

### COMPANY RESULTS

#### Propnex (PROP SP)

1Q22: Benefitting From Its Broad-based Revenue Streams

Propnex's 6% yoy decline in its 1Q22 PATMI to S\$14m was in line with our expectations with weakness in project marketing offset by relative strength in its other business segments. The company generated free cash flow of S\$17m in 1Q22, up 21% yoy, while its balance sheet remains underutilised. We view Propnex's investment metrics as inexpensive given its ex-cash PE of 8.9x for 2022 and yield of 6.4%. Maintain BUY with a slightly lower target price of S\$2.07.

#### 1Q22 RESULTS

Year to 31 Dec (S\$m)	1Q21	1Q22	yoy chg %	Remarks
Revenue	220.6	241.6	9.5%	- Decline in project marketing revenue
Gross profit	23.3	24.1	3.4%	more than offset by other segments
Pre-tax profit	19.4	18.0	-7.2%	
PATMI	14.8	13.9	-6.1%	

#### Profit Margins

	1Q21	1Q22	yoy chg %	Remarks
Gross profit margin	10.6%	10.0%	-0.6ppt	
Net profit margin	6.7%	5.8%	-0.9ppt	- Due to higher staff costs

Source: Propnex, UOB Kay Hian

### RESULTS

- In line with expectations.** Propnex reported 1Q22 results that were in line with our expectations with PATMI falling 6% yoy to S\$13.9m, making up 25% of our full-year estimate. The company saw a 5% yoy decline in project marketing revenue due to a lack of new launches in 1Q22; however, this was more than offset by its other business segments which saw double-digit yoy revenue increases. Private resale was notably strong with revenue increasing 21% yoy to S\$67m.
- The return of foreign buying.** During the analyst call, Propnex highlighted that while foreigners only represented 3.2% of all property transactions in 1Q22, the month of April saw foreign participation reach 9.0%, a level that the market has not witnessed since 2015.
- Underutilised balance sheet.** Propnex continues to have an underutilised balance sheet with no debt and S\$162m in cash as at end-1Q22; of this, S\$26m will be paid out at end-May 22 as its final dividend for 2021. After the dividend payment, the company will still have about S\$0.37/share in cash, representing around 21% of its share price. We believe that as its cash hoard builds up, the pressure from shareholders to return it via a special dividend will be difficult for the market to ignore.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	513	957	698	702	720
EBITDA	39	81	76	68	71
Operating profit	35	78	72	64	67
Net profit (rep./act.)	28	60	57	51	53
Net profit (adj.)	28	60	57	51	53
EPS (S\$ cent)	7.6	16.2	15.3	13.7	14.4
PE (x)	22.9	10.7	11.3	12.7	12.0
P/B (x)	7.6	5.8	5.1	4.5	4.1
EV/EBITDA (x)	12.4	6.0	6.4	7.2	6.8
Dividend yield (%)	3.2	7.2	6.4	5.8	6.4
Net margin (%)	5.4	6.3	8.1	7.2	7.4
Net debt/(cash) to equity (%)	(125.1)	(133.1)	(129.4)	(128.6)	(123.9)
ROE (%)	36.3	61.9	48.0	37.8	35.7
Consensus net profit	-	-	51	51	53
UOBKH/Consensus (x)	-	-	1.10	0.99	1.01

Source: Propnex, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.73
Target Price	S\$2.07
Upside	+19.7%
(Previous TP)	S\$2.22)

### COMPANY DESCRIPTION

Singapore's largest real estate agency with a dominant market share of the residential primary private and HDB resale market.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PROP SP
Shares issued (m):	370.0
Market cap (S\$m):	640.1
Market cap (US\$m):	462.2
3-mth avg daily t'over (US\$m):	0.4

