

COMPANY RESULTS

Propnex (PROP SP)

1Q21: Strong Results; Setting Up For More Upside In 2021

Propnex's 1Q21 net profit jumped 97% yoy to S\$16.2m which beat our estimates on a run-rate basis. Across the board, the company's business segments did well, and with transaction volumes and prices for both private and HDB resale continuing to record multi-year highs, the outlook remains favourable. In the near term, cooling measures remain the key risk. Maintain BUY. Raise target price to S\$1.34.

1Q21 RESULTS

Year to 31 Dec (\$m)	1Q20	1Q21	% chg yoy	Remarks
Revenue	135.62	220.58	62.6%	Due to increased transaction volume, especially from new launches that were attractively priced and well located.
Gross Profit	15.07	23.28	54.5%	
NPAT	8.22	16.18	96.7%	
PATMI	7.58	14.83	95.7%	
EPS (cents/share)	2.050	4.010	95.6%	
GP margin	11.1%	10.6%	-0.5ppt	
NPAT margin	6.1%	7.3%	+1.2ppt	

Source: Propnex, UOB Kay Hian

RESULTS

- **Profits coming through strongly.** Propnex reported a 63% yoy rise in revenue to S\$221m, which generated a 97% yoy jump in net profit to S\$16m and contributed 58% of our prior full-year forecast. The company noted that it typically sees a slower 1Q in terms of transaction volumes, but 1Q21 was unusually strong. During the results call, management attributed this to improved market sentiment, a successful COVID-19 vaccine roll-out domestically, availability of ample liquidity and "attractively priced" new project launches.
- **Phase 2 unlikely to adversely affect business.** Propnex's recent share price weakness may be attributed to Singapore re-entering Phase 2 due to its increased COVID-19 community infections. In management's view, this should have a very limited effect on its business as the property market and Propnex are now used to a 'semi-virtual business' where clients pre-select properties via a video tour and then narrow down their choices prior to a property visit, thus cutting down on transaction time.
- **Cooling measures unlikely in May or June.** Management shared our view that cooling measures are likely, but that such measures will be targeted in nature as the pace of the economic recovery remains uncertain at present. Nevertheless, the Total Debt Servicing Ratio may be tightened to engender greater prudence in such uncertain times.

KEY FINANCIALS

Year to 31 Dec (\$m)	2019	2020	2021F	2022F	2023F
Net turnover	420	516	631	600	607
EBITDA	28	40	63	49	49
Operating profit	24	37	60	46	46
Net profit (rep./act.)	20	29	48	37	37
Net profit (adj.)	20	29	48	37	37
EPS (S\$ cent)	5.4	7.9	13.0	10.0	10.0
PE (x)	20.3	14.0	8.5	11.0	10.9
P/B (x)	5.9	4.8	4.1	3.7	3.4
EV/EBITDA (x)	9.7	6.8	4.4	5.6	5.6
Dividend yield (%)	3.2	5.0	8.2	6.4	6.4
Net margin (%)	4.8	5.6	7.6	6.2	6.1
Net debt/(cash) to equity (%)	(117.7)	(125.1)	(140.0)	(134.1)	(122.2)
ROE (%)	29.4	37.8	52.2	35.5	32.1
Consensus net profit	-	-	34	30	31
UOBKH/Consensus (x)	-	-	1.43	1.24	1.21

Source: Propnex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.10
Target Price	S\$1.34
Upside	+21.8%
(Previous TP)	S\$0.97)

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):	370.0
Market cap (\$m):	407.0
Market cap (US\$m):	306.9
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

