

PropNex Ltd

26 Aug 2022

HOLD (maintained)

BBG	PROP SP
Market cap	S\$596 million
Price (26 Aug 2022)	S\$1.61
52-week range	S\$1.50 – S\$1.99
Target Price	S\$1.78
Shares Outstanding	370 million
Free Float	20%
Major Shareholders	Mohamed Ismail s/o Abdul Gafoore 64.8% Lim Tow Huat 60.0% Kelvin Fong 8.4%
P/BV (06/22)	5.4x
Net Debt to EBITDA (06/22)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

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Rising rates, lower supply impact 2H

2Q22 revenue fell 11.4% yoy to S\$230.7m and net profit -20.7% to S\$13.1m. The performance was no surprise, as revenue booked lagged property transactions by 8 to 12 weeks typically. Volume in 1Q22 was affected by the Dec 21 cooling measures and a dearth of new launches. Industry-wide, volumes fell for HDB resale flats (4Q21: -5.8% qoq, 1Q22: -12.7%) and private resale (4Q21: -12.7%, 1Q22: -32.6%). The latter rebounded +27.5% qoq in 2Q22, but was still 19.4% lower than 2Q21.

According to SRX, volume of private resale units sold in July dipped further by 6.7% over June and was 30.7% lower than July 2021. The number of HDB resale transacted was 10.5% higher mom, but still down 11.3% when compared with July 2021.

Private resale prices were higher (2Q22: +3.5% qoq), supported by rent hikes (2Q22: +6.7% qoq), low inventory and border re-opening. Likewise, HDB resale prices rose 2.8% qoq in 2Q. The push to attract foreign talents is likely to drive demand for rental and property prices. Risk of mortgage default is low even with rising mortgage rates, given low unemployment rate (Jun: 2.1%) and increase in unit labour cost (2Q22: +9.0% yoy).

Still, there is a risk of a tightening in the total debt servicing ratio (TDSR) for mortgage loans, to keep pace with rising mortgage rates and to contain credit risks. The rate applied in determining TDSR is currently set at 3.5%, and a higher rate will cut loan quantum and buyers' affordability. This could apply to new and existing housing loans. We believe transaction volume will slow in 2H. A stronger government land sale programme, and more completions of new HDB flats could also cause potential buyers to adopt a wait and see approach.

Developers are faced with rising financing costs and higher land and construction costs, and would pivot to larger agencies to ensure a greater certainty of sale and cash flow. PropNex, with an agency base of 12,000, also boasts a database of available units in the resale market.

We maintain our earnings projections and target price of S\$1.78. We expect earnings growth to recover from 2Q23. HOLD.

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	419.8	513.5	957.5	783.8	848.2
EBIT	24.5	36.0	78.3	60.7	66.3
Net profit	20.0	29.1	60.0	47.0	51.4
EPS (S cents)	5.4	7.9	16.2	12.7	13.9
DPS (S cents)	3.5	5.5	12.5	8.9	9.7
Net cash / (debt)	81.6	105.8	145.6	156.4	179.4
Valuation					
EBIT margin (%)	5.8	7.0	8.2	7.7	7.8
ROIC (%)	(301.6)	(171.7)	(190.2)	(190.6)	(181.7)
EV/EBITDA (x)	18.2	12.3	5.5	6.9	6.0
P/E (x)	29.7	20.5	9.9	12.7	11.6
Dividend yield (%)	2.2	3.4	7.8	5.5	6.0

