

COMPANY UPDATE

PropNex (PROP SP)

Still The Go-To Play For Singapore Residential Property

PropNex remains the go-to stock for exposure to Singapore's residential property market given its dominant market share. In the medium term, its earnings could be boosted by its low-cost entry into the commercial property segment. We highlight that after its 1-for-1 bonus issue, liquidity has increased meaningfully. Maintain BUY. Target price raised to S\$1.16 (previously S\$1.07).

WHAT'S NEW

- **Still going strong.** After our company visit to PropNex last week, we remain bullish on the company's long-term prospects given its leverage to Singapore's residential market that has remained robust, coupled with its new growth plans to enter the commercial market with the establishment of a consultancy arm. We highlight that in 2022, the company saw an 8% yoy increase to nearly 12,000 agents (2025 target of 15,000 agents), and thus appears to be in a strong position to continue to generate over S\$1b p.a. in revenue going forward.
- **What cooling measures?** On 27 May 23, sales of around 66% at The Reserve Residences (Far East Organisation & Sino Group) at an average of S\$2,450psf indicate that the recent increase in ABSD rates was a populist measure with little to no impact on local demand. Notably, the only three reported purchases by foreigners were by US citizens who are not subject to the 60% ABSD due to USA's Free Trade Agreement with Singapore. In addition, Blossoms By The Park, launched right after the ABSD announcement on 26 Apr 23, saw 70% of its units being sold on its opening weekend. These strong sales numbers for mid- and mass-market properties are positive for PropNex in our view given its involvement in the project marketing of these properties, however such robust levels of demand arguably increases the likelihood of more cooling measures targeted at the local market.
- **1-for1 bonus dividend for 2022 has boosted liquidity.** In addition to the company's final S\$0.08/share dividend for 2022, PropNex had also proposed a one-for-one bonus issue of up to 370m new ordinary shares, ostensibly to increase and broaden the company's accessibility to investors and to increase liquidity. Since the ex-dividend date on 28 Mar 23, we have seen a significant increase in the company's liquidity. From its IPO in 2018 to 27 Mar 23, PropNex traded over 411,000 shares daily. However, since its bonus issue, average daily volume has risen markedly to 1.8m shares. Perhaps this is a worthwhile lesson for small/mid-cap companies in Singapore looking to increase their liquidity.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	957	1,029	1,080	1,016	1,034
EBITDA	81	81	86	91	84
Operating profit	78	77	82	87	80
Net profit (rep./act.)	60	62	64	69	63
Net profit (adj.)	60	62	64	69	63
EPS (\$ cent)	16.2	16.9	8.7	9.3	8.5
PE (x)	6.5	6.2	12.1	11.3	12.3
P/B (x)	3.6	3.1	5.5	5.0	4.6
EV/EBITDA (x)	12.4	12.4	11.8	11.1	12.0
Dividend yield (%)	11.9	7.6	6.7	7.6	6.7
Net margin (%)	6.3	6.1	6.0	6.8	6.1
Net debt/(cash) to equity (%)	(133.1)	(110.6)	(116.3)	(122.3)	(120.0)
ROE (%)	61.9	53.1	48.4	46.3	38.7
Consensus net profit	-	-	63	69	64
UOBKH/Consensus (x)	-	-	1.01	1.00	0.98

Source: PropNex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

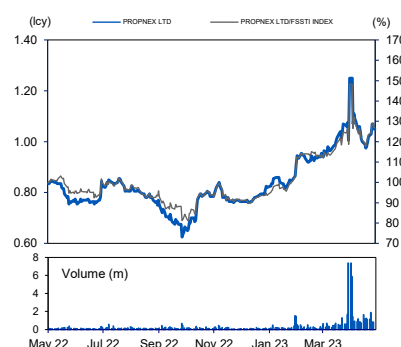
Share Price	S\$1.05
Target Price	S\$1.16
Upside	+10.5%
(Previous TP)	S\$1.07)

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):	1,110.0			
Market cap (\$m):	1,165.5			
Market cap (US\$m):	862.2			
3-mth avg daily t'over (US\$m):	0.8			
Price Performance (%)				
52-week high/low				S\$1.89/S\$1.25
1mth	3mth	6mth	1yr	YTD
9.7	13.1	10.4	5.2	18.3
Major Shareholders				%
P&N Holdings				55.6
Fong Kelvin				8.6
Ismail Mohamed				9.3
FY23 NAV/Share (\$)				0.19
FY23 Net Cash/Share (\$)				0.22

PRICE CHART


Source: Bloomberg

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STOCK IMPACT

- **Property market outlook for 2023.** It was interesting to note that PropNex has marginally lowered its price-increase expectations for private residential and HDB resale as highlighted below.

