

PropNex Ltd (PROP SP)

In pole position

Ready to scale up; Initiate BUY

We initiate coverage on Propnex with a BUY rating and 12-month TP of SGD1.95, pegged at 14x FY23E P/E, representing about one standard deviation above its historical mean. In our view, the premium valuation to its closest SGX-listed peer, APAC Realty at 10x P/E, is justifiable given its increasing market share and leadership position in Singapore, coupled with a cash generative business model. Backed by its strong balance sheet (with net cash/mkt cap of c.22%), we believe the group can easily sustain its high dividend payout of more than 70%. This would also translate into an attractive prospective yield of around 7.0%.

SG residential property market shows resilience

Despite macro uncertainties and cooling measures in Dec 2021, the local residential market has been more resilient than expected with our assumption of 7% private home price growth this year. While rising interest rates could weigh on sentiment, healthy buying interest from upgraders and first-time buyers will continue to underpin the property market. Developers sold 834 new homes in Jul (+70.9% MoM), boosted by the successful launch of AMO Residence (with take-up of 98.4% at a median price of SGD2,110 psf). Propnex won the biggest market share as its agents accounted for over half of the sales that will be recognised in 2H22.

Strong economic moat with growing salesforce

Propnex continues to see above-industry growth in the number of salespersons to 11,744 as at 1 Aug 2022 (+8.8% YTD). To cement its leadership position, the group aims to have 12,000 strong team by end-2022. This means that Propnex will typically be appointed as exclusive or one of the marketing agencies by major developers. It also strategically expanded into the Good Class Bungalow (GCB) space in Jan this year. We expect the group to grow its market share in this niche segment with Singapore becoming a top destination for ultra-high net-worth individuals.

Transforms digital landscape in real estate industry

The group has ventured into the proptech space with the SGD1.0m acquisition of a 70% stake in Ovvv, a technology platform that connects merchants and service providers to consumers. This enables Propnex's agents to provide value-added services to clients, and improves on sales productivity. In Mar 2022, it also became the first agency in Singapore to set up a full-fledged Chinese language website to expand its reach to Mandarin-speaking locals and foreign investors. Key risks include i) new property cooling measures; ii) sharp interest rate hikes and iii) loss of market share.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	516	957	877	946	982
EBITDA	30	71	64	69	72
Core net profit	29	60	48	51	53
Core EPS (cts)	7.9	16.2	12.9	13.9	14.3
Core EPS growth (%)	45.0	106.4	(20.3)	7.6	3.0
Net DPS (cts)	5.5	12.5	11.0	11.5	12.0
Core P/E (x)	9.9	10.4	12.5	11.6	11.3
P/BV (x)	3.4	5.7	3.9	3.0	2.4
Net dividend yield (%)	7.1	7.4	6.8	7.1	7.5
ROAE (%)	37.8	61.9	36.4	29.1	23.6
ROAA (%)	16.8	24.6	15.1	14.1	12.9
EV/EBITDA (x)	6.3	6.9	6.7	5.5	4.7
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	53	51	53
MKE vs. Consensus (%)	-	-	(9.5)	1.3	0.3

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BUY

Share Price SGD 1.61
12m Price Target SGD 1.95 (+21%)

Company Description

PropNex is Singapore's largest listed real estate agency with over 11,000 sales professionals

Statistics

52w high/low (SGD)	1.98/1.51
3m avg turnover (USDm)	0.1
Free float (%)	20.9
Issued shares (m)	370
Market capitalisation	SGD595.7M
	USD428M

Major shareholders:

P&N Holdings Pte Ltd.	55.6%
MOHAMED ISMAIL /PROPNE/	9.3%
FONG KENG SEONG	8.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(4)	(16)
Relative to index (%)	3	(5)	(20)

Source: FactSet

ESG@MAYBANK IBG

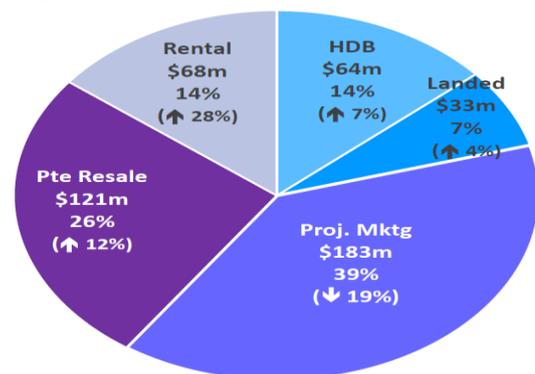
Tear Sheet Insert

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OPPORTUNITY+

Value Proposition

- Propnex is Singapore's largest listed real estate group with 11,744 professionals as at 1 Aug 2022.
- The group leads in real estate agency services, with substantial market share in the residential segments of new project launches, private resale, HDB resale and rental.
- It aims to be the first to introduce new initiatives, especially in technological innovations with a focus on improving the productivity of its salespersons.
- Propnex recently expanded its brand to Australia and is also penetrating the GCB segment in 2022.

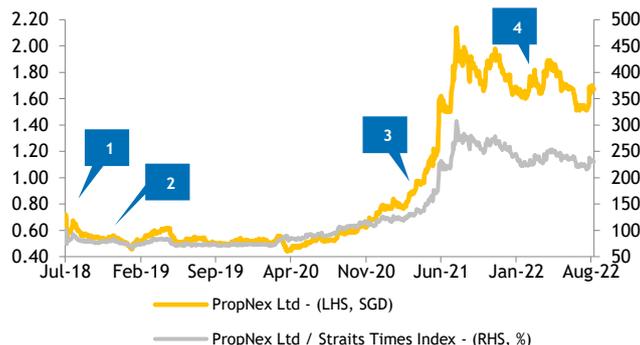
Segment contribution (1H22)



Source: Company

Price Drivers

Historical share price trend



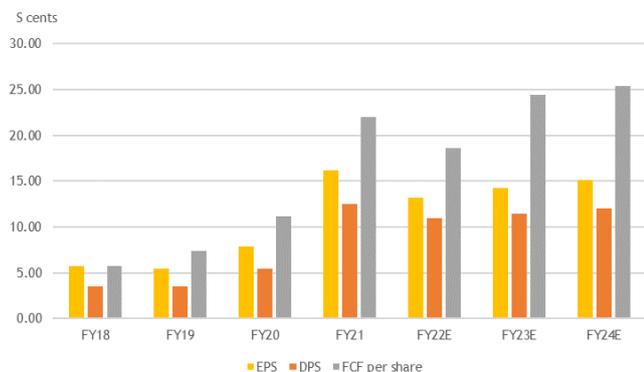
Source: Company, Maybank IBG Research

- In Jul 2018, Propnex made its trading debut on the SGX at an IPO price of SGD0.65.
- Extends regional footprint to Vietnam with operations commencing in 3Q18.
- Acquires a 70% stake in Ovyv to expand into proptech with the provision of value-added real estate services.
- Strategic foray into GCB luxury landed deals to further complement its existing presence in the high-end segment.

Financial Metrics

- PropNex enjoys significant operating leverage as the group revenue posted a CAGR of 31% from FY15-21, while its NPAT rose almost 41% over the same period.
- The group is debt free with a robust balance sheet with cash and cash equivalents of SGD134m as at end-Jun 2022.
- Given its strong cash-generative business, Propnex paid out >70% of its EPS as dividends in the past two financial years. This implies an attractive yield of around 7%.

EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Higher-than-expected transaction volumes
- Improvement in margins from rising operating leverage
- Continued market share gains from other competitors

Downside

- Introduction of new cooling measures may deter potential buyers as they adopt a wait-and-see approach and held back on property purchases to monitor the impact.
- Uncertain macro-economic environment weighs on market sentiment and buying interest.
- Rise in interest rates may hurt sales due to steeper borrowing costs.

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As Singapore's largest real estate agency, PropNex fulfils an important role within the real estate sector by facilitating the buying, selling, renting and leasing of property in the country.
- PropNex provides gainful employment to thousands of employees and salespersons. Notably, the group's salesforce grew to 10,796 as at 1 Jan 2022 from 8,918 (+21% YoY) a year ago.
- Being a service-oriented company working closely with customers, PropNex needs to closely abide by the Personal Data Protection Act, ensuring the security of its customers' private data.
- Like other real estate practitioners, PropNex also adheres to the regulatory framework of the Estate Agents Act as guided by the Council for Estate Agencies (CEA) - a government agency under the Ministry of National Development (MND).

Material E issues

- The group has logged its electrical consumption captured at various corporate premises at HDB Hub, Branch Office and General Magnetic Building. Tabulations were based on utility bills from the electricity supplier.
- All electricity is purchased from the national grid and is produced almost entirely by the combustion of natural gas, which is classified as Scope 2 emissions.
- A total 490,251kWh of electricity was used, which translates to 104.74 CO₂e.
- No incident of non-compliance with environmental laws and regulations were identified within the reporting year.

