

### COMPANY RESULTS

## PropNex (PROP SP)

3Q20: Another Strong Quarter; Look Past The Oct 20 Blip

**9M20 results blew past our estimates (100% full-year forecasts). Management saw the Oct 20 private new sales blip as temporary, owing to the absence of new launches and buyers' adjustment phase post-OTP reissuance clampdown. Otherwise, private/HDB resale volumes had a resilient 3Q20. PropNex's strong cash position, digital edge and scale continues to position it strongly in the wake of the pandemic. Maintain BUY. Target price raised to S\$0.89 (previously S\$0.86).**

### 3Q20 RESULTS

Year to 31 Dec (S\$m)	3Q20	yoy % chg	9M20	yoy % chg
Revenue	118.5	(3.3)	360.0	24.6
Gross Profit	13.3	0.9	40.9	39.1
Profit After Tax	7.2	9.3	23.2	78.7
Net Profit (PATMI)	6.8	10.6	21.6	82.8
EPS (cent)	1.83	10.6	5.84	82.8

Source: PropNex

### RESULTS

- Results came in above expectations.** PropNex reported 3Q20 PATMI of S\$6.8m (-7.0% qoq, +10.6% yoy), bringing 9M20 PATMI to 100% of our full-year forecast. The group saw 3Q20 top-line grow by 11.8% qoq, but still declined 3.3% yoy from the decrease in commission income from agency services of c.S\$10m due to the impact of circuit breaker measures, but partially offset by increased commission income from project marketing services of S\$6.6m driven by higher number of transactions completed in 3Q20. Net profitability (PATMI%) also improved to 7.8% (+2.3ppt yoy), on the back of higher revenue mix of 45% in the lucrative new sales segment in 9M20 (vs 9M19: 28%).
- Private new sales: Strong momentum going into 4Q20; look past the Oct 20 blip.** Management noted that private new sales have averaged between 10,000-12,000 units p.a. in the last 10-20 years, suggesting some level of inherent market demand (eg 9,000-10,000 units p.a.) regardless of the pandemic and travel ban. Hence, they opined that new sales (9M20: 7,379 units) should surpass 9,000 units level in 2020. Although Oct 20 new sales has halved mom according to Real Estate Information System (REALIS) statistics, management opined that the blip was temporarily due to the absence of new launches and clampdown on reissuance of Option-To-Purchase (OTP). Notably, June (998 sold) and July (1,083 sold) new sales were bolstered by pent-up demand post-lockdown. Aug 20 (1,258 sold) and Sep 20 (1,329 sold) were buoyed by new launches - Forett at Bukit Timah (213 sold) and Penrose (389 sold). Management noted that the upcoming line-up of launches, such as Linq @ Beauty World (120 units), The Landmark (390 units), Clavon (640 units) and Ki Residences will boost new sale volumes in 4Q20. On the tightened OTP reissuance, management expects buying volumes to slow down during Oct-Nov 20 period but to return thereafter, as buyers eventually adjust to the new norms.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2018	2019	2020F	2021F	2022F
Net turnover	432	420	489	450	467
EBITDA	28	28	41	30	31
Operating profit	27	24	35	26	27
Net profit (rep./act.)	19	20	28	22	22
Net profit (adj.)	19	20	28	22	22
EPS (S cent)	5.2	5.4	7.5	5.8	5.8
PE (x)	13.2	12.7	9.2	11.9	11.8
P/B (x)	3.8	3.7	3.2	3.0	2.8
EV/EBITDA (x)	5.8	5.6	3.9	5.3	5.1
Dividend yield (%)	5.1	5.1	7.1	5.9	5.9
Net margin (%)	4.5	4.8	5.7	4.8	4.6
Net debt/(cash) to equity (%)	(113.1)	(117.7)	(127.4)	(126.1)	(126.3)
ROE (%)	45.7	29.4	37.5	26.1	24.3
Consensus net profit	-	-	22	22	24
UOBKH/Consensus (x)	-	-	1.27	0.99	0.92

Source: PropNex, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.69
Target Price	S\$0.89
Upside	+28.5%
(Previous TP)	S\$0.86

### COMPANY DESCRIPTION

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

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PNEX:SP
Shares issued (m):	370.0
Market cap (S\$m):	255.3
Market cap (US\$m):	189.3
3-mth avg daily t'over (US\$m):	0.1

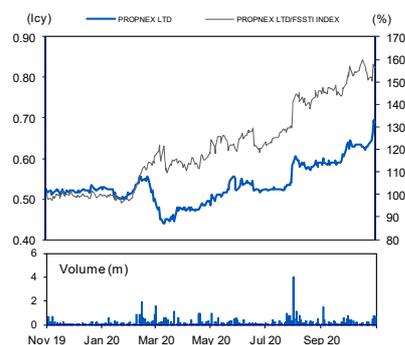
### Price Performance (%)

