

COMPANY RESULTS

Propnex (PROP SP)

3Q21: As Expected, A Strong Set Of Results

Propnex's 3Q21 net profit more than doubled yoy to S\$15.5m while on a 9M21 basis, its net profit made up 77% of our full-year estimate. The Singapore property market remains robust and in the next 6-12 months, earnings surprise could come from successful enbloc projects. With over 10,000 agents and growing, Propnex's revenue base appears very robust going forward. Maintain BUY. Target price upgraded to S\$2.17 (previously \$1.97).

3Q21 RESULTS

Year to 31 Dec (S\$m)	3Q20	3Q21	yoy	Remarks
Revenue	117.9	234.4	98.8	- Due to post COVID-19 recovery and economic
Gross profit	13.1	23.7	89.3	strength
Staff costs	-3.2	-4.3	32.4	- Number of agents has exceeded 10,000
Pre-tax profit	8.6	19.7	118.1	
NPAT	7.1	15.5	117.1	- Guiding for higher dividend payout
Gross profit margin	11.1%	10.1%	-1.0ppt	
Pre-tax margin	7.3%	8.4%	+1.1ppt	
Net margin	6.0%	6.6%	+0.6ppt	

Source: Propnex, UOB Kay Hian

RESULTS

- A strong set of results as expected.** Propnex reported a strong set of 3Q21 numbers with revenue doubling yoy to S\$234m while net profit more than doubled to yoy to S\$15.5m. This was the result of a higher number of transactions completed in 3Q21 following improvements in Singapore's COVID-19 situation and an improving economy. In particular, we highlight that the strong results were generated by the company's three key market segments, ie new launches, private resale and HDB resale, which all saw strong yoy growths. Its 9M21 net profit of S\$49.8m accounted for 77% of our full-year 2021 forecasts, which we deem as largely in line with our expectations.
- A new and higher base of earnings.** The company highlighted its confidence in being able to maintain a revenue base of S\$200m per quarter going forwards given its high market share and material advantage in numbers in terms of property agents. Propnex stated that with >50% of the HDB resale market share, it will be able to continue building on this as a driver of its earnings base. In addition, the company is targeting to increase its total number of agents to 12,000 by 2023.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	420	516	798	755	705
EBITDA	28	40	82	69	57
Operating profit	24	37	79	66	54
Net profit (rep./act.)	20	29	63	53	43
Net profit (adj.)	20	29	63	53	43
EPS (S\$ cent)	5.4	7.9	17.0	14.3	11.7
PE (x)	35.1	24.2	11.2	13.2	16.2
P/B (x)	10.1	8.3	6.8	5.9	5.3
EV/EBITDA (x)	19.7	13.8	6.8	8.0	9.8
Dividend yield (%)	1.8	2.9	6.3	5.8	4.7
Net margin (%)	4.8	5.6	7.9	7.0	6.1
Net debt/(cash) to equity (%)	(117.7)	(125.1)	(148.8)	(140.7)	(121.8)
ROE (%)	29.4	37.8	66.9	47.6	34.4
Consensus net profit	-	-	58	53	44
UOBKH/Consensus (x)	-	-	1.08	1.00	0.98

Source: Propnex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.90
Target Price	S\$2.17
Upside	+10.5%
(Previous TP)	S\$1.97)

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 (S\$m):	703.0
Market cap (US\$m):	521.6
3-mth avg daily t'over (US\$m):	1.1

Price Performance (%)

52-week high/low S\$2.14/S\$0.585

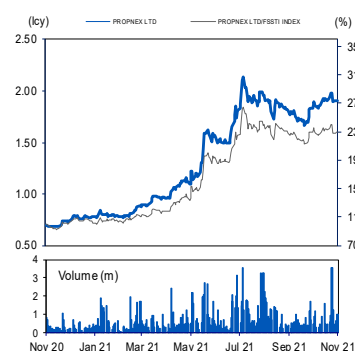
1mth	3mth	6mth	1yr	YTD
3.8	(3.1)	74.3	187.9	143.6