Material S issues

- Technology in the real estate realm has disrupted and transformed how business is conducted, and will continue to play a pivotal role in the way corporations conduct their business.
- One of the group's key strategies is to enhance its digital capabilities by improving its salespersons' productivity by providing relevant and reliable technological support.
- For example, Propnex leverages online alternatives such as webinars/social media to substitute face to face meetups and physical seminars due to the COVID-19 situation.

Key G metrics and issues

- The board has five directors, including the Executive Chairman and CEO, one Executive Director and three independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board spearheads its sustainability agenda, including determining the material ESG factors that the Group focuses on.
- Executive Chairman/CEO, Ismail Gafoore and Executive Director, Kelvin Fong own about 55.6% and 8.7% stakes in the company respectively.
- Key management/ directors' compensation accounted for about 23%/1.4% of total employee compensation in 2021.
- The external auditor is KPMG LLP.
- There were no non-compliant incidents with relevant laws and regulations that resulted in significant fines or legal actions against Propnex.
- There were also no letter of complaints against the group from Personal Data Protection Commission (PDPC) concerning breaches of customer privacy and losses of customer data. It had no incidents of corruption in 2021.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 30)						
	Particulars	Unit	2019	2020	2021	APAC Realty (APAC SP, FY21)
E	Scope 1 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Total	tCO2e	141.22	112.31	104.74	N/A
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Total	tCO2e	141.22	112.31	104.74	N/A
	GHG intensity (Scope 1 and 2)	tCO2e/t	N/A	N/A	N/A	N/A
	Carbon emission intensity	t/\$m	0.3	0.2	0.1	N/A
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Wastewater discharge (chemical O ₂ demand)	tonnes	N/A	N/A	N/A	N/A
	Hazardous waste 3R rate	%	N/A	N/A	N/A	N/A
	Air emissions intensity	ton/kT	N/A	N/A	N/A	N/A
	NPE (New Plastic Economy) investments	SGD m	N/A	N/A	N/A	N/A
	Cases of environmental non-compliance	number	0	0	0	N/A
S	% of women in workforce	%	N/A	N/A	N/A	N/A
	% of women in management roles	%	22.2%	22.2%	22.2%	N/A
	Lost time injury frequency (LTIF) rate	number	0.00	0.00	0.00	N/A
	Lives impacted by CSR outreach ('000)	number	>300	>300	>300	N/A
G	ED/CEO salary as % of reported net profit	%	16.6%	10.2%	6.4%	9.3%
	Board salary as % of reported net profit	%	1.1%	0.8%	0.4%	0.6%
	Independent directors on the Board	%	50%	60%	60%	60%
	Female directors on the Board	%	0%	0%	0%	0%

Qualitative Parameters (Score: 80)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. The Sustainability Steering Committee (SSC) will assist the Board in integrating ESG considerations into the group's strategic formulation, as well as monitor, manage and report on its ESG performance.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No. But it will undertake further initiatives to promote environmental sustainability.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The group will continue to explore and consider various initiatives such reducing the spaces and effectively using energy efficient appliances, motion sensors for lights etc.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

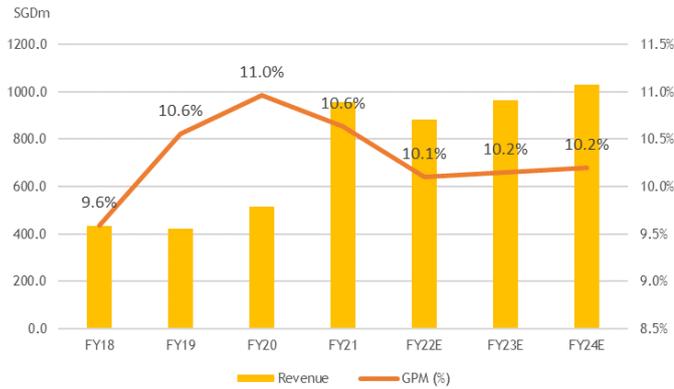
Target (Score: 100)		
Particulars	Target	Achieved
Maintain zero letter of complaints from authorities concerning breaches of customer privacy/data	0	0
Maintain zero non-compliant with environmental laws and regulations	0	0
Maintain zero non-compliant with socio-economic laws and regulations	0	0
Number of consumer empowerment seminars/webinars held	50	82
Make monetary contribution to local charity beneficiaries	SGD0.5m	SGD2.1m
Impact		
NA		
Overall score: 60		
As per our ESG matrix, Propnex Ltd (PROP SP) has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	30	15
Qualitative	25%	80	20
Target	25%	100	25
Total			60

As per our ESG assessment, Propnex has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. Its overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

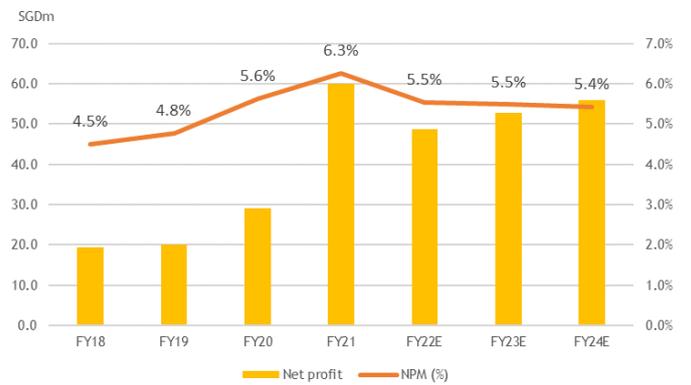
Focus charts

Fig 1: Revenue and GPM trend



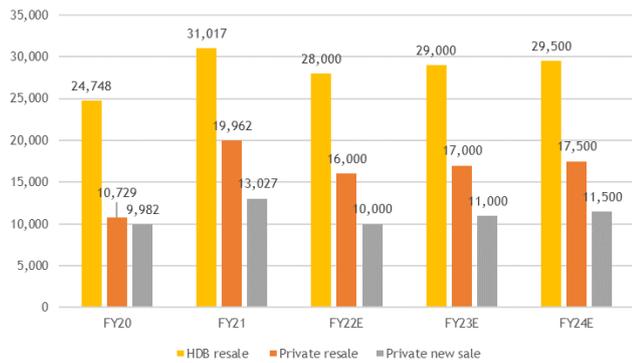
Source: Company data, Maybank IBG Research

Fig 2: Net profit and NPM



Source: Company data, Maybank IBG Research

Fig 3: Est. sales volume for SG residential market



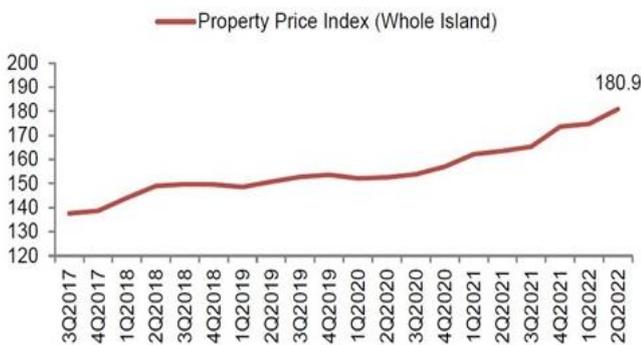
Source: Company data, Maybank IBG Research

Fig 4: Stock and vacancy of private residential units (excl. ECs)