52-week high/low	S\$0.695/S\$0.440				
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
11.3	27.8	41.7	29.8	36.2	

### Major Shareholders

	%
P&N Holdings	55.6
Fong Kelvin	7.4
Ismail Mohamed	8.1
FY20 NAV/Share (S\$)	0.21
FY20 Net Cash/Share (S\$)	0.27

### PRICE CHART



Source: Bloomberg

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- Private and HDB resale were relatively resilient in 9M20**, which saw revenues coming in at S\$63m (vs 9M19: S\$65m) and S\$55m (vs 9M19: S\$54m) respectively. Although both Private and HDB Resale volumes were adversely affected during the circuit breaker period due to the ban on house visits for 10 weeks, they quickly rebounded in the subsequent months of June, July, and Aug 20. Management expects full-year private resale volumes to be on par with 2019 (9,238 sold). URA 9M20 and Oct 20 REALIS caveats indicated 6,601 and 1,246 units sold respectively.
- HDB resale transactions (3Q20: 7,787 sold)** saw its highest sales since 3Q10, which rebounded from 2Q20 (3,426 sold) after the lifting of circuit breaker measures. Management expects HDB resale volumes to hit 23,000 (2019: 23,714 transactions), and the robust demand to be supported by new housing grants unveiled in Sep 19 and Build-To-Order (BTO) completion delays diverting buyers to resale.
- Cash-rich business with an enviable S\$94.8m net cash position (-5% qoq)**, which declined largely due to the dividends paid out. Net cash currently accounts for 38% of its market capitalisation (S\$0.26/share).
- Digitalising to stay ahead of the curve.** Management opined that the global pandemic has accelerated adoption of digital technology, and adoption of digital tools (eg virtual showflats) will serve as an additional touchpoint for developers and salespersons to connect with potential buyers. PropNex has been a frontrunner in leveraging on home-buyers' increased openness to making online decisions for big ticket items, such as real estate, by collaborating with MediCorp and 99.co to host Singapore Property Show 2020, which involves a series of virtual webinars showcasing 17 new launch projects using innovative and immersive features, such as 4D virtual tours.
- Outlook: Strong momentum going into 4Q20, but could be dampened by the clampdown on OTPs reissuance.** Management attributed the strong 3Q20 performance to strong domestic demand in both the private residential and public housing segments, which could continue into 4Q20. They expected 19,500 private homes to be sold in 2020 (vs 2019: 19,150 units), supported by healthy demand in the resale market, HDB upgraders, and low interest rates. For 9M20, some 13,980 private homes have already been sold. Private home prices have also been relatively stable, with overall PPI seeing two consecutive quarters of increase of 0.3% and 0.8% in 2Q20 and 3Q20 respectively.

### EARNINGS REVISION/RISK

- We raise our 2020 net profit forecast by 31%** to take into account: a) Higher New sales recognitions from the delayed exercise of OTPs in 2020; as well as b) S\$2.3m in government grants and rental rebate (vs S\$1.8m previously).
- Our earnings forecast for 2021 and 2022F have also been raised marginally by 4%/3%, to better reflect cost savings from the group's scale advantages.

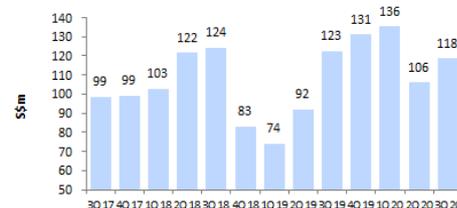
### VALUATION/RECOMMENDATION

- Maintain BUY with a raised target price of S\$0.89** (previously S\$0.86), based on 11x 2020F ex-cash PE, with reference to its closest comparable, APAC Realty (10x) which is also pre-dominantly Singapore-focused and similar in terms of commission structure and operating segments.

### SHARE PRICE CATALYST

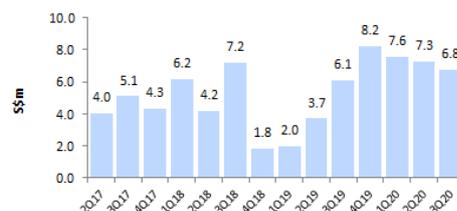
- Positive newsflow on new launches and take-ups.