52-week high/low S\$1.16/S\$0.485

1mth	3mth	6mth	1yr	YTD
14.6	41.0	58.3	125.8	41.0

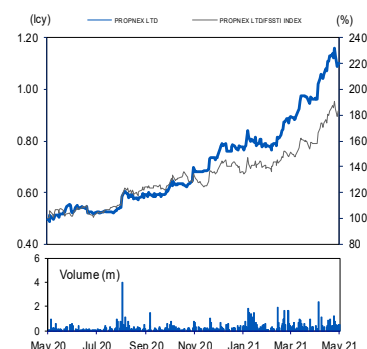
Major Shareholders

	%
P&N Holdings	55.6
Fong Kelvin	8.4
Ismail Mohamed	9.2

FY21 NAV/Share (S\$) 0.27

FY21 Net Cash/Share (S\$) 0.37

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Recent strong property transaction volumes underpin 2Q and 3Q results.** During the analyst call, management revealed that it generated S\$100m in sales last weekend (8-9 May). For the rest of 2021, the outlook remains bright for the project marketing segment in particular as the company is represented in 26 out of 29 new launches, which implies exposure to 9,017 potential apartment sales out of 9,194 available. In addition, we highlight that Singapore's unsold private homes in the pipeline have declined by 41% in the past two years to 21,602, which could explain the current high levels of demand.
- Foreign buying still a factor.** Propnex disclosed that out of the seven sold units of the high-end Park Nova project (developed by Shun Tak Holdings), six were sold to foreigners. This indicates that for a certain segment of the market, foreign purchases continue to be a major factor despite the various taxes and duties that clearly do not represent a hurdle. Apart from the usual Hong Kong and mainland Chinese clients, the company stated that a reasonable minority of its clients hail from Indonesia and other Asian markets such as Vietnam, Cambodia and Myanmar.
- En bloc revenues – Another near-term source of growth.** During the results briefing, management disclosed that it has a number of small en bloc projects of S\$20m-30m each that could come to the market in the medium term. In addition, it has been appointed for others that are range between S\$300m to >S\$500m; however, they have not achieved the 80% approval from the residents but could look to announce some positive developments in the next few months. Thus, en bloc represents a new growth angle for Propnex in the next 2-4 quarters. Interestingly, the company has been rejecting some en bloc projects as it believes that these are overpriced. On the demand side, we note that a number of Singapore developers have landbanking needs given that they are running out of stock and thus need to replenish.

EARNINGS REVISION/RISK

- Upgrading estimates.** We raise our 2021-23 EPS forecasts by 32-89% to take into account better-than-expected new sales volumes seen in 1Q21 and 2Q21 qtd as well as stronger-than-expected profit margins. On our estimates, this should translate to robust profits in 2Q21 and into 2H21. Our new forecasts also take into account the higher-than-expected market share that PropNex has been able to command, which will invariably bring scale advantages to its overall business and engender cost savings, in our view.
- Regulatory risk.** The key risk to our call remains government intervention to cool down property prices. With March and April having seen price increases of 9.5% and 10.8% yoy respectively, the regulatory risk appears heightened in our view.

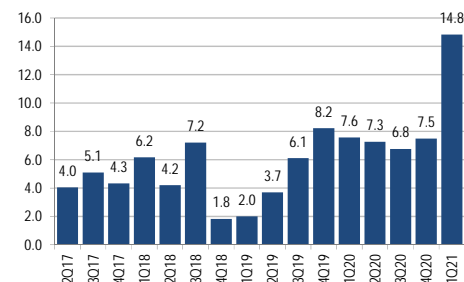
VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of S\$1.34** (previously: S\$0.97). Our new target price is pegged to an average of our 2021 and 2022 ex-cash PE multiple of 8.7x which is 1SD above the company's historical average. We have elected to lower our target PE multiple from 10.2x (or 1.5SD above mean) given the near- to medium-term risks from potential cooling measures. We believe that there is still upside to Propnex's share price as the strong transaction volumes in 1Q21 will only be reflected in the coming two quarters. In addition, we have not factored in any incremental revenues from its new en bloc business.

SHARE PRICE CATALYST

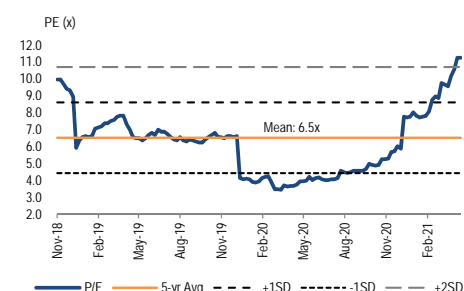
- Continued positive newsflow on the HDB resale market and private resale volumes.

