

PropNex Ltd

Record earnings but caution ahead



SINGAPORE | REAL ESTATE (AGENCIES) | 4Q21 RESULTS

28 February 2022

- 4Q21 PATMI almost doubled to S\$14m. FY21 revenue was within our estimates but PATMI was 5% below forecast due to lower margins.
- Final dividend was raised 75% YoY to 7 cents. FY21 dividend is up 127% to 12.5 cents.
- After cooling measures announced on 16 December, we expect a sharp 28% decline in FY22e. New home sales will bear the brunt of the weakness. Record low inventory of 14.1k, higher stamp duties and TDSR and a more cautious buyer sentiment will keep transactions subdued. In the last two cooling measures of 2013 and 2018, combined new and resale volumes recovered to new highs only after a two- to three-year period. Our FY22e PATMI is cut by 27% to S\$43.5mn. Similarly, our DCF target price is lowered from S\$2.08 to S\$1.74. We downgrade our ACCUMULATE recommendation to NEUTRAL. Dividends are attractive at 5% for FY22e, as the company undergoes a year of consolidation following record earnings last year.

NEUTRAL (Downgraded)

LAST DONE PRICE	SGD 1.760
FORECAST DIV	SGD 0.090
TARGET PRICE	SGD 1.740
TOTAL RETURN	4.0%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	481 / 651
52 - WK HI/LO (SGD):	2.21 / 0.8
3M Average Daily T/O (mn):	0.3

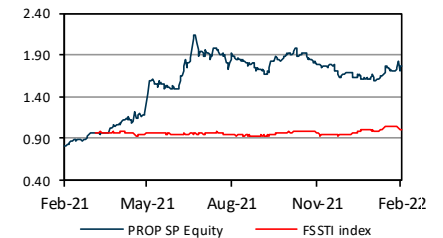
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.2%
SEONG KELVIN FONG KENG	8.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.7	(3.3)	4.1
STI RETURN	1.6	2.7	5.7

PRICE VS. STI



Source: Bloomberg, PSR

Results at a glance

SGD mn	4Q21	4Q20	YoY	Comments
Revenue	242.0	155.1	56%	
- Agency services	139.9	97.2	44%	
a) Private resale	63.5	38.4	65%	
b) HDB resale	34.6	31.4	10%	
c) Rental	33.4	26.6	26%	
- Project Marketing	109.6	57.4	91%	
Staff costs	(4.7)	(3.9)	21%	Increased headcount from 129 to 147.
Gross profit	26.0	15.4	69%	
Operating profit	18.5	9.1	104%	
PATMI	14.3	7.5	91%	
Dividend (cents) - final	7.00	4.00	75%	FY21 DPS 12.5 cents (FY20: 5.5 cents).

Source: Company, PSR

The Positives

+ Surge in revenue with operating leverage. The highest growth was registered in new home sales (+91% YoY) and resale (+65%). HDB resale was resilient with a 10% improvement in revenue. PATMI grew at a faster pace despite the increase in headcount due to operating leverage.

+ Jump in cash flow and dividends. The asset-light and highly cash generative business model was reflected in FY21. Operating cash flow in FY21 was S\$83mn (FY20: S\$42mn), driving up net cash on the balance sheet to S\$146mn (FY20: S\$106mn). The dividend of 12.5 cents in FY21 represents S\$46mn. CAPEX in FY21 was S\$0.5mn. Our DPS estimates for FY22 of 9 cents is based on a 77% payout ratio (FY21: 77%).

The Negative

- Nil.

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY20	FY21	FY22e	FY23e
Revenue	513.5	957.5	762.3	776.3
Gross Profit	55.6	101.8	78.5	83.1
Operating Profit	36.0	78.3	55.1	58.7
PATMI	29.1	60.0	43.5	46.9
P/E (x)	22.4	10.8	15.0	13.9
P/B (x)	7.4	5.8	5.5	5.0
EPS (cents)	7.9	16.2	11.8	12.7
DPS (cents)	5.5	12.5	9.0	11.0
Dividend yield (%)	3.1	7.1	5.1	6.3
ROE (%)	33.2	53.3	36.8	35.8

Source: Company, PSR

Valuation Method

DCF (Cost of equity 10%, Terminal growth 2%)

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Outlook

We expect a lull in transactions this year following the introduction of more cooling measures, namely the increase in stamp duties by 5% to 10% points and lowering of Total Debt Servicing Ratio (TDSR) from 60% to 55%. Nevertheless, we believe demand is generally healthy, especially for HDB:

- (i) Underlying demand from new household formation: Household formation remain healthy with resident marriages still hovering around 21,000 per annum in 2020.
- (ii) HDB upgraders equity: Around 35k HDB units are reaching their five-year minimum occupancy period (MOP) in 2022. Potential gains (or equity for upgrading) from such sales range from S\$200k to S\$300k.
- (iii) Cooling measures mixed impact. The recent round of cooling measures has no impact on first-time home buyers for citizens and permanent residents. However, the lowering of TDSR to 55% will have a more meaningful impact. It was reported that 41% of private housing buyers in 2021 would have TDSR above 55%, HDB is much lower at 3%*.