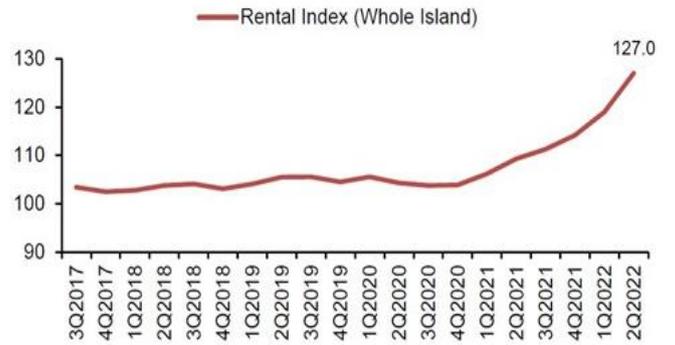
Source: URA

Fig 5: Price Index of private residential properties



Source: URA

Fig 6: Rental Index of private residential properties



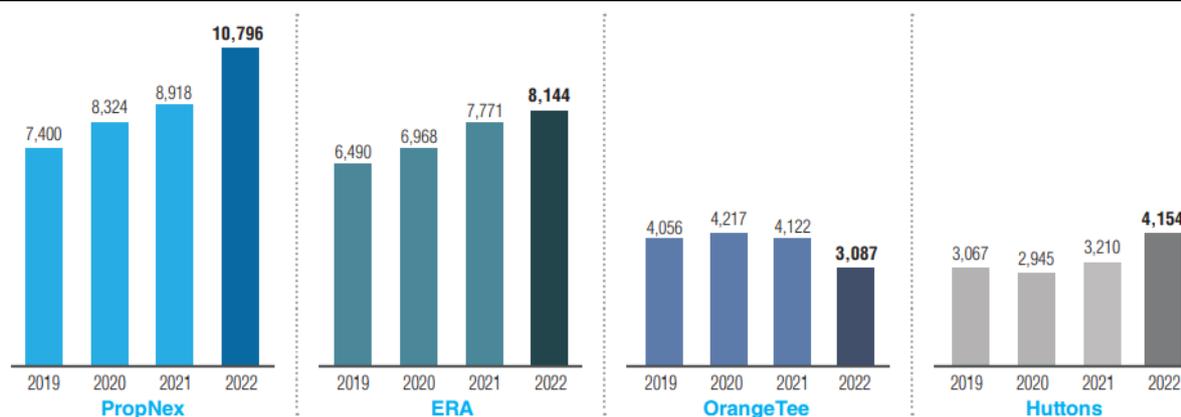
Source: URA

1. Investment thesis

1.1 Undisputed market leader in Singapore

PropNex has managed to establish a strong foothold in Singapore’s property market over the years. Today, it is the dominant market leader in new launches and is the first to cross the 10,000-mark in terms of number of salespersons. In our view, this enables the group to maintain its leadership foothold in the private new homes, private resale and HDB resale segments. Going forward, we think Propnex could continue to gain market share from other smaller competitors in tandem with its growing salesforce.

Fig 7: Only property agent to cross the 10,000-mark no. of salespersons



Source: Company

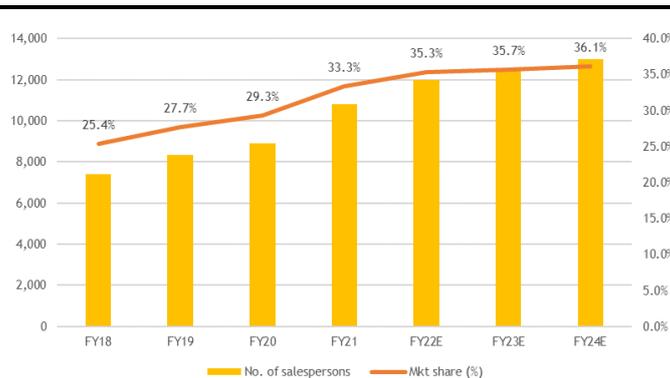
Indeed, it continues to see above-industry growth in the number of salespersons to 11,744 as at 1 Aug 2022 from 10,796 on 1 Jan 2022. To fortify its position, the group aims to have 12,000 salespersons by end-2022. Management accredited the growth to its proven training programmes, proprietary technology platforms and large-scale customer events such as Virtual Webinars and Property Shows. These have culminated in the group’s ability to attract both experienced and new salespeople to join PropNex.

Fig 8: Salesforce is growing faster than industry pace

ESTATE AGENT	1 Jan 2022*	1 Aug 2022	Difference from 1 Aug	% Diff (from 1 Jan 2022)
PROP NEX REALTY PTE LTD	10,796	11,745	949	8.8%
ERA REALTY NETWORK PTE LTD	8,144	8,428	284	3.5%
HUTTONS ASIA PTE LTD	4,154	4,493	339	8.2%
ORANGETEE & TIE PTE LTD	3,087	3,157	70	2.3%
SRI PTE LTD	1,133	1,181	48	4.2%

Source: Company, CEA

Fig 9: Market share in terms of no. of salespersons



Source: Company, Maybank IBG Research

In Mar 2022, PropNex launched the Chinese version of PropNex’s official website - a move to offer comprehensive bilingual content to both its consumers and salespersons. It is the first real estate agency in Singapore to set up a full-fledged Chinese language real estate website that provides property listings and insights for the local property market. It is ramping up content creation on Chinese social media platforms such as WeChat, to

expand its reach to the mainland Chinese audience and offering Mandarin-speaking users more local real estate content on the platform.

The move to provide up-to-date and extensive bilingual content demonstrates PropNex's focus to better engage and support the needs of Mandarin-speaking locals and foreign investors. With the launch of the Chinese website and push for more Chinese digital content, PropNex aims to help Mandarin-speaking clients gain deeper knowledge of Singapore's property market and empower them to make well-informed and sound decisions when they buy or sell properties.

1.2 Asset light and scaleable business model

PropNex's business model is extremely asset light where it does not own any of its office premises and chooses to lease them instead. These leases typically run for three years, with an option to renew after that date. Lease payments are renegotiated at renewal to reflect market rentals. The group also leases certain office premises and equipment, which are short-term and/or leases of low-value items.

Another area where the group has improved tremendously is the incorporation of IT into its business. Propnex now employs online platforms, big data, and data analytics to further enhance real-time connectivity among its salespeople. It runs technology systems which are proprietary to the group, and provide its salesforce the capability to further value-add to customers. The group intends to stay ahead of the curve in terms of innovation, and leverage it to its advantage. It is transforming the digital landscape in the real estate industry by utilising Artificial Intelligence (AI) and big data for the betterment of its salesforce.

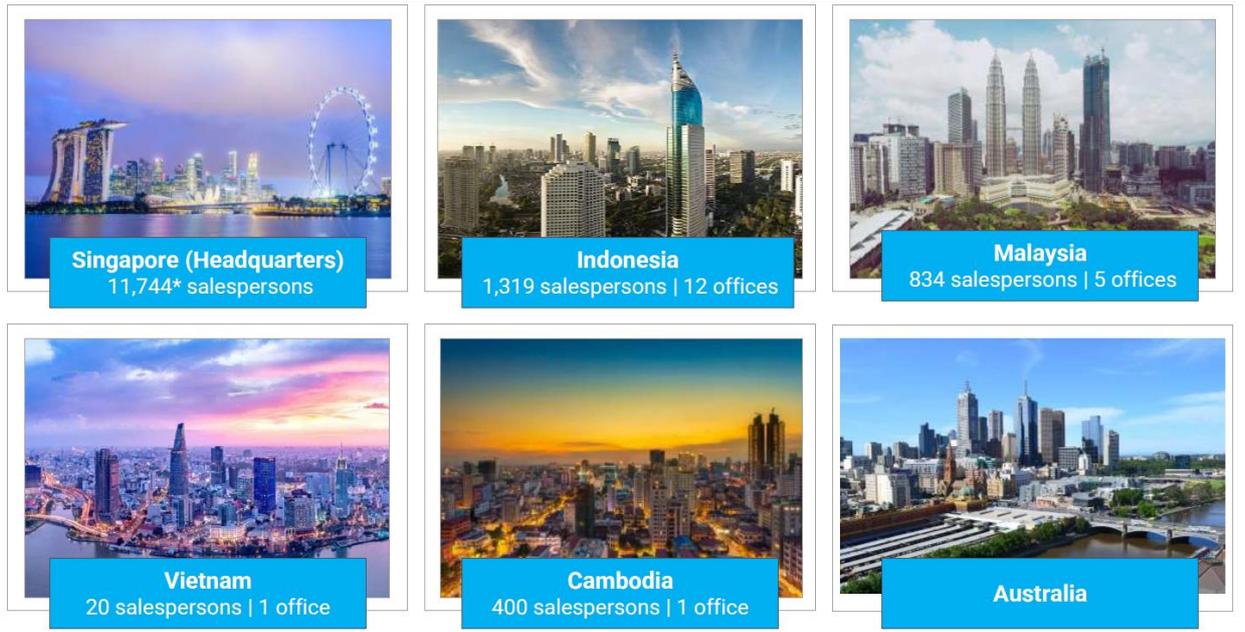
Propnex also ventured into the proptech space with its acquisition of a 70% stake in Ovvly - The People Marketplace, a technology platform that connects trusted merchants and service providers to consumers. A one-stop reliable and comprehensive ecosystem, Ovvly will enable PropNex's salespersons to provide enhanced value-added services to its clients via hundreds of Ovvly's merchants that are currently on the platform. This foray provides an additional platform for its salespersons to improve their productivity by rendering better services to new and existing clients.

1.3 Expanding overseas and new market segment

Propnex's first overseas expansion was Indonesia back in 2016, followed by Malaysia and Vietnam in 2017 and 2018, respectively. Besides South East Asia, it recently extended its presence into Victoria, Australia - marking its presence in the sixth market in the Asia Pacific.

PropNex Victoria has an office in Melbourne, helmed by a core team of real estate professionals who have already secured multiple collaborations with reputable builders and developers to market premium locations. These locations include Melbourne CBD, Southbank, Yarra Bend in Alphington, as well as popular promising growth suburbs such as Cranbourne East and North, Pakenham, Officer, Berwick, Werribee, Mernda, Epping and Wyndham Vale.

