

PropNex Limited

19 November 2021

HOLD
(Maintained)

Price: S\$1.86 (as at 18 November 2021)

Target Price: S\$1.94 (+4.3%)

BBG	PROP SP
Market cap	S\$688.2 million
Price (18 Nov 2021)	S\$1.86
52-week range	S\$0.675 – S\$2.21
Target Price	S\$1.94
Shares Outstanding	370.0 million
Free Float	22.2%
Major Shareholder	P&N Holdings Pte Ltd 55.6% Gafoore Mohamed Ismail 9.2% Kelvin Fong Keng Seong 8.6% Lim Tow Huat 4.4%
P/BV (09/21)	6.9x
Net debt to EBITDA (12/20)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

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A tireless property market

Going strong. 9M21 revenue accounted for 87.9% of our previous estimates, and 9M21 net profit surpassed our forecasts by 15.6%. PropNex reported that its 9M21 revenue almost doubled, increasing from S\$358.4m in 9M20 to S\$715.5m in 9M21 mainly from higher commission income on the back of higher transactions done. Agency services accounted for S\$387.5m and project marketing S\$325.9m of revenue. Profit from continuing operations rose by 2.2x from S\$22.8m to S\$49.8m.

The higher number of transactions for resale units came on the back of lower demand for BTOs due to construction delays. We expect this will continue into 2022. Higher new home and resale prices and a strong upgrader market due to attractive HDB resale prices were other drivers. For new projects, home prices will be expected to remain strong with higher developer costs coming about with high land prices.

Management said that FY21 dividend payout is expected to be in the range of 75%-80% of PATMI. Accordingly, we raised our final dividend estimate to 7.50 cents. 1H dividend was 5.50 cents per share.

Adjusted our FY21E and FY22E forecasts. With its strong 9M21 results, we have adjusted our FY21E revenue estimates up 13.4% to S\$923.0m, and FY22E up 15.5% to S\$790.1m to reflect other potential drivers, which are: 1) higher headcount which can increase market share, and 2) border reopening could increase foreign investments. Accordingly, FY21E PATMI has been adjusted up 14.2% to S\$61.2m, and FY22E up 15.3% to S\$49.7m.

Maintain HOLD rating, at lower fair value of S\$1.94 (from S\$2.00).

Our target price is based on a P/E multiple of 13.68x, which is based on Forward 12-month P/E +1SD above its mean, based on past 10 quarters of average P/E. We are positive about its market leadership, strong cash holdings and market's high property prices. FY2021 has been a strong year for PropNex, but we think earnings might be peak. The market has also largely priced in PropNex's strong valuations.

We continue to expect strength in property prices to sustain in the near term. However, sales volumes have been seeing weakness in recent months. Further, the dwindling supply in the pipeline and fewer new launches expected points to lower transaction volume next year. Our target price implies a 4.3% upside to the last traded price.

Key Risks: Dwindling home supply, possible property cooling measures, strong growth rate might not sustain

Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue (S\$m)	431.5	419.8	515.6	923.0	790.1
EBIT (S\$m)	25.6	24.5	36.5	78.5	63.5
Net profit (S\$m)	19.4	20.0	29.1	61.2	49.7
Basic EPS (S cents)	5.72	5.42	7.86	17.97	14.60
Dividend per share (S cents)	3.50	3.50	5.50	13.00	9.00
Net cash / (debt) (S\$m)	75.7	81.6	105.8	142.9	145.2
Valuation					
EBIT margin (%)	5.9	5.8	7.1	8.5	8.0
ROE (%)	29.0	28.9	34.4	55.3	43.6
EV/EBITDA (x)	23.7	24.7	15.9	6.9	8.5
P/E (x)	35.5	34.3	23.7	11.3	13.8
Dividend yield (%)	1.9	1.9	3.0	7.0	4.8

Investment Highlights

A tireless property market

Revenue (S\$m)	9M21	9M20
Project marketing	325.9	161.3
Agency services	387.5	194.6
Others	2.1	2.5
Total (from continued ops)	715.5	358.4

Source: Company data

PropNex's 9M21 revenue accounted for 87.9% of our previous estimates, and its 9M21 net profit surpassed our forecasts by 15.6%. 9M21 revenue almost doubled, increasing from S\$358.4m in 9M20 to S\$715.5m in 9M21 mainly from higher commission income on the back of higher transactions done. Agency services accounted for S\$387.5m and project marketing S\$325.9m of revenue. Profit from continuing operations rose by 2.2x from S\$22.8m to S\$49.8m.

The higher number of transactions for resale units came on the back of lower demand for BTOs due to construction delays. We expect this will continue into 2022. For new projects, home prices will be expected to remain strong with higher developer costs coming about with high land prices.

Moving into 2022, PropNex has been appointed for 25 property launches that have a total of 7168 estimated units. Including the existing 115 projects still under marketing, total projects for marketing in 2022 adds up to 140 currently.