* <https://www.mas.gov.sg/news/parliamentary-replies/2022/reply-to-parliamentary-question-on-a-annual-number-and-proportion-of-hdb-and-private-property-flat-buyers-who-had-a-total-debt-servicing-ratio-of-about-55-percent>

Figure 1: Volume estimates in 2022

FY22e	PropNex*	APAC **	PSR
Private - New	-20 to -30%	-20 to -30%	-30%
- Resale	-15 to -20%	-22 to -27%	-25%
HDB	Flat	-15%	3%
Rental	n.a.	2%	4%

Source: Companies, PSR

* PropNex FY22 estimates (units): new home sales 9k to 10k, resale 15k to 16k, HDB Resale 30k

** APAC Realty FY22 estimates (units): new home sales 9k to 10k, resale 15k to 16k, HDB Resale 26.5k

Private new homes. New homes sales are expected to decline significantly due to the low unsold inventory, particularly in the popular OCR region. OCR inventory is only 3,972. The lowering of TDSR will cap the ability to leverage and turn pricing even more elastic. Another headwind will be the time lag for upgraders to purchase their units. The incremental 5% points of stamp duty to 17% for 2nd home purchase means an extra S\$65-75k** of equity for an upgrader before securing a refund. This implies the upgrader will likely rent premises and collect proceeds before upgrading.

** Assuming the purchase of a new S\$1.3mn or S\$1.5mn home.

Private resales. The benefit of resale remains the lower price point to new launches. This should allow the decline in volumes to be less dramatic than new launches.

HDB resales. HDB will be the most resilient due to the attractive grants, delay in new units or BTO, healthy household formation and large MOP units available for sale.

Market share gains. An important catalyst to sustain revenue will be to increase PropNex's market share. Since 2019, the number of agents has increased by around 50% to 11,125. PropNex disclosed that its recent market share for new launches post-cooling measures range from 53% to 57%.

Expectations are for prices to rise. Lower supply from developers, delay in HDB BTO units, rising construction costs and improving economic conditions will keep property prices elevated. PropNex expectations are for private residential home prices to rise 3-5% in 2022 (APAC Realty: +1-3%). HDB resale prices are expected to climb higher by 6-8% (APAC Realty: +4-8%).

Downgrade to NEUTRAL from ACCUMULATE with lower TP of S\$1.74 (previous S\$2.08)

Our FY22e PATMI is cut by 27% to S\$43.5mn. Similarly, our DCF target price is lowered from S\$2.08 to S\$1.74. We raised our WACC modestly from 9.8% to 10% due to higher interest rates. Our terminal growth has expanded from 0% to 2% on our expectations of expanding long-term growth in property transactions.

Financials

Income Statement

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
Revenue	419.8	513.5	957.5	762.3	776.3
Cost of services	(375.5)	(457.9)	(855.7)	(683.8)	(693.2)
Gross profit	44.3	55.6	101.8	78.5	83.1
Staff costs	(12.8)	(14.1)	(16.8)	(15.0)	(15.5)
Finance and other income	6.9	7.6	7.3	4.7	5.5
Other costs and expenses	(12.8)	(12.4)	(13.6)	(12.4)	(12.8)
Operating profit	24.5	36.0	78.3	55.1	58.7
Profit before tax	25.6	36.6	78.7	55.8	60.2
Tax	(4.5)	(5.9)	(13.5)	(9.5)	(10.2)
PAT	21.1	30.7	65.1	46.3	49.9
Minority Interest	(1.1)	(2.1)	(5.1)	(2.8)	(3.0)
PATMI	20.0	29.1	60.0	43.5	46.9

Per share data

SGD cents, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS	5.4	7.9	16.2	11.8	12.7
DPS	3.5	5.5	12.5	9.0	11.0
NAV per share	19.4	23.7	30.4	31.9	35.4