We understand the group usually enters into a master franchise agreement with its overseas partners and collects royalty fees based on contractual percentage of monthly sales. As its revenue is substantially derived from Singapore, geographic segmental data in relation to the group's total revenue is not presented.

Fig 10: Expanding its brand to more countries


Source: Company

At home, Propnex strategically expanded into the Good Class Bungalows (GCB) Luxury Landed Segment in Jan 2022, with the appointment of industry veteran, Henry Lim. He will head its GCB and Prestige Landed segment, bringing more than 25 years' experience in brokering luxury residential landed and GCB properties. Management hopes to seize new opportunities and grow its market share in this ultra-high net-worth segment. We think this should help to spur organic growth and further complement its existing salespersons who are already in the high-end segment.

2. Corporate information

2.1 From strength to strength

PropNex is Singapore's largest listed real estate group with 11,744 professionals as at Aug 2022. Its key business segments include real estate brokerage, training, property management and real estate consultancy services. The group offers a full suite of real estate brokerage services, with substantial market share in the residential segments of new project launches, private resale, HDB resale and rental including commercial and industrial properties.

Fig 11: Largest market share in Singapore



Source: Company

As an industry leader, PropNex always strives to be the first to introduce new initiatives, especially in regard to technological innovation with an emphasis on improving the productivity of salespeople in order to better serve their clients. Life Mastery Academy is the training arm of PropNex and is also a CEA-accredited provider of CPD courses. The academy provides training for salespersons to equip them with the necessary knowledge to carry out real estate agency work and to meet the licensing and registration framework of the CEA.

2.2 Real Estate Consultancy Services

Established since 2018, the real estate consultancy arm provides Valuation, Corporate Leasing, Investment and Collective Sales and recently the GCB and Prestige Landed departments. Apart from providing professional valuation for all types of properties, the Valuation Department also provides opinions to clients for mortgage valuation and to corporates for exercises like acquisitions of local or overseas companies via asset or share transfer, initial public offerings and special audit review. The reports are used by local bankers, corporate finance houses, lawyers, auditors and potential investors.

The team for Corporate Leasing provides a full suite of professional leasing solutions, including tenancy matters from marketing, managing and leasing of vacant units to the follow up on renewal and rental reports. The team helps corporate landlords to market and manage the Real Estate Consultancy Services portfolio of their properties and to assist corporate tenants such as MNCs with relocation services, tenancy management, account management, home and school search and even hand over services for departure.

The group further extended its consultancy services in Research and Content as well as in Investment and Collective Sales. The Investment and

Collective Sales Team comprises dedicated property experts who are well-versed in market trends and skilled in matching capital to real estate opportunities across collective sale offerings, residential landed and non-landed properties, office buildings and industrial properties.

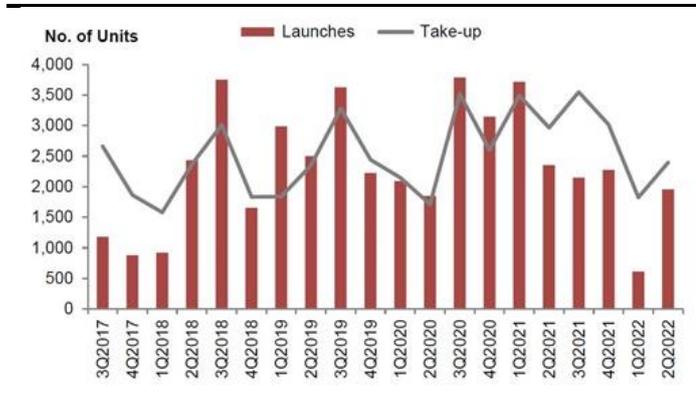
3. Industry landscape

3.1 Expects cooler housing market in 2022

The private residential market got off to a slow start in 2022 after an exhilarating performance last year. The cooling measures in Dec 2021 tamed price growth YTD to a more sustainable pace. According to URA latest statistics, overall private home prices rose by 3.5% QoQ in 2Q22 but accelerated from 0.7% growth in 1Q22 (i.e. +4.2% in 1H22).

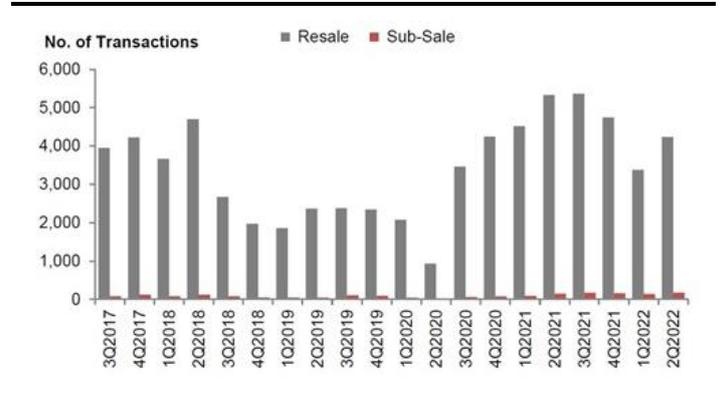
Hence, the group has also upgraded its forecast and now expects price growth of 7-8% for 2022. Market watchers expect private home prices to continue rising gradually for the rest of the year, with upcoming launches stimulating price growth. In addition, the firm land prices, rising construction costs, and healthy homebuyer demand will also exert some upward pressure on home values.

Fig 12: No. of private housing units launched/sold (excl. ECs)



Source: URA

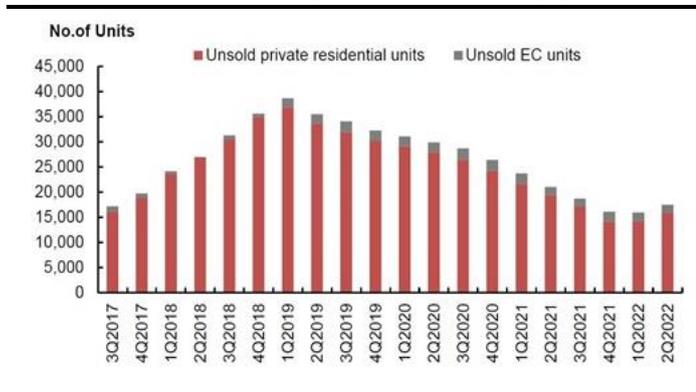
Fig 13: No. of resale and sub-sale transactions (excl. ECs)



Source: URA

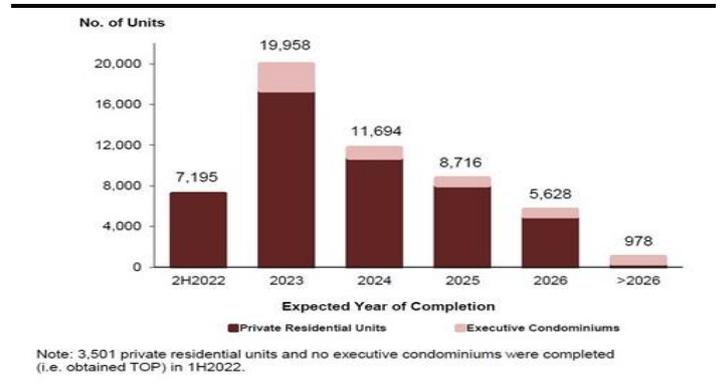
In 1H22, new private home sales totalled 4,222 units (ex. ECs) and 7,613 resale properties which accounted for 64.3% of overall home sales. This reflects not only the limited options in the new launch market but also the preference for move-in-ready resale units among some buyers. Furthermore, the faster pace of price increase in the primary market may also channel some buyers to the resale market, where prices are rising at a slower clip.

