

COMPANY RESULTS

PropNex (PROP SP)

3Q22: Better-than-expected Results Set Up For A Strong Finish To 2022

PropNex reported strong 3Q22 results that exceeded our expectations. The company mentioned that the negative effects of the recent Sep 22 cooling measures have not been felt yet, implying a slightly weaker 4Q22 performance. However, 2023 will be a bumper year of new launches. We believe that the Singapore property market will likely moderate and not suffer a meaningful decline even in the face of economic headwinds in the medium term. Maintain BUY. Target price lowered to S\$1.92.

3Q22 RESULTS

| Year to 31 Dec (\$m) | 3Q21 | 3Q22 | yoy | Remarks |
|----------------------|-------|-------|---------|--|
| Revenue | 234.4 | 258.4 | 10.2% | - Strength from rental and private resale segments |
| Gross Profit | 24.7 | 26.7 | 8.0% | |
| Pre-tax profit | 18.7 | 22.1 | 18.1% | - Helped by accounting treatment of trade payables |
| PATMI | 15.5 | 18.2 | 17.8% | |
| ±ppt | | | | |
| Gross profit margin | 10.5% | 10.3% | -0.2ppt | |
| Pre-tax margin | 8.0% | 8.6% | +0.6ppt | |
| PATMI margin | 6.6% | 7.1% | +0.5ppt | - Highest quarterly PATMI margins since IPO |

Source: PropNex, UOB Kay Hian

3Q22 RESULTS

- **Better than expected.** PropNex reported 3Q22 results that beat our expectations, with PATMI up 18% yoy to S\$18.2m, making up 81% of our prior full-year estimate. The company saw a 12% yoy decline in project marketing revenue due to the lower amount of new project launches. However, this was more than offset by its other business, notably its rental and private resale segments which saw 76% and 18% yoy revenue increases. PropNex's bottom line was partially helped by the derecognition of trade payables which positively impacted its other income.
- **Look out for a decent dividend.** During the analyst call, management noted that while it has paid out 75% of net profits in the past, it has the authority to pay up to 80% of profits and that it would always seek to reward shareholders. Thus, we believe there is a reasonable chance that our current payout ratio estimate for 2022E of 75%, which implies a yield of 8.8%, could be exceeded when the company announces its 2022 results in mid-to-late Feb 23.

KEY FINANCIALS

| Year to 31 Dec (\$m) | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 513 | 957 | 880 | 865 | 880 |
| EBITDA | 39 | 81 | 81 | 73 | 80 |
| Operating profit | 35 | 78 | 77 | 69 | 77 |
| Net profit (rep./act.) | 28 | 60 | 61 | 55 | 61 |
| Net profit (adj.) | 28 | 60 | 61 | 55 | 61 |
| EPS (S\$ cent) | 7.6 | 16.2 | 16.4 | 14.8 | 16.4 |
| PE (x) | 19.5 | 9.1 | 9.0 | 9.9 | 9.0 |
| P/B (x) | 6.4 | 5.0 | 4.4 | 3.9 | 3.5 |
| EV/EBITDA (x) | 9.8 | 4.7 | 4.8 | 5.3 | 4.8 |
| Dividend yield (%) | 3.7 | 8.5 | 8.8 | 8.2 | 8.8 |
| Net margin (%) | 5.4 | 6.3 | 6.9 | 6.3 | 6.9 |
| Net debt/(cash) to equity (%) | (125.1) | (133.1) | (134.3) | (133.3) | (127.8) |
| ROE (%) | 36.3 | 61.9 | 51.7 | 41.6 | 41.5 |
| Consensus net profit | - | - | 48 | 46 | 50 |
| UOBKH/Consensus (x) | - | - | 1.26 | 1.18 | 1.22 |

Source: PropNex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|---------|
| Share Price | S\$1.47 |
| Target Price | S\$1.92 |
| Upside | +30.9% |
| (Previous TP) | S\$2.07 |

