

Insights Direct Company Note

PropNex Ltd

Bloomberg : PROP SP Equity | Reuters : PROP.SI | TR PermID : 5064596970

DBS Group Research . Equity

13-May-2022 (View Latest Version )

ANALYST

Lee Keng Ling leekeng@dbs.com

HOLD

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

WHAT'S NEW

2022-05-11 20:28:04

- **1Q22 results inline, weaker project marketing compensated by other segments; net margin was lower y-o-y**
- **Potential upside to home prices - PropNex projects private residential home prices to grow 3% to 5% in 2022, HDB resale to grow 6% to 8%**
- **But near term impact from cooling measures and rising interest rate environment**

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.

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

What's new

WHAT'S NEW

Date	Title
2022-05-11 20:28:04	Results Analysis: 1Q22 inline, weaker project marketing compensated by other segments

- **1Q22 results inline, weaker project marketing compensated by other segments; net margin was lower y-o-y**
- **Potential upside to home prices - PropNex projects private residential home prices to grow 3% to 5% in 2022, HDB resale to grow 6% to 8%**
- **But near term impact from cooling measures and rising interest rate environment**
- **Maintain HOLD call on PropNex with TP of S\$1.71; no change to earnings forecasts**

1Q22 Results Highlight

1Q22 results inline, weaker project marketing compensated by other segments. PropNex reported 1Q22 net profit of S\$14.9m (-6.1% y-o-y, -2.4% q-o-q) on the back of a 9.5% y-o-y increase in revenue to S\$241.6m (-0.2% q-o-q). The increase in revenue was due to higher commission income from agency services (+21.1% y-o-y), which was partially offset by a decrease in commission income from project marketing services (-4.9% y-o-y).

Weaker net margin. Net profit margin of 5.8% in 1Q22 is lower than the 6.7% in 1Q21, mainly due to higher staff costs and marketing expenses. Hence, net profit is lower y-o-y.

Slower growth in price increase; impacted by cooling measures, rising inflation and interest rates. Both private residential and HDB resale flat prices posted slower growth in 1Q2022. The impact of the new cooling measures, growing uncertainties arising from the Russian-Ukraine war, concerns over rising inflation and higher interest rates dampened sentiment. The limited new launches and the seasonal lull due to CNY also affected the sales volumes.

Segmental revenue breakdown

Segment	Segment (%) total	1Q22 (\$m)	1Q21 (\$m)	Chg (%)
Project marketing	39	93.5	98.3	-5
Private resale	28	67.0	55.0	+21
Landed resale	8	19.0	15.4	+24
Rental	13	31.0	23.2	+34
HDB resale	12	30.4	27.5	+10
TOTAL	100	241.6	220.6	+10

Robust balance sheet with no debt and cash and near cash equivalents of S\$162m, up 11.3% from end-4Q21.

On track to reach 12,000 salespersons by end 2022. PropNex saw a 26.4% increase in the number of salespersons from 8,918 as at 1 January 2021 to 11,268 as at 11 April 2022.

Decent project pipeline. To date, PropNex has been appointed as marketing agency for 22 projects in 2022, with a total of 5,139 units slated to be launched in 2022.

Private residential market at a glance

Key Indicators	Change	4Q21	1Q22
Price index	+0.7%	173.6	174.8
Rental index	+4.2%	114.2	119.0
Take-up*	-39.5%	3,018	1,825
Pipeline supply*	+2.5%	46,276	47,415
Vacancy rate*	-0.7%	6.0%	5.3%
New private home*	-1,193	3,018	1,825
Private resale	-1,371	4,748	3,377

*data exclude Executive Condominium (ECs)

Source: URA; DBS Bank

Potential upside to home prices. The property price index saw a 0.7% increase in 1Q22 from 4Q21 to 174.8, despite the

What's new

cooling measures that were announced in December 2021. This is the eighth quarterly gain, but is lower than the 5.0% gain in the previous quarter. Factors that will lend support to private home prices in 2022 include attractive new launches and the growing pool of upgraders. 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.

Near term impact from cooling measures and rising interest rate environment. Though the property market is expected to recover over the longer term, there would be an impact in the near term from the cooling measures, and also the rising interest rate environment. 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.

FORECASTS AND VALUATION (SGD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Revenue	419.8	515.6	957.5	790.8	844.1
EBITDA	28.25	40.25	81.89	65.38	69.85
Pre-tax Profit	25.58	37.16	78.67	63.27	68.03
Net Profit	20.04	29.09	60.01	48.55	52.10
Net Pft (Pre Ex.)	20.01	29.09	60.01	48.55	52.10
Net Pft Gth (Pre-ex) (%)	(2.5)	45.4	106.3	(19.1)	7.3
EPS (SGD)	5.42	7.86	16.22	13.12	14.08
EPS Pre Ex. (SGD)	5.41	7.86	16.22	13.12	14.08
EPS Gth Pre Ex (%)	(2.5)	45.4	106.3	(19.1)	7.3
Diluted EPS (SGD)	5.42	7.86	16.22	13.12	14.08
Net DPS (SGD)	3.50	5.50	12.50	12.00	12.00
BV Per Share (SGD)	18.74	22.85	29.58	30.70	32.78
PE (x)	31.6	21.8	10.5	13.0	12.1
PE Pre Ex. (x)	31.6	21.8	10.5	13.0	12.1
P/Cash Flow (x)	21.6	15.1	7.6	13.1	10.2
EV/EBITDA (x)	19.6	13.2	6.0	7.6	6.9
Net Div Yield (%)	2.0	3.2	7.3	7.0	7.0
P/Book Value (x)	9.1	7.5	5.8	5.6	5.2
Net Debt/Equity (x)	cash	cash	cash	cash	cash
ROAE (%)	29.4	37.8	61.9	43.5	44.4

