

PropNex Ltd

Earnings almost tripled but outlook cloudy



StocksBnB.com

SINGAPORE | REAL ESTATE (AGENCIES) | 1Q20 RESULTS

20 May 2020

- 1Q20 PATMI jumped almost 3x YoY to S\$7.6mn. It beat our expectations. The growth came from three-fold spike in project marketing (i.e. new launches) revenue.
- The outlook will be weak for this year. The circuit breaker, weaker economic conditions and higher priced projects will lead to a contraction in the number of transactions. We cut our FY20e earnings by 19%. Earnings impact will only be registered in 2H20e.
- Net cash continues to pile up to S\$89.8mn (+S\$10mn YoY) in 1Q20 and almost 50% of the market capitalisation.
- We maintain our BUY recommendation. Our target price is lowered to S\$0.60 (previously S\$0.70).** The outbreak has tempered any growth expectations we had for the company. PropNex retains a healthy market share of around 50% and we expect dividends (S\$13mn p.a.) can be maintained with the large cash hoard of S\$89.8mn.

BUY (Maintained)

LAST DONE PRICE	SGD 0.495
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 0.600
TOTAL RETURN	48.5%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370
MARKET CAP (USD mn / SGD mn):	138 / 191
52 - WK HI/LO (SGD):	0.76 / 0.44
3M Average Daily T/O (mn):	0.34

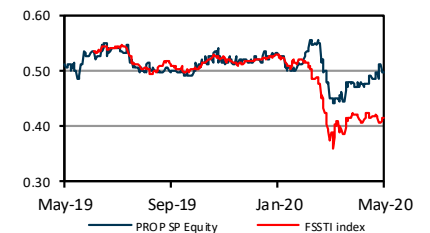
MAJOR SHAREHOLDERS (%)

P&N HOLDINGS PTE LTD	55.6%
ISMAL MOHAMED	8.6%
SEONG KELVIN FONG KENG	7.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(9.8)	(5.2)	N.A.
STI RETURN	(5.8)	0.4	(6.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY18	FY19	FY20e	FY21e
Revenue	431.5	419.8	381.7	404.0
Gross Profit	41.4	44.3	41.2	42.0
Operating Profit	26.4	25.6	23.9	25.1
PAT	19.4	20.0	18.9	20.0
P/E (x)	9.4	9.1	9.7	9.1
P/B (x)	2.6	2.5	2.3	2.1
EPS, SGD cents	5.2	5.4	5.1	5.4
Dividend yield, %	7.1	7.1	7.1	7.7
ROE	27.6%	27.9%	24.0%	23.4%
ROA	13.7%	13.0%	12.6%	12.6%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 10.0%, Terminal growth -2%)

Paul Chew (+65 6212 1851)

Head of Reseach

paulchewkl@phillip.com.sg

Results at a glance

SGD mn	1Q20	1Q19	YoY	Comments
Revenue	135.6	74.2	83%	
- Agency services	74.1	58.2	27%	
a) Private resale	28.8	19.9	45%	Surprising rebound.
b) HDB resale	18.6	15.7	18%	Proven to be stable and recurrent.
c) Rental	19.6	18.3	7%	Proven to be stable and recurrent.
- Project Marketing	60.2	14.4	318%	Spectacular rebound.
Staff costs	(3.7)	(3.2)	18%	Operating leverage despite doubling GP
Gross profit	15.1	7.3	105%	
Operating profit	9.9	2.8	260%	
PATMI	7.6	2.0	279%	

Source: Company, PSR

The Positives

+ 3x jump in project marketing. As it takes 8 to 12 weeks for revenue from the booking of a new project, the growth this quarter comes from the health project sales in 4Q19. Project marketing accounts for 45% of revenue in 1Q20 (1Q19: 20%). For the Top 3 selling projects in 1Q20 (The M, Treasures at Tampines, Jadescape), PropNex market share ranged from 46% to 60%.

+ Cash keeps piling up. Together with the rise in earnings, cash from operations increased S\$8.7mn in 1Q20. Capital expenditure was less than S\$100k in 1Q20. Net cash on the balance sheet rose to a record S\$89.8mn.

+ Huge operating leverage. The operating leverage of the business was visible this quarter. Gross profits doubled YoY to S\$15mn whilst staff cost only increased S\$560k (or +17.8% YoY). The rise was due to salary increment and additional 1 headcount to 175.