Fig 14: Total no. of unsold private units in the pipeline



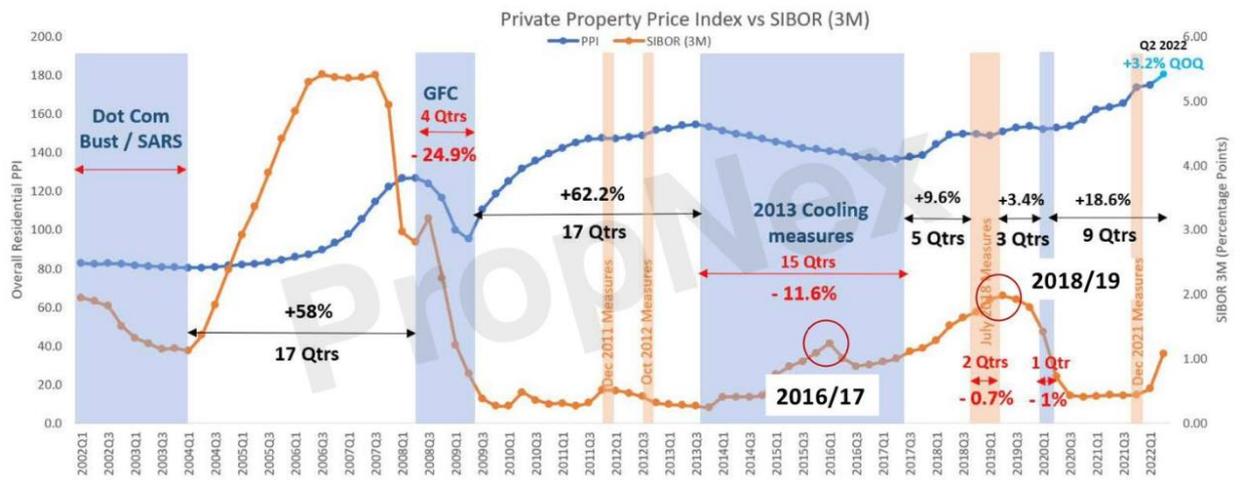
Source: URA

Fig 15: Pipeline supply of private residential units and ECs



Source: URA

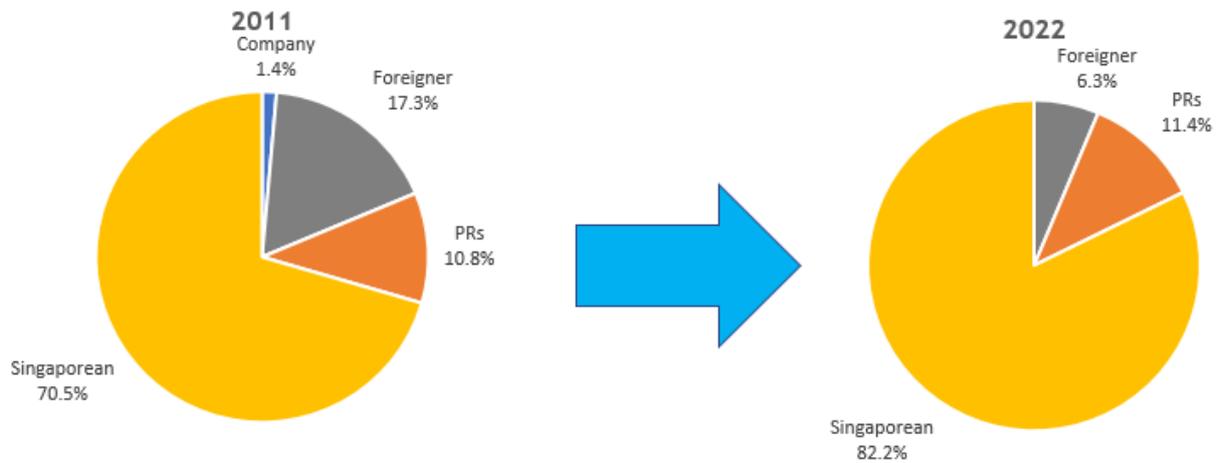
Fig 16: Private Property Price Index vs SIBOR (3M)



Source: Company

While rising interest rates may test the affordability threshold of some would-be buyers with tight housing budgets, and potentially take some of them out of the market, management remains relatively optimistic about private home sales this year, in view of the low inventory and resilient demand from Singaporeans and foreigners with the reopening of borders.

Fig 17: Proportion of buyers by nationality of non-landed new home sales



Source: Company

But with demand for private housing remaining resilient, the inventory of unsold private housing units has continued to decline in recent months. To ensure sufficient supply of private housing to maintain market stability, the government has decided to increase the supply of private housing on the confirmed list further, to 3,505 units for the 2H22 GLS Programme, from 2,785 units for the 1H22 GLS Programme. Including the eight reserve list sites which can yield an additional 3,805 units, these sites will provide a total of 7,310 private residential units.

Fig 18: 2H22 GLS Programme (confirmed list)

S/N	Location	Site Area (ha)	Proposed GPR	Estimated No. of Residential Units ⁽¹⁾	Estimated No. of Hotel Rooms	Estimated Commercial Space (m ²)	Estimated Launch Date	Sales Agent
Confirmed List								
Residential Sites								
1	Bukit Timah Link ⁽²⁾	0.46	3.0	160	0	0	Aug 2022	URA
2	Hillview Rise ⁽²⁾	1.03	2.8	335	0	0	Aug 2022	URA
3	Lentor Gardens ⁽²⁾	2.18	2.1	530	0	0	Oct 2022	URA
4	Marina Gardens Lane ⁽³⁾ ⁽⁴⁾	1.23	5.6	795	0	750	Dec 2022	URA
5	Tengah Plantation Loop (EC) ⁽³⁾	1.77	2.8	495	0	0	Dec 2022	HDB
Commercial & Residential Sites								
6	Tampines Avenue 11 ⁽³⁾ ⁽⁵⁾	5.07	2.5	1,190	0	14,000	Dec 2022	HDB
Total (Confirmed List)				3,505	0	14,750		

Source: MND

Fig 19: 2H22 GLS Programme (reserve list)

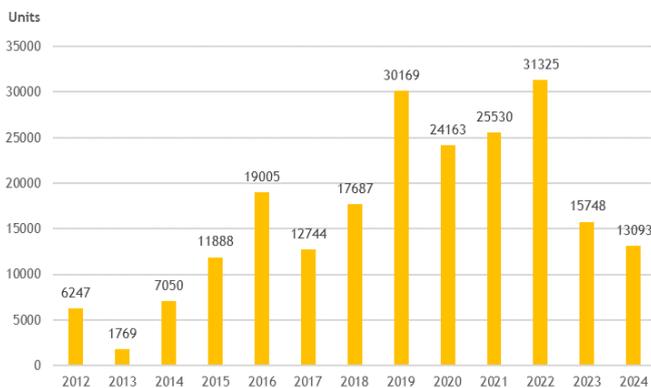
Reserve List									
Residential Sites									
1	Pine Grove (Parcel B) ⁽⁶⁾	2.50	2.1	565	0	0	Available	URA	
2	Tampines Street 62 (Parcel B) (EC) ⁽⁷⁾	2.80	2.5	700	0	0	Available	HDB	
3	Lentor Central ⁽³⁾ ⁽⁷⁾	1.47	2.8	475	0	0	Oct 2022	URA	
4	Clementi Avenue 1 ⁽³⁾ ⁽⁸⁾	1.33	3.5	500	0	0	Nov 2022	URA	
5	Jalan Tembusu ⁽³⁾	2.01	3.5	825	0	0	Nov 2022	URA	
6	Senja Close (EC) ⁽³⁾ ⁽⁹⁾	1.02	3.0	300	0	0	Nov 2022	HDB	
White Sites									
7	Woodlands Avenue 2 ⁽¹⁰⁾	2.75	4.2	440	0	78,000	Available	URA	
Hotel Sites									
8	River Valley Road ⁽¹¹⁾	1.02	2.8	0	530	2,000	Available	URA	
Total (Reserve List)				3,805	530	80,000			

Source: MND

According to HDB data, 6,819 HDB resale flats were transacted in 2Q22 (-1.7% QoQ; -3.5% YoY). We are projecting about 28,000 resale HDB units to be transacted in the whole of 2022. The tight resale flat supply is helping to prop up prices amid steady demand from various groups of buyers.

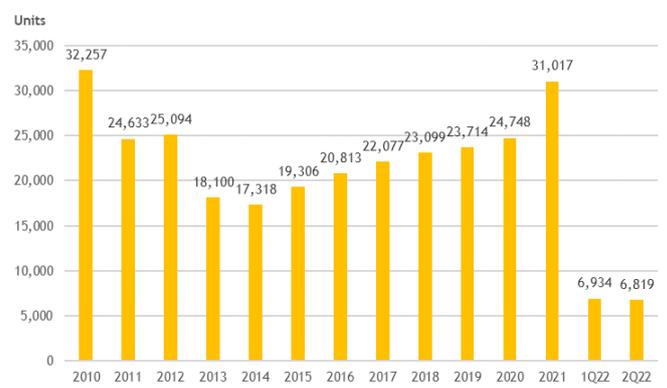
These include first-time homebuyers who prefer ready-built flats, buyers who have been priced out of the private residential market, upgraders in search of a larger flat, as well as those who have sold their private home and are looking to purchase an HDB flat on the secondary market. With higher interest rates, some buyers may decide to play it safe and opt to purchase an HDB resale flat, which is generally more affordable compared to a private condominium.

