# Maybank

## PropNex Ltd (PROP SP)

# Marching on

## 4Q22 results above; keep Buy with higher TP

4Q22 PATMI jumped 24.5% YoY to SGD17.8m, beating our and market expectations. This took FY22 earnings to SGD62.4m (+3.9% YoY) and accounts for ~115%/109% of MIBG/street's full year estimates. We raise our FY23-24E EPS by 12-13% on better transaction volumes as more supply looks to enter the market in 2023. It declared a final DPS of 8.0 S cent, bringing total DPS to 13.5 cents, representing a payout ratio of 80%. Maintain BUY with a higher TP of SGD2.20, still based on 14x FY23E P/E.

## Full year revenue surpasses SGD1.0b mark

Revenue rose 23.3% YoY to SGD298.4m in 4Q, mainly due to increase in commission income from both agency and project marketing services. This came on the back of a higher number of transactions completed despite the rising interest rates environment. But 4Q GPM narrowed slightly by 0.6ppt to 10.1% given changes in sales mix as agency services' segment typically commands slimmer margins. Compared with its closest peer, Apac Realty's (APAC SP, CP SGD0.62, NR) 2H22 results, the group looks to be gaining market share at the expense of competitors.

#### Transaction volumes to rebound in 2023

Meanwhile, Propnex saw an 8% YoY increase in salesforce headcount to 11,667 (as at 1 Jan 2023) from 10,796 a year ago. We expect new private home sales to pick up given the larger pipeline of launches (about 12,000 units) in 2023. According to management, demand for HDB resale flats is also likely to remain buoyant with 28,000 to 30,000 flats likely to be resold this year, aided by the recent Budget announcement on additional CPF housing grants for first-time buyers.

## Proposes 1-1 bonus issue to boost liquidity

Balance sheet is robust with net cash position of SGD139m (or 37.5 cents/share) underpinned by its highly scalable and asset light business model. The group positively surprised with a proposed 1-for-1 bonus issue of up to 370m new shares to reward shareholders and potentially boost its trading liquidity. Notwithstanding the share price outperformance, its forward dividend yield remains attractive at over 7%, in our view.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	957	1,029	1,031	1,046	1,062
EBITDA	71	81	76	78	80
Core net profit	60	62	58	59	61
Core EPS (cts)	16.2	16.7	15.7	16.1	16.4
Core EPS growth (%)	106.4	3.0	(5.9)	2.2	2.1
Net DPS (cts)	12.5	13.5	12.5	13.0	13.5
Core P/E (x)	10.4	9.2	11.5	11.3	11.0
P/BV (x)	5.7	4.5	3.7	2.9	2.3
Net dividend yield (%)	7.4	8.8	6.9	7.2	7.5
ROAE (%)	61.9	52.6	38.2	28.8	23.2
ROAA (%)	24.6	18.6	14.6	13.0	11.8
EV/EBITDA (x)	6.9	5.3	6.4	5.6	4.8
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	na	na	na
MIBG vs. Consensus (%)	-	-	na	na	na

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## **BUY**

Share Price SGD 1.73

12m Price Target SGD 2.20 (+27%)

Previous Price Target SGD 1.95

#### **Company Description**

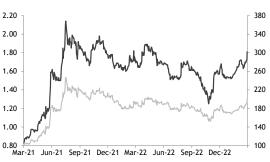
PropNex is Singapore's largest listed real estate agency with over 11,000 salesperson

Sta		

52w high/low (SGD)	1.89/1.25
3m avg turnover (USDm)	0.2
Free float (%)	20.6
Issued shares (m)	370
Market capitalisation	SGD669.7M
	USD497M

Major shareholders:
P & N Holdings Pte Ltd 55.6%
Mohamed Ismail Gafoore 9.3%
Kelvin Fong Keng Seong 8.6%

#### Price Performance



PropNex Ltd - (LHS, SGD) ——PropNex Ltd / Straits Times Index - (RHS, %)

-1M	-3M	-12M
10	13	5
13	14	5
	-1 <b>M</b> 10 13	10 13

Source: FactSet

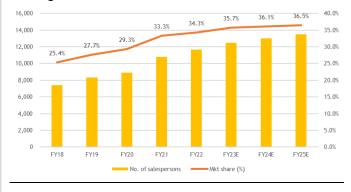




## **Value Proposition**

- Propnex is Singapore's largest listed real estate group with 11,667 professionals as at 1 Jan 2023.
- 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.