Higher headcount and border reopening to be other potential drivers

PropNex is the first real estate agency to cross 10,000 agents, and Management indicated that more agents will be coming in, which could increase revenue contribution. In addition, with Singapore's calibrated border reopening, this might capture higher foreign investments, including in properties.

High property prices to continue in the near-term

Private homes

Private home prices rose 1.1% qoq in Q3 (Q2: +0.8%), with private residential property price index increasing to 165.3 points. This was mainly supported by landed homes which increased 2.6%. Non-landed properties increased by 0.7%, easing from the 1.1% rise in Q2. Going forward, we expect home prices to remain resilient with higher developer costs coming about with high land prices.

HDB homes

HDB resale prices rose 2.9% qoq in Q3 (Q2: +3.0%). Transaction prices remained high as buyers are willing to pay premiums for popular flats, especially in estates with demand-supply imbalance. HDB said that it is on track to launch 17,000 flats in 2021. HDB launched 14,600 flats launched in 2019 and 16,800 flats in 2020.

Dwindling inventory

As at end of Q3, there were 18,721 (including ECs, and 17,140 excluding) of unsold units in the pipeline. This was down from 21,055 units in Q2. According to URA, based on developers' expected completion dates, 2,123 units (including ECs) in Q4 and another 11,449 units (including ECs) are expected in 2022. The low inventory can prop up prices in the near term, but will eventually curb revenues from project marketing and hence transaction volumes in resale markets following that.

Investment Highlights

Increase final dividend forecast

Total 1H dividend payout was 5.50 cents per share. Management said that FY21 payout is expected to be in the range of 75%-80% of PATMI. Accordingly, we raised our final dividend estimate to 7.50 cents.

Despite the relatively lower retention ratio compared to peers, it is sitting on high cash balance of \$123.7m (31 Dec: S\$105.8m). The Group remains debt free. We expect that this will likely continue in the near term. Net cash per share is S\$0.334.

Adjusted our FY21E and FY22E forecasts

With its strong 9M21 results, we have adjusted our FY21E revenue estimates up 13.4% to S\$923.0m, and FY22E up 15.5% to S\$790.1m to reflect higher market share with more incumbent agents, and also the possibility of greater foreign investments with gradual border reopening. Accordingly, FY21E PATMI has been adjusted up 14.2% to S\$61.2m, and FY22E up 15.3% to S\$49.7m.

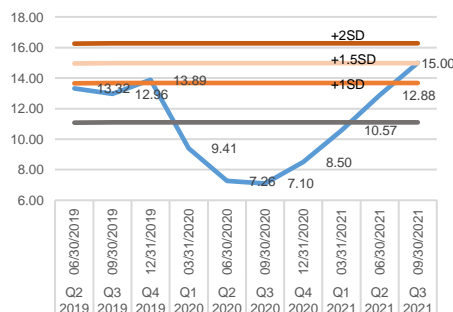
We continue to expect strength in property prices to sustain in the near term. However, sales volumes have been seeing weakness in recent months. Although Q3 saw an increase from Q2, October's resale condo volume fell 6.3%, after a drop in September. HDB resale volume also dropped 0.6% in October. Further, the dwindling supply in the pipeline and fewer new launches expected points to lower transaction volume next year.

Maintain HOLD rating, at lower fair value of S\$1.94 (from S\$2.00)

Our target price is based on a P/E multiple of 13.68x, which is based on Forward 12-month P/E +1SD above its mean, based on past 10 quarters of average P/E. We are positive about its market leadership, strong cash holdings and market's high property prices. FY2021 has been a strong year for PropNex, but we think earnings might be peak. The market has also largely priced in PropNex's strong valuations.

We are cautious about i) possible property cooling measures; ii) strong growth rate might not sustain; and iii) dwindling supply in the pipeline and fewer new launches expected pointing to lower transaction volume next year.

Our target price implies a 4.3% upside to the last traded price.



Source: Bloomberg, SAC Capital

TICKER	Market Cap (SGD mil)	P/E (as at 18 Nov 2021)
PROPNE X	688.2	12.9
APAC REALTY	293.0	11.3

Source: Bloomberg, SAC Capital

Income Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue	431.5	419.8	515.6	923.0	790.1
Cost of services rendered	(389.4)	(375.5)	(459.1)	(821.5)	(703.2)
Gross profit	42.2	44.3	56.5	101.5	86.9
Finance income	0.7	1.2	0.7	0.7	0.8
Finance costs	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Other income	5.4	5.7	7.2	6.5	6.9
Staff costs	(12.1)	(12.8)	(14.7)	(18.6)	(18.2)
Depreciation of PPE	(0.7)	(1.1)	(1.2)	(1.0)	(1.1)
Depreciation of right-of-use assets	0.0	(2.7)	(2.6)	(1.9)	(2.1)
Amortisation of trademark	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other expenses	(9.1)	(9.0)	(8.9)	(8.6)	(8.8)
Profit/(Loss) before tax	26.4	25.6	37.2	79.1	64.3
Income tax (expense) / benefit	(4.4)	(4.5)	(5.9)	(12.6)	(10.3)
Profit/(Loss) for the year	21.9	21.1	31.2	66.5	54.0
Profit/(Loss) attributable to owners of company	19.4	20.0	29.1	61.2	49.7
Minority Interests	2.5	1.1	2.1	5.3	4.3
EPS:					
-Basic and diluted (SG cents)	5.72	5.42	7.86	17.97	14.60

