

PropNex Ltd

Challenging but bottomed



SINGAPORE | REAL ESTATE (AGENCIES) | 2H23 RESULTS

4 March 2024

- 2023 results were below expectations. Revenue and PATMI were 83%/76% of our estimates. 2H23 adjusted PATMI declined 26% YoY to S\$26.2mn, dragged down by weakness in new launch transactions. The dividend for FY23 dropped 11% to 6 cents or 6.9% yield.
- Transaction volumes in 2023 disappointed. Consumer sentiment was weak and hesitant with April's rising interest rates and cooling measures. Despite new launches rising by 66% in 2023 to 7,551 units, weakness persisted.
- We lower our FY24e earnings by 16% to S\$56mn. Our DCF target price was lowered to S\$0.97 (prev. S\$1.16) and ACCUMULATE recommendation maintained. We expect a recovery in transactions in FY24e. Driving transactions are recovering sentiment post-cooling measures, a higher number of new launches, a surge in residential completions, resilient HDB prices for upgraders, and lower mortgage interest. PropNex remains the largest real estate agency in Singapore, with 62.5% market share in private residential and HDB resale transactions. The company pays an attractive yield of 6.9% (or S\$44mn) backed by S\$148mn net cash.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 0.865
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 0.970
TOTAL RETURN	19.1%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN) :	740.0
MARKET CAP (USD mn / SGD mn) :	476 / 640
52 - WK HI/LO (SGD) :	1.25 / 0.79
3M Average Daily T/O (mn) :	0.3

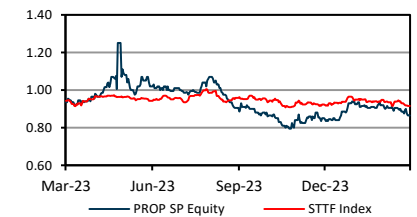
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.3%
SEONG KELVIN FONG KENG	8.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(6.0)	1.8	(7.0)
STTF	(0.1)	1.5	(2.9)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY22	FY23	FY24e	FY25e
Revenue	1,029	838	890	930
Gross Profit	104.7	81.0	93.5	99.5
Operating Profit	77.9	55.0	65.8	69.1
PATMI	62.4	47.8	56.7	59.7
P/E (x)	10.3	13.4	11.3	10.7
P/B (x)	5.1	5.1	4.6	4.3
EPS (cents)	8.4	6.5	7.7	8.1
DPS (cents)	6.8	6.0	6.6	7.0
Dividend yield (%)	7.8	6.9	7.6	8.1
ROE (%)	49.3	37.9	41.1	40.0

Source: Company, PSR

Valuation Method

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

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Results at a glance

SGD mn	2H23	2H22	YoY	Comments
Revenue	473.8	556.9	-15%	
- Agency services	342.4	353.7	-3%	
a) Private resale	135.3	89.5	51%	
b) HDB resale	84.9	80.4	6%	Higher no. of MOP
c) Rental	99.7	112.6	-11%	
- Project Marketing	128.8	200.3	-36%	
Staff costs	(9.7)	(9.2)	5%	
Gross profit	45.2	56.9	-21%	
Operating profit	29.5	44.0	-33%	
PATMI	25.8	35.3	-27%	
PATMI - adjusted	26.2	35.6	-26%	
Dividend (cents) - Final	3.50	4.00	-13%	93% payout ratio.

Source: Company, PSR

The Positive

+ Market share gains and rising cash pile. PropNex shared that in 2023, its market share in new launches crept up 0.5% to 47.9%. Meanwhile, the share in resale rose a larger 6.8% points to 65.8%. HDB resale declined by 0.4% to 64.7%. It remains the largest real estate agency in Singapore, with 12,233 agents (or 66%). Cash continues to pile up in 2023 with a free cash flow of S\$55mn (2022: S\$49mn). The dividend payout ratio continues to rise to a record 93% in FY23.

The Negative

- Weakness in new launch revenue. Revenue in new launches declined by 36% YoY to S\$128mn. The fall in sentiment post-cooling measure and the larger number of units available for resale affected demand. Gross margins contracted as new launches generate higher margins with the additional 0.5% commission paid to the agency.

Outlook

We expect a modest recovery in 2024, largely supported by a rebound in new launches and resilient HDB transaction volume and prices.

