

# PropNex Ltd

Strength from revenue diversity



## SINGAPORE | REAL ESTATE (AGENCIES) | 2Q22 RESULTS

15 August 2022

- 1H22 revenue and PATMI were within expectations at 62%/62% of our FY22e forecast. We expect further weakness in earnings, especially from new project revenue.
- Rental was the fastest growing segment in 2Q22, rising 23% YoY, followed by HDB. Project marketing revenue fell 29% YoY due to a decline in new launches.
- We maintain our FY22e forecast. Our expectations are a further decline in earnings in 2H22 due to a lagged revenue recognition from limited project marketing sales in 1H22 of around 1,548 units. New launches planned in 2H22 are expected to pick up to 5,183 units. Rising HDB prices and interest rates may lead to some additional tightening measures. We worry the current TDSR stress test interest rate of 3.5% may be raised. Without a BTO supply lever to dampen prices, other direct intervention by HDB is also possible. Our FY22e target price of S\$1.74 and NEUTRAL recommendation is maintained.

### NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.670
FORECAST DIV	SGD 0.090
TARGET PRICE	SGD 1.740
<b>TOTAL RETURN</b>	<b>9.6%</b>

#### COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	451 / 618
52 - WK HI/LO (SGD):	1.99 / 1.5
3M Average Daily T/O (mn):	0.1

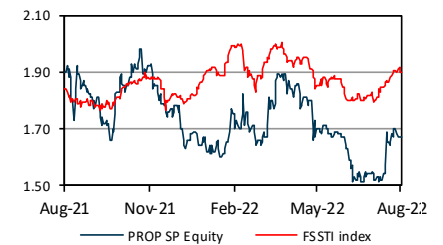
#### MAJOR SHAREHOLDERS

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

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	8.4	0.0	2.9
STI RETURN	5.0	4.5	7.9

#### PRICE VS. STI



#### Results at a glance

SGD mn	2Q22	2Q21	YoY	Comments
Revenue	230.7	260.5	-11%	
- Agency services	139.1	125.5	11%	
a) Private resale	68.5	69.9	-2%	
b) HDB resale	33.6	32.1	5%	
c) Rental	37.0	30.1	23%	
- Project Marketing	89.9	126.8	-29%	Decline in new launches.
Staff costs	(4.4)	(4.1)	8%	
Gross profit	23.7	27.8	-15%	
Operating profit	16.0	21.9	-27%	Bad debt provision S\$1.3mn (2Q21: S\$0.3mn).
PATMI	13.1	16.5	-21%	
Dividend (cents) - final	5.50	5.50	0%	

Source: Company, PSR

#### The Positive

**+ Resilient revenue.** Despite the weakness in new launches, other segments of the business managed to grow, less impacted by the December 2021 cooling measure. Rental income jumped 23%, followed by HDB resale.

#### The Negative

**- Sluggish new launch revenue.** There were only an estimated 1,548 new residential units launched in 1H22, a decline of 70% YoY from 5,222 units 1H21. As revenue from new launches are recognised typically six months after completion of the home sale, new launches may recover from a planned 5,183 units earmarked for 2H22.

#### Outlook

Property prices will remain elevated. We believe there is a virtuous cycle underway. HDB owners may enjoy gains that are used as equity (est. S\$300k) to upgrade into the private residential market. Meanwhile, buyers of HDB resale include private property owners looking to cash out and move into HDB units. Other macro tailwinds include rising income levels, low supply, healthy developer balance sheet and higher priced land bids.

In terms of transaction volumes, new home sales are expected to decline more than expected in 2022, from a decline of 20-30% to 30-40%. No change in PropNex volume expectations for the other segments - private resale (decline 20-25%) and HDB resale (decline 5-10%).

