

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

4 Mar 2024

HOLD

Last Traded Price (1 Mar 2024): S\$0.865 (STI: 3,135.76)

Price Target 12-mth: S\$0.95 (10% upside) (Prev S\$1.09)

Analysts

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What's New

- FY23 net profit of S\$47.8m missed our estimate by 7%; 6Scts dividend (93% payout ratio) a positive surprise
- Net-cash financial position favourable; sustained high dividends to support share price
- FY24F earnings cut by c.12% as we lower transaction volume assumptions for new home sales and resales
- Maintain HOLD with revised TP of S\$0.95

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Revenue	1,029	838	935	1,023
EBITDA	81.5	58.5	75.5	84.3
Pre-tax Profit	79.1	59.5	76.2	85.1
Net Profit	62.4	47.8	58.7	64.5
Net Pft (Pre Ex.)	62.4	47.8	58.7	64.5
Net Pft Gth (Pre-ex) (%)	3.9	(23.3)	22.7	9.9
EPS (S cts)	8.43	6.46	7.93	8.72
EPS Pre Ex. (S cts)	8.43	6.46	7.93	8.72
EPS Gth Pre Ex (%)	4	(23)	23	10
Diluted EPS (S cts)	8.43	6.46	7.93	8.72
Net DPS (S cts)	6.75	6.00	6.50	7.00
BV Per Share (S cts)	17.0	16.9	18.3	20.1
PE (X)	10.3	13.4	10.9	9.9
PE Pre Ex. (X)	10.3	13.4	10.9	9.9
P/Cash Flow (X)	12.5	11.0	9.2	8.3
EV/EBITDA (X)	6.1	8.6	6.5	5.6
Net Div Yield (%)	7.8	6.9	7.5	8.1
P/Book Value (X)	5.1	5.1	4.7	4.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	53.1	38.1	45.0	45.4
Earnings Rev (%):			(12)	-
Consensus EPS (S cts):			8.1	7.5
Other Broker Recs:		B: 3	S: 0	H: 2

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

Transaction volumes hitting a bump

Investment Thesis

Leadership position with largest sales network. PropNex has the most extensive sales network in Singapore with c.12,000 agents, comprising c.34% of market share (by number of agents) in Singapore and c.35% larger than its closest competitor. With a large sales force, PropNex is in a better position to increase market share in the various segments – new home sales, private resale, HDB resale, and rentals.

Strong pipeline of new launches in 2024, though we expect modest transaction volumes and price increases. We anticipate limited transaction volume growth in 2024, underpinned by i) lower foreigner and investor participation, as they are deterred by high stamp duties; ii) a wider array of projects being launched this year, allowing potential buyers to assess their options thoroughly before committing; iii) borrowing limits, which could cap affordability as prices continue to rise; and iv) macroeconomic uncertainties. Property price growth is also likely to moderate in 2024 on the back of a series of cooling measures introduced in the last two years.

Lower new home sale and resales transaction volumes for FY24F. We cut our property transaction volume assumptions for new home sales and resales to 8,000 (prev: 9,000) and 13,500 (prev: 14,500) respectively this year. Sell-through rates could potentially average 30-50% at launch weekends, though we expect select projects with more attractive attributes to see higher demand. We could turn more positive on the counter if the Singapore property markets remains more resilient than we anticipate.

Maintain HOLD with revised TP of S\$0.95 (vs. S\$1.09 previously). Our earnings are lowered on slower market transaction assumptions, resulting in a TP drop to S\$0.95. We maintain target price multiples, pegged to 12x FY24F PE, close to its four-year average. FY24/25F dividend yields of 7.5/8.1% (c.80% payout ratio) appear attractive; sustained high dividends could support share price.

Key Risks

The key risks for PropNex are additional property cooling measures, weaker macroeconomic environment, and a rise in unemployment rates.

At A Glance

Issued Capital (m shrs)	370
Mkt. Cap (S\$m/US\$m)	320 / 238
Major Shareholders (%)	
P&N HOLDINGS PTE LTD	55.6
Gafoore Mohamed Ismail	9.3
Fong Keng Song	8.9
Free Float (%)	26.2
3m Avg. Daily Val (US\$m)	0.22
GIC Industry : Real Estate / Real Estate Management & Development	

PropNex Ltd

WHAT'S NEW

Transaction volumes hitting a bump

FY23 net profit of S\$47.8m missed our estimate by c.7%. FY23 revenue fell 18.6% y-o-y to S\$838.1m, due to fewer number of transactions completed for both agency and project marketing services. Commission income from agency services declined 7.7% to \$591.1m in FY23 while commission income from project marketing services fell 36.9% to \$242.3m. Consequently, the group's net attributable profit declined 23.3% y-o-y to \$47.8 million in FY23, falling short of our projection.