Fig 20: Bumper crop of MOP HDB Flats



Source: HDB

Fig 21: Total HDB resale volume



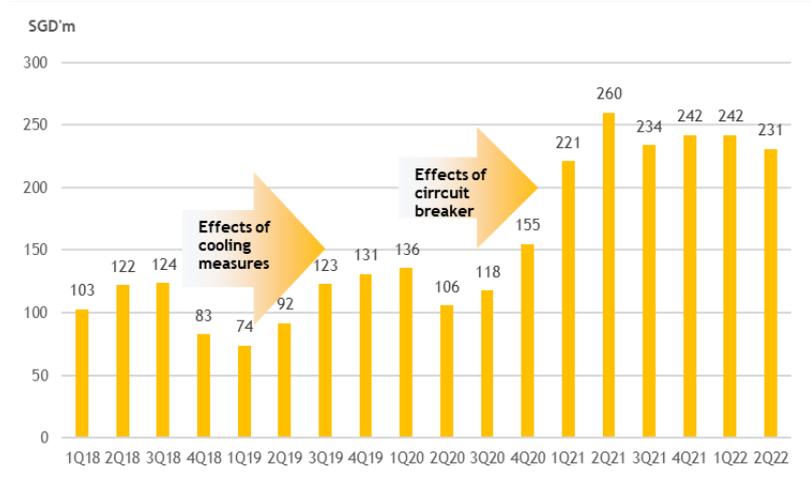
Source: HBB

Meanwhile, HDB is also looking to ramp up the supply of new Build-To-Order (BTO) flats in the next two years to meet strong housing demand from young couples planning to get married. The agency plans to launch up to 23,000 flats per year in 2022 and 2023 across mature and non-mature towns. It is prepared to launch up to 100,000 flats in total from 2021 to 2025, if needed, subject to prevailing demand.

4. Financial analysis

As expected, revenue is mainly derived through commission-based fees from sales and rental of residential, commercial and industrial properties. More than 99% of PropNex’s revenue is derived from property/rental brokerage fees. FY22E turnover is projected to fall from the high base in FY21 given the impact of the cooling measures in Dec 2021.

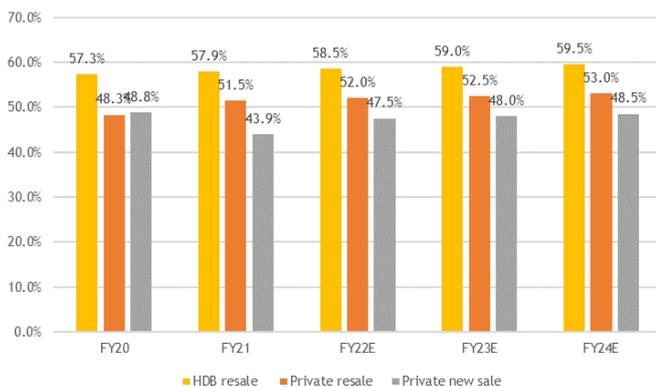
Fig 22: Revenue by quarter



Source: Company

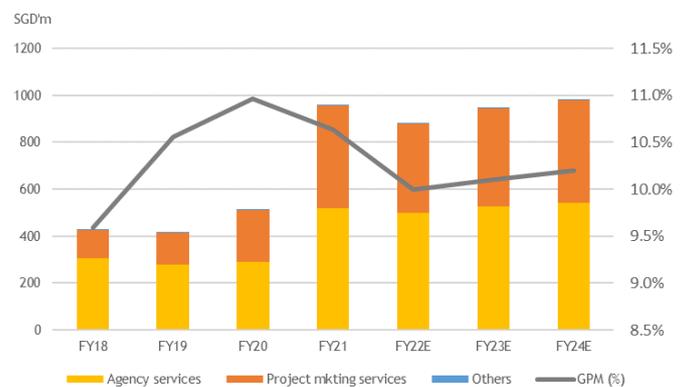
Assuming no further curbs by the government, we expect the decline to be short-lived and sales volume should start to pick up next year in view of the strong underlying demand by both locals and foreigners for Singapore properties, which is generally seen as a safe haven assets.

Fig 23: Est. market share of total units transacted



Source: URA, Maybank !BG Research

Fig 24: Revenue breakdown and GPM trend



Source: Company, Maybank !BG Research

This is clearly evidenced by robust new private home sales which rose nearly 71% MoM in Jul 2022 as buyers returned to the market after the Jun holidays. Developers sold 834 units last month, excluding executive condominiums (ECs) - up from 488 units in Jun, according to figures released by the Urban Redevelopment Authority (URA). Sales were boosted by AMO Residence in Ang Mo Kio, the sole new project launched in Jul and the largest suburban condominium development launched this year. About 98% of the units at AMO Residence were sold on the first day of launch.

At the same time, the undersupply of units for sale in the market has worked to the advantage of developers in terms of sales volume and prices. Upcoming launches such as GuocoLand’s Lentor Modern at Lentor Central

(605 units) and Frasers Property's Sky Eden @ Bedok at Bedok Central (158 units) could continue to see strong interest from upgraders and first-time home buyers who are largely unaffected by the recent round of cooling measures.

Fig 25: Projects lined up in 2H22

S/N	Appointed Project	Location	District	Region	Developer	Jo. of Unit	Date of Launch
1	Ikigai	38 Shrewsbury Road	11	CCR	Opulent Development	16	1Q2022 Launched
2	Belgravia Ace	AMK Ave 5	28	OCR	Tong Eng Brothers	107	1Q2022 Launched
3	265 Outram Road	265,267,269,271 Outram Road	3	RCR	Chiu Teng Group	17	1Q2022 Launched
4	Royal Hallmark	Haig Lane	15	RCR	Nobel Design, Lian Huat Group & 2E Cay	32	1Q2022 Launched
5	North Gaia EC	Yishun Ave 9 EC	27	OCR	Sing Holdings Limited	616	2Q2022 Launched
6	Piccadilly Grand	Northumberland Road	8	RCR	CDL and MCL	407	2Q2022 Launched
7	LIV @ MB	Arthur Road (fka Katong Park To	15	RCR	Bukit Sembawang Estates	298	2Q2022 Launched
8	Atlassia	Joo Chiat place	15	RCR	K16 Development	31	2Q2022 Launched
9	Baywind Residences	Telok Kurau Lor N	15	RCR	Baywind Properties	24	2Q2022 Launched
10	AMO Residences	Ang Mo Kio Ave 1	20	OCR	UOL, Singapore Land Group and Kheng	372	JULY Launched
11	Enchante	1C Evelyn Road	11	CCR	Victory land Pte Ltd	25	JULY Launched
12	Sky Eden @ Bedok	New Upper Changi Road	16	OCR	Frasers Property	158	Aug 2022
13	The Arden	2-24 Phoenix Road	23	OCR	Qingjian Realty	105	Aug/Sep 2022
14	K suites	Telok Kurau Lor K	15	RCR	Euro Properties	24	Sep 2022
15	Lentor Modern	Lentor Central	20	OCR	Guocoland	605	Sep 2022
S/N	Appointed Project	Location	District	Region	Developer	Jo. of Unit	Date of Launch
16	Sceneca Residences	Tengah Merah Kechil Link	16	OCR	MCC Land	265	Sep/Oct 2022
17	Copen Grand	Tengah Garden Walk EC	24	OCR	CDL and MCL	615	Sep/Oct 2022
18	Orchard Sophia	128 & 130 Sophia Road	9	CCR	DB2 Land	78	Oct 2022
19	Pollen Collection	Nim Road/Ang Mo Kio Avenue 5	28	OCR	Bukit Sembawang Estates	30	3Q 2022
20	Surrey Point	2 Surrey Road	11	CCR	Amara Holdings, Santarli Capital Venture and Kay L	36	3Q 2022
21	Tenet	Tampines Street 62 EC	18	OCR	Qingjian Realty and Santarli Construction	590	4Q 2022
22	TBA	Lentor Hill Road (Parcel A) GLS	20	RCR	Hong Leong Holdings, Guocoland and TID	600	4Q 2022
23	Blossoms by the Park	Slim Barracks Rise (Parcel A)	5	RCR	EL Development	265	4Q 2022
24	TBA	Slim Barracks Rise (Parcel B)	5	RCR	Kingsford Development	240	4Q 2022
25	Terra Hill	(fka Flynn Park) Yew Siang Road	5	RCR	Hoi Hup and Sunway Development	271	4Q 2022
26	TBA	15 Enggor Street (Realty Centre)	2	CCR	The Place Holdings (TPHL)	100	4Q 2022
27	TBA	Thiam Siew Ave	15	RCR	Hoi Hup and Sunway Development	807	4Q 2022
28	Gems Ville	Lorong 13 Geylang	14	RCR	East Asia Geylang Development	24	4Q 2022
29	Sophia Regency	105 Sophia road	14	RCR	East Asia Sophia Development	38	4Q 2022
30	TBA	Jalan Anak Bukit GLS	21	RCR	Far East Organization & Sino Group	845	4Q 2022