#### Growing salesforce and market share



Source: Company, Maybank IBG Research

## **Price Drivers**



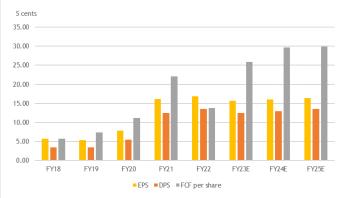
Source: Company, Maybank IBG Research

- 1. In Jul 2018, Propnex made its trading debut on the SGX at IPO price of SGD0.65.
- 2. Extends regional footprint to Vietnam with operations commencing in 3Q18.
- 3. Acquires a 70% stake in Ovvy 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 group revenue registered a CAGR of 31% from FY15-21, while its NPAT rose almost 41% in 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 has paid out >70% of its EPS as dividends in the past two financial years. This implies an attractive yield of around 7-8%.

# 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 macroeconomic environment may weighs on market sentiment and buying interest.
- The rise in interest rate may negatively impact sales due to steeper borrowing costs.

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PropNex Ltd





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Risk Rating & Score <sup>1</sup>	Not Rated
Score Momentum <sup>2</sup>	Na
Last Updated	Na
Controversy Score <sup>3</sup>	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.

<u>Risk Rating & Score</u> - 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. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - 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: 36)								
	-		•			APAC Realty			
	Particulars	Unit	2019	2020	2021	(APAC SP, FY21)			
	Scope 1 GHG emissions	tCO2e	N/A	N/A	N/A	N/A			
	Scope 2 GHG emissions	tCO2e	141.22	112.31	104.74	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			
Ε	Total	tCO2e	N/A	N/A	N/A	472.7			
E .	Carbon emission intensity	t/SGDm	0.3	0.2	0.1	0.02			
	Electricity consumption	m kWh	0.66	0.53	0.49	1.15			
	Energy intensity	kWh/sqft	N/A	N/A	N/A	1.32			
	NPE (New Plastic Economy) investments	SGD m	N/A	N/A	N/A	N/A			
	Cases of environmental non-compliance	number	0	0	0	0			
	% of women in workforce	%	N/A	N/A	N/A	64.7%			
	% of women in management roles	%	22.2%	22.2%	22.2%	18.2%			
S	No. of consumer empowerment seminars	number	9	131	82	N/A			
	Employee turnover	%	23.7%	7.8%	17.6%	N/A			
	Monetary contribution to local community	SGDm	0.53	0.75	2.12	0.3			
	CEO/MD salary as % of reported net profit	%	4.5%	3.2%	1.7%	5.9%			
G	Board salary as % of reported net profit	%	13.3%	7.8%	5.1%	4.2%			
G	Independent directors on the Board	%	50%	60%	60%	60%			
	Female directors on the Board	%	0%	0%	0%	0%			
	Shareholder payout	%	65%	70%	77%	75.5%			

#### Qualitative Parameters (Score: 50)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes. The Sustainability Steering Committee 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.

b) is the senior management salary linked to fulfilling ESG targets?

No. But it will undertake further initiatives to promote environmental sustainability.

- c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? Yes
- d) Does the company have a mechanism to capture Scope 3 emissions which parameters are captured? No
- e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

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.

f) Does carbon offset form part of the net zero/carbon neutrality target of the company? No

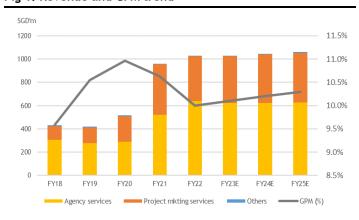
Target (Score: 100)		
Particulars	Target	Achieved
Maintain zero letter of complaints from authorities concerning breaches of customer privacy/data	0	0
Maintain zero non-compliant with environmental laws and regulations	0	0
Maintain zero non-compliant with socio-economic laws and regulations	0	0
Number of consumer empowerment seminars/webinars held	50	82
Make monetary contribution to local charity beneficiaries	SGD0.5m	SGD2.1m
Impact		
NA		
Overall Score: 55		
As per our ESG matrix, Propnex Ltd (PROP SP) has an overall score of 55.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	36	18
Qualitative	25%	50	13
Target	25%	100	25
Total			55