### Price Performance (%)

52-week high/low S\$2.14/S\$1.09

1mth	3mth	6mth	1yr	YTD
(6.0)	(1.1)	(9.9)	57.3	2.4

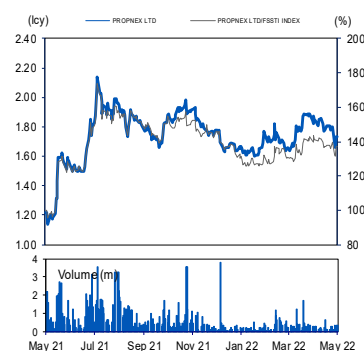
### Major Shareholders

	%
P&N Holdings	55.6
Fong Kelvin	8.6
Ismail Mohamed	9.3

FY22 NAV/Share (S\$) 0.34

FY22 Net Cash/Share (S\$) 0.44

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Near-term en bloc news may be a share price catalyst.** During the analyst call, Propnex highlighted that May and Jun 22 will see the closing of two of its en bloc tenders respectively. These are the Lakeside Apartments at an indicative price of S\$240m and Lakepoint Condominium at an indicative price of S\$640m. The company appears to be quietly confident that these projects will attract strong bids as property developers are desirous of topping up their landbank. If successful, these two projects could be very lucrative for Propnex given the 50% gross margins and 0.6% minimum commission – this could translate to at least S\$2.5m in profit which we have not factored into our current forecasts.
- The cooling measures from Dec 21 did not appear to have had a negative effect** on Propnex's 1Q22 results; however, the company's management highlighted that its solid numbers were partially the result of the timing of revenue recognition and that 2Q22 results would be more telling. In any case, we note that the company has a broad base of revenue generation which should largely cushion the full brunt of the cooling measures. In addition, we highlight management's comments that current buyer sentiment remains "good" which seems to be backed up by the recent strong sales performance at Piccadilly Grand, a new launch by City Developments and MCL Land.
- A bumper dividend for 2021 – To be repeated in 2022?** Recall that Propnex paid out a dividend of S\$0.125/share in 2021, implying a historic yield of 7.2% based on yesterday's closing price. The payout ratio of 77.1% for 2021 was slightly higher than expected and we forecast Propnex to continue to pay out 70% of its profits going forward. This results in a dividend per share of S\$0.11 for 2022 which implies a yield of 6.4%.

### EARNINGS REVISION/RISK

- No changes to earnings estimates.

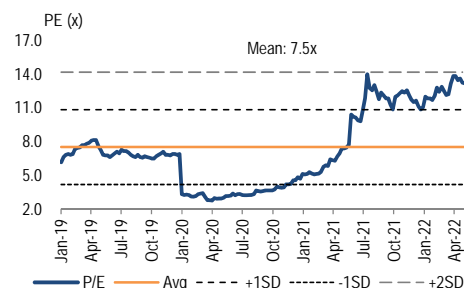
### VALUATION/RECOMMENDATION

- We maintain our BUY rating with a slightly lower PE-based target price of S\$2.07.** We have lowered our target PE multiple to 1SD above the company's historical PE average of 7.5x (previously 1.5SD) to take into account a period of adjustment for the Singapore property market after the cooling measures were implemented in Dec 21 and Apr 22. Nevertheless, we believe that the company's prospects remain strong given that uncompleted unsold units are at an all-time low (see chart on RHS) and thus, prices and volumes should remain reasonably well-supported in the medium term.
- Inexpensive metrics.** Given the company's net cash position of S\$136m (after the payment of 2021's final dividend), we note that Propnex's ex-cash PE is only 8.6x. We also note that during 1Q22, the company generated nearly S\$17m in free cash flow which, on an annualised basis, represents around 10% free cash flow yield.

### SHARE PRICE CATALYSTS

- Continued positive newsflow on private and HDB resale volumes.
- Higher-than-expected interim dividend for 1H22, indicating the company's willingness to return cash to shareholders.