INCOME STATEMENT (SGD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Revenue	419.8	515.6	957.5	790.8	844.1
Cost of Goods Sold	(375.5)	(459.1)	(855.7)	(707.0)	(755.5)
Gross Profit	44.31	56.53	101.8	83.82	88.63
Other Opng (Exp)/Inc	(19.88)	(19.94)	(24.03)	(21.68)	(22.01)
Operating Profit	24.42	36.59	77.76	62.15	66.62
Other Non Opg (Exp)/Inc	0.000	0.000	0.637	0.000	0.000
Associates & JV Inc	0.000	(0.072)	(0.047)	0.000	0.000
Net Interest (Exp)/Inc	1.12	0.641	0.323	1.13	1.41
Exceptional Gain/(Loss)	0.033	0.000	0.000	0.000	0.000
Pre-tax Profit	25.58	37.16	78.67	63.27	68.03
Tax	(4.46)	(5.93)	(13.54)	(10.76)	(11.57)
Minority Interest	(1.08)	(2.13)	(5.12)	(3.96)	(4.37)
Preference Dividend	0.000	0.000	0.000	0.000	0.000
Net Profit	20.04	29.09	60.01	48.55	52.10
Net Profit before Except.	20.01	29.09	60.01	48.55	52.10
EBITDA	28.25	40.25	81.89	65.38	69.85
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)	0	0	0	0	0

BALANCE SHEET (SGD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Net Fixed Assets	8.82	5.75	4.92	6.75	7.25
Invt in Associates & JVs	0.000	0.047	0.000	0.000	0.000
Other LT Assets	0.552	0.519	1.26	0.470	0.470
Cash & ST Invt	81.61	105.8	145.6	145.2	158.9
Inventory	0.000	0.000	0.000	0.000	0.000
Debtors	63.47	80.59	142.7	110.5	117.9
Other Current Assets	0.000	0.000	0.000	0.000	0.000
Total Assets	154.4	192.7	294.6	262.9	284.5
ST Debt	0.000	0.000	0.000	0.000	0.000
Creditor	71.70	94.26	164.3	127.8	136.6
Other Current Liab	7.80	9.63	16.20	12.91	13.72
LT Debt	0.000	0.000	0.000	0.000	0.000
Other LT Liabilities	3.05	1.23	1.49	1.49	1.49
Shareholder's Equity	69.34	84.56	109.4	113.6	121.3
Minority Interests	2.55	3.03	3.14	7.11	11.47
Total Cap. & Liab.	154.4	192.7	294.6	262.9	284.5
Non-Cash Wkg. Capital	(16.04)	(23.30)	(37.76)	(30.23)	(32.36)
Net Cash/(Debt)	81.61	105.8	145.6	145.2	158.9
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)	0	0	0	0	0
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 (%)	0	0	0	0	0

CASH FLOW STATEMENT (SGD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Pre-Tax Profit	25.58	37.16	78.67	63.27	68.03
Dep. & Amort.	3.83	3.74	3.54	3.23	3.23
Tax Paid	(4.97)	(3.24)	(7.06)	(13.49)	(10.76)
Assoc. & JV Inc/(loss)	0.000	0.072	0.047	0.000	0.000
Chg in Wkg.Cap.	5.03	3.33	7.72	(4.81)	1.32
Other Operating CF	(0.127)	0.900	0.161	0.000	0.000
Net Operating CF	29.33	41.95	83.08	48.21	61.83
Capital Exp.(net)	(1.88)	(0.484)	0.048	(3.70)	(3.70)
Other Invts.(net)	(0.377)	(0.014)	0.000	0.000	0.000
Invts in Assoc. & JV	0.017	0.000	0.000	0.000	0.000
Div from Assoc & JV	0.000	0.000	(0.979)	0.000	0.000
Other Investing CF	1.20	0.730	0.365	0.000	0.000
Net Investing CF	(1.04)	0.232	(0.566)	(3.70)	(3.70)
Div Paid	(19.62)	(15.36)	(40.39)	(44.40)	(44.40)
Chg in Gross Debt	0.000	0.000	0.000	0.000	0.000
Capital Issues	0.000	0.000	0.000	0.000	0.000
Other Financing CF	(2.73)	(2.63)	(2.28)	0.000	0.000
Net Financing CF	(22.35)	(17.99)	(42.67)	(44.40)	(44.40)
Currency Adjustments	0.000	0.000	0.000	0.000	0.000
Chg in Cash	5.94	24.20	39.84	0.109	13.73
Opg CFPS (SGD)	6.57	10.44	20.37	14.33	16.35
Free CFPS (SGD)	7.42	11.21	22.47	12.03	15.71

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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	28 Feb'22	1.72	1.71	BUY

Analysts: Lee Keng Ling

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DBS Regional Research Offices

HONG KONG DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

SINGAPORE DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831

INDONESIA PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia