissemination Date: 25 Feb 2022 17:55:29 (SGT)

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

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