

PropNex Ltd

Nice set-up for 2023



SINGAPORE | REAL ESTATE (AGENCIES) | 4Q22 RESULTS

6 March 2023

- 4Q22 earnings growth of 24% YoY to S\$17.8mn exceeded our expectations. FY22 revenue and PATMI were 107%/107% of our FY22e forecast. Despite lower new launches, PropNex successfully pivoted towards the resale and rental market. The higher GST may have also pulled in earlier recognition of some transactions this quarter.
- Rental was the highlight with revenue growth of 69% YoY to S\$56mn. Other areas of strength were private and HDB resale. Final dividend was raised by 14% 8 cents and a 1 for 1 bonus issue was announced.
- We believe the set-up for FY23e is positive. Property prices are expected to be stable but volumes are expected to rebound strongly. New launches are expected to be almost triple last year's 4032 units. The rental market is expected to be supported by around 17,000 private home completions, and resale could be buoyed by 4,000 EC and 16,000 HDBs (plus higher grants) reaching their minimum occupancy period. Another driver to earnings is the 8% jump in salespersons to 11,667. We raised our FY23e earnings by 8% to S\$68.3mn and the target price is raised to S\$2.40 (prev. S\$2.00). Our BUY recommendation is maintained.

BUY (Maintained)

LAST DONE PRICE	SGD 1.870
FORECAST DIV	SGD 0.145
TARGET PRICE	SGD 2.400
TOTAL RETURN	36.1%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	514 / 692
52 - WK HI/LO (SGD):	1.93 / 1.24
3M Average Daily T/O (mn):	0.2

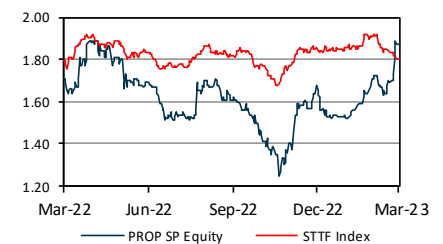
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.4	14.0	22.2
STTF	(4.0)	(0.5)	(0.5)

PRICE VS. STTF



Results at a glance

SGD mn	4Q22	4Q21	YoY	Comments
Revenue	298.4	242.0	23%	
- Agency services	189.3	139.9	35%	
a) Private resale	79.8	63.5	26%	
b) HDB resale	48.6	34.6	40%	
c) Rental	56.3	33.4	69%	
- Project Marketing	111.9	109.6	2%	
Staff costs	(4.4)	(4.7)	-6%	
Gross profit	30.2	26.0	16%	
Operating profit	22.2	18.5	20%	
PATMI	17.8	14.3	24%	
PATMI - normalised	18.6	14.6	28%	Excluding gains and provisions.
Dividend (cents) - final	8.00	7.00	14%	FY22 DPS is 13.5 cts (FY21: 12.5 cts).

Source: Company, PSR

The Positives

+ Strong market share gains. FY22 was a banner year for PropNex. Despite the drop in primary and secondary transaction volumes by 23% and residential leasing being down by 8% in 2022, revenue grew 8% to a record S\$1bn. We believe there were market share gains, especially against the smaller agencies. A key differentiator has been their sales process and continuous efforts in engaging consumers that pivoted to the other segments, as primary sales were sluggish due to the collapse in new launches.

+ As expected, ample cash flow. FCF generated in FY22 was S\$48.7mn (FY21: S\$80mn). There was higher working capital of S\$23mn tied up with receivables than a year ago. PropNex ended FY22 with net cash of S\$138mn (FY21: S\$145mn). The current dividend is around S\$50mn p.a., well supported by annual operating cash flow and net cash.