PATMI TREND BY QUARTER (\$M)



Source: Propnex, UOB Kay Hian

5-YEAR PE



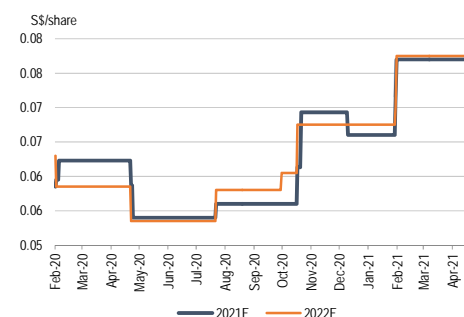
Source: Bloomberg

CHANGES TO EARNINGS FORECASTS

SGD cents/share	2021E	2022E	2023E
EPS - was	6.9	7.3	7.6
EPS - is	13.0	10.0	10.0
Change	87.8%	37.5%	32.2%

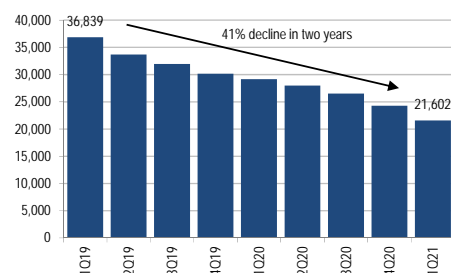
Source: UOB Kay Hian

EPS REVISION MOMENTUM



Source: Bloomberg

UNSOLD PRIVATE HOMES IN THE PIPELINE (NO. OF UNITS)



Note: Excludes executive condominiums

Source: URA

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Net turnover	515.6	630.7	600.1	607.0
EBITDA	40.3	63.2	49.1	49.2
Deprec. & amort.	3.7	3.2	3.2	3.3
EBIT	36.6	60.0	45.9	45.9
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	(0.1)	(0.1)	(0.1)	(0.1)
Net interest income/(expense)	0.6	2.1	2.2	2.3
Pre-tax profit	37.2	62.1	48.1	48.1
Tax	(5.9)	(10.5)	(8.2)	(8.2)
Minorities	(2.1)	(3.6)	(2.8)	(2.8)
Net profit	29.1	47.9	37.2	37.2
Net profit (adj.)	29.1	47.9	37.2	37.2

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Fixed assets	2.6	3.2	3.0	3.1
Other LT assets	3.7	0.0	0.0	1.0
Cash/ST investment	105.8	138.5	147.7	148.2
Other current assets	80.6	98.6	93.8	97.1
Total assets	192.7	240.3	244.5	249.4
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	103.9	134.6	124.9	114.8
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	1.2	0.1	0.1	1.1
Shareholders' equity	84.6	99.0	110.1	121.3
Minority interest	3.0	6.6	9.4	12.1
Total liabilities & equity	192.7	240.3	244.5	249.4

CASH FLOW

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Operating	42.0	56.0	45.6	29.4
Pre-tax profit	37.2	62.1	48.1	48.1
Tax	(3.2)	(10.5)	(8.2)	(8.2)
Deprec. & amort.	3.7	3.2	3.2	3.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	3.3	(0.8)	0.2	(16.1)
Non-cash items	1.0	2.1	2.2	2.3
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	0.2	(2.9)	(2.9)	(2.9)
Capex (growth)	(0.5)	(0.8)	(0.6)	(0.6)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.7	(2.1)	(2.2)	(2.3)
Financing	(18.0)	(20.4)	(33.5)	(26.0)
Dividend payments	(15.4)	(20.4)	(33.5)	(26.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(2.6)	0.0	0.0	0.0
Net cash inflow (outflow)	24.2	32.7	9.2	0.5
Beginning cash & cash equivalent	81.6	105.8	138.5	147.7
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	105.8	138.5	147.7	148.2

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	7.8	10.0	8.2	8.1
Pre-tax margin	7.2	9.8	8.0	7.9
Net margin	5.6	7.6	6.2	6.1
ROA	16.8	22.1	15.3	15.1
ROE	37.8	52.2	35.5	32.1
Growth				
Turnover	22.8	22.3	(4.8)	1.1
EBITDA	42.7	56.7	(22.2)	0.2
Pre-tax profit	45.3	67.0	(22.5)	0.1
Net profit	45.2	64.8	(22.5)	0.1
Net profit (adj.)	45.2	64.8	(22.5)	0.1
EPS	45.2	64.8	(22.5)	0.1
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	(125.1)	(140.0)	(134.1)	(122.2)

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