

PropNex Ltd

Expect growth to return in 2023



StocksBnB.com

SINGAPORE | REAL ESTATE (AGENCIES) | 3Q22 RESULTS

14 November 2022

- 3Q22 result was a huge earnings beat. YTD22 revenue and PATMI were 96%/96% of our FY22e forecast (excluding one-offs). We underestimated PropNex's market share gains especially in private resale, the increase in agent size and rise in selling prices.
- Rental remained the fastest growing category. Revenue jumped 76% YoY to \$48mn. The rental market has been extremely tight this year with borders reopening.
- We raise our FY22e PATMI forecast by 34%. Our FY22e target price is raised from S\$1.74 to S\$2.00. The NEUTRAL recommendation is upgraded to BUY. We expect earnings growth to return in FY23e. New home sales will rebound with the expected 11,300 new launches (FY22: 4,500). Resale recovery will be from widening prices compared to new launches. The upside in volumes will be determined by foreign demand. Rental volumes will be supported by the expected surge of TOP units in FY23.

BUY (Upgraded)

LAST DONE PRICE	SGD 1.540
FORECAST DIV	SGD 0.090
TARGET PRICE	SGD 2.000
TOTAL RETURN	35.7%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	415 / 570
52 - WK HI/LO (SGD):	1.97 / 1.24
3M Average Daily T/O (mn):	0.1

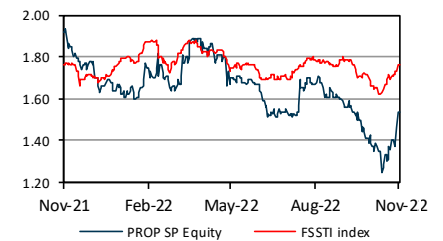
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.3%
SEONG KELVIN FONG KENG	8.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	10.8	(4.7)	(2.0)
STI RETURN	4.3	(1.2)	7.4

PRICE VS. STI



Source: Bloomberg, PSR

Results at a glance

SGD mn	3Q22	3Q21	YoY	Comments
Revenue	258.4	234.4	10%	
- Agency services	164.8	132.7	24%	
a) Private resale	78.5	70.6	11%	
b) HDB resale	38.0	33.9	12%	
c) Rental	48.3	27.4	76%	
- Project Marketing	88.4	100.8	-12%	
Staff costs	(4.8)	(4.3)	12%	
Gross profit	26.7	24.7	8%	
Operating profit	21.9	18.7	17%	
PATMI	17.6	14.4	22%	
PATMI - normalised	15.0	14.1	6%	Excl. S\$3.7mn recognition payables and impairment S\$1.1mn. (3Q22: S\$0.3mn).

Source: Company, PSR

The Positive

+ Resale bucked the trend. Despite the 28% YoY drop to 3,961 in total private resale volumes in 3Q22, PropNex managed to grow revenue by 11% to S\$785mn. Reasons for the market share gains include the growth in the sales force and deliberate efforts to focus on resale. The price difference and lack of available units between new launches and resale helped stimulate resale volumes.

The Negative

- New launches are still a drag. Revenue from project marketing declined 12% YoY to S\$88mn. The dearth of new launches and inventory has been a drag to revenue. New units transacted in Singapore (excluding EC) are down 38% to 2,187 units in 3Q22. With a balloting process, market share will also be determined by random chance.

Outlook

After two cooling measures and higher interest rates, we do expect some softening in buying interest from euphoric levels. Nevertheless, we remain upbeat that the key drivers supporting selling prices and demand are intact, namely rising residential population, low unemployment rates, new household formations (e.g. 25k marriages), rising land and construction cost, attractive HDB grants, low inventory level (1.5 years vs 3 year average) and return of foreign buyers. On the transaction volumes, the rebound in new launches for FY23 will support project market sales.

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY20	FY21	FY22e	FY23e
Revenue	513	957	960	1,025
Gross Profit	55.6	101.8	98.9	109.7
Operating Profit	36.0	78.3	73.9	79.2
PATMI	29.1	60.0	58.2	63.0
P/E (x)	19.6	9.5	9.8	9.0
P/B (x)	6.5	5.1	4.4	3.5
EPS (cents)	7.9	16.2	15.7	17.0
DPS (cents)	5.5	12.5	9.0	11.0
Dividend yield (%)	3.6	8.1	5.8	7.1
ROE (%)	33.2	53.3	45.4	38.5

Source: Company, PSR

Valuation Method

DCF (Cost of equity 11.8%, Terminal growth 1.5%)

Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Other highlights

- 1. Impairment loss of S\$1.1mn and S\$3.7mn derecognition of commission trade payables.** Developers can only use 5% of project funds for marketing, agency commission and show flats. Once the 5% is exceeded, they are unable to pay the commission until the temporary occupation permit (TOP) of the project. Any outstanding commission above 12 months will be impaired as an accounting policy.
- 2. New land supply.** Developers are still cautious due to the high selling prices and have inventory to sell in 2023. If the take-up rate of new launches in 2H23 is healthy, developers will likely resume their land banking.
- 3. Impact of cooling measure and high interest rates.** Despite cooling measures, residential prices did not correct due to fewer speculators in the current cycle.
- 4. Foreign demand.** Demand from foreigners has recovered from 9.7% in 2021 to 13.1% in 2022 for CCR. Singapore stands out as a place for a 2nd home.
- 5. Larger growth in salesforce.** PropNex's salesforce rose around 12% to 12,065 agents, as at 2Nov22. The 1,269 increase in agent size is higher than the next three competitors combined growth of 1,026 agents (or 6%).
- 6. Dividends.** The policy is 70-80% payout ratio.

Upgrade from NEUTRAL to BUY with a higher TP of S\$2.00 (prev. S\$1.74)

We raise FY22e PATMI by 34% to S\$58mn. Dividend yield is attractive at almost 6%, ROE of 45% and we expect growth to resume as new launch units increase in FY23e.

Financials

Income Statement

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
Revenue	419.8	513.5	957.5	960.5	1,025.3
Cost of services	(375.5)	(457.9)	(855.7)	(861.6)	(915.6)
Gross profit	44.3	55.6	101.8	98.9	109.7
Staff costs	(12.8)	(14.1)	(16.8)	(18.0)	(19.5)
Finance and other income	6.9	7.6	7.3	12.7	5.6
Other costs and expenses	(12.8)	(12.4)	(13.6)	(19.1)	(15.0)
Operating profit	24.5	36.0	78.3	73.9	79.2
Profit before tax	25.6	36.6	78.7	74.6	80.8
Tax	(4.5)	(5.9)	(13.5)	(12.7)	(13.7)
PAT	21.1	30.7	65.1	61.9	67.0
Minority Interest	(1.1)	(2.1)	(5.1)	(3.7)	(4.0)
PATMI	20.0	29.1	60.0	58.2	63.0

Per share data

SGD cents, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS	5.4	7.9	16.2	15.7	17.0
DPS	3.5	5.5	12.5	9.0	11.0
NAV per share	19.4	23.7	30.4	34.6	44.3

Cash Flow

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CFO					
PAT	21.1	31.2	65.1	61.9	67.0
Adjustments	8.2	10.6	17.3	15.4	16.4
WC changes	5.0	3.3	7.7	(1.9)	0.5
Interest and Taxes paid, others	(5.0)	(3.2)	(7.1)	(12.7)	(13.7)
Cashflow from operations	29.3	42.0	83.1	62.7	70.3
CFI					
Acquisition of plant and equipment	(1.9)	(0.5)	(0.5)	(1.0)	(1.0)
Others	0.8	0.7	(0.0)	-	-
Cashflow from investments	(1.0)	0.2	(0.6)	(1.0)	(1.0)
CFE					
Payment of dividends	(19.6)	(15.4)	(40.4)	(46.3)	(31.5)
Others	(2.7)	(2.6)	(2.3)	(0.5)	(0.5)
Cashflow from financing	(22.4)	(18.0)	(42.7)	(46.8)	(32.0)
Net change in cash	5.9	24.2	39.8	14.9	37.3
CCE, end	81.5	105.7	145.6	160.5	197.9

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PP&E	3.5	2.6	2.0	2.3	2.6
Others	5.9	3.7	4.2	2.2	0.2
Total non-current assets	9.4	6.3	6.2	4.4	2.7
Trade & other receivables	63.5	80.6	142.7	144.1	153.8
Cash and cash equivalents	81.6	105.8	145.6	160.6	197.9
Total current assets	145.1	186.4	288.4	304.7	351.7
Total Assets	154.4	192.7	294.6	309.1	354.5
LIABILITIES					
Trade & other payables	71.7	94.3	164.3	163.7	174.0
Current tax liabilities	4.3	7.0	13.5	13.5	13.5
Others	3.5	2.6	2.7	2.2	1.7
Total current liabilities	79.5	103.9	180.5	179.4	189.2
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	2.9	1.0	1.3	1.3	1.3
Total non-current liabilities	3.0	1.2	1.5	1.5	1.5
Total Liabilities	82.5	105.1	182.0	180.9	190.7
EQUITY					
Share capital	57.5	57.5	57.5	57.5	57.5
Merger reserve	(17.7)	(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	28.9	44.1	69.0	80.9	112.5
Non-controlling interests	2.6	3.0	3.1	6.9	10.9
Total Equity	71.9	87.6	112.6	128.2	163.8

