

# 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 Nov 2021

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### HOLD

Last Traded Price (10 Nov 2021): S\$1.90 (STI : 3,231.32)  
Price Target 12-mth: S\$1.84 (3% downside) (Prev S\$1.83)

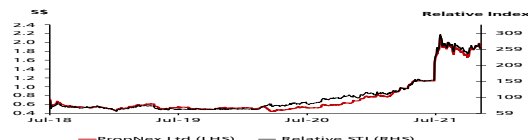
#### Analyst

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### What's New

- 3Q21 PATMI rose 113.2% y-o-y to S\$14.4m, above expectations
- 3Q21 revenue climbed 97.9% y-o-y to S\$234.4m, with growth across all segments
- Expecting lower volume of new launches sold to weigh on FY22F earnings
- Maintain HOLD, TP revised to S\$1.84

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021F	2022F	2023F
Revenue	516	908	890	914
EBITDA	40.3	82.1	76.8	78.0
Pre-tax Profit	37.2	79.2	74.6	76.2
Net Profit	29.1	60.1	56.8	58.1
Net Pft (Pre Ex.)	29.1	60.1	56.8	58.1
Net Pft Gth (Pre-ex) (%)	45.4	106.8	(5.6)	2.3
EPS (S cts)	7.86	16.3	15.3	15.7
EPS Pre Ex. (S cts)	7.86	16.3	15.3	15.7
EPS Gth Pre Ex (%)	45	107	(6)	2
Diluted EPS (S cts)	7.86	16.3	15.3	15.7
Net DPS (S cts)	5.50	13.0	12.0	12.0
BV Per Share (S cts)	22.9	26.1	29.5	33.2
PE (X)	24.2	11.7	12.4	12.1
PE Pre Ex. (X)	24.2	11.7	12.4	12.1
P/Cash Flow (X)	16.8	8.7	10.9	10.4
EV/EBITDA (X)	14.9	7.0	7.4	7.1
Net Div Yield (%)	2.9	6.8	6.3	6.3
P/Book Value (X)	8.3	7.3	6.5	5.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	37.8	66.4	55.2	50.2
Earnings Rev (%):		10	1	1
Consensus EPS (S cts):		15.8	14.0	11.5
Other Broker Recs:		B: 2	S: 0	H: 3

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

## Positives priced in

#### Investment Thesis:

Positives priced in, EPS has potentially peaked with risk of cooling measures an overhang. Our HOLD recommendation is premised on the stock's rich valuation (+1.7 SD of its historical mean) despite our view that EPS could taper sideways in the next few years. Furthermore, the stock is at risk of de-rating if property cooling measures are announced.

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.

#### Valuation:

Maintain HOLD with a slightly higher TP of S\$1.84. Our TP is based on 12.0x FY22F PE, which +1.7 SD of its historical mean, reflecting the strong momentum in the property market.

#### Where we differ:

We are slightly more optimistic 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 workers policy, and rise of disruptors in the industry.

#### At A Glance

Issued Capital (m shrs)	370
Mkt. Cap (S\$m/US\$m)	703 / 522
Major Shareholders (%)	
P&N Holdings Pte Ltd	55.6
Gafoore Mohamed Ismail	9.2
Seong Kelvin Fong Keng	8.6
Free Float (%)	26.6
3m Avg. Daily Val (US\$m)	1.1
GIC Industry : Utilities / Water Utilities	



**PropNex Ltd**

**WHAT'S NEW**

**The property market roars on**

**Results Review**

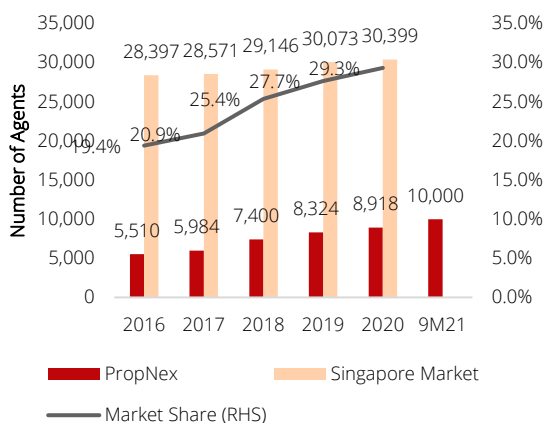
3Q21 PATMI came in above expectations, increasing 113.2% y-o-y to S\$14.4m. The property market continued to roar on strongly and the beat in expectations was mainly due to continued strength in its Project Marketing Services (private new launch sales) segment. Continued delays in BTOs, higher property prices, and a depleting inventory of unsold new launches continued to fuel higher property prices and transactions.