Income Statement

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	513.5	957.5	783.8	848.2
Cost of sales	(457.9)	(855.7)	(700.7)	(758.3)
Gross profit	55.6	101.8	83.1	89.9
Other income	6.9	7.0	6.0	6.0
Personnel costs	(14.1)	(16.8)	(16.6)	(18.0)
Other operating expenses	(8.6)	(10.7)	(8.8)	(8.8)
EBITDA	39.8	81.3	63.7	69.1
Depreciation	(3.6)	(3.5)	(3.0)	(2.8)
Associates & JV	(0.1)	-	-	-
Exceptional items	-	0.6	-	-
EBIT	36.0	78.3	60.7	66.3
Net finance costs	0.6	0.4	0.3	0.3
Pretax profit	36.6	78.7	61.0	66.7
Tax expense	(5.9)	(13.5)	(10.4)	(11.3)
Minority interests	(2.1)	(5.1)	(3.6)	(3.9)
Discontinued operations	0.5	-	-	-
Net profit	29.1	60.0	47.0	51.4

Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
PPE	2.6	2.0	1.5	1.0
Trademark	0.1	0.9	0.9	0.9
Right of use assets	3.2	2.9	1.9	1.1
Others	0.4	0.4	0.4	0.4
Non-current assets	6.3	6.2	4.7	3.4
Trade receivables	80.6	142.7	118.1	127.8
Cash	105.8	145.6	156.4	179.4
Others	-	-	-	-
Current assets	184.6	288.4	274.5	307.2
Total assets	192.7	294.6	279.2	310.6
Liabilities				
Trade payables	94.3	164.3	134.4	145.4
Lease liabilities	2.1	1.6	1.6	1.6
Deferred income	0.5	1.1	1.1	1.1
Tax provisions	7.0	13.5	10.4	11.3
Others	-	-	-	-
Current liabilities	103.9	180.5	147.5	159.5
Deferred tax	0.2	0.2	0.2	0.2
Lease liabilities	1.0	1.3	1.3	1.3
Non-current liabilities	1.2	1.5	1.5	1.5
Net assets	87.6	112.6	130.3	149.6
Equity				
Share capital	57.5	57.5	57.5	57.5
Other reserves	(17.1)	(17.1)	(17.1)	(17.1)
Retained earnings	44.1	69.0	83.1	98.5
	84.6	109.4	123.5	139.0
Minority interests	3.0	3.1	6.7	10.7
Total equity	87.6	112.6	130.3	149.6

Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	36.6	78.7	61.0	66.7
Depreciation & amortisation	3.6	3.5	3.0	2.8
Associates & JV	0.1	-	-	-
Net finance expense	(0.6)	(0.3)	(0.3)	(0.3)
Non-fund items	1.5	0.5		
Working capital changes	3.3	7.7	(5.3)	1.3
Interest paid	0.6	0.3	0.3	0.3
Dividend from associates				
Tax paid	(3.2)	(7.1)	(13.5)	(10.4)
Operating cash flow	42.0	83.4	45.2	60.4
Capex	(0.5)	(0.5)	(1.5)	(1.5)
Net investments	-	(0.4)	-	-
Fixed assets disposall	-	-	-	-
Others	-	-	-	-
Investing cash flow	(0.5)	(0.9)	(1.5)	(1.5)
Free cash flow	41.5	82.4	43.7	58.9
Dividend paid	(15.4)	(40.4)	(32.9)	(36.0)
Borrowings	(2.5)	(2.2)	-	-
Equity	-	-	-	-
Financing cash flow	(17.9)	(42.6)	(32.9)	(36.0)
Net change	23.6	39.8	10.8	23.0

Ratios

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	10.8%	10.6%	10.6%	10.6%
EBIT margin	7.0%	8.2%	7.7%	7.8%
Liquidity (x)				
Current ratio	1.8	1.6	1.9	1.9
Net Debt/EBITDA	-	-	-	-
Interest coverage ratio	n.m.	n.m.	n.m.	n.m.
Net Debt to Equity (%)	-	-	-	-
Valuation (x)				
P/E	20.5	9.9	12.7	11.6
P/B	7.0	5.4	4.8	4.3
EV/EBITDA	12.3	5.5	6.9	6.0
Cash Conversion Cycle				
Trade receivable days	57.3	54.4	55.0	55.0
Inventory days	-	-	-	-
Trade payable days	75.1	70.1	70.0	70.0

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