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	28.4	19.6	9.5	9.8	9.0
P/B (x)	7.9	6.5	5.1	4.4	3.5
Dividend Yield (%)	2.3	3.6	8.1	5.8	7.1

Growth & Margins

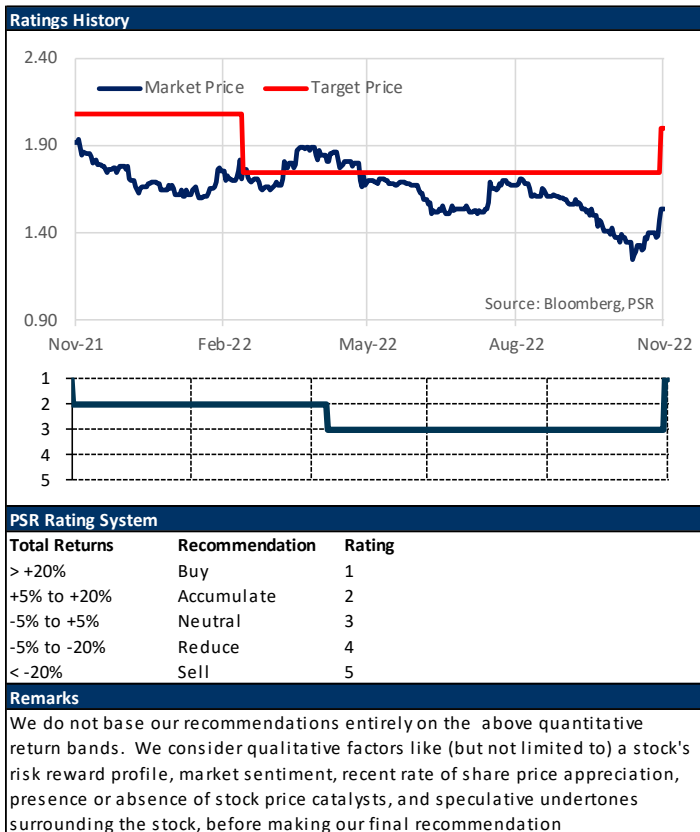
	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	-2.7%	22.3%	86.5%	0.3%	6.8%
Gross profit	7.1%	25.4%	83.1%	-2.8%	10.9%
PBT	-3.0%	43.2%	114.8%	-5.2%	8.4%
PAT	3.2%	45.2%	106.4%	-3.1%	8.4%

Margins

	FY19	FY20	FY21	FY22e	FY23e
GP margin	10.6%	10.8%	10.6%	10.3%	10.7%
PBT margin	6.1%	7.1%	8.2%	7.8%	7.9%
PAT Margin	4.8%	5.7%	6.3%	6.1%	6.1%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE (%)	27.9%	33.2%	53.3%	45.4%	38.5%
ROA (%)	13.0%	15.1%	20.4%	18.8%	17.8%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



Contact Information (Singapore Research Team)
Head of ResearchPaul Chew – paulchewkt@phillip.com.sg**Research Admin**Qystina Azli - gystina@phillip.com.sg**Construction | Industrial | Conglomerates**Terence Chua – terencechuatl@phillip.com.sg**Property | REITs**Darren Chan – darrenchanrx@phillip.com.sg**Banking & Finance**Glenn Thum – glennthumjc@phillip.com.sg**Credit Analyst**Shawn Sng – shawnsngkh@phillip.com.sg**US Tech Analyst (Digital Media & Entertainment)**Jonathan Woo – jonathanwookj@phillip.com.sg**US Tech Analyst (Software & Services)**Ambrish Shah – amshah@phillipcapital.in**US Tech Analyst (Hardware & Marketplaces)**Maximilian Koeswoyo – maximilian@phillip.com.sg**Technical Analyst**Zane Aw – zaneawyx@phillip.com.sg

Contact Information (Regional Member Companies)
SINGAPORE**Phillip Securities Pte Ltd**

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN**Phillip Securities Japan, Ltd.**

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA**PT Phillip Securities Indonesia**

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA**Phillip Financial Advisory (Shanghai) Co Ltd**

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND**Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE**King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM**King & Shaxson Capital Limited**

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES**Phillip Capital Inc**

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA**Phillip Capital Limited**

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA**Phillip Bank Plc**

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA**PhillipCapital (India) Private Limited**

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY**PhillipCapital Menkul Degerler**

Dr. Cemil Bengü Cad. Hakis Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI**Phillip Futures DMCC**

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.