3Q21 revenue grew 97.9% y-o-y to S\$234.4m. PropNex posted strong y-o-y revenue growth across its three key market segments – new launches, private resale, and HDB resale. 9M21 private new launch units sold and 9M21 private resale surpassed 10,000 and 15,000 respectively, accounting for 101% and 142% of 2020's figures. 9M21 HDB resale passed 23,000 units sold, accounting for 93.2% of 2020's full year figures.

**Potential final dividend per share of 9.0Scts.** PropNex announced that as it may not have near-term use for its capital, it intends to pay out 75-80% of its profits for FY21F. We estimate this could amount to a final dividend of 9.0Scts per share, representing a dividend yield of 4.7%.

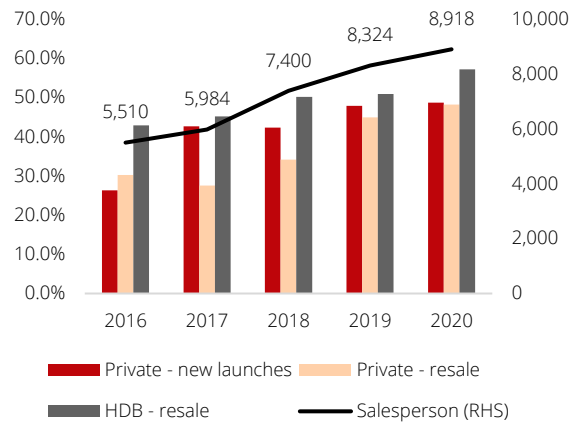
**First real estate broker in Singapore to cross 10,000 salespersons.** PropNex continues to grow its salesforce, further solidifying its market leadership. A larger salesforce allows it to tap on a wider network, executing more deals to maintain or gain market share.

**PropNex's growing dominance in Singapore**



Source: Company, DBS Bank

**Capturing market share with a larger salesforce**



Source: Company, DBS Bank

**Our Thoughts**

**Expecting a lower volume of new launches sold to weigh on FY22F earnings.** While the momentum in the property market continues to be strong, we believe that PropNex's growth potential may be held back by lower volume of new launches in the next few years. Our view is based on the depleting inventory of unsold new launches as well as construction delays, resulting in fewer new launches available for sale. Furthermore, as of 3Q21, 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.

**Resale market to remain strong.** We believe that the resale market will continue to be strong, driven by a lack of supply of new launches, delays in BTO completion, 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.

### Earnings and Recommendation

Raise FY21/22F earnings by 10/1% as we increase the number of property transactions across all segments. We increased private resale, HDB resale, and new launches sold in FY21F to 18,000, 31,400, and 13,500, from 16,600, 28,600, and 12,500 previously. We also raised our market share estimates for the new launch segment to 55.0/55.5% in FY21/22F on the back of a larger salesforce.

Maintain HOLD recommendation with a slightly higher TP of S\$1.84 (previously S\$1.83). We are raising our TP slightly on the back of higher FY22F earnings. We are maintaining our valuation peg at 12.0x FY22F PE, which is +1.7 SD of its 4-year historical mean.