#### 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)	21.2	10.3	14.2	13.2
P/B (x)	7.1	5.5	5.5	4.7
EPS (cents)	7.9	16.2	11.8	12.7
DPS (cents)	5.5	12.5	9.0	11.0
Dividend yield (%)	3.3	7.5	5.4	6.6
ROE (%)	33.2	53.3	38.6	35.8

Source: Company, PSR

#### Valuation Method

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

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## Other highlights

- 1. Impact of higher interest rates.** On a \$1mn housing loan, a 1%-point rise in interest rates will lead to an estimated \$500 increase in monthly instalment. Despite higher rates, demand in the recent AMO residential project was vibrant judging by the multiple cheques collected from buyers.
- 2. Market share.** Due to the balloting process in new launches, there can be a loss in market share despite higher customer bookings.
- 3. Overseas expansion.** Launched PropNex in Melbourne as a franchise. Developers in Australia wish to bring projects to Singapore buyers. The PropNex revenue model is percentage royalty from revenue and one-time franchise fee.
- 4. Bad Debt provisions.** 2Q22 saw a S\$1mn YoY jump in impairment of receivables to S\$1.3mn. Developers cannot complete their projects on schedule due to the pandemic, thus the delay in paying real estate agents. Any debtor crossing 365 days will be impaired as an accounting policy. The actual exposure to PropNex is only 10% outstanding, as most receivables are commissions to be paid to the agents.
- 5. Spike in outside central region (OCR) prices.** Based on average transacted per sft over the past seven months, OCR enjoyed the largest spike in prices. A 21.9% jump to S\$2,073, followed by the rest of central region's (RCR) 18.4% jump to S\$2,423. Core central region (CCR) was down 2.9% to S\$2,807.
- 6. Lowest inventory in OCR.** The current unsold inventory is 15,805 units. Based on average annual sales, OCR inventory is only 0.8 years of sales, followed by RCR at 1.5 years and CCR at 3 years.

## Maintain NEUTRAL with an unchanged TP of S\$1.74

We keep our FY22e PATMI unchanged. Our dividend expectation for FY22e is 9 cents or a dividend yield of 5.4%.

## Financials

### Income Statement

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
<b>Revenue</b>	419.8	513.5	957.5	762.3	776.3
Cost of services	(375.5)	(457.9)	(855.7)	(683.8)	(693.2)
<b>Gross profit</b>	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	5.4
Other costs and expenses	(12.8)	(12.4)	(13.6)	(12.4)	(12.8)
<b>Operating profit</b>	<b>24.5</b>	<b>36.0</b>	<b>78.3</b>	<b>55.1</b>	<b>58.7</b>
<b>Profit before tax</b>	<b>25.6</b>	<b>36.6</b>	<b>78.7</b>	<b>55.8</b>	<b>60.1</b>
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)
<b>PATMI</b>	<b>20.0</b>	<b>29.1</b>	<b>60.0</b>	<b>43.5</b>	<b>46.9</b>

### 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	30.4	35.4

### Cash Flow

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
PAT	21.1	31.2	65.1	46.3	49.9
Adjustments	8.2	10.6	17.3	12.1	12.9
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)
<b>Cashflow from operations</b>	<b>29.3</b>	<b>42.0</b>	<b>83.1</b>	<b>42.9</b>	<b>52.3</b>
<b>CFI</b>					
Acquisition of plant and equipment	(1.9)	(0.5)	(0.5)	(1.0)	(1.0)
Others	0.8	0.7	(0.0)	-	-
<b>Cashflow from investments</b>	<b>(1.0)</b>	<b>0.2</b>	<b>(0.6)</b>	<b>(1.0)</b>	<b>(1.0)</b>
<b>CFE</b>					
Payment of dividends	(19.6)	(15.4)	(40.4)	(46.3)	(31.5)
Others	(2.7)	(2.6)	(2.3)	(0.5)	(0.5)
<b>Cashflow from financing</b>	<b>(22.4)</b>	<b>(18.0)</b>	<b>(42.7)</b>	<b>(46.8)</b>	<b>(32.0)</b>
<b>Net change in cash</b>	<b>5.9</b>	<b>24.2</b>	<b>39.8</b>	<b>(4.8)</b>	<b>19.4</b>
<b>CCE, end</b>	<b>81.5</b>	<b>105.7</b>	<b>145.6</b>	<b>140.8</b>	<b>160.1</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