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY21	FY22	FY23e	FY24e
Revenue	957	1,029	1,114	1,183
Gross Profit	101.8	104.7	119.2	121.8
Operating Profit	78.3	77.9	84.1	91.4
PATMI	60.0	62.4	68.3	74.7
P/E (x)	11.5	11.1	10.1	9.3
P/B (x)	6.1	5.5	4.6	4.0
EPS (cents)	16.2	16.9	18.4	20.2
DPS (cents)	12.5	13.5	14.5	15.0
Dividend yield (%)	6.7	7.2	7.8	8.0
ROE (%)	53.3	49.3	45.8	43.1

Source: Company, PSR

Valuation Method

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

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The Negative

- **Timing in recognition of commission.** In 4Q22, PropNex made an impairment loss of S\$5.5mn on receivables. The net impact on the income statement is offset by S\$4.1mn derecognition of trade payable to agents. PropNex makes an impairment of its trade debtors for commissions not paid within 365 days. Two developers hit their 5% marketing fees limit. Both developer projects have been fully sold and the commission will be repaid when the projects reach their temporary occupation permit or completion.

Outlook

We look forward to a rebound in transactions in FY23e.

- New launches are expected to be almost triple last year's 4,032 units to 11,446 units.
- Rental market is supported by higher availability of units with 17,427 completions in 2023. The rental commission is a potential source of recurrent income as tenants maintain their renewals.
- Resale buoyed both 4,130 EC and 15,748 HDBs reaching their minimum occupancy period (MOP) of five years, which allows the owners to sell their units. EC owners in particular will enjoy huge gains from units purchased five years ago. Typically, 30-40% may consider upgrading to private property. While the MOP is half compared to 31,325 units last year, the recent boost in government grants by \$10k to \$30k will support transactions.
- Foreign demand is returning with the re-opening of borders and increased foreign investments. CCR and RCR have seen a 4% to 5% points rise in sales to foreigners in 2022.

Figure 1: 2023 Expectations by the two largest agencies

	2022	2023e Agency 1	2023e Agency 2
Property price	+8.6%	+5-6%	n.a.
New Launch (units)	7,099	8,000 to 9,000	8,500 to 10,500
Private resale (units)	14,026	14,000 to 15,000	14,000 to 15,000
HDB resale (units)	27,896	28,000 to 30,000	26,000 to 30,000

Source: PropNex, APAC Realty

Maintain BUY with a higher TP of S\$2.40 (prev. S\$2.00)

We raised our FY23e earnings by 8% to S\$68mn. PropNex pays an attractive dividend yield of 7%, well supported by a net cash balance sheet and healthy operating cash flows.

Financials

Income Statement

SGD mn, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
Revenue	513.5	957.5	1,029.2	1,113.8	1,182.6
Cost of services	(457.9)	(855.7)	(924.5)	(994.7)	(1,060.8)
Gross profit	55.6	101.8	104.7	119.2	121.8
Staff costs	(14.1)	(16.8)	(18.4)	(19.5)	(19.5)
Finance and other income	7.6	7.3	17.3	7.5	8.4
Other costs and expenses	(12.4)	(13.6)	(24.5)	(19.6)	(14.9)
Operating profit	36.0	78.3	77.9	84.1	91.4
Profit before tax	36.6	78.7	79.1	87.5	95.7
Tax	(5.9)	(13.5)	(13.7)	(14.9)	(16.3)
PAT	30.7	65.1	65.4	72.6	79.5
Minority Interest	(2.1)	(5.1)	(3.0)	(4.4)	(4.8)
PATMI	29.1	60.0	62.4	68.3	74.7

Per share data

SGD cents, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS	7.9	16.2	16.9	18.4	20.2
DPS	5.5	12.5	13.5	14.5	15.0
NAV per share	23.7	30.4	34.2	40.3	46.8

Cash Flow

SGD mn, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CFO					
PAT	31.2	65.1	65.4	72.6	79.5
Adjustments	10.6	17.3	16.7	17.6	18.9
WC changes	3.3	7.7	(17.2)	13.4	5.8
Interest and Taxes paid, others	(3.2)	(7.1)	(13.4)	(14.9)	(16.3)
Cashflow from operations	42.0	83.1	51.4	88.8	87.9
CFI					
Acquisition of plant and	(0.5)	(0.5)	(0.4)	(1.0)	(1.0)
Others	0.7	(0.0)	(4.0)	-	-
Cashflow from investments	0.2	(0.6)	(4.4)	(1.0)	(1.0)
CFE					
Payment of dividends	(15.4)	(40.4)	(51.5)	(50.0)	(55.5)
Others	(2.6)	(2.3)	(2.3)	(2.0)	(2.0)
Cashflow from financing	(18.0)	(42.7)	(53.8)	(52.0)	(57.5)
Net change in cash	24.2	39.8	(6.8)	35.9	29.4
CCE, end	105.7	145.6	138.8	174.7	204.1