### 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.

### Quarterly / Interim Income Statement (S\$m)

FY Dec	3Q2020	2Q2021	3Q2021	% chg yoy	% chg qoq
Revenue	118	260	234	97.9	(10.0)
Cost of Goods Sold	(105)	(233)	(210)	99.4	(9.9)
<b>Gross Profit</b>	<b>13.3</b>	<b>27.8</b>	<b>24.7</b>	<b>86.0</b>	<b>(11.2)</b>
Other Oper. (Exp)/Inc	(4.7)	(5.9)	(6.1)	29.8	3.8
<b>Operating Profit</b>	<b>8.61</b>	<b>22.0</b>	<b>18.7</b>	<b>116.5</b>	<b>(15.2)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	(0.1)	0.0	-	-
Net Interest (Exp)/Inc	0.09	0.09	0.08	(17.0)	(8.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Pre-tax Profit</b>	<b>8.71</b>	<b>22.0</b>	<b>18.7</b>	<b>115.1</b>	<b>(15.0)</b>
Tax	(1.5)	(3.8)	(3.2)	119.5	(15.6)
Minority Interest	(0.5)	(1.7)	(1.1)	(127.8)	(35.1)
<b>Net Profit</b>	<b>6.79</b>	<b>16.5</b>	<b>14.5</b>	<b>112.6</b>	<b>(12.5)</b>
Net profit bef Except.	6.79	16.5	14.5	112.6	(12.5)
EBITDA	9.57	22.8	19.5	103.3	(14.5)
<b>Margins (%)</b>					
Gross Margins	11.2	10.7	10.5		
Opg Profit Margins	7.3	8.4	8.0		
Net Profit Margins	5.7	6.3	6.2		

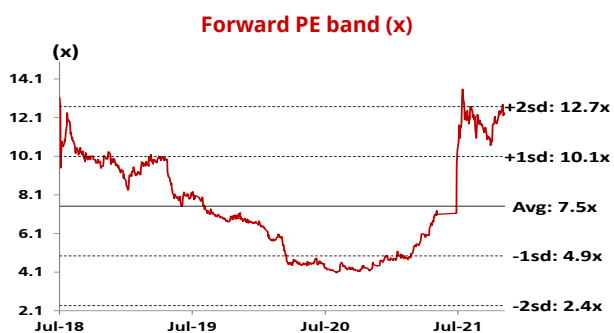
Source of all data: Company, DBS Bank

**Peer Comparison Table**

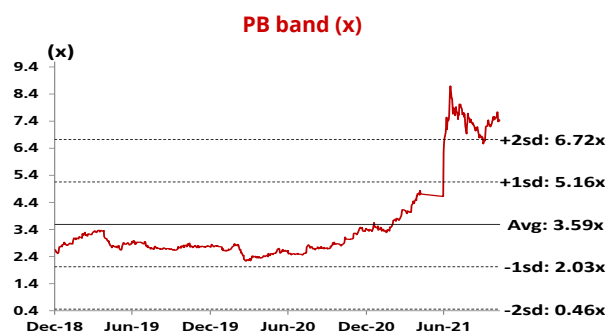
Bloomberg Ticker	Company Name	Market Data		Financial Data				Valuation				
		Primary Exchang	Market Cap	Sales (\$\$'m)	Net Profit (\$\$'m)	Net Profit Margin (%)	Debt (\$\$'m)	EV/EBITDA FY21F	EV/EBITDA FY22F	TTM	P/E FY21F	P/E FY22F
PROP SP Equity	PropNex	SG	699	515.6	29.1	5.6%	3.2	7.0x	7.3x	13.1x	11.6x	12.3x
APAC SP Equity	APAC Realty	SG	288	393.4	16.4	4.2%	55.3	8.0x	8.2x	11.2x	10.8x	10.3x
RMAX US Equity	RE/MAX Holdings	US	1,302	366.9	15.1	4.1%	413.7	10.1x	8.9x	25.1x	13.4x	12.0x
LSL LN Equity	LSL Property Services	UK	834	472.0	28.9	6.1%	94.7	7.5x	7.2x	11.9x	11.6x	10.9x
<b>Average</b>			<b>781</b>	<b>437.0</b>	<b>22.4</b>	<b>5.0%</b>	<b>141.7</b>	<b>8.1x</b>	<b>7.9x</b>	<b>15.3x</b>	<b>11.8x</b>	<b>11.4x</b>
<b>Average (ex-PropNex)</b>			<b>808</b>	<b>410.7</b>	<b>20.1</b>	<b>4.8%</b>	<b>187.9</b>	<b>8.5x</b>	<b>8.1x</b>	<b>16.1x</b>	<b>11.9x</b>	<b>11.1x</b>

