

# PropNex Limited

27 August 2021

**HOLD**  
(Maintained)

**Price: S\$1.92** (as at 26 August 2021)

**Target Price: S\$2.00 (+4.2%)**

<b>BBG</b>	PROP SP
<b>Market cap</b>	S\$710.4 million
<b>Price (26 August 2021)</b>	S\$1.92
<b>52-week range</b>	S\$0.565 – S\$2.21
<b>Target Price</b>	S\$2.00
<b>Shares Outstanding</b>	370.0 million
<b>Free Float</b>	22.4%
<b>Major Shareholder</b>	P&N Holdings Pte Ltd 55.6% Gafoore Mohamed Ismail 9.2% Kelvin Fong Keng Seong 8.6% Lim Tow Huat 4.4%
<b>P/BV (06/21)</b>	6.8x
<b>Net debt to EBITDA (12/20)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

## Analyst

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## Riding strong purchase momentum

1HFY21 revenue made up 76.2%, and net profit 82.4% of our FY21E forecasts, with strength above expectations, riding the strong buying momentum that lasted from FY20. Drivers of growth were mainly higher transaction volume, attractive mortgage rates, Singapore's safe haven status and a bigger upgrader market due to attractive HDB resale prices.

PropNex reported revenue doubling from S\$240.4m to S\$481.1m in 1HFY21, with all segments seeing growth. Private resale took lead with 2.5x yoy jump to S\$108.7m from S\$44.2m, and project marketing clocking highest value jump to S\$225.1m from S\$109.4m (2.1x). PATMI increased 2.1x to S\$31.3m. Total 1H dividend payout was 5.50 cents per share or 64.9% of 1H PATMI.

**Transaction volume, property price run-up to continue in the near-term.** We expect home prices to remain resilient with higher developer costs that will translate to higher property prices, more HDB upgraders and long waiting times for BTO flats. Property investments by high-net-worth individuals due to Singapore's "safe-haven" status will also contribute to the increase. The low inventory of unsold private residential units in the market is, however, a double-edged sword.

**Adjusted our FY21E estimates; introduce FY22E forecasts.** With its strong set of 1H results, we raised our FY21E revenue estimates by 28.8% to S\$813.7m, and PATMI by 40.8% to S\$53.6m. In addition, we introduce our FY22E forecasts, which translates to a 15.9% decline in topline to S\$684.3m, and 19.5% yoy decline on PATMI to S\$43.1m.

**Maintain HOLD rating, at a higher fair value of S\$2.00 (from S\$1.27).** Our target price is based on a P/E multiple of 13.8x, which is based on FY21E P/E +1SD above its mean. We expect strong 1H momentum to continue into 2H. However, we think the market has priced in PropNex's strengths: i) market leadership position; ii) continued rise in property transactions and prices in 2H; and iii) strong cash holdings positioned it well to capture more opportunities. 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 4.2% upside to the last traded price.

**Key Risks:** Possible property cooling measures, competition from other players, dwindling home supply

## Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue (S\$m)	431.5	419.8	515.6	813.7	684.3
EBIT (S\$m)	25.6	24.5	36.5	68.7	55.0
Net profit (S\$m)	19.4	20.0	29.1	53.6	43.1
Basic EPS (S cents)	5.72	5.42	7.86	15.74	12.66
Dividend per share (S cents)	3.50	3.50	5.50	9.50	7.50
Net cash / (debt) (S\$m)	75.7	81.6	105.8	132.2	146.4
<b>Valuation</b>					
EBIT margin (%)	5.9	5.8	7.1	8.4	8.0
ROE (%)	29.0	28.9	34.4	52.0	36.4
EV/EBITDA (x)	24.6	25.6	16.5	8.4	10.2
P/E (x)	36.6	35.4	24.4	13.3	16.5
Dividend yield (%)	1.8	1.8	2.9	4.9	3.9

## Investment Highlights

### Riding strong purchase momentum

Revenue (S\$m)	1H21	1H20
Project marketing	225.1	109.4
Private resale	108.7	44.2
HDB resale	59.6	37.7
Landed resale	31.6	12.6
Rental	53.3	34.1
<b>Total</b>	<b>481.1</b>	<b>240.4</b>

Source: Company data

1HFY21 revenue made up 76.2%, and net profit 82.4% of our FY21E forecasts, with strength above expectations, riding the strong buying momentum that lasted from FY20. Drivers of growth were mainly higher transaction volume, attractive mortgage rates, Singapore's safe haven status and a bigger upgrader market due to attractive HDB resale prices.

PropNex reported revenue doubling from S\$240.4m to S\$481.1m in 1HFY21, with all segments seeing growth. Private resale took lead with 2.5x yoy jump to S\$108.7m from S\$44.2m, and project marketing clocking highest value jump to S\$225.1m from S\$109.4m (2.1x). Project marketing segment itself made up 46.8% of 1H revenue. Landed and HDB resale grew 2.5x and 1.6x respectively. PATMI increased 2.1x to S\$31.3m.

