

COMPANY RESULTS

PropNex (PROP SP)

2Q20: Positive Tailwinds From COVID-19

1H20 results exceeded our expectations (~74% of our forecasts). With the pandemic, overall sales volume contracted, although there have been signs of a rebound in 3Q20 with Jul 20 caveats showing a spike in new/resale volumes. Management also embraced digitalisation, in anticipation of buyers shifting online. In 2H20, the group expects to continue receiving some government grants and rental rebates (1H20: S\$1.5m), albeit smaller amounts, thus boosting its bottom-line. Maintain BUY and raise target price to S\$0.69.

2Q20 RESULTS

Year to 31 Dec (S\$m)	2020	yoy % chg	1H20	yoy % chg
Revenue	105.9	15.0	241.5	45.2
Gross Profit	12.6	38.8	27.6	69.9
Profit After Tax	7.8	92.1	16.0	150.7
Net Profit (PATMI)	7.3	96.1	14.8	160.2
EPS (cent)	1.96	96.1	4.01	160.2

Source: PropNex

RESULTS

- Results came in above expectations.** PropNex reported 2Q20 PATMI of S\$7.3m (-4.1% qoq, +96.1% yoy), bringing 1H20 PATMI to 74% of our full-year forecast. The group saw 2Q20 top-line grow to S\$105.9m (-22%qoq, +15%yoy). The yoy growth was attributable to increase in commission income from project marketing of S\$29.3m - driven by higher number of transactions post-recovery from Jul 18 cooling measures, but partially offset by decrease in commissions from agency services of S\$15.4m due to the initial impact of circuit breaker. As mentioned in previous updates, the lumpy earnings (ie PATMI growing 15%yoy but declining 22%qoq) was due to the snowballing effect from the delay in Option-To-Purchase (OTPs) exercise post-Jul 18 cooling measures.
- Interim dividend of 1.5 S cents/share (+20%yoy)** was declared, representing a payout of 76.5% of 1H20 net profit. Ex-dividend date is on 24 Aug 20.
- Private new sales: 2020F volumes to see resilience.** Management pointed to 1H20 private new sales volumes contracting by only 8% yoy, despite circuit breaker (CB) measures from 7 Apr-1 Jun 20. Management attributes the resilience to a low-interest rate environment, attractive pricing (eg Core Central Region (CCR) projects), HDB upgraders (eg Rest Central Region (RCR) projects). Management observed some CCR projects facing competition have started to discount prices. Our channel-checks suggest they include Marina One and One Pearl Bank. One Pearl Bank is selling below their launch-pricing amid competition from "lower-priced" Avenue South and "Freehold" Sky Everton. RCR projects (eg Treasure at Tampines, Parc Clematis) have seen good sales, which management attributes to HDB upgraders.
- For 2020, management guided that private new sales volumes may come in at the higher-end of their 7,000 to 8,500-unit guidance (vs 2019: 9,164 units).** Empirically, we are seeing a vengeance in buying post-lockdown in June (967 sold) and Jul 20 (1,071 sold) based on REALIS data which may carry into Aug 20. For period (6 Apr-9 Aug 20), PropNex has sold 1,621 units and attained an improved 52.4% market share. Sales momentum has been picking up with PropNex selling more than 100 units each week by the 11th week of the Circuit Breaker. An anticipated strong pipeline of 29 projects (9,670 units) is lined up from 3Q20 onwards. Of this, PropNex has been appointed to 15 projects (6,602 units).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2018	2019	2020F	2021F	2022F
Net turnover	432	420	431	432	439
EBITDA	28	30	29	29	28
Operating profit	27	26	25	25	24
Net profit (rep./act.)	20	22	19	21	20
Net profit (adj.)	20	22	19	21	20
EPS (S cent)	5.3	5.9	5.2	5.6	5.3
PE (x)	11.0	9.8	11.2	10.4	11.1
P/B (x)	3.2	3.1	2.9	2.6	2.5
EV/EBITDA (x)	4.6	4.2	4.4	4.4	4.6
Dividend yield (%)	6.0	6.0	6.9	6.7	6.8
Net margin (%)	4.6	5.2	4.5	4.8	4.4
Net debt/(cash) to equity (%)	(113.1)	(117.7)	(123.9)	(125.7)	(125.3)
ROE (%)	46.4	32.3	26.8	26.4	23.0
Consensus net profit	-	-	20	20	21
UOBKH/Consensus (x)	-	-	0.96	1.02	0.95