- **New launches:** Demand will be supported by lower mortgage rates, resilient HDB prices supporting upgraders, recovering sentiment post-cooling measures, and a higher number of launches. The underlying demand for private new homes tends to trough around 7,000 units per year as reflected in the 2014-2016 period, post-introduction of total debt servicing ratio (TDSR) in 2013.

However, we worry aggregate demand will be capped by (i) the higher number of new launches this year in the CCR region of around 2,350 units (2022: 258 units). CCR is burdened by a 60% ABSD* on foreigners and a large inventory-to-sales ratio of almost four years; (ii) Around 30,000 new residential units would have been completed (or temporary occupation permit) in 2023/24. This is double the 15,000 units completed in the prior two years of 2021/24. The huge number of completions will dampen rental demand and cause buyers to turn to resale rather than new launches.

**Effective 27 April 2023, additional buyer's stamp duty by foreign purchases doubled from 30% to 60%. Demand from foreigners has evaporated. We believe there is a possibility of reduction if unsold inventory continues to pile up but unlikely this year.*

- **Private resale:** Discounts to new launch prices and a large number of new completions will support demand.
- **HDB:** Attractive grants for resale buyers will keep demand resilient. A slower number of HDBs of 13,093 units reaching the minimum occupancy period (MOP) in 2024 will impact demand. However, the huge cumulative spike of MOPS (2019-22: 127k) will keep the supply of HDBs for resale elevated. The number of million-dollar HDB flats continues to rise sharply, providing support for HDB. The publicity of such highly priced homes raises the risk of cooling measures, particularly for private home downgraders.

Figure 1: Modest recovery expected in 2024e

YoY Change	2023	2024e		
		PropNex	Agency X	PSR Revenue
Private - New	-9.6%	+9% to +17%	+4% to +6%	+11%
- Resale	-14.7%	+3% to +11%	+4% to +6%	+7%
HDB	-4.2%	-3% to +1%	+3% to +5%	+4%
Rental - private	-8.7%	n.a.	-3% to -5%	+3%
Price - Private	+6.8%	+3% to +4%	+4% to +6%	+5%
- HDB	+4.9%	+4% to +5%	+3% to +5%	+4%

Source: PropNex, PSR

Maintain ACCUMULATE with a lower TP of S\$0.97 (prev. S\$1.16)

We lower our FY24e earnings by 16% to S\$57mn and reduce the DCF target price to S\$0.97 (prev. S\$1.16). PropNex is the enviable market leader in private and HDB residential transactions in Singapore, with a market share of 62.5% and an attractive dividend yield of 6.9%. The dividend payout of S\$44mn is backed by free cash flow of S\$55mn and net cash of S\$148mn.

Financials

Income Statement

SGD mn, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
Revenue	957.5	1,029.2	838.1	890.3	930.0
Cost of services	(855.7)	(924.5)	(757.1)	(796.8)	(830.5)
Gross profit	101.8	104.7	81.0	93.5	99.5
Staff costs	(16.8)	(18.4)	(17.7)	(18.0)	(19.5)
Finance and other income	7.3	17.3	12.4	9.7	9.1
Other costs and expenses	(13.6)	(24.5)	(16.1)	(14.7)	(14.9)
Operating profit	78.3	77.9	55.0	65.8	69.1
Profit before tax	78.7	79.1	59.5	70.4	74.2
Tax	(13.5)	(13.7)	(9.9)	(12.0)	(12.6)
PAT	65.1	65.4	49.6	58.4	61.6
Minority Interest	(5.1)	(3.0)	(1.8)	(1.8)	(1.8)
PATMI	60.0	62.4	47.8	56.7	59.7
PATMI, adjusted	60.7	62.4	47.1	56.7	59.7

Per share data

SGD cents, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS	8.1	8.4	6.5	7.7	8.1
DPS	6.3	6.8	6.0	6.6	7.0
NAV per share	15.2	17.1	17.1	18.7	20.2

Cash Flow

SGD mn, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CFO					
PAT	65.1	65.4	49.6	58.4	61.6
Adjustments	17.3	16.7	8.2	14.4	15.2
WC changes	7.7	(17.2)	14.0	1.8	0.4
Interest and Taxes paid, others	(7.1)	(13.4)	(13.6)	(12.0)	(12.6)
Cashflow from operations	83.1	51.4	58.3	62.7	64.6
CFI					
Acquisition of plant and equipment	(0.5)	(0.4)	(0.7)	(1.0)	(1.0)
Others	(0.0)	(4.0)	(10.8)	-	-
Cashflow from investments	(0.6)	(4.4)	(11.6)	(1.0)	(1.0)
CFE					
Payment of dividends	(40.4)	(51.5)	(49.8)	(46.6)	(50.3)
Others	(2.3)	(2.3)	(2.4)	(2.2)	(2.3)
Cashflow from financing	(42.7)	(53.8)	(52.2)	(48.8)	(52.6)
Net change in cash	39.8	(6.8)	(5.5)	12.8	11.0
CCE, end	145.6	138.8	133.4	146.2	157.2

