

PropNex Ltd

Surge in cash and dividends up 20%



SINGAPORE | REAL ESTATE (AGENCIES) | 2Q20 RESULTS

17 August 2020

BUY (Maintained)

LAST DONE PRICE	SGD 0.590
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.700
TOTAL RETURN	25.4%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	159 / 218
52 - WK HI/LO (SGD):	0.6 / 0.43
3M Average Daily T/O (mn):	0.3

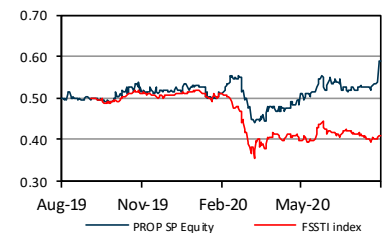
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAL MOHAMED	9.1%
SEONG KELVIN FONG KENG	8.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	12.4	26.9	24.9
STI RETURN	(1.0)	4.2	(14.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY18	FY19	FY20e	FY21e
Revenue	431.5	419.8	381.7	404.0
Gross Profit	41.4	44.3	41.2	44.0
Operating Profit	26.4	25.6	23.9	25.1
PAT	19.4	20.0	19.4	19.1
P/E (x)	11.2	10.9	11.3	11.5
P/B (x)	3.1	3.0	2.8	2.6
EPS, SGD cents	5.2	5.4	5.2	5.2
Dividend yield, %	5.9	5.9	6.8	7.6
ROE	27.6%	27.9%	24.7%	22.8%
ROA	13.7%	13.0%	12.8%	12.0%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 10.0%, Terminal growth 0%)

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- 2Q20 PATMI rose 96% YoY to S\$7.3mn. Earnings was within our estimates. The drop in transaction volumes during the lockdown will negatively impact 3Q20 earnings.
- Earnings this quarter was supported by a 150% jump in project marketing (new launches) revenue.
- Net cash is a record S\$99.7mn (2Q19: S\$73mn) due to S\$11.9mn cash generated from operations during the quarter and a delay in paying S\$8.3mn final and special dividend. Interim dividend per share was raised 20% YoY to 1.5 cents.
- We are maintaining our BUY recommendation and raising our target price to S\$0.70 (prev. S\$0.60). We made a modest increase to our FY20e earnings by 3% due to the JSS grant but raised our DCF growth assumptions. Near-term, the drop in transaction volumes due to the lockdown will negatively affect 3Q20 earnings. However, we believe transactions have bottomed and have started to recover July onwards. PROP pays a sustainable dividend yield of 7%, enjoys unlevered ROE of 25% and generates high cash-flow of around S\$20mn p.a. with minimal capital expenditure and working capital requirements.

Results at a glance

SGD mn	2Q20	2Q19	YoY	Comments
Revenue	105.9	92.1	15%	Growth driven by project marketing sales.
- Agency services	54.8	70.5	-22%	
a) Private resale	21.3	28.5	-25%	Sellers have not lowered prices.
b) HDB resale	19.1	18.3	4%	
c) Rental	14.4	23.3	-38%	Viewing of units restricted.
- Project Marketing	49.2	19.8	148%	Market share gains and higher industry volume
Staff costs	(3.5)	(2.6)	34%	
Gross profit	12.6	9.1	39%	
Operating profit	9.3	4.5	105%	Grant of S\$1mn offset by S\$0.5mn marketing fee.
PATMI	7.3	3.7	96%	
Interim dividend (cts)	1.50	1.25	20%	

Source: Company, PSR

The Positives

+ Minimal capex and working capital. Net cash jumped to a record S\$99.7mn due to the S\$20.4mn generated in 1H20 and a delay in final and special dividend of S\$8.3mn (or 2.25 cents). Worth noting that despite the 45% revenue jump in 1H20 to S\$241mn, additional working capital required to support the growth was only S\$300k and capital expenditure of S\$110k.

+ Project marketing the revenue and margin driver. Revenue from project marketing jumped 148% YoY to S\$49.2mn. Gross margins improve as new launches provide a higher share of commission for PROP.

+ Interim dividend raised by 20%. In-line with the jump in profits, PROP raised dividends by 20% to 1.5 cents. This interim payout of S\$5.6mn is well supported by the 1H20 FCF of S\$20.4mn.

The Negative

- Higher staff cost. Staff cost rose 34% due to higher provision of bonus and salary base. The increase in staff cost inline with gross profits means a loss in operating leverage, unlike the 1Q20. Unclear the split between the variable and fixed components of staff cost.

