

### ASIAN GEMS CORPORATE HIGHLIGHTS

#### PropNex (PROP SP)

Bullish Update With Earnings Momentum To Continue Into 2022

PropNex provided a bullish near to medium term update on its business and earnings prospects at the Asian GEMS conference. It does not believe that 2021 will be its peak earnings and that over the next few quarters, it will be able to maintain its recent earnings momentum given its market share increases. Maintain BUY. Target price: S\$1.97.

#### WHAT'S NEW

- **A bullish update.** With the Singapore property market still in robust shape in 3Q21, and the government unlikely to implement cooling measures in the medium term, PropNex presented a bullish picture of its prospects at our Asian GEMS conference. In particular, the company expects to close out 2021 with 10,000 property agents and potentially moving to 11,000 in 1H22, solidifying its position as the market leader in the industry.
- **Strong 3Q21 business update.** For its upcoming 3Q21 business update in mid-Nov 21, we expect the company to report continued strong transaction volumes from all of its business segments. Given the time lag between property transactions and actual recognition of revenues and profits, we expect PropNex to continue generating strong results into at least 2Q21. Note that as of 1H21, the company has moved to half-yearly reporting of its financial results.
- **PropNex does not expect cooling measures in 2021.** The management stated that with the various cooling measures already in place, (eg Total Debt Servicing Ratio, Additional Buyers' Stamp Duty and Sellers' Stamp Duty) a significant amount of the residential property market speculation has been dampened in Singapore. In addition, it pointed out that the 0.9% qoq increase in 3Q21 for Singapore's home prices (see table overleaf) is too low for the government to implement any cooling measures.
- **Dividend payout policy may be announced soon.** With PropNex having declared a much stronger-than-expected interim dividend of S\$0.055/share (forming 58% of our then full-year DPS estimate of S\$0.095/share), management stated that it will look to formalise a dividend payout policy in the near term to reward its shareholders. We forecast the company to maintain its 2020 payout ratio of 70% of earnings for 2021-23, which translates to a full-year DPS of S\$0.12/share.

#### KEY FINANCIALS

Year to 31 Dec (\$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 (\$ cent)	5.4	7.9	17.0	14.3	11.7
PE (x)	34.2	23.5	10.9	12.9	15.8
P/B (x)	9.9	8.1	6.6	5.7	5.2
EV/EBITDA (x)	19.1	13.3	6.6	7.8	9.4
Dividend yield (%)	1.9	3.0	6.5	5.9	4.9
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\$1.85
Target Price	S\$1.97
Upside	+6.4%

#### 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):	684.5
Market cap (US\$m):	507.8
3-mth avg daily t'over (US\$m):	1.3

#### Price Performance (%)

52-week high/low S\$2.14/S\$0.620

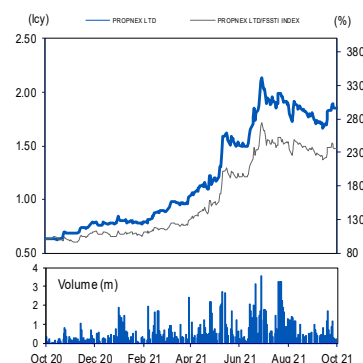
1mth	3mth	6mth	1yr	YTD
3.9	(11.9)	92.7	196.0	137.2

#### Major Shareholders

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

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

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Continued decline in inventories of unsold private homes presents PropNex with opportunities.** PropNex's management highlighted that unsold private homes have declined for 10 straight quarters with flash estimates for 3Q21 just over 15,700, and near 10-year lows (see chart on RHS). As a result, the industry's inventory-to-sales ratio is at a four-year low of 1.5 years, which could be ameliorated by more aggressive government land sales or en bloc approvals. On the latter issue, PropNex disclosed that it has set up a new en bloc sales team headed by its founder and CEO Mr Ismail Gafoor.
- **En bloc earnings will present upside to earnings in 2022.** During the client presentation, PropNex highlighted seven en bloc projects that it currently has in hand totaling >S\$4.5b that could successfully be closed over the next 2-3 quarters (see table on RHS). As a result, we believe that this could underpin the company's earnings growth in the next 12-18 months, which we have not factored in at present.

### EARNINGS REVISION/RISK

- None

### VALUATION/RECOMMENDATION

- **We maintain our BUY rating on PropNex with a PE-based target price of S\$1.97.** Our target PE multiple of 11.1x is 1.5SD above the company's historical average of 6.6x and takes into account the company's substantial net cash position. At current levels, the company still appears inexpensive trading at 2022 PE of 12.9x and 5.9% yield.

### SHARE PRICE CATALYSTS

- Continued positive newsflow on private and HDB resale volumes.
- Moderation in quarterly price increases of the Private Property Price Index.
- Stronger-than-expected transaction volumes for private and HDB resale units.
- High level of conversion of its S\$4.4b worth of en bloc projects currently in hand.