Balance Sheet

S\$'m	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Assets					
Plant and equipment	2.8	3.5	2.6	3.0	2.8
Right-of-use assets	-	5.3	3.2	4.2	3.7
Trademark	0.2	0.2	0.1	0.1	0.1
Associates	-	-	0.0	0.0	0.0
Other investment	-	0.4	0.4	0.4	0.4
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	3.0	9.4	6.3	7.8	7.0
Trade and other receivables	63.5	63.5	80.6	144.3	123.5
Cash and cash equivalents	75.7	81.6	105.8	142.9	145.2
Total current assets	139.1	145.1	186.4	287.2	268.7
Total assets	142.1	154.4	192.7	295.0	275.7
Liabilities					
Deferred tax liabilities	0.2	0.2	0.2	0.0	0.0
Lease liabilities	-	2.9	1.0	1.4	1.2
Non-current liabilities	0.2	3.0	1.2	1.4	1.2
Trade and other payables	65.8	71.7	94.3	168.7	144.4
Current tax liabilities	4.9	4.3	7.0	6.8	7.6
Deferred income	0.9	1.0	0.5	0.0	0.0
Lease liabilities	-	2.5	2.1	2.9	2.5
Current liabilities	71.5	79.5	103.9	178.4	154.6
Total liabilities	71.7	82.5	105.1	179.8	155.8
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
Retained earnings	26.4	28.9	44.1	70.1	73.6
Equity attributable to owners of the Company	66.9	69.3	84.6	110.6	114.0
Non-controlling interests	3.5	2.6	3.0	4.7	6.0
Total equity	70.4	71.9	87.6	115.2	120.0

Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
Profitability (%)					
Gross profit/(loss) margin	9.8	10.6	11.0	11.0	11.0
Profit/(loss) before tax margin	6.1	6.1	7.2	8.6	8.1
Liquidity (x)					
Current ratio	1.9	1.8	1.8	1.6	1.7
Quick ratio	1.9	1.8	1.8	1.6	1.7
Interest coverage ratio	NA	328.9	418.5	948.4	746.3
Net Debt to Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/E	35.5	34.3	23.7	11.3	13.8
P/B	9.8	9.6	7.9	6.0	5.7
EV/EBITDA	23.7	24.7	15.9	6.9	8.5
Cash Conversion Cycle					
Trade receivable days	NA	NA	NA	NA	NA
Inventory days	NA	NA	NA	NA	NA
Trade payable days	NA	NA	NA	NA	NA
CCC days	NA	NA	NA	NA	NA

Cash Flows Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Cash flows from operating activities					
Profit	21.9	21.1	31.2	66.5	54.0
Amortisation of trademark	0.0	0.0	0.0	0.0	0.0
Depreciation of plant and equipment	0.7	1.1	1.2	1.0	1.1
Depreciation of right-of-use assets	0.0	2.7	2.6	1.9	2.1
Interest expense	0.0	0.1	0.1	0.1	0.1
Interest income	(0.7)	(1.2)	(0.7)	(0.7)	(0.8)
Changes in working capital	(0.5)	5.0	3.3	10.8	(3.5)
Tax paid	(3.3)	(5.0)	(3.2)	(12.6)	(10.3)
Others	0.0	0.0	0.0	0.0	0.0
Net cash from operating activities	23.2	29.3	42.0	79.8	53.3
Cash flows from investing activities					
Acquisition of plant and equipment	(1.8)	(1.9)	(0.5)	(1.5)	(0.9)
Acquisition of trademark	(0.2)	0.0	0.0	0.0	0.0
Interest received	0.7	1.2	0.7	0.7	0.8
Others	(1.3)	(1.0)	0.2	(0.8)	(0.1)
Net cash used in investing activities	(1.3)	(1.0)	0.2	(0.8)	(0.1)
Cash flows from financing activities					
Dividends paid to owners	(11.2)	(17.6)	(13.9)	(35.2)	(46.3)
Dividends paid to non-controlling interests	(2.1)	(2.0)	(1.5)	(3.7)	(3.0)
Repayment of lease liabilities	0.0	(2.7)	(2.5)	(3.0)	(1.6)
Others	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Net cash (used in)/from financing activities	26.1	(22.4)	(18.0)	(41.9)	(50.9)
Net increase/(decrease) in cash	48.0	5.9	24.2	37.2	2.3
Cash at beginning of period	27.6	75.6	81.5	105.7	142.9
Cash at end of period	75.6	81.5	105.7	142.9	145.2

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Analyst name	Quantum of position
Nil	Nil

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