Outlook

The following are some of the outlook bullet points by segment:

- New launches:** Mass market products in OCR and RCR will gain the most traction with the support of HDB upgraders. CCR is faced with larger enbloc supply and foreign buying slowing down. Transaction volumes have started to recover in July despite the absence of new launches. Another positive is the unsold units (excluding EC) that have been declining the past five quarters from 36.8k units in 1Q19 to currently 27.9k.
- Private resale:** This segment will remain the weak spot. Unlike new launches where developers can lower prices, in the resale market, sellers are holding on to their asking prices leaving a large bid-ask gap.
- HDB resale:** Transactions will be relatively stable between 21,000 to 22,000 units (2019: 23,714 units). The current HDB grants are an attractive incentive for buyers. Furthermore, the delay in construction activity may nudge buyers into resale rather than new BTOs.

In 2Q20, transaction collapsed (Figure 1) as property viewing was restricted and showrooms closed. This will negatively impact PROP 3Q20 results. Nevertheless, we believe a bottom has formed and volumes will start to recover. July has seen private resale doubled to 928 units from prior month 383. New units sales are performing even better at 1,123 units in July and 992 units in June. August appears on track to reach the 1,000 units. Private resale transactions for August seem to be decelerating. PROP managed to capture 53% market share of new private units sold in 2Q20.

Figure 1: Weak 2Q20 volumes due to lockdown will negatively impact 3Q20 results

	Private Resale		Private New		HDB Resale	
	Units	% YoY	Units	% YoY	Units	% YoY
4Q19	2342	18.8%	2443	33.1%	6339	12.5%
1Q20	2080	11.9%	2149	16.9%	5893	21.9%
2Q20	933	-60.6%	1713	-27.1%	3426	-45.4%

Source: Company, PSR

Maintain BUY with a higher target price of S\$0.70 (previously S\$0.60)

We are raising our target price as we increased our terminal growth rate assumption. With the lockdown restrictions being lifted in Singapore, a recovery in volumes is underway. PROP has a high cash generative asset-light business model with minimal capital expenditure and working capital required. The company is committed to paying attractive and sustainable dividends. The current 7% dividend yield amounts to S\$14.8mn payout. This compares to their FCF that averaged S\$23mn over the past three years. There is also the added buffer of S\$99.7mn net cash on the balance sheet.

Financials

Income Statement

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
Revenue	331.9	431.5	419.8	381.7	404.0
Cost of services	(298.1)	(390.2)	(375.5)	(340.5)	(360.0)
Gross profit	33.8	41.4	44.3	41.2	44.0
Staff costs	(8.3)	(12.1)	(12.8)	(13.0)	(13.5)
Finance and other income	2.9	4.2	6.9	7.5	5.2
Other costs and expenses	(6.2)	(7.1)	(12.8)	(11.2)	(11.8)
Operating profit	22.2	26.4	25.6	24.5	23.9
Profit before tax	22.2	26.4	25.6	24.5	23.9
Tax	(3.3)	(4.4)	(4.5)	(4.2)	(4.1)
Minority Interest	(2.6)	(2.5)	(1.1)	(1.0)	(0.8)
PATMI	16.3	19.4	20.0	19.4	19.1

Per share data

SGD cents, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS	4.4	5.2	5.4	5.2	5.2
DPS	2.6	3.5	3.5	4.0	4.5
NAV per share	5.7	19.0	19.4	21.2	22.6

Cash Flow

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	18.9	21.9	21.1	20.4	19.9
Adjustments	4.8	4.7	8.2	7.3	6.9
WC changes	1.1	(0.5)	5.0	(4.4)	0.1
Interest and Taxes paid, others	(1.1)	(3.0)	(5.0)	(4.2)	(4.1)
Cashflow from operations	23.7	23.2	29.3	19.1	22.8
CFI					
Acquisition of plant and equipment	(1.5)	(1.8)	(1.9)	(2.0)	(2.0)
Others	0.1	0.5	0.8	-	-
Cashflow from investments	(1.4)	(1.3)	(1.0)	(2.0)	(2.0)
CFE					
Payment of dividends	(10.8)	(13.3)	(19.6)	(13.9)	(14.8)
Others	-	39.4	-	-	-
Cashflow from financing	(10.8)	26.1	(22.4)	(14.9)	(15.8)
Net change in cash	11.5	48.0	5.9	2.2	5.0
CCE, end	27.6	75.6	81.5	83.8	88.8