High dividend payout a positive surprise; sustained high dividends to support share price. A final dividend of 3.5 Scts was declared, bringing total dividend for the full year to 6.0 Scts (c.93% payout ratio). The group's balance sheet remained strong, with its net-cash position advantageous amid the high interest rate environment. The ability to sustain high dividends could support share price in our view. FY24/25F dividend yields of 7.5/8.1% (c.80% payout ratio) appear attractive.

Management's guidance for Singapore's property market largely in line with our projections. Private residential home prices are expected to grow 3-4% this year while HDB resale home prices could grow 4-5%. For transaction volumes, HDB resale volumes are forecasted to be at 26,000-27,000 units; private resale volumes at 13,000-14,000 units; and private new sale volumes at 7,000-7,500 units.

Ramp-up in supply for 2024. We expect to see 34 projects (including estimated 1 EC project) with close to 12,000 units in

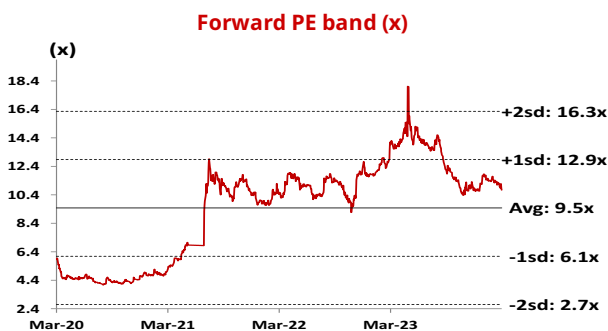
the pipeline this year, compared to 21 projects (including 1 EC project) that launched 8,158 units last year. There will also be four upcoming mega developments in 2024, with 800 or more units, at the Lor 1 Toa Payoh GLS, Jalan Tembusu GLS, Former Chuan Park, and Tampines Ave 11 GLS. PropNex has been appointed as the marketing agency for an estimated 33 projects.

Maintain HOLD with revised TP of S\$0.95. We lower our assumption for new home sale and resale transaction volumes for FY24F to 8,000 (prev: 9,000) and 13,500 (prev: 14,500), respectively, as we expect modest growth this year, underpinned by 1) lower foreigner and investor participation given higher ABSD rates; 2) potential buyers having a wider array of choices this year and thus being able to assess their options thoroughly before committing; 3) borrowing limits, which could cap affordability as prices continue to rise; and 4) macroeconomic uncertainties. Hence, we cut FY24F earnings by c.12% and TP to S\$0.95, pegged to 12x PE (close to the four-year average).

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.

Historical PE and PB band



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



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

PropNex Ltd

Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Private new launch market share	0.55	0.57	0.58	0.58	0.59
Private resale market share	0.50	0.52	0.51	0.52	0.52
HDB resale market share	0.58	0.60	0.61	0.61	0.62

Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (\$m)					
Agency Services	519	641	591	619	657
Project Marketing	436	384	242	311	360
Administrative Support	1.29	1.83	2.29	3.00	3.00
Training Services	1.42	2.94	2.36	2.50	2.50
Others	0.01	0.06	0.0	0.0	0.0
Total	957	1,029	838	935	1,023

Source: Company, DBS Bank Ltd

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	957	1,029	838	935	1,023
Cost of Goods Sold	(856)	(925)	(757)	(840)	(919)
Gross Profit	102	105	81.0	95.4	104
Other Opng (Exp)/Inc	(24.0)	(27.3)	(26.0)	(23.1)	(23.3)
Operating Profit	77.8	77.4	55.0	72.3	81.1
Other Non Opng (Exp)/Inc	0.64	0.52	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.32	1.15	4.45	3.96	4.05
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	78.7	79.1	59.5	76.2	85.1
Tax	(13.6)	(13.7)	(9.9)	(13.0)	(14.5)
Minority Interest	(5.1)	(3.0)	(1.8)	(4.6)	(6.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	60.0	62.4	47.8	58.7	64.5
Net Profit before Except.	60.0	62.4	47.8	58.7	64.5
EBITDA	81.9	81.5	58.5	75.5	84.3
Growth					
Revenue Gth (%)	85.7	7.5	(18.6)	11.6	9.4
EBITDA Gth (%)	103.4	(0.4)	(28.2)	29.0	11.7
Opg Profit Gth (%)	112.5	(0.4)	(28.9)	31.3	12.2
Net Profit Gth (Pre-ex) (%)	106.3	3.9	(23.3)	22.7	9.9
Margins & Ratio					
Gross Margins (%)	10.6	10.2	9.7	10.2	10.2
Opg Profit Margin (%)	8.1	7.5	6.6	7.7	7.9
Net Profit Margin (%)	6.3	6.1	5.7	6.3	6.3
ROAE (%)	61.9	53.1	38.1	45.0	45.4
ROA (%)	24.6	18.6	13.3	16.2	16.0
ROCE (%)	59.5	52.2	40.7	46.4	45.1
Div Payout Ratio (%)	77.1	80.1	92.9	82.0	80.3
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank Ltd