PROPNECX VIEW ON THE PROPERTY MARKET

Segment	Forecast price increase Feb 23	Updated view	PropNex comments
Rental market	4-6%	NA	Will moderate given resistance to double-digit increases in 2022. >17,000 keys to enter market in 2023 so potentially a lot of supply coming in market
Landed resale	4-5%	NA	Should slow down vs 2022 due to resistance to the high asking prices
Private residential	5-6%	4-5%	Sentiment still fearful due to high interest rates but should taper in 2024
HDB resale	7-9%	5-6%	Driven by continued lack of supply in BTO segment

Source: PropNex

- **Strategic entry into the commercial segment.** Since its founding, PropNex has been a residential property agency business, however it appears that the company has designs on penetrating the commercial segment in order to diversify its business. As a result, it is currently looking at establishing a commercial department to offer leasing and valuation consultancy services. PropNex's CEO Ismail Gafoor stated with the company becoming better and stronger in reaching out to its expanding pool of clients, it believes it can effectively penetrate the commercial market. Importantly, the company is looking to do this with a lower headcount compared with other consultancies, and anticipates that it will take 2-3 years to establish economies of scale.
- **Still in a net cash position.** Despite paying out nearly S\$50m in dividends in 2022, the company ended the year in a net cash position of S\$139m (or S\$0.38/share in cash) which represents over one-fifth of the company's market capitalisation.

EARNINGS REVISION/RISK

- No changes to earnings estimates.

VALUATION/RECOMMENDATION

- **We maintain our BUY rating on Propnex with a higher target price of S\$1.16.** After the company's one-for-one bonus issue effective 28 May 2023, we have raised our PE-based target price to S\$1.16 (previously S\$1.07). Our target PE multiple of 11.1x is 1SD above the company's average PE of 9.1x over the 2021-23 period. Note that previously, we used a timeframe of 2018-23 for PropNex's average PE, however we do not view this as applicable at present given the low PE multiples of 3-4x seen in 2020. We believe that pegging our PE multiple to +1SD is reasonable given: a) our greater confidence in the company's ability to maintain and grow its market share as it grows the number of agents under its banner, and b) over 12,000 units of new apartments being launched in 2023 which could underpin earnings growth for the company.
- **Inexpensive metrics.** Given the company's net cash position of S\$139m as at end-22, we note that Propnex's ex-cash PE is only 9.9x. During 4Q22, the company generated over \$13m in free cash flow while for the entirety of 2022 it generated S\$47m in free cash flow, which on an annualised basis, represents around 4% free cash flow yield.

SHARE PRICE CATALYSTS

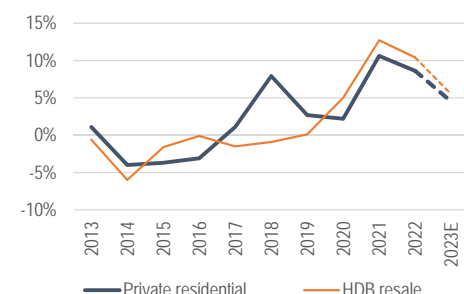
- Strong sell-through of new property launches in 2H22.
- Higher-than-expected final dividend for 2022 indicating the company's willingness to return cash to shareholders in 2023.