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PP&E	1.7	2.8	3.5	4.1	4.9
Others	0.0	0.2	5.9	4.1	2.6
Total non-current assets	1.8	3.0	9.4	8.2	7.4
Trade & other receivables	62.9	63.5	63.5	59.2	62.6
Cash and cash equivalents	27.7	75.7	81.6	83.8	88.8
Total current assets	90.6	139.1	145.1	143.0	151.5
Total Assets	92.4	142.1	154.4	151.2	158.9
LIABILITIES					
Trade & other payables	67.2	65.8	71.7	63.0	66.6
Current tax liabilities	(3.2)	(4.9)	(4.3)	(4.3)	(4.3)
Others	0.6	0.9	1.0	1.0	1.0
Total current liabilities	71.1	71.5	79.5	69.8	72.4
Deferred tax liability	0.1	0.2	0.2	0.2	0.2
Total non-current liabilities	0.1	0.2	3.0	3.0	3.0
Total Liabilities	71.2	71.7	82.5	72.8	75.4
EQUITY					
Share capital	0.4	57.5	57.5	57.5	57.5
Merger reserve	0.0	(17.7)	(17.7)	(17.7)	(17.7)
Translation reserve	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Capital reserve	0.6	0.6	0.6	0.6	0.6
Accumulated profits	17.1	26.4	28.9	34.4	38.7
Non-controlling interests	3.1	3.5	2.6	3.5	4.3
Total Equity	21.2	70.4	71.9	78.4	83.4

Valuation Ratios

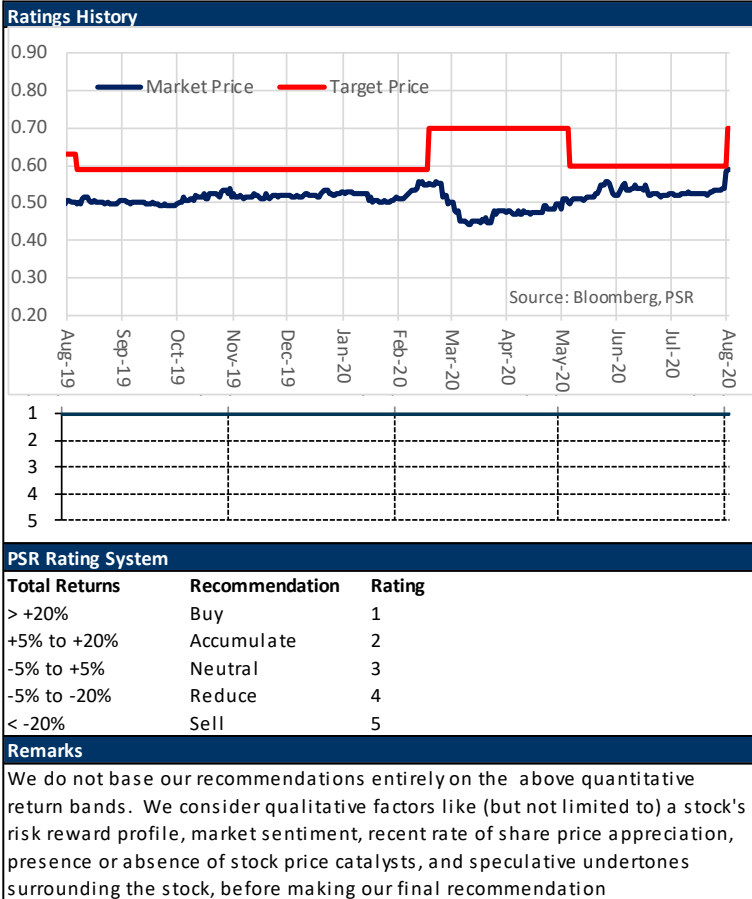
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	13.4	11.2	10.9	11.3	11.5
P/B (x)	10.3	3.1	3.0	2.8	2.6
Dividend Yield (%)	4.4	5.9	5.9	6.8	7.6

Growth & Margins

Growth					
Revenue	35.4%	30.0%	-2.7%	-9.1%	5.8%
Gross profit	76.4%	22.5%	7.1%	-7.0%	6.8%
PBT	122.4%	19.0%	-3.0%	-4.0%	-2.5%
PAT	113.7%	19.3%	3.2%	-3.2%	-1.7%
Margins					
GP margin	10.2%	9.6%	10.6%	10.8%	10.9%
PBT margin	6.7%	6.1%	6.1%	6.4%	5.9%
PAT Margin	4.9%	4.5%	4.8%	5.1%	4.7%

Key Ratios

ROE (%)	76.9%	27.6%	27.9%	24.7%	22.8%
ROA (%)	17.6%	13.7%	13.0%	12.8%	12.0%
Gearing (x)	-	-	-	-	-



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