Major Shareholders

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

FY21 NAV/Share (S\$)	0.28
FY21 Net Cash/Share (S\$)	0.42

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
 +65 6590 6633
 adrianloh@uobkayhian.com

STOCK IMPACT

- A larger salesforce is not leading to margin erosion.** While there had been some market concerns that Propnex's grab for market share by employing more salespeople could lead to margin erosion, 3Q21 did not bear this out with pre-tax and net profit margins expanding by 1.1ppt and 0.6ppt respectively. As at end-3Q21, the company had around 10,300 property agents, and this should drive transaction volume in 2022 on our estimates.
- No cooling measures in the near term.** Revisiting a topic that is on the top of the minds of Singapore investors, Propnex reiterated that it does not believe that cooling measures are on the horizon, and that the current slate of property buyers in Singapore are not speculators but instead buying for their own use or as a store of long-term wealth. We also highlight that the 0.8% qoq increase in 3Q21 Singapore home prices appears to be too low for the government to implement any cooling measures.
- Continued decline in inventories of unsold private homes presents Propnex with opportunities.** Propnex highlighted that as at end-3Q21, unsold private homes have declined for 10 straight quarters with the most recent reading at just over 17,100. As a result, the industry's inventory-to-sales ratio is at a four-year low of 1.67 years for the Rest of Core Region, and 0.77 years for Outside Core Region (OCR). Hence, the company believes that its enbloc projects in the OCR will have very significant interest from buyers.
- Upside to enbloc projects.** At present, Propnex has c.S\$4.4b of projects in hand which could underpin the company's earnings growth for the next 12-18 months. Assuming a 0.3-0.4% commission, this could add S\$13m-18m in earnings over the next 12-18 months as the gestation period for enbloc projects may not result in all the earnings accruing in 2022.
- Look for higher dividends.** During the analyst call, management guided again for higher payout for its final dividend for 2021, stating that it "aims to pay out 75-80% of its 2021 profits to shareholders". Our estimated payout for 2021 remains at a reasonably conservative level of 70%.
- Strong cashflow generation and returns.** In 3Q21, its free cash flow jumped nearly 150% yoy to just under S\$24m while ROE materially increased to 13.4% in 3Q21 vs 8.2% in 3Q20.

EARNINGS REVISION/RISK

- None.

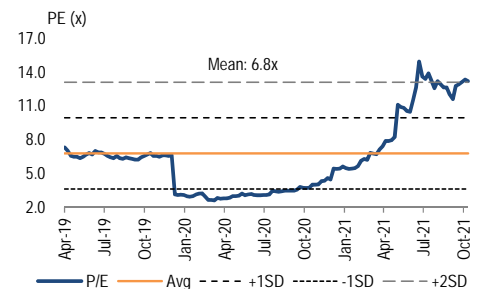
VALUATION/RECOMMENDATION

- We maintain BUY on Propnex with an upgraded PE-based target price of S\$2.17** (previously S\$1.97) due to our greater confidence in the company's prospects in 2022, barring any economic downturn. Our new target PE multiple of 12.6x is 2SD above the company's historical PE average of 6.8x. Given the company's huge cash pile of S\$123.7m as at end-3Q21, equating to S\$0.33/share, we note that its ex-cash PE is only 8.6x.

SHARE PRICE CATALYSTS

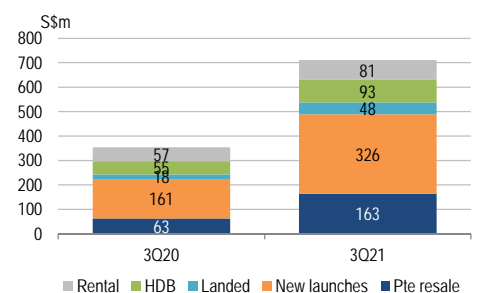
- Continued positive newsflow on private and HDB resale volumes.
- Moderation in quarterly price increases of the Private Property Price Index (PPPI).
- Anticipation of higher levels of dividends
- High level of conversion of its S\$4.4b worth of enbloc projects currently in hand.

