

PropNex Ltd

A new altitude



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SINGAPORE | REAL ESTATE (AGENCIES) | 3Q21 RESULTS

- 3Q21 PATMI spiked 113% YoY to S\$16.5mn. 9M21 revenue and PATMI were within expectation at 73%/72% of FY21e forecast.
- The fastest growing segment was private resale, revenue tripled to S\$70.6mn.
- The company aims to pay out 75%-80% of FY21 PATMI as dividends. We raise our FY21e DPS by 17% from 11.5 cents to 13.5 cents per share. This implies FY21e dividend yield of 7%.
- Our FY21e forecast and DCF target price (WACC 9.8%) of S\$2.08 is unchanged. Our ACCUMULATE recommendation is maintained. PropNex's revenue run rate is at a new level of around S\$200mn per quarter, up from S\$100mn in the prior years. Supporting this new altitude of revenue will be the record growth in agents, maiden revenues from collective sales and healthy property transactions aided by a recovering economy, low interest rates and rising replacement costs.

Results at a glance

SGD mn	3Q21	3Q20	YoY	Comments
Revenue	234.4	117.9	99%	
- Agency services	132.7	65.3	103%	
a) Private resale	70.6	23.7	198%	Still large price difference with new launches.
b) HDB resale	33.9	17.7	92%	Attractive government grants and BTO delays.
c) Rental	27.4	23.4	17%	
- Project Marketing	100.8	51.9	94%	Benefiting from HDB upgraders.
Staff costs	(4.3)	(3.2)	32%	Higher due to performance linked incentives.
Gross profit	24.7	13.1	89%	
Operating profit	18.7	8.5	120%	
PATMI	14.4	6.8	113%	

Source: Company, PSR

The Positives

+ Broad based growth. The doubling of revenue was supported by growth in all segments. Revenue generated from the private resale and project marketing segments posted the highest YoY growth at 198% and 94% respectively. The buoyant resale market bolstered equity values for HDB owners and investors. HDB volumes were perked up by government grants and delays in BTO construction. Private resale demand was supported by the price differential between new and resale units and rising land and construction costs.

+ Full-year DPS guidance raised. PropNex guided FY21e dividends to be 75% to 80% of PATMI. This compares with the 70% payout in FY20. We raise our FY21e DPS by 17% to 13.5 cents per share, implying final dividends of 8 cents. Our forecasted annual dividend payout of around S\$50mn is well supported by operating cash-flows. 9M21 FCF was around S\$57mn.

+ Net cash bulks up to S\$123mn. Net cash stood at a record S\$123mn as at Sep21. Cash generated from operations was S\$23.9mn during the quarter (3Q20: S\$9.6mn). Capital expenditure was a paltry S\$25,000. The bulk of the cash generated in the quarter was to pay the interim dividend of S\$20.3mn.

The Negative

- Nil.

14 November 2021

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 1.920
FORECAST DIV	SGD 0.135
TARGET PRICE	SGD 2.080
TOTAL RETURN	15.4%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	525 / 710
52 - WK HI/LO (SGD):	2.21 / 0.67
3M Average Daily T/O (mn):	0.8

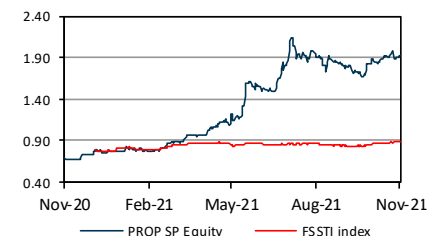
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.2%
SEONG KELVIN FONG KENG	8.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.9	1.0	162.7
STI RETURN	4.1	2.9	17.2

PRICE VS. STI



KEY FINANCIALS

Y/E Dec, SGD (mn)	FY19	FY20	FY21e	FY22e
Revenue	419.8	515.6	977.5	937.0
Gross Profit	44.3	56.5	106.6	102.1
Operating Profit	24.5	36.5	81.2	75.2
PATMI	20.0	29.1	63.5	59.6
P/E (x)	35.4	24.4	11.2	11.9
P/B (x)	9.9	8.1	5.9	5.2
EPS (cents)	5.4	7.9	17.1	16.1
DPS (cents)	3.5	5.5	13.5	11.0
Dividend yield (%)	1.8	2.9	7.0	5.7
ROE (%)	27.9	33.2	52.6	43.8

Source: Company, PSR

Valuation Method

DCF (Cost of equity 9.8%, Terminal growth 0%)

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Outlook

We expect the momentum in real estate transactions to sustain. Key drivers include low interest rates, BTO delays, rising land prices and construction costs and an expanding agency force.