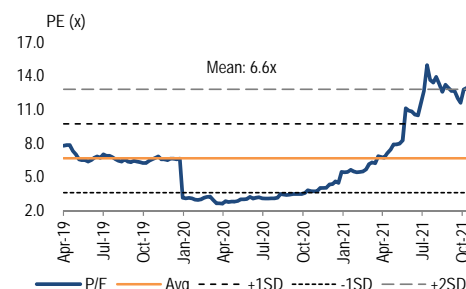
### SINGAPORE'S PRIVATE PROPERTY PRICE INDICES

	1Q20	2Q20	3Q20	4Q20	Overall 2020	1Q21	2Q21	3Q21 (flash)
Overall PPI	-1.0	0.3	0.8	2.1	2.2	3.3	0.8	0.9
Landed	-0.9	0.0	3.7	-1.6	1.2	6.7	-0.3	2.5
Non-landed	-1.0	0.4	0.1	3.0	2.5	2.5	1.1	1.1
CCR	-2.2	2.7	-3.8	3.2	-0.4	0.5	1.1	-0.6
RCR	-0.5	-1.7	2.5	4.4	4.7	6.1	0.1	2.2
OCR	-0.4	0.1	1.7	1.8	3.2	1.1	1.9	-0.2

Note: CCR = Core central region; RCR = Rest of Central Region; OCR = Outside Central Region

Source: URA

### 3 YEAR PE CHART



Source: Bloomberg, UOB Kay Hian estimates

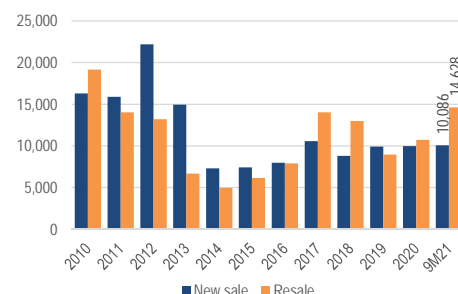
### PROPNE'S EN BLOC PROJECTS IN HAND

Name	GFA ('000sq ft)	Land price S\$m	Land price S\$psf ppr
<b>Commercial</b>			
Hoe Chiang Rd²	129.8	280.0	2,157
<b>Residential</b>			
Jansen Mansions	23.2	18.5	839
Lakepoint Condo	787.2	750.0	952
Balestier Regency	173.4	206.2	1,190
Lakeside Apts	281.8	280.0	993
Faber Garden	871.6	1,153.0	1,323
The Dairy Farm	1,575.0	2,000.0	1,270

Note: psf ppr = per square foot per plot ratio

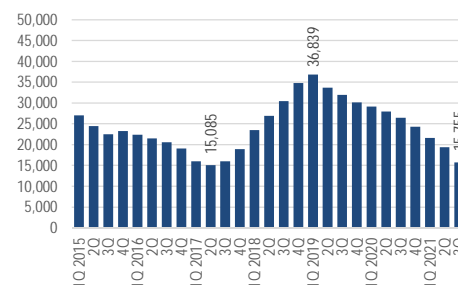
Source: PropNex

### SINGAPORE'S PRIVATE HOME SALES: NEW SALE VS RESALE



Source: URA Realis

### TOTAL UNCOMPLETED UNSOLD UNITS



Source: URA Realis

## 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
<b>Pre-tax profit</b>	<b>37.2</b>	<b>81.4</b>	<b>68.7</b>	<b>56.1</b>
Tax	(5.9)	(13.8)	(11.7)	(9.5)
Minorities	(2.1)	(4.7)	(3.9)	(3.2)
<b>Net profit</b>	<b>29.1</b>	<b>62.9</b>	<b>53.1</b>	<b>43.3</b>
Net profit (adj.)	29.1	62.9	53.1	43.3

## 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
<b>Total assets</b>	<b>192.7</b>	<b>282.8</b>	<b>289.9</b>	<b>281.1</b>
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
<b>Total liabilities &amp; equity</b>	<b>192.7</b>	<b>282.8</b>	<b>289.9</b>	<b>281.1</b>

## CASH FLOW

Year to 31 Dec (\$\$m)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>42.0</b>	<b>71.9</b>	<b>61.5</b>	<b>33.6</b>
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
<b>Investing</b>	<b>0.2</b>	<b>(3.4)</b>	<b>(3.5)</b>	<b>(3.2)</b>
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)
<b>Financing</b>	<b>(18.0)</b>	<b>(20.4)</b>	<b>(44.0)</b>	<b>(37.1)</b>
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
<b>Net cash inflow (outflow)</b>	<b>24.2</b>	<b>48.2</b>	<b>14.0</b>	<b>(6.7)</b>
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
<b>Ending cash &amp; cash equivalent</b>	<b>105.8</b>	<b>154.0</b>	<b>168.0</b>	<b>161.3</b>

## KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
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
<b>Growth</b>				
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)
<b>Leverage</b>				
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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