

COMPANY RESULTS

PropNex (PROP SP)

1H23: Weakness Belies Potentially Strong Back-End Loaded 2H23

PropNex's 18% yoy decline in 1H23 PATMI was due to the dearth of new property launches as well as timing of revenue recognition. On our estimates, this will be made up for in 2H23 as a result of the strong pipeline of 33 new launches, amounting to 8,000 units which is twice the number launched in 1H23. Maintain BUY. Target price: S\$1.23.

1H23 RESULTS

| 12M to 31 Dec (S\$m) | 1H22 | 1H23 | yoy | Remarks |
|----------------------|-------|-------|---------|--|
| Revenue | 472.3 | 364.3 | -22.9% | - Project marketing revenue fell 38% yoy and agency services revenue dropped 13% yoy |
| Gross Profit | 47.8 | 35.8 | -25.1% | |
| NPAT | 28.3 | 22.9 | -19.1% | |
| PATMI | 27.0 | 22.0 | -18.5% | |
| Gross profit margin | 10.1% | 9.8% | -0.3ppt | |
| NPAT margin | 6.0% | 6.3% | +0.3ppt | |
| PATMI margin | 5.7% | 6.0% | +0.3ppt | |

Source: PropNex, UOB Kay Hian

1H23 RESULTS

- **A weak 1H23...** While PropNex reported 1H23 net profit that appeared to fall short of expectations, with PATMI falling 18% yoy to S\$22m, we highlight that we expect 2023 to be back-end loaded given the accelerated pace of new launches in 2H23. Specifically, slightly more than 70% of 2023's new launches will occur in 2H23. For 1H23, the lower numbers of new launches in 1H23 resulted in project marketing revenue declining 38.1% yoy. The private resale market also had slowed down with transaction volume down 19.9% yoy to 3,383 units. The dull performance for the property market was also compounded by two cooling measures and elevated interest rates as high as 4.5% raising home acquisition costs.
- **... that will be made up for by the strong pipeline of new launches for 2H23** (see chart on the next page). PropNex stated that with a large pipeline of 33 launches lined up for 2H23 numbering >8,000 units (1H23: 3,529 units), its results will be back-end loaded. Given the timing of recognition of units sold between Mar-May 23, its 3Q23 results should be strong too. On a full-year basis, there will be >11,500 new units launched in 2023 which is 1.5x more than the 4,528 units launched in 2022. In addition, management expects the private resale market to pick up in 2H23 as it is a seasonally peak period for the home rental market.

KEY FINANCIALS

| Year to 31 Dec (S\$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 957 | 1,029 | 1,080 | 1,016 | 1,034 |
| EBITDA | 81 | 81 | 86 | 91 | 84 |
| Operating profit | 78 | 77 | 82 | 87 | 80 |
| Net profit (rep./act.) | 60 | 62 | 64 | 69 | 63 |
| Net profit (adj.) | 60 | 62 | 64 | 69 | 63 |
| EPS (S\$ cent) | 16.2 | 16.9 | 8.7 | 9.3 | 8.5 |
| PE (x) | 6.5 | 6.2 | 12.1 | 11.3 | 12.3 |
| P/B (x) | 3.6 | 3.1 | 5.5 | 5.0 | 4.6 |
| EV/EBITDA (x) | 12.4 | 12.4 | 11.8 | 11.1 | 12.0 |
| Dividend yield (%) | 11.9 | 7.6 | 6.7 | 7.6 | 6.7 |
| Net margin (%) | 6.3 | 6.1 | 6.0 | 6.8 | 6.1 |
| Net debt/(cash) to equity (%) | (133.1) | (110.6) | (116.3) | (122.3) | (120.0) |
| ROE (%) | 61.9 | 53.1 | 48.4 | 46.3 | 38.7 |
| Consensus net profit | - | - | 63 | 69 | 64 |
| UOBKH/Consensus (x) | - | - | 1.02 | 1.00 | 0.98 |

Source: Propnex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|----------|
| Share Price | S\$1.05 |
| Target Price | S\$1.23 |
| Upside | +16.9% |
| (Previous TP) | S\$1.16) |

COMPANY DESCRIPTION

Singapore's largest real estate agency with a dominant market share of the residential primary private and HDB resale market.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Real Estate |
| Bloomberg ticker: | PROP SP |
| Shares issued (m): | 1,110.0 |
| Market cap (S\$m): | 1,165.5 |
| Market cap (US\$m): | 866.0 |
| 3-mth avg daily t'over (US\$m): | 0.5 |

Price Performance (%)