Source: Bloomberg Finance L.P., 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	2019A	2020A	2021F	2022F	2023F
Private new launch	48%	49%	55%	56%	56%
Private resale market	45%	48%	50%	51%	51%
HDB resale market share	51%	57%	58%	59%	59%

**Segmental Breakdown**

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (\$m)</b>					
Agency Services	278	291	495	510	533
Project Marketing	135	219	410	376	378
Administrative Support	2.51	2.15	1.50	1.80	2.00
Training Services	1.59	1.23	1.40	1.40	1.40
Others	2.56	2.17	0.18	0.0	0.0
<b>Total</b>	<b>420</b>	<b>516</b>	<b>908</b>	<b>890</b>	<b>914</b>

**Income Statement (\$m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	420	516	908	890	914
Cost of Goods Sold	(376)	(459)	(810)	(795)	(818)
<b>Gross Profit</b>	<b>44.3</b>	<b>56.5</b>	<b>98.5</b>	<b>94.3</b>	<b>96.1</b>
Other Opg (Exp)/Inc	(19.9)	(19.9)	(19.6)	(20.8)	(21.4)
<b>Operating Profit</b>	<b>24.4</b>	<b>36.6</b>	<b>78.8</b>	<b>73.6</b>	<b>74.8</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.12	0.64	0.38	1.04	1.48
Exceptional Gain/(Loss)	0.03	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>25.6</b>	<b>37.2</b>	<b>79.2</b>	<b>74.6</b>	<b>76.2</b>
Tax	(4.5)	(5.9)	(13.5)	(12.7)	(13.0)
Minority Interest	(1.1)	(2.1)	(5.6)	(5.1)	(5.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>20.0</b>	<b>29.1</b>	<b>60.1</b>	<b>56.8</b>	<b>58.1</b>
Net Profit before Except.	20.0	29.1	60.1	56.8	58.1
EBITDA	28.3	40.3	82.1	76.8	78.0
<b>Growth</b>					
Revenue Gth (%)	(2.7)	22.8	76.2	(2.0)	2.7
EBITDA Gth (%)	2.6	42.5	103.9	(6.4)	1.5
Opg Profit Gth (%)	(8.7)	49.8	115.5	(6.7)	1.6
Net Profit Gth (Pre-ex) (%)	(2.5)	45.4	106.8	(5.6)	2.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	10.6	11.0	10.8	10.6	10.5
Opg Profit Margin (%)	5.8	7.1	8.7	8.3	8.2
Net Profit Margin (%)	4.8	5.6	6.6	6.4	6.4
ROAE (%)	29.4	37.8	66.4	55.2	50.2
ROA (%)	13.5	16.8	26.1	20.6	19.7
ROCE (%)	29.0	36.3	62.0	50.2	44.7
Div Payout Ratio (%)	64.6	70.0	80.0	78.2	76.4
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

**Quarterly Income Statement (\$\$m)**

FY Dec	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021
Revenue	118	157	221	260	234
Cost of Goods Sold	(105)	(141)	(197)	(233)	(210)
<b>Gross Profit</b>	<b>13.3</b>	<b>16.1</b>	<b>23.3</b>	<b>27.8</b>	<b>24.7</b>
Other Oper. (Exp)/Inc	(4.7)	(6.5)	(4.6)	(5.9)	(6.1)
<b>Operating Profit</b>	<b>8.61</b>	<b>9.55</b>	<b>18.7</b>	<b>22.0</b>	<b>18.7</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.1)	0.0	(0.1)	0.0
Net Interest (Exp)/Inc	0.09	0.07	0.08	0.09	0.08
Exceptional Gain/(Loss)	0.0	(0.3)	0.66	0.0	0.0
<b>Pre-tax Profit</b>	<b>8.71</b>	<b>9.22</b>	<b>19.4</b>	<b>22.0</b>	<b>18.7</b>
Tax	(1.5)	(1.2)	(3.2)	(3.8)	(3.2)
Minority Interest	(0.5)	(0.5)	(1.4)	(1.7)	(1.1)
<b>Net Profit</b>	<b>6.79</b>	<b>7.49</b>	<b>14.9</b>	<b>16.5</b>	<b>14.5</b>
Net profit bef Except.	6.79	7.82	14.2	16.5	14.5
EBITDA	9.57	10.3	19.5	22.8	19.5