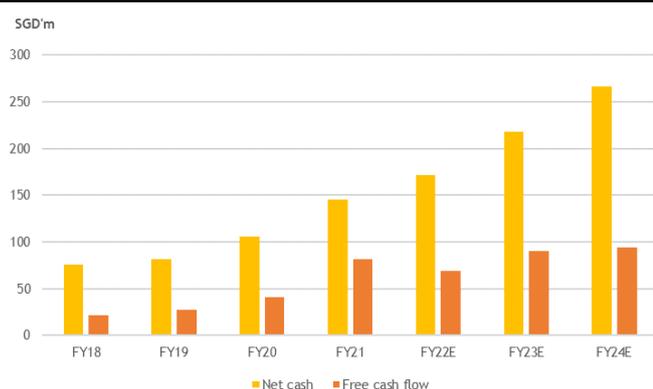
Source: Company

*BOLD - Propnex appointed as Marketing Agency

While macro uncertainties such as rising inflation and interest rates may soften sentiment and transaction volumes, we expect the impact to be mitigated by higher prices especially for new launches. Moreover, the limited unsold stock could further lend support to home values as HDB upgraders and local buyers continue to underpin sales. Moreover, Singaporeans continued to form the bulk of private housing demand in 1H22, accounting for almost 85% of non-landed private new sales and 75% of non-landed private resale transactions during the period.

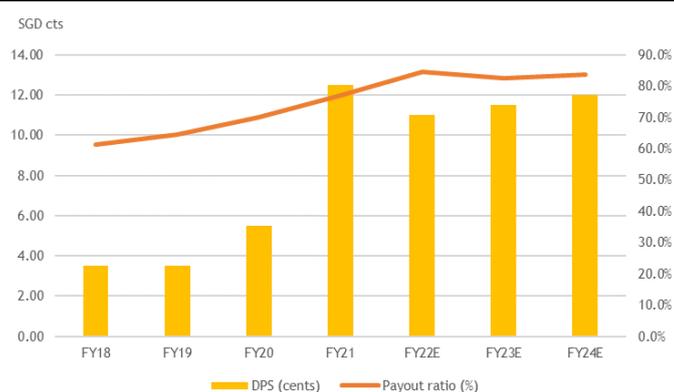
Given the group's large salesforce, it is no surprise that Propnex will typically be appointed as exclusive or one of the marketing agencies by major developers. Management estimates that about 6,300 units are likely to be released this year with new launch sales generally commanding a higher GPM. For FY22-24E, we are projecting around a 60-40% split of revenue from resale and new launches, respectively.

Fig 26: Net cash and free cash flow



Source: Company, Maybank IBG Research

Fig 27: DPS and payout ratio



Source: Company, Maybank IBG Research

Its biggest fixed operating cost is staff cost, which accounted for about 1.9% of its revenue in 1H22 (FY21: 1.8%). The slight increase was mainly due to higher provision for performance-linked bonuses and expansion in the average staff headcount to 153 in 2Q22 from 132 a year ago. According to the group, it recruited a team of management staff in order to support its growing salesforce.

Due to higher upfront costs from its new business verticals, as well as advertising & marketing expenses, we expect the group to face some near-term margins pressure. That said, we think this should improve from FY23E onwards as it gains positive operating leverage from higher sales (especially new launches) and economies of scale.

PropNex's business model is highly cash generative. The group is debt free, and has a rock solid balance sheet with cash and cash equivalents of SGD134m as at end-Jun 2022 (or c.22% of its market capitalisation). We note that the group's main cash outflow is its dividend payments, as it paid out at least 70% of its net profits in the last two financial years. As such, we are anticipating dividend payouts of 11-12 cents per share in FY22-24E, implying attractive yields of around 7%.

5. Valuation

Initiate coverage with BUY and TP of SGD1.95

We are initiating coverage on Propnex with a BUY rating and 12-month TP of SGD1.95, pegged at 14x FY23E P/E, which represents one standard deviation above its historical mean. While this implies a premium to its closest SGX-listed peer, APAC Realty, we think the valuation is reasonable given its dominant market share in Singapore, coupled with its highly cash generative business model.

Backed by its strong balance sheet (net cash/mkt cap of c.22%), we believe the group can easily sustain its high dividend payout ratio of more than 70% of earnings. Moreover, we believe its attractive dividend yield of around 7% should provide good support for any downside risks.

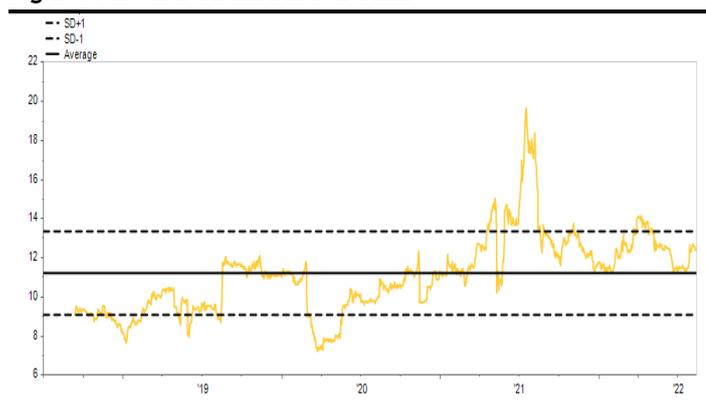
Key re-rating catalysts include: 1) faster-than-expected recovery in transaction volumes; 2) improvement in margins from rising operating leverage and 3) continued market share gains from other competitors.

Fig 28: Peers comparison

Company	BBG Code	TP Rec	TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)				EV/EBITDA	P/B	ROE
							Actual	FY1	FY2	FY3			
Propnex Ltd	PROP SP	BUY	1.95	1.61	Dec-31	428	9.9	12	12	11.3	5.6	3.3	61.9%
Listed peers													
APAC Realty	APREALTY SG	NR	-	0.7	Dec-31	179	7	9.9	9	8.4	5.2	1.6	22.4%
RE/MAX A	RMAX US	NR	-	24.1	Dec-31	452	9.9	10.1	9.6	8.8	3.1	1.1	-3.0%
LSL Property Services	LSL LN	NR	-	3.34	Dec-31	410	8.9	10.3	8.7	7.9	5	2	33.0%
Purplebricks Group	PURP LN	NR	-	0.18	Apr-30	63	-	-	-	56.2	-1.5	1.4	-63.9%
PropertyGuru Group	PGRU US	NR	-	4.75	Dec-31	766	-	-	-	36.5	-37.6	-	-96.8%
Average							9	10.6	9.8	21.5	3.5	1.9	0.3

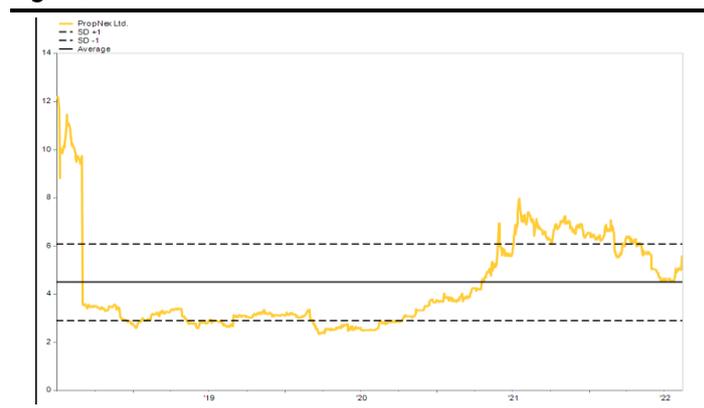
Source: FactSet, Bloomberg

Fig 29: Forward 12-month P/E band



Source: FactSet

Fig 30: Forward 12-month P/B band



Source: FactSet

6. Risks

6.1 Imposition of new property cooling measures

The government closely monitors the local property market to ensure continued housing affordability. If prices are deemed to run ahead of economic fundamentals (such as price-to-income ratios), and raise the risk of a destabilising correction later on, the authorities could impose another round of cooling measures to prevent overheating. This would then cause some buyers to adopt a wait-and-see approach and hold back on their property transactions to monitor the impact of the new measures.

6.2 Uncertain macroeconomic environment

The Russia-Ukraine conflict and the resulting implementation of economic sanctions by multiple jurisdictions have triggered disruptions and uncertainties in financial markets and the global economy. Increased geopolitical tensions are set to exacerbate concerns over inflation, supply chain bottlenecks, etc. This has worsened inflation woes and led to sharp interest rates hike by global central banks. With steeper borrowing costs, this may negatively impact sales going forward.

6.3 Loss of market share to competitors

Propnex currently commands a substantial market share in the residential segments of new project launches, private resale, HDB resale and rental including commercial and industrial properties. In the event that the group is unable to defend its leadership position and/or lose market share in both the primary and secondary residential segments, this could adversely impact our revenue/margin assumptions. Consequently, we may need to revise downwards our earnings forecasts and target price for the stock.