PE: 2019 TO PRESENT



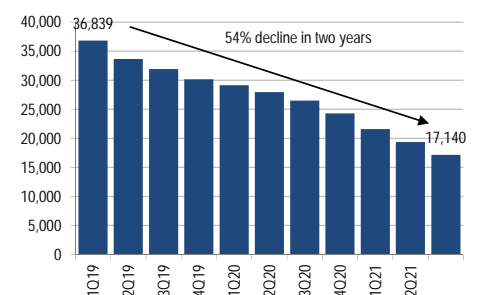
Source: Bloomberg, UOB Kay Hian

BROKERAGE CONTRIBUTION: 1H21 VS 1H20



Source: Propnex

UNSOLD PRIVATE HOMES IN SINGAPORE



Source: Propnex

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Net turnover	515.6	798.4	755.5	704.7
EBITDA	40.3	81.7	69.4	57.0
Deprec. & amort.	3.7	3.2	3.2	3.3
EBIT	36.6	78.5	66.2	53.7
Total other non-operating income	0.0	0.6	0.0	0.0
Associate contributions	(0.1)	(0.1)	(0.1)	(0.1)
Net interest income/(expense)	0.6	2.3	2.6	2.5
Pre-tax profit	37.2	81.4	68.7	56.1
Tax	(5.9)	(13.8)	(11.7)	(9.5)
Minorities	(2.1)	(4.7)	(3.9)	(3.2)
Net profit	29.1	62.9	53.1	43.3
Net profit (adj.)	29.1	62.9	53.1	43.3

CASH FLOW

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Operating	42.0	71.9	61.5	33.6
Pre-tax profit	37.2	81.4	68.7	56.1
Tax	(3.2)	(13.8)	(11.7)	(9.5)
Deprec. & amort.	3.7	3.2	3.2	3.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	3.3	(1.1)	(1.3)	(18.7)
Non-cash items	1.0	2.3	2.6	2.5
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	0.2	(3.4)	(3.5)	(3.2)
Capex (growth)	(0.5)	(1.1)	(0.9)	(0.7)
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	(2.3)	(2.6)	(2.5)
Financing	(18.0)	(20.4)	(44.0)	(37.1)
Dividend payments	(15.4)	(20.4)	(44.0)	(37.1)
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	48.2	14.0	(6.7)
Beginning cash & cash equivalent	81.6	105.8	154.0	168.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	105.8	154.0	168.0	161.3

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Fixed assets	2.6	4.0	3.8	3.5
Other LT assets	3.7	0.0	0.0	1.0
Cash/ST investment	105.8	154.0	168.0	161.3
Other current assets	80.6	124.8	118.1	115.3
Total assets	192.7	282.8	289.9	281.1
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	103.9	171.5	158.7	132.7
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	103.4	119.4	132.4
Minority interest	3.0	7.7	11.7	14.9
Total liabilities & equity	192.7	282.8	289.9	281.1

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	7.8	10.2	9.2	8.1
Pre-tax margin	7.2	10.2	9.1	8.0
Net margin	5.6	7.9	7.0	6.1
ROA	16.8	26.4	18.5	15.2
ROE	37.8	66.9	47.6	34.4
Growth				
Turnover	22.8	54.8	(5.4)	(6.7)
EBITDA	42.7	102.6	(15.0)	(17.9)
Pre-tax profit	45.3	119.1	(15.6)	(18.4)
Net profit	45.2	116.2	(15.6)	(18.4)
Net profit (adj.)	45.2	116.2	(15.6)	(18.4)
EPS	45.2	116.2	(15.6)	(18.4)
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)	(148.8)	(140.7)	(121.8)

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