Agency force. PropNex onboarded 2,000 new agents year-to-November, double the 924 new agents in 2020. This brings the number of agents to 10,324, one-third the market share of agents in Singapore. PropNex can tap on the network of the new sales force and enhance their outreach efforts. A large number of agents can further raise the company's transaction market share.

Private new homes. PropNex raised its 2021 new home sales projection from 11k to 12-13k units. HDB upgraders form less than one-third of demand, with the bulk of the demand coming from upgrading of private property owners and investment-driven purchases. However, depleting developer landbanks may cause transactions to taper down next year to 11-12k units.

Private resales. PropNex raised its resale transactions guidance for the second time to 19k units, up from 16k and 18k previously. Resale prices, which can be 25% lower than new homes prices, are an important driver for demand. The price gap is likely to persist given the rising land prices. The lower price points are more palatable for HDB upgraders who prefer larger units.

HDB resales. FY21 transaction volumes are expected to come in at 30k units, up from 24.7k units in the prior year. Demand is driven by first-time home buyers looking to tap attractive government grants to circumvent BTO delays, as well as HDB owners looking to upsize or downsize their existing units.

New collective sales division. PropNex established this new division in 2021. Collective sales transactions are largely handled by property consultants. PropNex's advantage is its intimate understanding of the market demand at various locations. This provides developers with the confidence that the en-bloc site can garner demand post redevelopment. So far, two en-bloc projects worth around \$42mn have been completed. Another S\$3bn of collective sales projects are at various stages of completion.

Maintain ACCUMULATE with unchanged TP of S\$2.08

We maintain our FY21e PATMI but raise our DPS to 13.5 cents. The DCF target price (WACC 9.8%) is unchanged at \$2.08.

Financials

Income Statement

SGD mn, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
Revenue	431.5	419.8	515.6	977.5	937.0
Cost of services	(390.2)	(375.5)	(459.1)	(871.0)	(834.8)
Gross profit	41.4	44.3	56.5	106.6	102.1
Staff costs	(12.1)	(12.8)	(14.7)	(19.0)	(18.0)
Finance and other income	4.2	6.9	8.0	7.1	5.4
Other costs and expenses	(7.1)	(12.8)	(12.6)	(12.3)	(13.0)
Operating profit	25.6	24.5	36.5	81.2	75.2
Profit before tax	26.4	25.6	37.2	82.2	76.4
Tax	(4.4)	(4.5)	(5.9)	(14.0)	(13.0)
PAT	21.9	21.1	31.2	68.2	63.4
Minority Interest	(2.5)	(1.1)	(2.1)	(4.8)	(3.8)
PATMI	19.4	20.0	29.1	63.5	59.6

Per share data

SGD cents, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS	5.2	5.4	7.9	17.1	16.1
DPS	3.5	3.5	5.5	13.5	11.0
NAV per share	19.0	19.4	23.7	32.6	36.8

Cash Flow

SGD mn, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
CFO					
PAT	21.9	21.1	31.2	68.2	63.4
Adjustments	4.7	8.2	10.6	17.2	16.4
WC changes	(0.5)	5.0	3.3	(4.1)	(0.4)
Interest and Taxes paid, others	(3.0)	(5.0)	(3.2)	(14.0)	(13.0)
Cashflow from operations	23.2	29.3	42.0	67.4	66.5
CFI					
Acquisition of plant and equipment	(1.8)	(1.9)	(0.5)	(1.0)	(1.0)
Others	0.5	0.8	0.7	-	-
Cashflow from investments	(1.3)	(1.0)	0.2	(1.0)	(1.0)
CFF					
Payment of dividends	(13.3)	(19.6)	(15.4)	(35.2)	(48.1)
Others	39.4	(2.7)	(2.6)	(1.0)	(1.0)
Cashflow from financing	26.1	(22.4)	(18.0)	(36.2)	(49.1)
Net change in cash	48.0	5.9	24.2	30.3	16.4
CCE, end	75.6	81.5	105.7	136.0	152.4