6.4 Technology disruption

Technology in the real estate realm has transformed how business is conducted, and will likely play a pivotal role in the way corporations conduct their business. To avoid being disrupted externally, the group has rolled out the PropNex Investment Suite app for its salesforce to equip them with a property data analytical tool as well as the relevant knowledge of the real estate market. This proptech initiative aims to future-proof its business, and improve the productivity and efficiency of its salesforce by empowering them with the latest market data/trends.

7. Key management

Ismail Gafoore | Co-founder, Executive Chairman and CEO

With more than 25 years' experience in the real estate industry, Mr Ismail has an intimate understanding of the industry. He is responsible for the group's strategic direction and oversees business operations, including functions such as compliance, finance, human resources, legal, and marketing, operations, sales and information technology. Prior to joining the real estate industry and subsequently founding Nooris Consultants Pte Ltd in 1996, Mr Ismail served as an officer in the SAF and continued service to the nation as part of the military reserve force before retiring as a Colonel serving as Division Chief of Staff. Mr Ismail holds a bachelor's degree (Hons) in Land Economics and an IBMEC higher diploma in Real Estate & Property Management from the University of Technology, Sydney.

Kelvin Fong Keng Seong | Executive Director

Mr Kelvin Fong oversees the group's training development curriculum and also administers the development of IT strategies and technology innovations to improve the group's competitive edge in the industry. Prior to joining the management team, Mr Fong was one of the top Team Leaders and his team of salespeople has a strong track record for outstanding sales performance and excellent customer service. Mr Fong also spearheads the sales and leadership training programmes. He curated the signature PropNex bootcamp that empowers over 3,000 salespersons annually together with other team leaders. He holds a bachelor's degree in Business Administration from La Trobe University, Australia and a Diploma in Electronics Engineering from Singapore Polytechnic.

Lim Yong Hock | Key Executive Officer

Mr Lim Yong Hock heads PropNex's real estate agency business and oversees the daily operations of the agency. He is in charge of the training of all the salespersons including those in overseas offices. He joined the group in April 2006 as a marketing, recruitment and training manager and rose through the ranks to his current position as the Key Executive Officer of PropNex Realty. Prior to joining the group, he was a team leader for teams of real estate salespersons at other agencies from 1994 to 2006. Mr Lim holds a Diploma in Business Administration from the Thames School of Commerce, Singapore and a Diploma in Electronic Engineering from Ngee Ann Polytechnic.

Cheong Yew Meng | Chief Financial Officer

Mr Cheong Yew Meng is responsible for a full spectrum of the group's financial, accounting and taxation matters, including treasury, financial reporting, strategic planning, compliance with regulations, risk management as well as corporate taxation. Mr Cheong has a total of nearly 30 years of accounting work experience in industries such as healthcare, manufacturing, project management, retail, engineering and construction. Prior to joining the group, Mr Cheong was the CFO at Aoxin Q&M Dental Group, Group Financial Controller/Finance Director at HSL Constructor and Group Financial Controller at an SGX Mainboard listed company, Rotary Engineering. Mr Cheong graduated from RMIT with a Bachelor of Business in Accountancy. He is also a member of both Chartered Accountants of Singapore and Certified Public Accountants of Australia.

Josephine Chow | Chief Operating Officer

Ms Josephine Chow oversees the group's operations, which includes the Human Resource, Associate Affairs, Procurement and Facilities departments. She is also responsible for formulating the group's corporate direction, policy and strategy as well as leading, directing and overseeing the implementation of its human resource and service operations best practices and franchise operations. She began her career with the group in 2004 following her graduation from university and advanced with flying colours to her current role. Ms Chow holds a Bachelor Degree in Business Administration (with merit) from the National University of Singapore.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	7.2	8.9	12.5	11.6	11.3
Core P/E (x)	9.9	10.4	12.5	11.6	11.3
P/BV (x)	3.4	5.7	3.9	3.0	2.4
P/NTA (x)	3.4	5.8	4.0	3.0	2.4
Net dividend yield (%)	7.1	7.4	6.8	7.1	7.5
FCF yield (%)	9.8	7.6	11.3	14.8	15.1
EV/EBITDA (x)	6.3	6.9	6.7	5.5	4.7
EV/EBIT (x)	6.3	6.9	7.1	5.9	5.0
INCOME STATEMENT (SGD m)					
Revenue	515.6	957.5	877.4	946.4	981.8
EBITDA	30.1	70.5	64.2	69.4	72.0
Depreciation	(3.7)	(3.5)	(3.4)	(3.6)	(3.7)
Amortisation	(0.0)	(0.3)	(0.3)	(0.4)	(0.4)
EBIT	30.1	70.8	60.5	65.5	67.9
Net interest income / (exp)	(0.1)	(0.0)	0.4	0.4	0.4
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	37.2	78.7	60.8	65.9	68.3
Income tax	(5.9)	(13.5)	(10.5)	(11.5)	(11.9)
Minorities	(2.1)	(5.1)	(2.5)	(3.0)	(3.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.1	60.0	47.8	51.4	52.9
Core net profit	29.1	60.0	47.8	51.4	52.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	105.8	145.6	171.0	215.7	260.7
Accounts receivable	79.6	142.1	157.9	160.9	162.0
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5.7	4.9	1.7	1.6	1.5
Intangible assets	0.1	0.9	3.0	2.8	2.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.4	1.0	6.4	6.4	6.4
Total assets	192.7	294.6	340.0	387.3	433.1
ST interest bearing debt	2.1	1.6	0.0	0.0	0.0
Accounts payable	72.3	132.6	165.6	165.8	163.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1.0	1.3	0.0	0.0	0.0
Other liabilities	30.0	46.0	17.0	17.0	16.0
Total Liabilities	105.1	182.0	182.8	182.5	179.3
Shareholders Equity	84.6	109.4	153.2	200.3	248.8
Minority Interest	3.0	3.1	4.0	4.5	5.0
Total shareholder equity	87.6	112.6	157.2	204.8	253.8
Total liabilities and equity	192.7	294.6	340.0	387.3	433.1
CASH FLOW (SGD m)					
Pretax profit	37.2	78.7	60.8	65.9	68.3
Depreciation & amortisation	3.8	3.8	3.7	3.9	4.1
Adj net interest (income)/exp	(0.1)	(0.0)	0.0	0.0	0.0
Change in working capital	3.3	7.7	(6.5)	8.6	7.4
Cash taxes paid	3.2	7.1	10.5	11.5	11.9
Other operating cash flow	4.3	7.0	0.0	0.0	0.0
Cash flow from operations	42.6	83.4	68.5	89.8	91.7
Capex	(0.5)	(0.5)	(1.5)	(1.5)	(1.5)
Free cash flow	28.2	47.7	67.0	88.3	90.2
Dividends paid	(13.9)	(35.2)	(40.7)	(42.6)	(44.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	(2.0)	(2.0)	(2.0)
Other invest/financing cash flow	(1.4)	(5.6)	0.4	0.4	0.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	24.2	39.8	24.7	44.1	44.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.8	85.7	(8.4)	7.9	3.7
EBITDA growth	60.8	134.5	(9.0)	8.1	3.7
EBIT growth	60.7	135.2	(14.6)	8.3	3.7
Pretax growth	45.6	111.4	(22.7)	8.3	3.6
Reported net profit growth	45.2	106.3	(20.3)	7.6	3.0
Core net profit growth	45.2	106.3	(20.3)	7.6	3.0
Profitability ratios (%)					
EBITDA margin	5.8	7.4	7.3	7.3	7.3
EBIT margin	5.8	7.4	6.9	6.9	6.9
Pretax profit margin	7.2	8.2	6.9	7.0	7.0
Payout ratio	70.0	77.1	85.1	82.7	83.9
DuPont analysis					
Net profit margin (%)	5.6	6.3	5.4	5.4	5.4
Revenue/Assets (x)	2.7	3.3	2.6	2.4	2.3
Assets/Equity (x)	2.3	2.7	2.2	1.9	1.7
ROAE (%)	37.8	61.9	36.4	29.1	23.6
ROAA (%)	16.8	24.6	15.1	14.1	12.9
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	49.9	41.7	61.6	60.6	59.2
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	48.1	42.1	68.1	70.2	67.2
Dividend cover (x)	1.4	1.3	1.2	1.2	1.2
Current ratio (x)	1.8	1.6	1.8	2.1	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.6	1.9	2.1	2.4
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	nm	nm	na	na	na
Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.1	0.1	0.2	0.2	0.2
Net debt/ (net cash)	(102.6)	(142.7)	(171.0)	(215.7)	(260.7)

Source: Company; Maybank IBG Research

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