In 2H21, PropNex will be involved in 15 new property launches, with several more upcoming in 2022.

Propnex's marketing projects for 2H2021	
Pasir Ris 8	Sloane Residences
Eden Residences Capitol	KLIMT Cairnhill
Parc Greenwich EC	The Watergardens @ Canberra
Bartley Vue	Perfect 10
Mori	Jervois Site @ Jervois Road
The Commodore	Belgravia Ace
Canninghill Pier	Pollen Collection
TBA @ Tenah Merah Kechil Link 16	

Source: Company Data, SAC Capital

### Transaction volume, property price run-up to continue in the near-term

We expect home prices to remain resilient with higher developer costs that will translate to higher property prices, more HDB upgraders and portion that opt out of BTOs to private residential property due to the long waiting times. Property investments by high-net-worth individuals due to Singapore's "safe-haven" status will also contribute to the increase.

#### Private homes

Private home prices rose by 0.8% qoq in Q2, slower than the 3.3% increase in Q1 2021 (Q4 2020: +2.1%).

#### HDB homes

HDB resale prices rose 3% qoq in Q2, higher than the 2.8% increase in Q1 2021 (Q4 2020: +3.1%). Number of transactions, however, declined 6.8%. Transaction prices remain raised as sellers are adamant on their asking prices, seeing the number of million-dollar units sold thus far this year.

### Low home inventory

The low inventory of unsold private residential units in the market is, however, a double-edged sword. In the near-term, the low inventory (21,055 units, including ECs, with a potential 6,700 more from GLS that have not been granted planning approval) will continue to prop prices up. In the longer term, the dwindling supply of new launches and property under development will affect PropNex's project marketing segment (largest revenue contributor), and ultimately transaction volumes in resale markets as well.

## Investment Highlights

### High cash balance

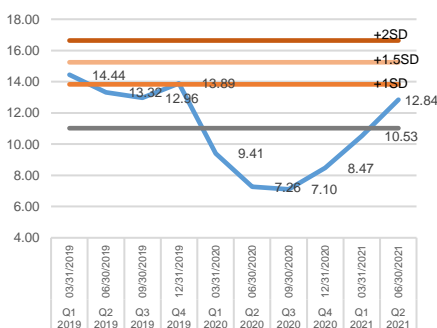
PropNex is cash-rich with S\$120.7m in cash as at 30 June (31 Mar: S\$118.9 million). The Group remains debt free. We expect that this will likely continue in the near term. Net cash per share is S\$0.326.

### High dividend payout

Total 1H dividend payout was 5.50 cents per share or 64.9% of 1H PATMI. Despite the relatively lower retention ratio compared to peers, it is sitting on higher cash balance. We raise our FY21E dividend forecast from 6.50 cents to 9.50 cents per share.

### Adjusted our FY21E estimates; introduce FY22E forecasts

With its strong set of 1H results, we have adjusted our FY21E revenue estimates up 28.8% to S\$813.7m, and PATMI up 40.8% to S\$53.6m. In addition, we have added our FY22E forecasts, which translates to a 15.9% decline in topline to S\$684.3m, and a 19.5% yoy decline on PATMI to S\$43.1m. In the near term, we expect sales volume and elevated property prices to continue to see strength in 2H. However, the strong growth and revenue sprint up this year may not be sustainable for long. Further, the dwindling supply in the pipeline and fewer new launches expected points to lower transaction volume next year.



Source: Bloomberg, SAC Capital

### Maintain HOLD rating, at a higher fair value of S\$2.00 (from S\$1.27)

Our target price is based on a P/E multiple of 13.8x, which is based on FY21E P/E +1SD above its mean, based on past 10 quarters of average P/E. FY2021 will be a stellar year for PropNex, carried by a strong 1H with momentum that is expected to continue into 2H. However, with the price run-up, we think the market has priced in PropNex's strengths: i) market leadership position; ii) continued rise in property transactions and prices in 2H; and iii) strong cash holdings positioned it well to capture more opportunities.

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. We also noted its higher valuation figures compared to its listed peer APAC Realty.

Our target price implies a 4.2% upside to the last traded price.

TICKER	Market Cap (SGD mil)	P/E (as at 26 Aug 2021)
PROPNE	710.4	15.6
APAC REALTY	325.0	12.6