COMPANY DESCRIPTION

Singapore's largest real estate agency with a dominant market share of the residential primary private and HDB resale market.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Real Estate |
| Bloomberg ticker: | PROP SP |
| Shares issued (m): | 370.0 |
| Market cap (S\$m): | 543.9 |
| Market cap (US\$m): | 387.9 |
| 3-mth avg daily t'over (US\$m): | 0.1 |

Price Performance (%)

52-week high/low S\$1.93/S\$1.25

| 1mth | 3mth | 6mth | 1yr | YTD |
|------|--------|--------|--------|--------|
| 4.3 | (12.0) | (11.4) | (22.6) | (13.0) |

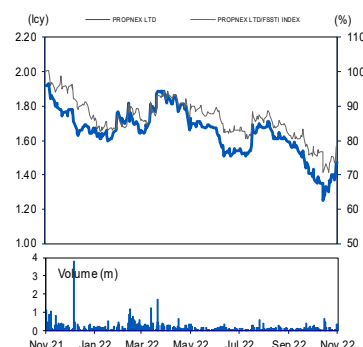
Major Shareholders

| | % |
|----------------|------|
| P&N Holdings | 55.6 |
| Fong Kelvin | 8.6 |
| Ismail Mohamed | 9.3 |

FY22 NAV/Share (S\$) 0.34

FY22 Net Cash/Share (S\$) 0.45

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Recent focus on closing the gaps has led to good results.** For 3Q22, PropNex's key business segments that outperformed were the rental and private resale segments which saw 76% and 18% yoy revenue increases. During the quarter, the company hit its milestone of having more than 12,000 property agents which assisted in the volume and value of its transactions in both these segments. During the analyst call, PropNex's management noted that with 2022 being a weak year for new launches, it trained its agents to identify pricing gaps between new and resale properties in order to generate business volumes. Similarly, it had identified that its historical market share in the rental market has been lower than its competitors and thus worked on closing this gap from 2021, and believes that it will continue to maintain its momentum in the coming quarters.
- **Public housing prices continue to hit new highs (see chart on RHS).** Thus far in 2022, the HDB resale market has been strong (and politically unpalatable). However, PropNex expects this to slow down in 4Q22 due to the Sep 22 cooling measures and thus forecasts HDB resale volumes to decline 6-9% yoy to 28,000-29,000 units (2021: 31,107 units). The company believes that headline-grabbing S\$1m HDB transactions will continue in 2023, which may imply further public pressure on the government to rein in price increases.
- **Private residential prices should moderate.** Although landed properties in Singapore have seen the largest price increases in the past 12-18 months, PropNex noted that such price increases have slowed down in the face of affordability issues. Also, while foreigners have returned to the market (see chart on RHS), the company noted that Singaporeans made up 83% of purchasers in non-landed home sales vs 71% in 2011.
- **Looking forward to volume growth in 2023.** While 2022 will likely end with c.4,000 new units launched, there are more than 11,000 units across 40 projects planned for 2023. Thus, with PropNex having more than 12,000 agents (with long term plans to expand to 15,000 agents), it stands to be the largest beneficiary of the volume growth.

EARNINGS REVISION/RISK

- **Upgraded earnings forecasts for 2022E-24E.** We have upgraded our 2022E/23E/24E net profit estimates by 7%, 8% and 13% respectively to take into account the higher earnings base from having more agents under its banner as well as the higher volume of new launches in 2023.