Source: PropNex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.585
Target Price	S\$0.69
Upside	+17.5%
(Previous TP)	S\$0.65

COMPANY DESCRIPTION

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):	216.5
Market cap (US\$m):	157.9
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

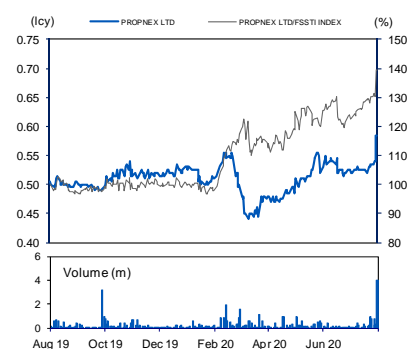
52-week high/low S\$0.585/S\$0.440

1mth	3mth	6mth	1yr	YTD
11.4	20.1	16.6	20.1	15.4

Major Shareholders

	%
P&N Holdings	55.6
Fong Kelvin	7.4
Ismail Mohamed	8.1
FY20 NAV/Share (S\$)	0.20
FY20 Net Cash/Share (S\$)	0.25

PRICE CHART



Source: Bloomberg

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- Private and HDB resales may see reprieve after 2Q20 plunge.** Private resales declined sharply to 933 units (-55%qoq, -61% yoy), which may have been due to owners postponing their decision to sell due to the discomfort of inviting buyers in for viewing, as well as mismatch between pricing expectations between buyer-and-seller. Management pointed to Jul 20 caveats in REALIS showing a sharp rebound in transaction volumes of 795 units (+137%mom) with signs of buyers returning with a vengeance, and guided for a 7,000-units ballpark estimate for 2020F.
- HDB resale has also seen a large decline** to 3,426 units (-42% qoq, -45% yoy), which management attributed to the restrictive effects of the circuit breaker and Phase 1 measures, and does not indicate weaker demand. Management sees HDB resale volumes coming in between 21,000-22,000 units in 2020F representing a 7-11% yoy decline. They also see some demand re-directed from couples applying for HDB BTOs, due to the longer construction lead time as a result of the pandemic.
- Cash-rich business with an enviable S\$99.7m net cash position (+11%qoq).** Net cash accounts for 47% of its market capitalisation (S\$0.27/share). Cash balances will be reduced by delayed payment of 2019 final (1.5 S cents) and special dividends (0.75 S cents) paid in Jul 20, as a result of the delay in 2020 AGM. It will also see a further reduction from 1H20 interim dividend payment of 1.5 S cents.
- Digitalising to tide through circuit breaker.** As show-flats were shut, PropNex reached out to consumers via digital platforms, which have translated to steadily rising sales for new launch transactions going into Apr/May/June/July 20 (70/295/475/529units). Management sees the COVID-19 pandemic accelerating the shift of buyers online to transact (eg virtual viewings). They are also looking to digitalise more of their business processes (eg building up an improved digital database for resale/and leasing segments to enhance service quality).
- Appointment of new head of research & content, Ms Wong Siew Ying.** Effective from 3 Jun 20, Ms Wong was put in-charge to drive engagement and build business momentum through thought-leadership and value-added content through the group's communication channels. She brings over 20 years of experience, starting out as a reporter at Channel NewsAsia, senior correspondent at The Straits Times, and was the Associate Director of Publicity, Media and Content at Colliers International.
- Longer-term outlook remains positive.** Management acknowledged that the pandemic has temporarily derailed growth in the property segment, resulting in private home sales volume declining 37.6% yoy in 2Q20 after a positive first quarter. Management believes buyers will return as COVID-19 concerns ebb over time, along with a supportive low-interest rate environment and fiscal policies. They pointed to past trends where the residential market managed to recover after each crisis, with prices keeping in line with economic growth.

EARNINGS REVISION/RISK

- We raised our 2020 net profit forecast by 6%, factoring in some S\$1.8m in government grants (eg Jobs Support Scheme) and rental rebates. The group has already received S\$1.5m in such subsidies - boosting its 1H20 bottom-line.