### PE: 2019 TO PRESENT



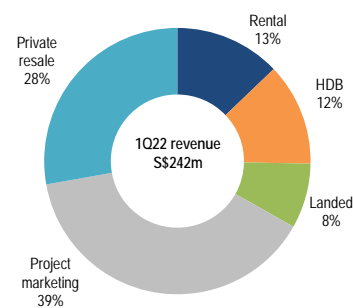
Source: Bloomberg, UOB Kay Hian

### PROPNE X'S FORECASTS FOR 2022 HOME PRICES

- +6% to +8% ↑ HDB Resale Index
- +3% to +5% ↑ Private Residential Price Index
- +3% to +5% ↑ Outside core region
- +2% to +4% ↑ Rest of core region
- 2% to 0% ↓ Core central region

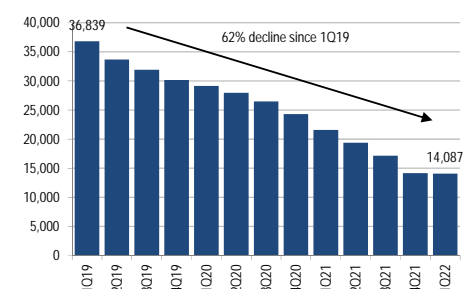
Source: Propnex

### REVENUE CONTRIBUTION BY SEGMENT (1Q22)



Source: Propnex

### UNSOLD PRIVATE HOMES IN SINGAPORE



Source: Propnex

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	957	698	702	720
EBITDA	81	76	68	71
Deprec. & amort.	4	4	4	4
EBIT	78	72	64	67
Total other non-operating income	1	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	0	1	2	2
<b>Pre-tax profit</b>	<b>79</b>	<b>73</b>	<b>66</b>	<b>69</b>
Tax	(14)	(12)	(11)	(12)
Minorities	(5)	(4)	(4)	(4)
<b>Net profit</b>	<b>60</b>	<b>57</b>	<b>51</b>	<b>53</b>
Net profit (adj.)	60	57	51	53

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2	1	1	2
Other LT assets	4	0	1	1
Cash/ST investment	146	164	182	196
Other current assets	143	104	105	108
<b>Total assets</b>	<b>294</b>	<b>269</b>	<b>289</b>	<b>307</b>
ST debt	0	0	0	1
Other current liabilities	181	135	135	132
LT debt	0	0	0	0
Other LT liabilities	1	0	1	1
Shareholders' equity	109	126	142	158
Minority interest	3	7	11	15
<b>Total liabilities &amp; equity</b>	<b>295</b>	<b>269</b>	<b>289</b>	<b>307</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>83</b>	<b>66</b>	<b>60</b>	<b>50</b>
Pre-tax profit	79	73	66	69
Tax	(7)	(12)	(11)	(12)
Deprec. & amort.	4	4	4	4
Associates	0	0	0	0
Working capital changes	8	0	0	(14)
Non-cash items	0	1	2	3
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>(1)</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>
Capex (growth)	(1)	(1)	0	0
Capex (maintenance)	0	0	0	0
Investments	0	0	0	1
Proceeds from sale of assets	0	0	0	0
Others	0	(1)	(2)	(2)
<b>Financing</b>	<b>(43)</b>	<b>(46)</b>	<b>(40)</b>	<b>(34)</b>
Dividend payments	(40)	(46)	(40)	(35)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	1
Loan repayment	0	0	0	0
Others/interest paid	(2)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>40</b>	<b>18</b>	<b>19</b>	<b>14</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>106</b>	<b>146</b>	<b>164</b>	<b>182</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>146</b>	<b>164</b>	<b>182</b>	<b>196</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	8.5	10.8	9.6	9.9
Pre-tax margin	8.2	10.5	9.4	9.6
Net margin	6.3	8.1	7.2	7.4
ROA	24.6	20.1	18.1	17.9
ROE	61.9	48.0	37.8	35.7
<b>Growth</b>				
Turnover	86.5	(27.1)	0.5	2.5
EBITDA	107.4	(6.8)	(10.8)	5.3
Pre-tax profit	118.4	(6.7)	(10.6)	5.6
Net profit	114.6	(5.7)	(10.6)	5.6
Net profit (adj.)	114.6	(5.7)	(10.6)	5.6
EPS	114.6	(5.7)	(10.6)	5.6
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.6
Debt to equity	0.0	0.0	0.0	0.6
Net debt/(cash) to equity	(133.1)	(129.4)	(128.6)	(123.9)

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