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PP&E	2.8	3.5	2.6	2.8	3.0
Others	0.2	5.9	3.7	1.2	(1.4)
Total non-current assets	3.0	9.4	6.3	4.0	1.6
Trade & other receivables	63.5	63.5	80.6	151.5	145.2
Cash and cash equivalents	75.7	81.6	105.8	136.1	152.5
Total current assets	139.1	145.1	186.4	287.6	297.7
Total Assets	142.1	154.4	192.7	291.7	299.3
LIABILITIES					
Trade & other payables	65.8	71.7	94.3	161.1	154.4
Current tax liabilities	4.9	4.3	7.0	7.0	7.0
Others	0.9	3.5	2.6	1.6	0.6
Total current liabilities	71.5	79.5	103.9	169.8	162.1
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	0.0	2.9	1.0	1.0	1.0
Total non-current liabilities	0.2	3.0	1.2	1.2	1.2
Total Liabilities	71.7	82.5	105.1	171.0	163.3
EQUITY					
Share capital	57.5	57.5	57.5	57.5	57.5
Merger reserve	(17.7)	(17.7)	(17.7)	(17.7)	(17.7)
Translation reserve	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Capital reserve	0.6	0.6	0.6	0.6	0.6
Accumulated profits	26.4	28.9	44.1	72.4	84.0
Non-controlling interests	3.5	2.6	3.0	7.8	11.6
Total Equity	70.4	71.9	87.6	120.7	136.0

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	36.6	35.4	24.4	11.2	11.9
P/B (x)	10.1	9.9	8.1	5.9	5.2
Dividend Yield (%)	1.8	1.8	2.9	7.0	5.7

Growth & Margins

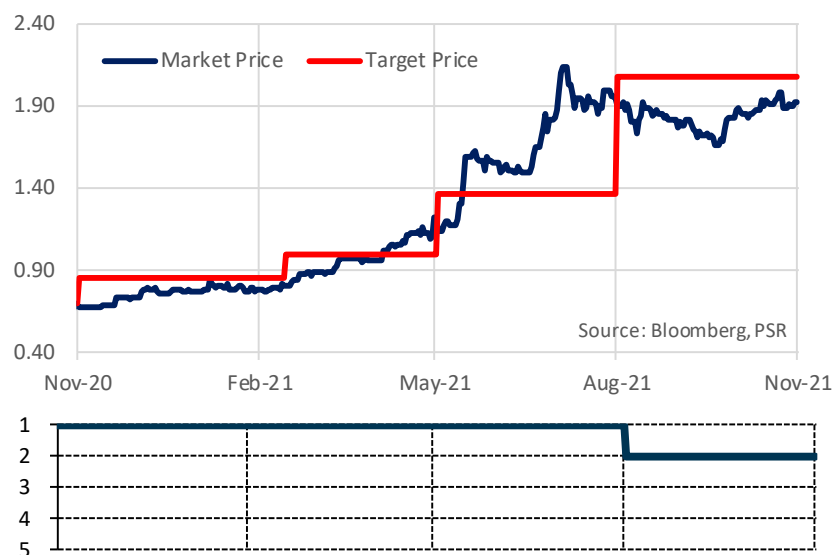
Growth					
Revenue	30.0%	-2.7%	22.8%	89.6%	-4.1%
Gross profit	22.5%	7.1%	27.6%	88.5%	-4.1%
PBT	19.0%	-3.0%	45.3%	121.2%	-7.0%
PAT	19.3%	3.2%	45.2%	118.1%	-6.0%

Margins

GP margin	9.6%	10.6%	11.0%	10.9%	10.9%
PBT margin	6.1%	6.1%	7.2%	8.4%	8.2%
PAT Margin	4.5%	4.8%	5.6%	6.5%	6.4%

Key Ratios

ROE (%)	27.6%	27.9%	33.2%	52.6%	43.8%
ROA (%)	13.7%	13.0%	15.1%	21.8%	19.9%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Ratings History

PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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