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 55, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

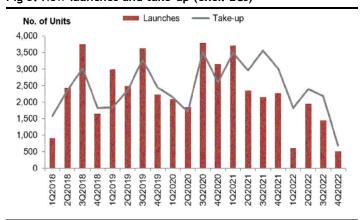
## Focus charts

Fig 1: Revenue and GPM trend



Source: Company data, Maybank IBG Research

Fig 3: New launches and take-up (excl. ECs)



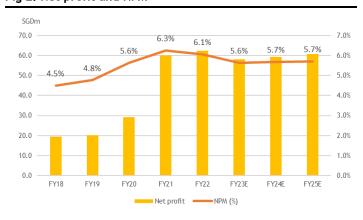
Source: URA

Fig 5: Price index of private residential properties



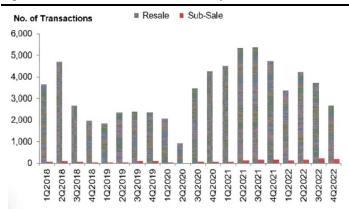
Source: URA

Fig 2: Net profit and NPM



Source: Company data, Maybank IBG Research

Fig 4: Resale/Sub-sale transactions for pvt residential units



Source: URA

Fig 6: Rental index of private residential properties



Source: URA

Fig 7: Earnings Revision

		FY23E			FY24E			FY25E	
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGD m)	1,031	884	16.6%	1,046	908	15.2%	1,062	1,062	0.0%
EBIT (SGD m)	72	65	12.4%	74	67	11.3%	76	76	0.0%
EBITDA (SGD m)	76	68	11.5%	78	71	10.2%	80	80	0.0%
PATMI (SGD m)	58	52	13.0%	59	53	11.8%	61	61	0.0%
			Chg (ppt)			Chg (ppt)			Chg (ppt)
EBIT Margin	7.0%	7.3%	-0.3	7.1%	7.3%	-0.2	7.1%	7.1%	0.0
Net Margin	5.6%	5.8%	-0.2	5.7%	5.9%	-0.2	5.7%	5.7%	0.0

Source: Maybank IBG Research

Source: Factset

Fig 8: Forward 12-month P/E band

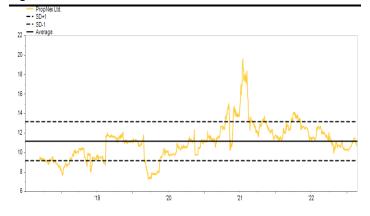
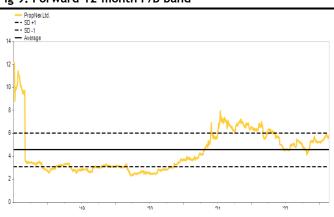