SGD mn, Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
PP&E	3.5	2.6	2.0	2.4	2.7
Others	5.9	3.7	4.2	2.2	0.2
<b>Total non-current assets</b>	<b>9.4</b>	<b>6.3</b>	<b>6.2</b>	<b>4.5</b>	<b>2.8</b>
Trade & other receivables	63.5	80.6	142.7	114.3	116.4
Cash and cash equivalents	81.6	105.8	145.6	140.8	160.2
<b>Total current assets</b>	<b>145.1</b>	<b>186.4</b>	<b>288.4</b>	<b>255.2</b>	<b>276.6</b>
<b>Total Assets</b>	<b>154.4</b>	<b>192.7</b>	<b>294.6</b>	<b>259.7</b>	<b>279.4</b>
<b>LIABILITIES</b>					
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
<b>Total current liabilities</b>	<b>79.5</b>	<b>103.9</b>	<b>180.5</b>	<b>145.6</b>	<b>146.9</b>
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	2.9	1.0	1.3	1.3	1.3
<b>Total non-current liabilities</b>	<b>3.0</b>	<b>1.2</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
<b>Total Liabilities</b>	<b>82.5</b>	<b>105.1</b>	<b>182.0</b>	<b>147.1</b>	<b>148.4</b>
<b>EQUITY</b>					
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	66.3	81.7
Non-controlling interests	2.6	3.0	3.1	5.9	8.9
<b>Total Equity</b>	<b>71.9</b>	<b>87.6</b>	<b>112.6</b>	<b>112.6</b>	<b>131.0</b>

### Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	30.8	21.2	10.3	14.2	13.2
P/B (x)	8.6	7.1	5.5	5.5	4.7
Dividend Yield (%)	2.1	3.3	7.5	5.4	6.6

### Growth & Margins

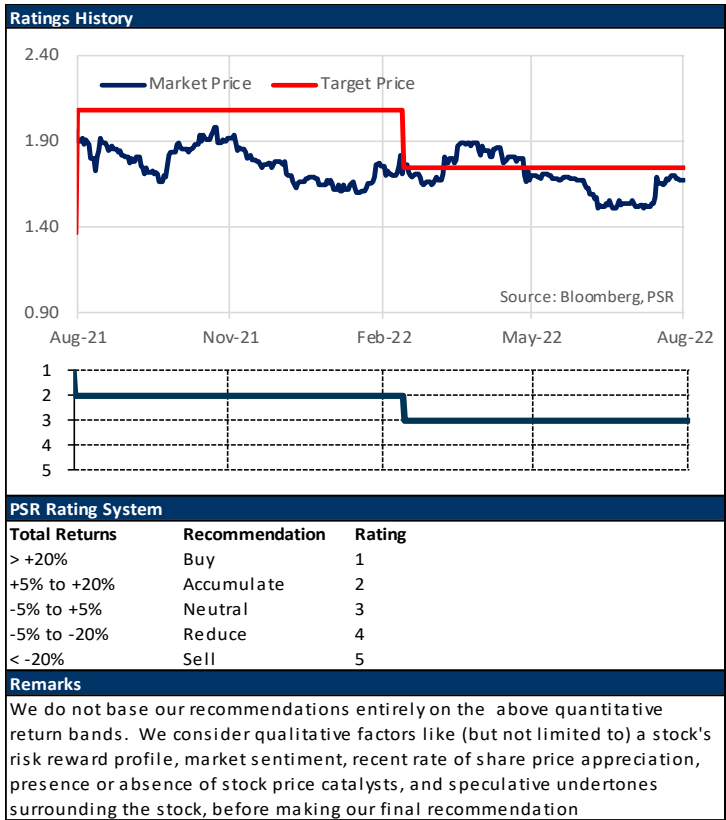
<b>Growth</b>					
Revenue	-2.7%	22.3%	86.5%	-20.4%	1.8%
Gross profit	7.1%	25.4%	83.1%	-22.9%	5.8%
PBT	-3.0%	43.2%	114.8%	-29.1%	7.8%
PAT	3.2%	45.2%	106.4%	-27.5%	7.8%

### 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%	38.6%	35.8%
ROA (%)	13.0%	15.1%	20.4%	16.8%	16.8%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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