

PropNex Ltd

13 May 2022

HOLD (maintained)

BBG	PROP SP
Market cap	S\$618 million
Price (12 May 2022)	S\$1.67
52-week range	S\$0.855 – S\$2.21
Target Price	S\$1.78
Shares Outstanding	370 million
Free Float	20%
Major Shareholders	Mohamed Ismail s/o Abdul Gafoore 64.8% Lim Tow Huat 60.0% Kelvin Fong 8.4%
P/BV (12/21)	5.6x
Net Debt to EBITDA (12/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

Peggy Mak
pmak@saccapital.com.sg

1Q22 results in line, expect stronger 2H

1Q22 results were in line. Revenue rose 9.5% yoy and net profit fell 6.1%. Project marketing revenue, which accounted for major share of 38.7% of revenue, fell 4.9% yoy due to a lull of new launches. This was offset by private resale (+21.8%), landed resale (+23.4%) and rental (+33.6%). On a qoq basis, 1Q22 revenue was -0.2% below 4Q21, which was impressive considering 4Q21 industry-wide volume was down over 3Q21, with HDB resale -5.8%, private resale -11.5% and private new units -15.0%. This implies PropNex gained market share and sales value per unit had risen markedly. Property transactions recorded are booked as sales revenue in the following one to two quarters when the transactions are completed.

2Q22 revenue is likely to taper, given that home sales volume fell further in 1Q22 (HDB resale -12.7% qoq, private resale -28.9%, and private new units -39.5%), also due to lack of new launches and low unsold inventory, cooling measures introduced in mid-Dec and rising mortgage rates. As at March 2022, the number of unsold units hit a record low of 14,087 units.

We expect volume to pick up from 3Q22, given about 6,046 of new private units will be launched progressively from 2Q. HDB resale volume will be underpinned by record 31,325 units that reach the 5-year minimum occupancy period and are available for sale. For FY22, PropNex estimated that volume will fall 5-10% for HDB resale, 20-25% for private resale units and 20-30% for private new units.

Advantage of scale. Its agency force, which exceeds 11,000, is the largest and continues to grow. The scale gives it an edge in 1) economies of scale in sharing of data and resources; 2) garnering marketing roles for new launches and en-bloc sales; and 3) attract even more agents to sign on.

The near-term risks are 1) mortgage rates have crept up from median 1.15% in Dec 21 to 2.5% currently; 2) higher prices of new launches hurting affordability; and 3) inflationary-push recession risks. We maintain our hold call and target price.

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	419.8	513.5	957.5	783.8	848.2
EBIT	24.5	36.0	78.3	60.7	66.3
Net profit	20.0	29.1	60.0	47.0	51.4
EPS (S cents)	5.4	7.9	16.2	12.7	13.9
DPS (S cents)	3.5	5.5	12.5	8.9	9.7
Net cash / (debt)	81.6	105.8	145.6	156.4	179.4
Valuation					
EBIT margin (%)	5.8	7.0	8.2	7.7	7.8
ROIC (%)	(301.6)	(171.7)	(190.2)	(190.6)	(181.7)
EV/EBITDA (x)	19.0	12.9	5.8	7.2	6.3
P/E (x)	30.8	21.2	10.3	13.1	12.0
Dividend yield (%)	2.1	3.3	7.5	5.3	5.8

Income Statement

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	513.5	957.5	783.8	848.2
Cost of sales	(457.9)	(855.7)	(700.7)	(758.3)
Gross profit	55.6	101.8	83.1	89.9
Other income	6.9	7.0	6.0	6.0
Personnel costs	(14.1)	(16.8)	(16.6)	(18.0)
Other operating expenses	(8.6)	(10.7)	(8.8)	(8.8)
EBITDA	39.8	81.3	63.7	69.1
Depreciation	(3.6)	(3.5)	(3.0)	(2.8)
Associates & JV	(0.1)	-	-	-
Exceptional items	-	0.6	-	-
EBIT	36.0	78.3	60.7	66.3
Net finance costs	0.6	0.4	0.3	0.3
Pretax profit	36.6	78.7	61.0	66.7
Tax expense	(5.9)	(13.5)	(10.4)	(11.3)
Minority interests	(2.1)	(5.1)	(3.6)	(3.9)
Discontinued operations	0.5	-	-	-
Net profit	29.1	60.0	47.0	51.4

Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
PPE	2.6	2.0	1.5	1.0
Trademark	0.1	0.9	0.9	0.9
Right of use assets	3.2	2.9	1.9	1.1
Others	0.4	0.4	0.4	0.4
Non-current assets	6.3	6.2	4.7	3.4
Trade receivables	80.6	142.7	118.1	127.8
Cash	105.8	145.6	156.4	179.4
Others	-	-	-	-
Current assets	184.6	288.4	274.5	307.2
Total assets	192.7	294.6	279.2	310.6
Liabilities				
Trade payables	94.3	164.3	134.4	145.4
Lease liabilities	2.1	1.6	1.6	1.6
Deferred income	0.5	1.1	1.1	1.1
Tax provisions	7.0	13.5	10.4	11.3
Others	-	-	-	-
Current liabilities	103.9	180.5	147.5	159.5
Deferred tax	0.2	0.2	0.2	0.2
Lease liabilities	1.0	1.3	1.3	1.3
Non-current liabilities	1.2	1.5	1.5	1.5
Net assets	87.6	112.6	130.3	149.6
Equity				
Share capital	57.5	57.5	57.5	57.5
Other reserves	(17.1)	(17.1)	(17.1)	(17.1)
Retained earnings	44.1	69.0	83.1	98.5
	84.6	109.4	123.5	139.0
Minority interests	3.0	3.1	6.7	10.7
Total equity	87.6	112.6	130.3	149.6

Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	36.6	78.7	61.0	66.7
Depreciation & amortisation	3.6	3.5	3.0	2.8
Associates & JV	0.1	-	-	-
Net finance expense	(0.6)	(0.3)	(0.3)	(0.3)
Non-fund items	1.5	0.5		
Working capital changes	3.3	7.7	(5.3)	1.3
Interest paid	0.6	0.3	0.3	0.3
Dividend from associates				
Tax paid	(3.2)	(7.1)	(13.5)	(10.4)
Operating cash flow	42.0	83.4	45.2	60.4
Capex	(0.5)	(0.5)	(1.5)	(1.5)
Net investments	-	(0.4)	-	-
Fixed assets disposall	-	-	-	-
Others	-	-	-	-
Investing cash flow	(0.5)	(0.9)	(1.5)	(1.5)
Free cash flow	41.5	82.4	43.7	58.9
Dividend paid	(15.4)	(40.4)	(32.9)	(36.0)
Borrowings	(2.5)	(2.2)	-	-
Equity	-	-	-	-
Financing cash flow	(17.9)	(42.6)	(32.9)	(36.0)
Net change	23.6	39.8	10.8	23.0

Ratios

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	10.8%	10.6%	10.6%	10.6%
EBIT margin	7.0%	8.2%	7.7%	7.8%
Liquidity (x)				
Current ratio	1.8	1.6	1.9	1.9
Net Debt/EBITDA	-	-	-	-
Interest coverage ratio	n.m.	n.m.	n.m.	n.m.
Net Debt to Equity (%)	-	-	-	-
Valuation (x)				
P/E	21.2	10.3	13.1	12.0
P/B	7.3	5.6	5.0	4.4
EV/EBITDA	12.9	5.8	7.2	6.3
Cash Conversion Cycle				
Trade receivable days	57.3	54.4	55.0	55.0
Inventory days	-	-	-	-
Trade payable days	75.1	70.1	70.0	70.0

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