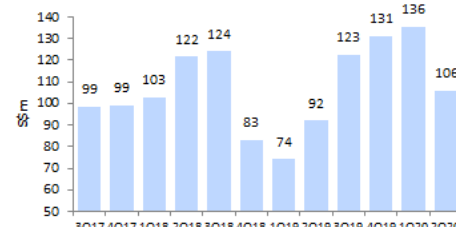
VALUATION/RECOMMENDATION

- Maintain BUY with a raised target price of S\$0.69** (previously S\$0.65), based on 12x 2020F PE, with reference to its closest comparable, APAC Realty (11x) which is also predominantly Singapore-focused and similar in terms of commission structure and operating segments.

SHARE PRICE CATALYST

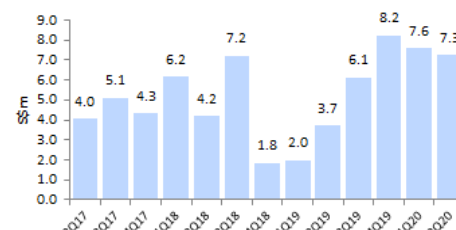
- Positive newsflow on new launches and take-ups.

QUARTERLY REVENUE (S\$'000)



Source: PropNex, Uob KH

QUARTERLY PATMI (S\$'000)



Source: PropNex, Uob KH

HDB RESALE



Source: HDB, Uob KH

TOTAL AGENT NUMBERS



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

PRIVATE HOME SALES VOLUME (UNITS)



Source: URA REALIS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Net turnover	419.8	431.2	432.5	439.1
EBITDA	30.2	29.0	29.0	27.8
Deprec. & amort.	3.8	4.2	4.0	4.0
EBIT	26.4	24.8	25.1	23.8
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	1.4	1.6
Pre-tax profit	27.5	26.1	26.5	25.3
Tax	(4.5)	(4.9)	(4.6)	(4.7)
Minorities	(1.1)	(1.8)	(1.1)	(1.1)
Net profit	22.0	19.4	20.8	19.5
Net profit (adj.)	22.0	19.4	20.8	19.5

CASH FLOW

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Operating	29.3	28.4	27.3	25.6
Pre-tax profit	25.6	27.9	26.4	26.8
Tax	(4.5)	(4.9)	(4.6)	(4.7)
Deprec. & amort.	3.8	4.2	4.0	4.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	0.2	0.0	0.1	(2.1)
Non-cash items	1.3	1.2	1.4	1.6
Other operating cashflows	2.9	0.0	0.0	0.0
Investing	(1.0)	(3.3)	(3.4)	(3.5)
Capex (growth)	(1.9)	(2.0)	(1.9)	(2.0)
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)	(1.4)	(1.6)
Financing	(22.4)	(13.0)	(14.8)	(14.5)
Dividend payments	(13.0)	(13.0)	(14.8)	(14.5)
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
Net cash inflow (outflow)	5.9	12.2	9.1	7.6
Beginning cash & cash equivalent	75.7	81.6	93.8	102.9
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	81.6	93.8	102.9	110.5

BALANCE SHEET

Year to 31 Dec (\$m)	2019	2020F	2021F	2022F
Fixed assets	3.5	3.6	3.6	3.7
Other LT assets	6.0	0.0	0.0	0.0
Cash/ST investment	81.6	93.8	102.9	110.5
Other current assets	63.5	65.2	65.4	66.4
Total assets	154.6	162.6	171.9	180.6
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	79.5	82.4	84.4	85.6
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	75.7	81.9	88.2
Minority interest	2.6	4.4	5.5	6.6
Total liabilities & equity	154.4	162.6	171.9	180.5

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	7.2	6.7	6.7	6.3
Pre-tax margin	6.6	6.0	6.1	5.8
Net margin	5.2	4.5	4.8	4.4
ROA	14.8	12.2	12.4	11.1
ROE	32.3	26.8	26.4	23.0
Growth				
Turnover	(2.7)	2.7	0.3	1.5
EBITDA	8.5	(4.0)	0.0	(4.3)
Pre-tax profit	3.2	(5.3)	1.6	(4.4)
Net profit	11.5	(11.8)	7.1	(6.0)
Net profit (adj.)	11.5	(11.8)	7.1	(6.0)
EPS	11.5	(11.8)	7.1	(6.0)
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	(117.7)	(123.9)	(125.7)	(125.3)

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