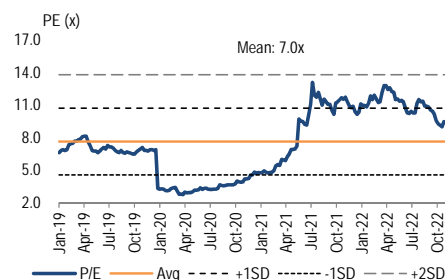
VALUATION/RECOMMENDATION

- **We maintain our BUY rating on Propnex, with slightly lower PE-based target price of S\$1.92 (previously S\$2.07).** We have lowered the basis of our target PE multiple from 1SD to 0.5SD with an eye towards the relatively high chances of weak economic conditions in 2023. However, this is somewhat mitigated by the fact that there are 11,000 units of new apartments being launched in 2023 which could underpin earnings growth for Propnex. As a result, our new target multiple is 9.2x vs the company's historical PE average of 7.0x.
- **Inexpensive metrics.** Given the company's net cash position of S\$127m as at end-3Q22, we note that Propnex's ex-cash PE is only 7.2x. During 3Q22, the company generated nearly \$15.6m in free cash flow which, on an annualised basis, represents nearly 10% free cash flow yield.

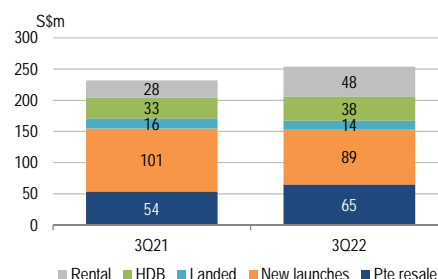
SHARE PRICE CATALYSTS

- Strong sell-through of new property launches in 2H22.
- Higher-than-expected final dividend for 2022 indicating the company's willingness to return cash to shareholders.

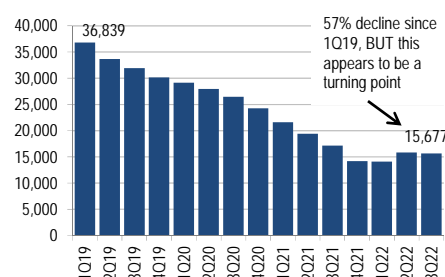
PRICE/EARNINGS: 2019 TO PRESENT



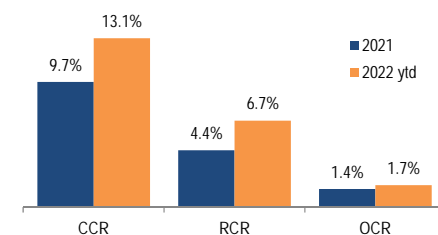
BROKERAGE CONTRIBUTION: 3Q22 VS 3Q21



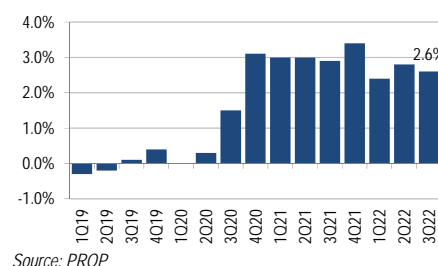
UNSOLD PRIVATE HOMES IN SINGAPORE



PERCENT OF FOREIGNERS BUYING PRIVATE NEW HOMES



HDB RESALE PRICES: QOQ CHANGE



PROFIT & LOSS

| Year to 31 Dec (\$m) | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|-------------|-------------|-------------|-------------|
| Net turnover | 957.5 | 880.5 | 865.0 | 879.9 |
| EBITDA | 81.3 | 80.9 | 72.8 | 80.4 |
| Deprec. & amort. | 3.5 | 3.6 | 3.7 | 3.8 |
| EBIT | 77.8 | 77.2 | 69.1 | 76.6 |
| Total other non-operating income | 0.6 | 0.0 | 0.0 | 0.0 |
| Associate contributions | (0.0) | (0.0) | (0.0) | (0.0) |
| Net interest income/(expense) | 0.3 | 1.3 | 1.8 | 2.0 |
| Pre-tax profit | 78.7 | 78.5 | 70.9 | 78.6 |
| Tax | (13.5) | (13.4) | (12.1) | (13.4) |
| Minorities | (5.1) | (4.7) | (4.2) | (4.7) |
| Net profit | 60.0 | 60.5 | 54.7 | 60.6 |
| Net profit (adj.) | 60.0 | 60.5 | 54.7 | 60.6 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2021 | 2022F | 2023F | 2024F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 2.0 | 1.9 | 1.8 | 1.9 |
| Other LT assets | 3.8 | 0.0 | 1.0 | 1.0 |
| Cash/ST investment | 145.6 | 167.3 | 184.3 | 196.9 |
| Other current assets | 142.7 | 131.3 | 128.9 | 132.2 |
| Total assets | 294.2 | 300.4 | 316.1 | 332.0 |
| ST debt | 0.0 | 0.0 | 0.0 | 1.0 |
| Other current liabilities | 180.5 | 167.9 | 164.7 | 159.8 |
| LT debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT liabilities | 1.5 | 0.1 | 1.1 | 1.1 |
| Shareholders' equity | 109.4 | 124.6 | 138.2 | 153.4 |
| Minority interest | 3.1 | 7.8 | 12.0 | 16.7 |
| Total liabilities & equity | 294.6 | 300.4 | 316.1 | 332.0 |