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Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	476	472	557	364	474
Cost of Goods Sold	(426)	(425)	(500)	(329)	(429)
Gross Profit	50.7	47.8	56.9	35.8	45.2
Other Oper. (Exp)/Inc	(13.6)	(13.9)	(13.4)	(17.6)	(8.4)
Operating Profit	37.1	33.9	43.5	18.2	36.8
Other Non Opg (Exp)/Inc	0.64	0.0	0.52	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.16	0.23	0.92	1.94	2.51
Exceptional Gain/(Loss)	(0.7)	0.0	0.0	7.31	(7.3)
Pre-tax Profit	37.3	34.2	44.9	27.5	32.0
Tax	(6.5)	(5.9)	(7.8)	(4.5)	(5.4)
Minority Interest	(2.1)	(1.3)	(1.8)	(0.9)	(0.9)
Net Profit	28.7	27.0	35.3	22.1	25.8
Net profit bef Except.	29.3	27.0	35.3	14.7	33.1
EBITDA	39.6	35.7	45.8	20.0	38.5
Growth					
Revenue Gth (%)	(1.0)	(0.9)	17.9	(34.6)	30.1
EBITDA Gth (%)	(6.2)	(9.9)	28.2	(56.4)	92.7
Opg Profit Gth (%)	(8.7)	(8.6)	28.2	(58.1)	102.0
Net Profit Gth (%)	(8.5)	(5.7)	30.8	(37.6)	16.8
Margins					
Gross Margins (%)	10.6	10.1	10.2	9.8	9.5
Opg Profit Margins (%)	7.8	7.2	7.8	5.0	7.8
Net Profit Margins (%)	6.0	5.7	6.3	6.1	5.4

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	4.92	6.39	4.17	4.67	5.17
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	1.26	0.97	15.4	15.4	15.4
Cash	146	139	133	151	173
ST Investment	0.0	5.69	5.44	5.44	5.44
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	143	223	185	206	225
Net Intangibles Assets	0.90	0.60	0.31	0.28	0.25
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	295	375	343	383	424
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	164	228	201	223	243
Other Current Liab	16.2	17.6	15.1	17.9	19.4
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.49	2.93	1.10	1.10	1.10
Shareholder's Equity	109	126	125	136	148
Minority Interests	3.14	0.94	1.08	5.67	11.8
Total Cap. & Liab.	295	375	343	383	424
Non-Cash Wkg. Capital	(37.8)	(22.5)	(31.1)	(34.4)	(37.5)
Net Cash/(Debt)	146	145	139	157	178
Debtors Turn (avg days)	42.6	64.9	88.9	76.2	77.0
Creditors Turn (avg days)	55.4	77.8	103.9	92.3	92.9
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	3.9	3.1	2.3	2.6	2.5
Current Ratio (x)	1.6	1.5	1.5	1.5	1.5
Quick Ratio (x)	1.6	1.5	1.5	1.5	1.5
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 Ltd

PropNex Ltd

Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	78.7	79.1	59.5	76.2	85.1
Dep. & Amort.	3.54	3.61	3.49	3.23	3.23
Tax Paid	(7.1)	(13.4)	(13.7)	(10.1)	(13.0)
Assoc. & JV Inc/(loss)	0.05	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	7.72	(17.2)	14.0	0.52	1.56
Other Operating CF	0.16	(0.7)	(5.0)	0.0	0.0
Net Operating CF	83.1	51.4	58.3	69.8	77.0
Capital Exp.(net)	0.05	(0.4)	(0.7)	(3.7)	(3.7)
Other Invts.(net)	0.0	(5.9)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.69	0.0	0.0	0.0
Div from Assoc & JV	(1.0)	0.0	0.0	0.0	0.0
Other Investing CF	0.37	1.18	(10.8)	0.0	0.0
Net Investing CF	(0.6)	(4.4)	(11.6)	(3.7)	(3.7)
Div Paid	(40.4)	(51.5)	(49.8)	(48.1)	(51.8)
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	(2.3)	(2.3)	(2.4)	0.0	0.0
Net Financing CF	(42.7)	(53.8)	(52.2)	(48.1)	(51.8)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	39.8	(6.8)	(5.5)	18.0	21.5
Opg CFPS (S cts)	10.2	9.28	5.98	9.37	10.2
Free CFPS (S cts)	11.2	6.90	7.78	8.94	9.90

Source: Company, DBS Bank Ltd

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:	11 Aug 23	1.03	1.09	HOLD

Source: DBS Bank Ltd

Analysts: Tabitha FOO

Derek TAN

PropNex Ltd

DBS Bank Ltd 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: 4 Mar 2024 11:00:27 (SGT)

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