**Growth**

Revenue Gth (%)	12.4	32.3	40.7	18.1	(10.0)
EBITDA Gth (%)	(2.2)	7.9	88.6	17.0	(14.5)
Opg Profit Gth (%)	(2.4)	10.8	95.5	17.9	(15.2)
Net Profit Gth (Pre-ex) (%)	(2.9)	15.0	81.8	16.3	(12.5)

**Margins**

Gross Margins (%)	11.2	10.3	10.6	10.7	10.5
Opg Profit Margins (%)	7.3	6.1	8.5	8.4	8.0
Net Profit Margins (%)	5.7	4.8	6.7	6.3	6.2

**Balance Sheet (\$\$m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	8.82	5.75	6.25	6.75	7.25
Invts in Associates & JVs	0.0	0.05	0.05	0.05	0.05
Other LT Assets	0.55	0.52	0.50	0.50	0.50
Cash & ST Invts	81.6	106	135	152	171
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	63.5	80.6	127	124	128
Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>154</b>	<b>193</b>	<b>269</b>	<b>283</b>	<b>306</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	71.7	94.3	146	144	148
Other Current Liab	7.80	9.63	16.1	15.3	15.6
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	3.05	1.23	1.23	1.23	1.23
Shareholder's Equity	69.3	84.6	96.6	109	123
Minority Interests	2.55	3.03	8.65	13.8	18.9
<b>Total Cap. &amp; Liab.</b>	<b>154</b>	<b>193</b>	<b>269</b>	<b>283</b>	<b>306</b>
Non-Cash Wkg. Capital	(16.0)	(23.3)	(35.6)	(34.8)	(35.7)
Net Cash/(Debt)	81.6	106	135	152	171
Debtors Turn (avg days)	55.2	51.0	41.7	51.5	50.3
Creditors Turn (avg days)	67.5	66.5	54.4	66.8	65.3
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.8	3.0	3.9	3.2	3.1
Current Ratio (x)	1.8	1.8	1.6	1.7	1.8
Quick Ratio (x)	1.8	1.8	1.6	1.7	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	2021F	2022F	2023F
Pre-Tax Profit	25.6	37.2	79.2	74.6	76.2
Dep. & Amort.	3.83	3.74	3.23	3.23	3.23
Tax Paid	(5.0)	(3.2)	(7.0)	(13.5)	(12.7)
Assoc. & JV Inc/(loss)	0.0	0.07	0.0	0.0	0.0
Chg in Wkg.Cap.	5.03	3.33	5.82	0.0	0.67
Other Operating CF	(0.1)	0.90	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>29.3</b>	<b>42.0</b>	<b>81.3</b>	<b>64.4</b>	<b>67.4</b>
Capital Exp.(net)	(1.9)	(0.5)	(3.7)	(3.7)	(3.7)
Other Invs.(net)	(0.4)	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.02	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.20	0.73	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(1.0)</b>	<b>0.23</b>	<b>(3.7)</b>	<b>(3.7)</b>	<b>(3.7)</b>
Div Paid	(19.6)	(15.4)	(48.1)	(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)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(22.4)</b>	<b>(18.0)</b>	<b>(48.1)</b>	<b>(44.4)</b>	<b>(44.4)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	5.94	24.2	29.5	16.3	19.3
Opg CFPS (S cts)	6.57	10.4	20.4	17.4	18.0
Free CFPS (S cts)	7.42	11.2	21.0	16.4	17.2

Source: Company, DBS Bank

## Target Price &amp; Ratings 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:	17 Sep 21	1.81	1.83	HOLD

Source: DBS Bank

Analyst: Wei Le CHUNG

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: 11 Nov 2021 08:20:37 (SGT)

Dissemination Date: 11 Nov 2021 08:24:48 (SGT)

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

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