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PP&E	2.0	1.4	1.2	1.8	2.2
Others	4.2	6.0	18.4	16.4	14.4
Total non-current assets	6.2	7.4	19.6	18.1	16.6
Trade & other receivables	142.7	223.4	184.6	133.5	139.5
Cash and cash equivalents	145.6	138.9	133.4	146.3	157.2
Total current assets	288.4	368.0	323.5	285.2	302.2
Total Assets	294.6	375.4	343.1	303.4	318.8
LIABILITIES					
Trade & other payables	164.3	228.3	200.7	151.4	157.8
Current tax liabilities	13.5	13.8	10.1	10.1	10.1
Others	2.7	3.8	4.9	4.9	4.9
Total current liabilities	180.5	245.9	215.7	166.5	172.9
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	1.3	2.8	0.9	(1.3)	(3.6)
Total non-current liabilities	1.5	2.9	1.1	(1.1)	(3.4)
Total Liabilities	182.0	248.9	216.8	165.4	169.5
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	69.0	85.1	84.7	94.8	104.2
Non-controlling interests	3.1	0.9	1.1	2.8	4.7
Total Equity	112.6	126.5	126.2	138.0	149.3

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	10.7	10.3	13.4	11.3	10.7
P/B (x)	5.7	5.1	5.1	4.6	4.3
Dividend Yield (%)	7.2	7.8	6.9	7.6	8.1

Growth & Margins

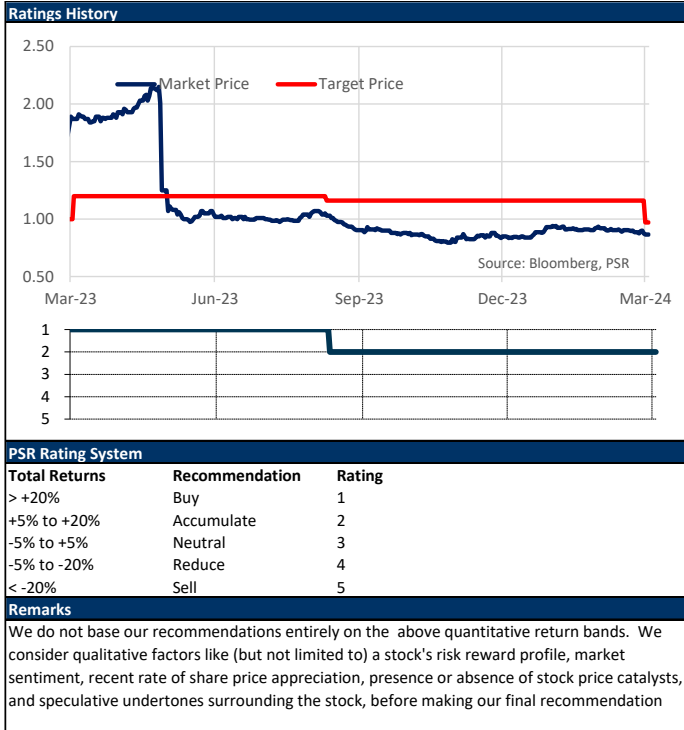
	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	86.5%	7.5%	-18.6%	6.2%	4.5%
Gross profit	83.1%	2.8%	-22.6%	15.4%	6.5%
PBT	114.8%	0.5%	-24.8%	18.3%	5.5%
PAT	106.4%	3.9%	-23.3%	18.5%	5.5%

Margins

	FY21	FY22	FY23	FY24e	FY25e
GP margin	10.6%	10.2%	9.7%	10.5%	10.7%
PBT margin	8.2%	7.7%	7.1%	7.9%	8.0%
PAT Margin	6.3%	6.1%	5.7%	6.4%	6.4%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE (%)	53.3%	49.3%	37.9%	41.1%	40.0%
ROA (%)	20.4%	16.6%	13.9%	18.7%	18.7%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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