Source: Bloomberg, SAC Capital

## Income Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<b>Revenue</b>	<b>431.5</b>	<b>419.8</b>	<b>515.6</b>	<b>813.7</b>	<b>684.3</b>
Cost of services rendered	(389.4)	(375.5)	(459.1)	(724.2)	(609.0)
<b>Gross profit</b>	<b>42.2</b>	<b>44.3</b>	<b>56.5</b>	<b>89.5</b>	<b>75.3</b>
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)	(16.4)	(15.1)
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)
<b>Profit/(Loss) before tax</b>	<b>26.4</b>	<b>25.6</b>	<b>37.2</b>	<b>69.3</b>	<b>55.8</b>
Income tax (expense) / benefit	(4.4)	(4.5)	(5.9)	(11.1)	(8.9)
<b>Profit/(Loss) for the year</b>	<b>21.9</b>	<b>21.1</b>	<b>31.2</b>	<b>58.2</b>	<b>46.9</b>
<b>Profit/(Loss) attributable to owners of company</b>	<b>19.4</b>	<b>20.0</b>	<b>29.1</b>	<b>53.6</b>	<b>43.1</b>
<b>Minority Interests</b>	<b>2.5</b>	<b>1.1</b>	<b>2.1</b>	<b>4.7</b>	<b>3.7</b>
<b>EPS:</b>					
-Basic and diluted (SG cents)	5.72	5.42	7.86	15.74	12.66

## Balance Sheet

S\$'m	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<b>Assets</b>					
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
<b>Non-current assets</b>	<b>3.0</b>	<b>9.4</b>	<b>6.3</b>	<b>7.8</b>	<b>7.0</b>
Trade and other receivables	63.5	63.5	80.6	127.2	107.0
Cash and cash equivalents	75.7	81.6	105.8	132.2	146.4
<b>Total current assets</b>	<b>139.1</b>	<b>145.1</b>	<b>186.4</b>	<b>259.4</b>	<b>253.3</b>
<b>Total assets</b>	<b>142.1</b>	<b>154.4</b>	<b>192.7</b>	<b>267.2</b>	<b>260.4</b>
<b>Liabilities</b>					
Deferred tax liabilities	0.2	0.2	0.2	0.0	0.0
Lease liabilities	-	2.9	1.0	1.4	1.2
<b>Non-current liabilities</b>	<b>0.2</b>	<b>3.0</b>	<b>1.2</b>	<b>1.4</b>	<b>1.2</b>
Trade and other payables	65.8	71.7	94.3	148.8	125.1
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
<b>Current liabilities</b>	<b>71.5</b>	<b>79.5</b>	<b>103.9</b>	<b>158.4</b>	<b>135.2</b>
<b>Total liabilities</b>	<b>71.7</b>	<b>82.5</b>	<b>105.1</b>	<b>159.8</b>	<b>136.4</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
Retained earnings	26.4	28.9	44.1	62.5	77.9
<b>Equity attributable to owners of the Company</b>	<b>66.9</b>	<b>69.3</b>	<b>84.6</b>	<b>103.0</b>	<b>118.3</b>
Non-controlling interests	3.5	2.6	3.0	4.5	5.6
<b>Total equity</b>	<b>70.4</b>	<b>71.9</b>	<b>87.6</b>	<b>107.4</b>	<b>123.9</b>

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
<b>Profitability (%)</b>					
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	8.5	8.1
<b>Liquidity (x)</b>					
Current ratio	1.9	1.8	1.8	1.6	1.9
Quick ratio	1.9	1.8	1.8	1.6	1.9
Interest coverage ratio	NA	328.9	418.5	830.8	647.5
Net Debt to Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Valuation (x)</b>					
P/E	36.6	35.4	24.4	13.3	16.5
P/B	10.1	9.9	8.1	6.6	5.7
EV/EBITDA	24.6	25.6	16.5	8.4	10.2
<b>Cash Conversion Cycle</b>					
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
<b>Cash flows from operating activities</b>					
Profit	21.9	21.1	31.2	58.2	46.9
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	7.9	(3.4)
Tax paid	(3.3)	(5.0)	(3.2)	(11.1)	(8.9)
Others	0.0	0.0	0.0	0.0	0.0
<b>Net cash from operating activities</b>	<b>23.2</b>	<b>29.3</b>	<b>42.0</b>	<b>68.7</b>	<b>46.2</b>
<b>Cash flows from investing activities</b>					
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)
<b>Net cash used in investing activities</b>	<b>(1.3)</b>	<b>(1.0)</b>	<b>0.2</b>	<b>(0.8)</b>	<b>(0.1)</b>
<b>Cash flows from financing activities</b>					
Dividends paid to owners	(11.2)	(17.6)	(13.9)	(35.2)	(27.8)
Dividends paid to non-controlling interests	(2.1)	(2.0)	(1.5)	(3.2)	(2.6)
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)
<b>Net cash (used in)/from financing activities</b>	<b>26.1</b>	<b>(22.4)</b>	<b>(18.0)</b>	<b>(41.4)</b>	<b>(32.0)</b>
<b>Net increase/(decrease) in cash</b>	<b>48.0</b>	<b>5.9</b>	<b>24.2</b>	<b>26.5</b>	<b>14.2</b>
Cash at beginning of period	27.6	75.6	81.5	105.7	132.2
<b>Cash at end of period</b>	<b>75.6</b>	<b>81.5</b>	<b>105.7</b>	<b>132.2</b>	<b>146.4</b>

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Analyst name	Quantum of position
Nil	Nil

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