CASH FLOW

| Year to 31 Dec (\$m) | 2021 | 2022F | 2023F | 2024F |
|---|---------------|---------------|---------------|---------------|
| Operating | 83.1 | 69.8 | 64.7 | 54.1 |
| Pre-tax profit | 78.7 | 78.5 | 70.9 | 78.6 |
| Tax | (7.1) | (13.4) | (12.1) | (13.4) |
| Deprec. & amort. | 3.5 | 3.6 | 3.7 | 3.8 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Working capital changes | 7.7 | (0.3) | 0.3 | (17.8) |
| Non-cash items | (0.3) | 1.3 | 1.8 | 3.0 |
| Other operating cashflows | 0.5 | 0.0 | 0.0 | 0.0 |
| Investing | (0.6) | (1.9) | (2.3) | (1.5) |
| Capex (growth) | (0.5) | (0.5) | (0.5) | (0.5) |
| Capex (maintenance) | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments | (0.4) | 0.0 | 0.0 | 1.0 |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.4 | (1.3) | (1.8) | (2.0) |
| Financing | (42.7) | (46.3) | (45.4) | (40.0) |
| Dividend payments | (40.4) | (46.3) | (45.4) | (41.0) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 0.0 | 0.0 | 0.0 | 1.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (2.3) | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | 39.8 | 21.7 | 17.0 | 12.6 |
| Beginning cash & cash equivalent | 105.8 | 145.6 | 167.3 | 184.3 |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 145.6 | 167.3 | 184.3 | 196.9 |

KEY METRICS

| Year to 31 Dec (%) | 2021 | 2022F | 2023F | 2024F |
|---------------------------|---------|---------|---------|---------|
| Profitability | | | | |
| EBITDA margin | 8.5 | 9.2 | 8.4 | 9.1 |
| Pre-tax margin | 8.2 | 8.9 | 8.2 | 8.9 |
| Net margin | 6.3 | 6.9 | 6.3 | 6.9 |
| ROA | 24.6 | 20.4 | 17.7 | 18.7 |
| ROE | 61.9 | 51.7 | 41.6 | 41.5 |
| Growth | | | | |
| Turnover | 86.5 | (8.0) | (1.8) | 1.7 |
| EBITDA | 107.4 | (0.5) | (9.9) | 10.4 |
| Pre-tax profit | 118.4 | (0.2) | (9.7) | 10.8 |
| Net profit | 114.6 | 0.9 | (9.7) | 10.8 |
| Net profit (adj.) | 114.6 | 0.9 | (9.7) | 10.8 |
| EPS | 114.6 | 0.9 | (9.7) | 10.8 |
| Leverage | | | | |
| Debt to total capital | 0.0 | 0.0 | 0.0 | 0.6 |
| Debt to equity | 0.0 | 0.0 | 0.0 | 0.7 |
| Net debt/(cash) to equity | (133.1) | (134.3) | (133.3) | (127.8) |

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