Cash Flow

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CFO					
PAT	21.1	31.2	65.1	46.3	49.9
Adjustments	8.2	10.6	17.3	12.1	13.0
WC changes	5.0	3.3	7.7	(6.0)	(0.3)
Interest and Taxes paid, others	(5.0)	(3.2)	(7.1)	(9.5)	(10.2)
Cashflow from operations	29.3	42.0	83.1	42.9	52.3
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)	(40.7)	(37.0)
Others	(2.7)	(2.6)	(2.3)	(0.5)	(0.5)
Cashflow from financing	(22.4)	(18.0)	(42.7)	(41.2)	(37.5)
Net change in cash	5.9	24.2	39.8	0.7	13.8
CCE, end	81.5	105.7	145.6	146.3	160.2

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	2.4	2.7
Others	5.9	3.7	4.2	2.2	0.2
Total non-current assets	9.4	6.3	6.2	4.5	2.8
Trade & other receivables	63.5	80.6	142.7	114.3	116.4
Cash and cash equivalents	81.6	105.8	145.6	146.4	160.2
Total current assets	145.1	186.4	288.4	260.7	276.7
Total Assets	154.4	192.7	294.6	265.3	279.5
LIABILITIES					
Trade & other payables	71.7	94.3	164.3	129.9	131.7
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	145.6	146.9
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	147.1	148.4
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	71.8	81.7
Non-controlling interests	2.6	3.0	3.1	5.9	8.9
Total Equity	71.9	87.6	112.6	118.2	131.1

Valuation Ratios

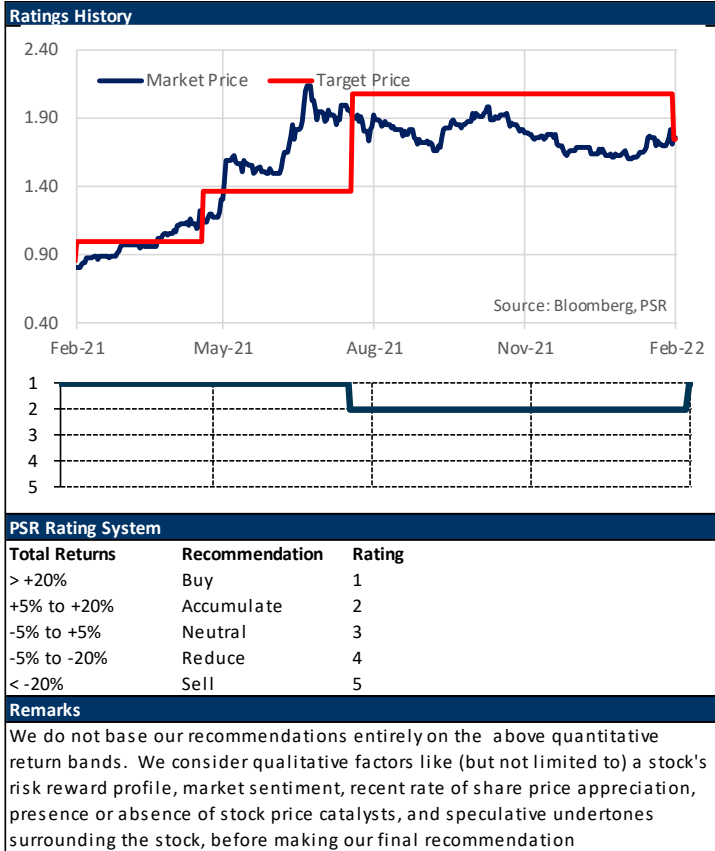
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	32.5	22.4	10.8	15.0	13.9
P/B (x)	9.1	7.4	5.8	5.5	5.0
Dividend Yield (%)	2.0	3.1	7.1	5.1	6.3

Growth & Margins

Growth					
Revenue	-2.7%	22.3%	86.5%	-20.4%	1.8%
Gross profit	7.1%	25.4%	83.1%	-22.9%	5.8%
PBT	-3.0%	43.2%	114.8%	-29.1%	7.9%
PAT	3.2%	45.2%	106.4%	-27.5%	7.9%
Margins					
GP margin	10.6%	10.8%	10.6%	10.3%	10.7%
PBT margin	6.1%	7.1%	8.2%	7.3%	7.7%
PAT Margin	4.8%	5.7%	6.3%	5.7%	6.0%

Key Ratios

ROE (%)	27.9%	33.2%	53.3%	36.8%	35.8%
ROA (%)	13.0%	15.1%	20.4%	16.4%	16.8%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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