52-week high/low S\$1.25/S\$0.625

| 1mth | 3mth | 6mth | 1yr | YTD |
|------|------|------|------|------|
| 6.1 | 1.0 | 25.0 | 25.7 | 37.3 |

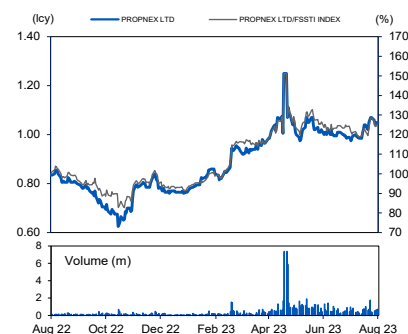
Major Shareholders

| | % |
|----------------|------|
| P&N Holdings | 55.6 |
| Fong Kelvin | 8.6 |
| Ismail Mohamed | 9.3 |

FY23 NAV/Share (S\$) 0.19

FY23 Net Cash/Share (S\$) 0.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Sticking to its expectation for 5-6% yoy growth in HDB prices.** For 2Q23, HDB resale flat prices climbed 1.5% qoq, growing for the 13th straight quarter with management expecting resale prices to grow 5-6% yoy in 2023. Relative to the past two years, this would represent a slowdown from prior years' double-digit growth. While private residential prices slipped for the first time in three years in 2Q23 (-0.2% qoq) management continues to expect price growth of 4-5% for 2023.
- **Demand strength seen for HDB resale flats.** The company expects HDB resale volume to range at 27,000-28,000 units in 2023 (ie flat on a yoy basis), with demand for smaller flats remaining strong. Management also pointed out that the Prime Minister's National Day Rally speech on 20 Aug 23 may contain government support to spur the HDB market.
- **Robust balance sheet with a net cash position.** PropNex has maintained its net cash position with a slight growth of 0.5% from 2022 to S\$139.6m in 1H23 (S\$0.38/share in cash), representing one-fifth of the company's market capitalisation. This was after paying out S\$18.5m in dividends at an 84% payout ratio, up from a 75% payout ratio in 1H22.
- **Strategic entry into the commercial segment.** PropNex has designs to expand beyond its residential property agency business into the commercial segment. In 2Q23, it was appointed by Hong Leong to collaborate on leasing of 200,000sf of prime office space that will include office, F&B and retail spaces. PropNex is also currently looking at establishing a commercial department to offer leasing and valuation consultancy services by reaching out to its large pool of clients. Importantly, it aims to do so with a lower headcount compared with other consultancies and anticipates that it will take 2-3 years to establish economies of scale.

EARNINGS REVISION/RISK

- **None.** Despite the perceived "miss" in 1H23 earnings, we believe that PropNex's earnings strength will come through in 2H23 and thus retain our earnings estimates.

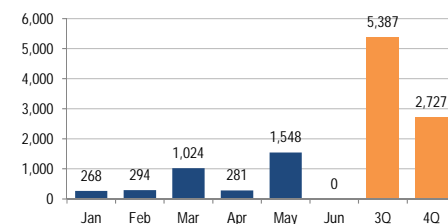
VALUATION/RECOMMENDATION

- **We maintain our BUY rating on PropNex with a higher target price of S\$1.23** (previously S\$1.16). Our target PE multiple of 11.3x is 1SD above the company's average PE of 9.3x over the 2021-23 period, and is applied to the company's aggregate EPS over 2023 and 2024. We believe that pegging our PE multiple to +1SD is reasonable given: a) our greater confidence in the company's ability to maintain and grow its market share as it grows the number of agents under its banner, and b) over 12,000 units of new apartments being launched in 2023 which will underpin earnings growth for the company.
- **Inexpensive metrics.** Given the company's net cash position of S\$140m as at end-1H23, we note that PropNex's ex-cash PE is only 9.9x. During 1H23, the company generated nearly \$31.6m in free cash flow vs S\$18.4m in 1H22.

SHARE PRICE CATALYST

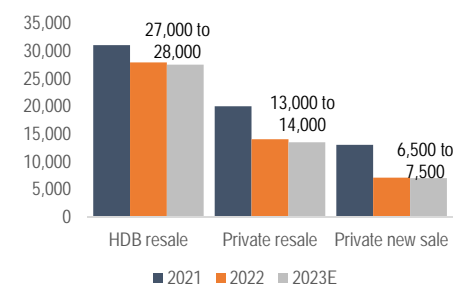
- Strong sell-through of new property launches in 2H23.
- Higher-than-expected price increments for private residential and HDB resale flats.
- Higher-than-expected final dividend for 2023 indicating company's willingness to return cash to shareholders.