Fig 9: Forward 12-month P/B band



Source: Factset

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics P/E (reported) (x)	8.9	9.7	11.5	11.3	11.0
Core P/E (x)	10.4	9.7	11.5	11.3	11.0
P/BV (x)	5.7	4.5	3.7	2.9	2.3
P/NTA (x)	5.8	4.7	3.9	2.9	2.4
Net dividend yield (%)	7.4	8.8	6.9	7.2	7.5
FCF yield (%)	7.6	12.1	16.7	18.8	19.1
EV/EBITDA (x)	6.9	5.3	6.4	5.6	4.8
EV/EBIT (x)	6.9	5.5	6.7	5.9	5.0
INCOME STATEMENT (SGD m)					
Revenue	957.5	1,029.2	1,030.7	1,046.2	1,061.6
EBITDA	70.5	81.0	76.3	77.9	79.5
Depreciation	(3.5)	(3.3)	(3.5)	(3.6)	(3.7)
Amortisation	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	70.8	77.4	72.5	74.0	75.5
Net interest income /(exp)	(0.0)	1.2	1.3	1.4	1.5
Associates & JV	0.0	0.0	0.3	0.3	0.2
Exceptionals Other protest income	0.0	0.0	0.0	0.0	0.0
Other pretax income Pretax profit	0.0 78.7	0.0 78.6	0.0 74.1	0.0 75.7	0.0 77.2
Income tax	(13.5)	(13.7)	(13.0)	(13.2)	(13.5)
Minorities	(5.1)	(3.0)	(2.9)	(3.0)	(3.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	60.0	61.8	58.2	59.5	60.7
Core net profit	60.0	61.8	58.2	59.5	60.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	145.6	138.9	182.0	237.5	292.0
Accounts receivable	142.1	223.4	237.1	240.6	244.2
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)	4.9	1.4	1.4	1.4	1.4
Intangible assets	0.9	5.6	5.6	5.6	5.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.0	6.1	6.1	6.1	6.1
Total assets	294.6	375.4	432.1	491.1	549.2
ST interest bearing debt	1.6 132.6	0.0 228.3	0.0 231.5	0.0 234.9	0.0 238.2
Accounts payable Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1.3	0.0	0.0	0.0	0.0
Other liabilities	46.0	21.0	21.0	21.0	21.0
Total Liabilities	182.0	248.9	252.0	255.4	258.7
Shareholders Equity	109.4	125.5	179.1	233.7	289.5
Minority Interest	3.1	0.9	1.0	2.0	1.0
Total shareholder equity	112.6	126.5	180.1	235.7	290.5
Total liabilities and equity	294.6	375.4	432.1	491.1	549.2
CASH FLOW (SGD m)					
Pretax profit	78.7	78.6	74.1	75.7	77.2
Depreciation & amortisation	3.8	3.6	3.8	3.9	4.0
Adj net interest (income)/exp	(0.0)	0.0	0.0	0.0	0.0
Change in working capital	7.7	(27.2)	21.9	33.9	34.2
Cash taxes paid	7.1	13.7	13.0	13.2	13.5
Other operating cash flow	7.0	0.0	0.0	0.0	0.0
Cash flow from operations	83.4	68.7	112.8	126.7	129.0
Capex Fron each flow	(0.5)	(0.4)	(1.0)	(1.0) 125.7	(1.0)
Free cash flow	47.7 (35.2)	68.3	111.8	125.7	128.0
Dividends paid Equity raised / (purchased)	(35.2) 0.0	(46.3) 0.0	(46.3) 0.0	(48.1) 0.0	(50.0) 0.0
Change in Debt	0.0	(2.3)	(2.4)	(2.5)	(2.5)
Other invest/financing cash flow	(5.6)	1.2	1.3	1.4	1.5
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	39.8	20.9	64.4	76.6	77.0

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	85.7	7.5	0.1	1.5	1.5
EBITDA growth	134.5	14.9	(5.9)	2.2	2.1
EBIT growth	135.2	9.3	(6.4)	2.1	2.1
Pretax growth	111.4	(0.2)	(5.7)	2.1	2.1
Reported net profit growth	106.3	3.1	(5.9)	2.2	2.1
Core net profit growth	106.3	3.1	(5.9)	2.2	2.1
Profitability ratios (%)					
EBITDA margin	7.4	7.9	7.4	7.4	7.5
EBIT margin	7.4	7.5	7.0	7.1	7.1
Pretax profit margin	8.2	7.6	7.2	7.2	7.3
Payout ratio	77.1	80.8	79.5	80.9	82.2
DuPont analysis					
Net profit margin (%)	6.3	6.0	5.6	5.7	5.7
Revenue/Assets (x)	3.3	2.7	2.4	2.1	1.9
Assets/Equity (x)	2.7	3.0	2.4	2.1	1.9
ROAE (%)	61.9	52.6	38.2	28.8	23.2
ROAA (%)	24.6	18.5	14.4	12.9	11.7
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	41.7	63.9	80.4	82.2	82.2
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	42.1	70.3	89.4	89.4	89.4
Dividend cover (x)	1.3	1.2	1.3	1.2	1.2
Current ratio (x)	1.6	1.5	1.7	1.9	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.5	1.7	1.9	2.1
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.1	0.0	0.1	0.1	0.1
Net debt/ (net cash)	(142.7)	(138.9)	(182.0)	(237.5)	(292.0)

Source: Company; Maybank IBG Research

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