The Negative

- Nil

Outlook

Management shared their outlook of transactions for FY20e. In a nutshell, the estimates are dire:

- a. **New launches:** 1Q20 industry volumes rose 17% YoY to 2149. This will be supportive of 2Q20e earnings. However, FY20e industry transaction volumes may drop by around 20% to 7900*. These are levels worst than the 12 months post July18.
- b. **Private resale:** 1Q20 volumes jumped 12% YoY to 2080 units. The resale market will be even worst hit than new launch. Without viewing the units physically, there is a higher risk for the buyer if there are issues with the unit. Resale units are unlike new launches where developers are reputable and there is the typical 1-year defect liability for developers. Expectations are for at least a 32% decline in transactions to 6100*.
- c. **HDB resale:** 1Q20 volumes rose 22% YoY to 5893 unit and the highest in 9 years (for a March quarter). The circuit breaker will cause some postponement of purchases in the near-term and overall transaction for FY20e could fall by 10% to 21,500 units. We expect these transactions will be need-driven property purchase.

*PropNex estimate is a decline of 27% for the combined private resale and new projects from 19,150 units in 2019 to 14,000 units in 2020.

The extent of the COVID-19 circuit breaker impact include suspension of property viewings and marketing roadshows, temporary closure of project sales galleries and delays in new launches.

Maintain BUY with a higher target price of S\$0.60 (previously S\$0.70)

Our target price is lowered as we cut FY20e earnings forecast by 19%. We believe the company intends to position themselves as a high yield paying stock. To maintain dividends at 3.5 cents per annum requires a payout of S\$13mn. This is well supported by the cash on hand of \$89mn and excludes and further cash generated by the business.

Financials

Income Statement

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
Revenue	331.9	431.5	419.8	381.7	404.0
Cost of services	(298.1)	(390.2)	(375.5)	(340.5)	(362.0)
Gross profit	33.8	41.4	44.3	41.2	42.0
Staff costs	(8.3)	(12.1)	(12.8)	(13.0)	(13.5)
Finance and other income	2.9	4.2	6.9	5.2	5.2
Other costs and expenses	(6.2)	(7.1)	(12.8)	(9.5)	(8.6)
Operating profit	22.2	26.4	25.6	23.9	25.1
Profit before tax	22.2	26.4	25.6	23.9	25.1
Tax	(3.3)	(4.4)	(4.5)	(4.1)	(4.3)
Minority Interest	(2.6)	(2.5)	(1.1)	(1.0)	(0.8)
PATMI	16.3	19.4	20.0	18.9	20.0

Per share data

SGD cents, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS	4.4	5.2	5.4	5.1	5.4
DPS	2.6	3.5	3.5	3.5	3.8
NAV per share	5.7	19.0	19.4	21.3	23.1

Cash Flow

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	18.9	21.9	21.1	19.9	20.9
Adjustments	4.8	4.7	8.2	4.5	3.8
WC changes	1.1	(0.5)	5.0	(8.0)	0.3
Interest and Taxes paid, others	(1.1)	(3.0)	(5.0)	(4.1)	(4.3)
Cashflow from operations	23.7	23.2	29.3	12.3	20.7
CFI					
Acquisition of plant and equipment	(1.5)	(1.8)	(1.9)	(2.0)	(2.0)
Others	0.1	0.5	0.8	-	-
Cashflow from investments	(1.4)	(1.3)	(1.0)	(2.0)	(2.0)
CFE					
Payment of dividends	(10.8)	(13.3)	(19.6)	(13.0)	(14.1)
Others	-	39.4	-	-	-
Cashflow from financing	(10.8)	26.1	(22.4)	(14.0)	(15.1)
Net change in cash	11.5	48.0	5.9	(3.6)	3.7
CCE, end	27.6	75.6	81.5	77.9	81.6