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PP&E	2.6	2.0	1.4	1.9	2.3
Others	3.7	4.2	6.0	3.7	1.7
Total non-current assets	6.3	6.2	7.4	5.6	4.0
Trade & other receivables	80.6	142.7	223.4	200.5	177.4
Cash and cash equivalents	105.8	145.6	138.9	174.8	204.1
Total current assets	186.4	288.4	368.0	380.9	387.2
Total Assets	192.7	294.6	375.4	386.5	391.2
LIABILITIES					
Trade & other payables	94.3	164.3	228.3	218.8	201.6
Current tax liabilities	7.0	13.5	13.8	13.8	13.8
Others	2.6	2.7	3.8	1.8	1.8
Total current liabilities	103.9	180.5	245.9	234.4	217.2
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	1.0	1.3	2.8	2.8	0.8
Total non-current liabilities	1.2	1.5	2.9	2.9	0.9
Total Liabilities	105.1	182.0	248.9	237.4	218.1
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	44.1	69.0	85.1	103.4	122.6
Non-controlling interests	3.0	3.1	0.9	5.3	10.1
Total Equity	87.6	112.6	126.5	149.2	173.1

Valuation Ratios

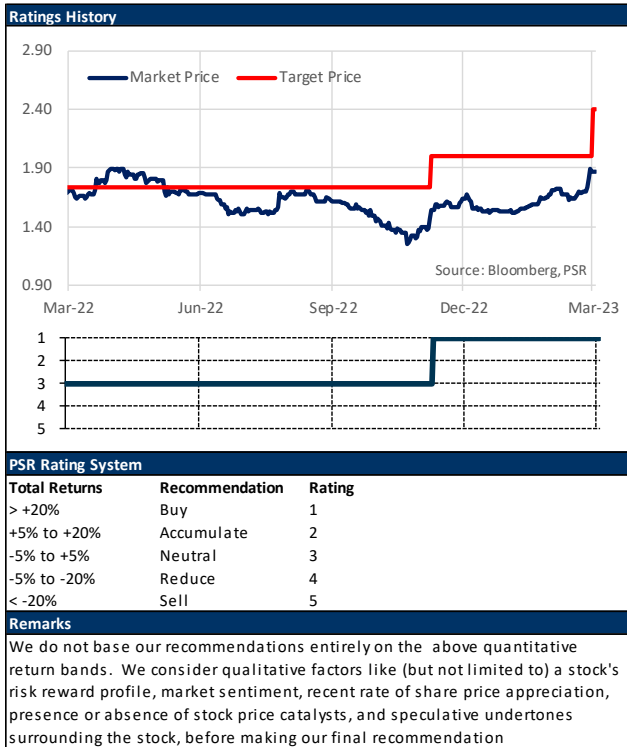
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	23.8	11.5	11.1	10.1	9.3
P/B (x)	7.9	6.1	5.5	4.6	4.0
Dividend Yield (%)	2.9	6.7	7.2	7.8	8.0

Growth & Margins

Growth					
Revenue	22.3%	86.5%	7.5%	8.2%	6.2%
Gross profit	25.4%	83.1%	2.8%	13.8%	2.2%
PBT	43.2%	114.8%	0.5%	10.6%	9.4%
PAT	45.2%	106.4%	3.9%	9.5%	9.4%
Margins					
GP margin	10.8%	10.6%	10.2%	10.7%	10.3%
PBT margin	7.1%	8.2%	7.7%	7.9%	8.1%
PAT Margin	5.7%	6.3%	6.1%	6.1%	6.3%

Key Ratios

ROE (%)	33.2%	53.3%	49.3%	45.8%	43.1%
ROA (%)	15.1%	20.4%	16.6%	17.7%	19.1%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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