### QUARTERLY REVENUE (S\$'000)



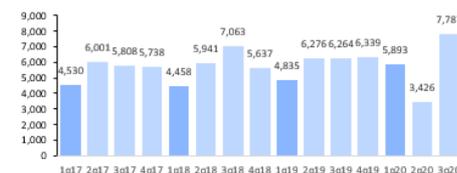
Source: PropNex, Uob Kay Hian

### QUARTERLY PATMI (S\$'000)



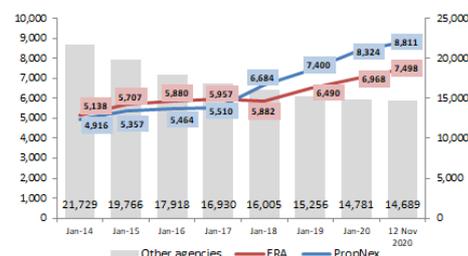
Source: PropNex, Uob Kay Hian

### HDB RESALE



Source: HDB, Uob Kay Hian

### TOTAL AGENT NUMBERS



Source: CEA, Data.gov.sg, UOB Kay Hian

### HISTORICAL EX-CASH PE



Source: Bloomberg, UOB Kay Hian

### PRIVATE HOME SALES VOLUME (UNITS)



Source: REALIS, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Net turnover	419.8	488.6	449.9	467.2
EBITDA	28.3	40.9	30.1	31.0
Deprec. & amort.	3.8	5.5	4.1	4.3
EBIT	24.4	35.4	25.9	26.8
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	1.1	1.2	1.5	1.6
<b>Pre-tax profit</b>	<b>25.6</b>	<b>36.6</b>	<b>27.5</b>	<b>28.4</b>
Tax	(4.5)	(6.4)	(4.8)	(5.0)
Minorities	(1.1)	(2.4)	(1.2)	(1.9)
<b>Net profit</b>	<b>20.0</b>	<b>27.9</b>	<b>21.5</b>	<b>21.6</b>
Net profit (adj.)	20.0	27.9	21.5	21.6

### BALANCE SHEET

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Fixed assets	3.5	4.1	3.7	3.9
Other LT assets	6.0	0.0	0.0	0.0
Cash/ST investment	81.6	100.9	108.1	116.4
Other current assets	63.5	73.9	68.0	70.6
<b>Total assets</b>	<b>154.6</b>	<b>178.9</b>	<b>179.8</b>	<b>190.9</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	79.5	94.6	87.9	90.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3.0	0.1	0.1	0.1
Shareholders' equity	69.3	79.2	85.7	92.1
Minority interest	2.6	4.9	6.1	8.0
<b>Total liabilities &amp; equity</b>	<b>154.4</b>	<b>178.9</b>	<b>179.8</b>	<b>190.9</b>

### CASH FLOW

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>29.3</b>	<b>36.2</b>	<b>28.7</b>	<b>27.1</b>
Pre-tax profit	25.6	36.6	27.5	28.4
Tax	(4.5)	(6.4)	(4.8)	(5.0)
Deprec. & amort.	3.8	5.5	4.1	4.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	1.3	(0.8)	0.3	(2.3)
Non-cash items	1.3	1.2	1.5	1.6
Other operating cashflows	1.8	0.0	0.0	0.0
<b>Investing</b>	<b>(1.0)</b>	<b>(3.9)</b>	<b>(3.6)</b>	<b>(3.7)</b>
Capex (growth)	(1.9)	(2.7)	(2.0)	(2.1)
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	0.8	(1.2)	(1.5)	(1.6)
<b>Financing</b>	<b>(22.4)</b>	<b>(13.0)</b>	<b>(18.0)</b>	<b>(15.1)</b>
Dividend payments	(13.0)	(13.0)	(18.0)	(15.1)
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	(9.4)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>5.9</b>	<b>19.3</b>	<b>7.1</b>	<b>8.3</b>
Beginning cash & cash equivalent	75.7	81.6	100.9	108.1
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>81.6</b>	<b>100.9</b>	<b>108.1</b>	<b>116.4</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	6.7	8.4	6.7	6.6
Pre-tax margin	6.1	7.5	6.1	6.1
Net margin	4.8	5.7	4.8	4.6
ROA	13.5	16.7	12.0	11.7
ROE	29.4	37.5	26.1	24.3
<b>Growth</b>				
Turnover	(2.7)	16.4	(7.9)	3.8
EBITDA	2.6	44.7	(26.5)	3.3
Pre-tax profit	(3.0)	43.2	(25.0)	3.5
Net profit	3.2	39.0	(22.7)	0.4
Net profit (adj.)	3.2	39.0	(22.7)	0.4
EPS	3.2	39.0	(22.7)	0.4
<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	(117.7)	(127.4)	(126.1)	(126.3)

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