

PropNex Ltd

8 March 2022

HOLD (maintained)

BBG	PROP SP
Market cap	S\$625 million
Price (7 Mar 2022)	S\$1.69
52-week range	S\$0.855 – S\$2.21
Target Price	S\$1.78 (previously S\$1.94)
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)	5.7x
Net Debt to EBITDA (12/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

Peggy Mak
pmak@saccapital.com.sg

Correction in FY22E, but growth in FY23E

PropNex had a solid year in 2021 on the back of a robust property market. Net earnings doubled to S\$60m. Delay in HDB BTO construction, strong liquidity with higher household savings, and rising household formation (+1.3%) lifted total home sales by 40.8%. Prices gained 7.5% for private and 12.7% for HDB. This is aided by its expanded agency base of 11,125 (Dec 20: 8,324), >40% of the market size and growing, giving it the edge to snag projects.

FY22 sales volume will see a correction due to low inventory of new units (14,154 units – a record low), smaller new launches of ~7,000 units (compared with average ~10,000 units), and cooling measures implemented on 16 Dec 2021 that lowered the borrowing limit to 55% (from 60%) and raised stamp duty (ABSD) for foreigners and buyers of second homes. Potential buyers might also hold back in anticipation of new supply coming on stream. HDB plans to ramp up BTO launches to 23,000 yearly in 2022 and 2023 (FY21: 17,100). 1H22 government land sales (GLS) will yield 2,800 new units. More aggressive GLS is expected in 2H22, translating into new launches in 2023. We estimate private new sales will fall 30%, private resale volume 20% lower and flat HDB demand.

Prices will be sustained by the lower supply, rising construction costs, and higher cost for new HDB. We expect prices of private resale to be stable, while HDB resale prices might gain 3% in FY22E.

Recovery in sales volume in FY23E. Besides GLS, >31,000 HDB flats (FY21 ~26,000) will reach minimum occupation period in 2022. These HDB upgraders will look to acquire private residential units, with profits from sale of flats. Border re-opening will draw demand from expatriates and foreign buyers, notwithstanding higher ABSD and property tax. The drawback is heightened uncertainties caused by Russia/Ukraine conflict that could hurt consumers' sentiment, especially for big ticket items.

Lower TP of S\$1.78. We lowered earnings estimates by 5.3% for FY22E. Earnings are expected to fall 21.7% in FY22E, but rise 9.3% in FY23E. Dividend payout could be sustained to yield 5.3% and 5.8% in FY22E and FY23E. We ascribed a 10x FY23E PE plus cash holdings of S\$146m to arrive at revised TP of S\$1.78.

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)	19.2	13.1	5.9	7.4	6.4
P/E (x)	31.2	21.5	10.4	13.3	12.2
Dividend yield (%)	2.1	3.3	7.4	5.3	5.8

Income Statement

FYE 31 Dec (\$m)	FY20A	FY21E	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	FY21E	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	FY21E	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 (\$m)	FY20A	FY21E	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	21.5	10.4	13.3	12.2
P/B	7.4	5.7	5.1	4.5
EV/EBITDA	13.1	5.9	7.4	6.4
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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