PROJECTS LAUNCHED AND LINED UP (2023)



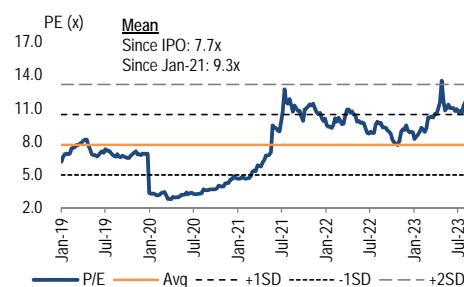
Source: PropNex

VOLUME OF TRANSACTIONS BY SUB-SEGMENT



Source: Urban Redevelopment Authority, PropNex

PE CHART SINCE 2019



Source: PROP

PROFIT & LOSS

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-----------|-----------|-----------|-----------|
| Net turnover | 1,029 | 1,080 | 1,016 | 1,034 |
| EBITDA | 81 | 86 | 91 | 84 |
| Deprec. & amort. | 4 | 4 | 4 | 4 |
| EBIT | 77 | 82 | 87 | 80 |
| Total other non-operating income | 1 | 0 | 0 | 0 |
| Associate contributions | 0 | 0 | 0 | 0 |
| Net interest income/(expense) | 1 | 2 | 2 | 2 |
| Pre-tax profit | 79 | 83 | 89 | 82 |
| Tax | (14) | (14) | (15) | (14) |
| Minorities | (3) | (5) | (5) | (5) |
| Net profit | 62 | 64 | 69 | 63 |
| Net profit (adj.) | 62 | 64 | 69 | 63 |

CASH FLOW

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|---|-------------|-------------|-------------|-------------|
| Operating | 51 | 74 | 80 | 69 |
| Pre-tax profit | 79 | 83 | 89 | 82 |
| Tax | (13) | (14) | (15) | (14) |
| Deprec. & amort. | 4 | 4 | 4 | 4 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | (17) | 0 | 0 | (5) |
| Non-cash items | (1) | 2 | 2 | 2 |
| Other operating cashflows | 0 | 0 | 0 | 0 |
| Investing | (4) | (2) | (2) | (2) |
| Capex (growth) | 0 | 0 | 0 | 0 |
| Capex (maintenance) | 0 | 0 | 0 | 0 |
| Investments | (6) | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | 2 | (2) | (2) | (2) |
| Financing | (54) | (48) | (50) | (53) |
| Dividend payments | (51) | (48) | (50) | (53) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | 0 | 0 | 0 | 0 |
| Others/interest paid | (2) | 0 | 0 | 0 |
| Net cash inflow (outflow) | (7) | 24 | 28 | 14 |
| Beginning cash & cash equivalent | 146 | 139 | 163 | 191 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 139 | 163 | 191 | 205 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|------------|------------|------------|------------|
| Fixed assets | 1 | 1 | 1 | 1 |
| Other LT assets | 6 | 0 | 0 | 0 |
| Cash/ST investment | 139 | 163 | 191 | 205 |
| Other current assets | 229 | 234 | 221 | 225 |
| Total assets | 375 | 399 | 413 | 431 |
| ST debt | 0 | 0 | 0 | 0 |
| Other current liabilities | 246 | 253 | 245 | 244 |
| LT debt | 0 | 0 | 0 | 0 |
| Other LT liabilities | 3 | 0 | 0 | 0 |
| Shareholders' equity | 126 | 140 | 156 | 171 |
| Minority interest | 1 | 6 | 11 | 16 |
| Total liabilities & equity | 375 | 399 | 413 | 431 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|---------|---------|---------|---------|
| Profitability | | | | |
| EBITDA margin | 7.9 | 7.9 | 8.9 | 8.1 |
| Pre-tax margin | 7.7 | 7.7 | 8.8 | 7.9 |
| Net margin | 6.1 | 6.0 | 6.8 | 6.1 |
| ROA | 18.6 | 16.6 | 16.9 | 15.0 |
| ROE | 53.1 | 48.4 | 46.3 | 38.7 |
| Growth | | | | |
| Turnover | 7.5 | 4.9 | (5.9) | 1.8 |
| EBITDA | (0.3) | 5.6 | 6.2 | (7.7) |
| Pre-tax profit | 0.5 | 5.6 | 6.6 | (7.8) |
| Net profit | 3.9 | 3.2 | 6.6 | (7.8) |
| Net profit (adj.) | 3.9 | 3.2 | 6.6 | (7.8) |
| EPS | 3.9 | (48.4) | 6.6 | (7.8) |
| Leverage | | | | |
| Debt to total capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/(cash) to equity | (110.6) | (116.3) | (122.3) | (120.0) |

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