PE CHART SINCE 2019



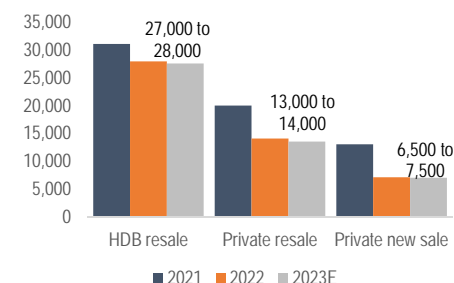
Source: Bloomberg

YOY CHANGE: PRIVATE RESIDENTIAL AND HDB RESALE PRICE INDICES



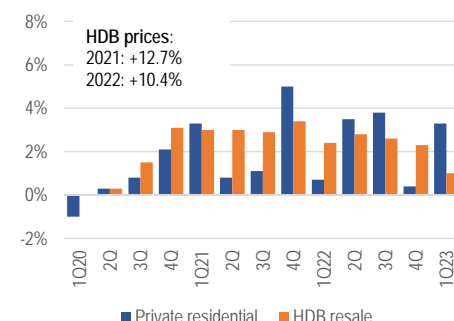
Source: Urban Redevelopment Authority, PropNex

VOLUME OF TRANSACTIONS BY SUB-SEGMENT



Source: Urban Redevelopment Authority, PropNex

QOQ CHANGE IN PRIVATE RESIDENTIAL AND HDB PRICES



Source: Urban Redevelopment Authority, PropNex

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	1,029.2	1,079.7	1,016.1	1,034.3
EBITDA	81.0	85.5	90.9	83.9
Deprec. & amort.	3.6	3.7	3.8	3.8
EBIT	77.4	81.9	87.1	80.0
Total other non-operating income	0.5	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	1.2	1.6	1.9	2.0
Pre-tax profit	79.1	83.5	89.0	82.1
Tax	(13.7)	(14.2)	(15.1)	(14.0)
Minorities	(3.0)	(4.9)	(5.3)	(4.9)
Net profit	62.4	64.3	68.6	63.3
Net profit (adj.)	62.4	64.3	68.6	63.3

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	1.4	1.5	1.4	1.4
Other LT assets	6.0	0.0	0.0	0.0
Cash/ST investment	138.9	163.1	190.8	204.6
Other current assets	229.1	234.4	220.6	224.5
Total assets	375.4	399.0	412.8	430.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	245.9	252.6	245.4	243.8
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	2.9	0.1	0.1	0.1
Shareholders' equity	125.5	140.3	156.0	170.5
Minority interest	0.9	5.9	11.2	16.0
Total liabilities & equity	375.4	399.0	412.8	430.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	51.4	74.3	79.6	69.1
Pre-tax profit	79.1	83.5	89.0	82.1
Tax	(13.4)	(14.2)	(15.1)	(14.0)
Deprec. & amort.	3.6	3.7	3.8	3.8
Associates	0.0	0.0	0.0	0.0
Working capital changes	(17.2)	(0.3)	0.1	(4.9)
Non-cash items	(1.0)	1.6	1.9	2.0
Other operating cashflows	0.3	0.0	0.0	0.0
Investing	(4.4)	(2.0)	(2.3)	(2.4)
Capex (growth)	(0.4)	(0.4)	(0.4)	(0.4)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	(5.9)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	1.9	(1.6)	(1.9)	(2.0)
Financing	(53.8)	(48.1)	(49.6)	(52.9)
Dividend payments	(51.5)	(48.1)	(49.6)	(52.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
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)	(6.8)	24.2	27.7	13.8
Beginning cash & cash equivalent	145.6	138.9	163.1	190.8
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	138.9	163.1	190.8	204.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	7.9	7.9	8.9	8.1
Pre-tax margin	7.7	7.7	8.8	7.9
Net margin	6.1	6.0	6.8	6.1
ROA	18.6	16.6	16.9	15.0
ROE	53.1	48.4	46.3	38.7
Growth				
Turnover	7.5	4.9	(5.9)	1.8
EBITDA	(0.3)	5.6	6.2	(7.7)
Pre-tax profit	0.5	5.6	6.6	(7.8)
Net profit	3.9	3.2	6.6	(7.8)
Net profit (adj.)	3.9	3.2	6.6	(7.8)
EPS	3.9	(48.4)	6.6	(7.8)
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(110.6)	(116.3)	(122.3)	(120.0)

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