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PP&E	1.7	2.8	3.5	6.8	10.8
Others	0.01	0.19	5.87	4.07	2.57
Total non-current assets	1.8	3.0	9.4	10.9	13.4
Trade & other receivables	62.9	63.5	63.5	61.1	64.6
Cash and cash equivalents	27.7	75.7	81.6	78.0	81.6
Total current assets	90.6	139.1	145.1	139.0	146.3
Total Assets	92.4	142.1	154.4	150.0	159.6
LIABILITIES					
Trade & other payables	67	66	72	61	65
Current tax liabilities	-3.2	-4.9	-4.3	-4.3	-4.3
Others	0.6	0.9	1.0	1.0	1.0
Total current liabilities	71	72	80	68	71
Deferred tax liability	0.14	0.17	0.19	0.19	0.19
Total non-current liabilities	0.14	0.17	3.05	3.05	3.05
Total Liabilities	71.2	71.7	82.5	71.1	74.0
EQUITY					
Share capital	0.4	57.5	57.5	57.5	57.5
Merger reserve	-	(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
Accumulated profits	17.1	26.4	28.9	34.9	40.9
Non-controlling interests	3.1	3.5	2.6	3.5	4.3
Total Equity	21.2	70.4	71.9	78.8	85.6

Valuation Ratios

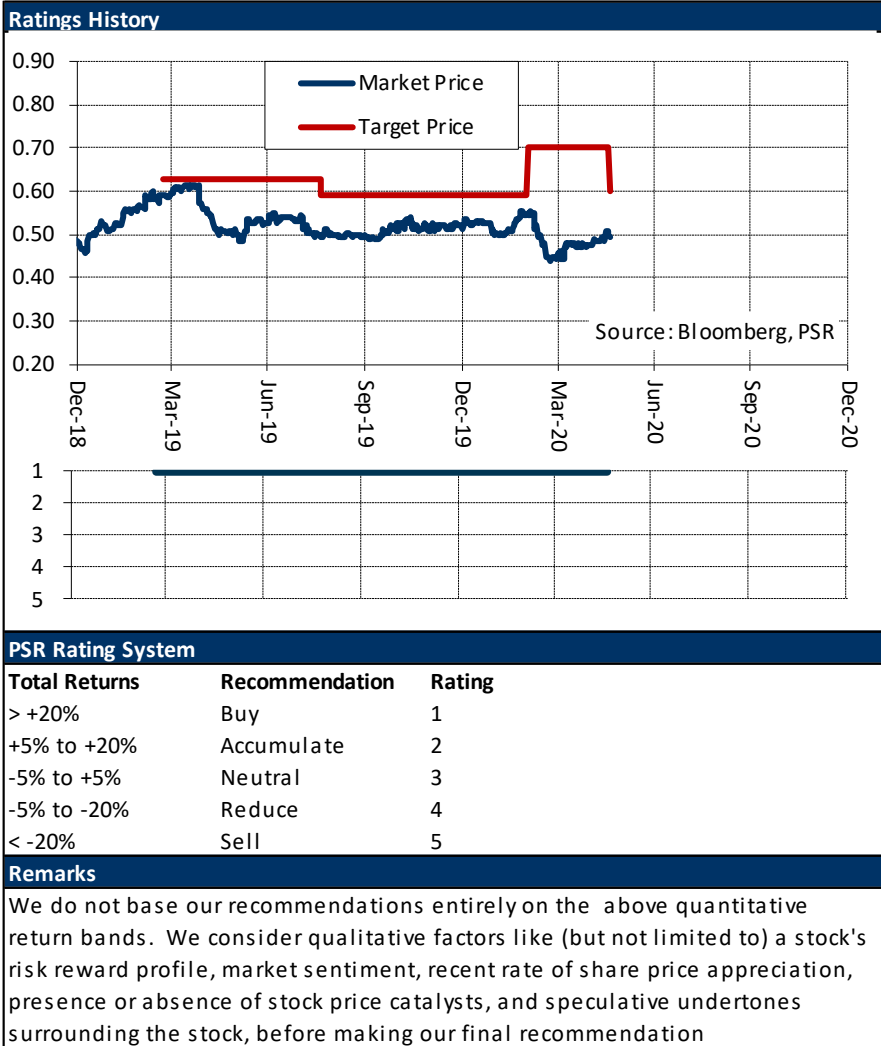
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	11.3	9.4	9.1	9.7	9.1
P/B (x)	8.7	2.6	2.5	2.3	2.1
Dividend Yield (%)	5.3	7.1	7.1	7.1	7.7

Growth & Margins

Growth					
Revenue	35.4%	30.0%	-2.7%	-9.1%	5.8%
Gross profit	76.4%	22.5%	7.1%	-7.0%	1.9%
PBT	122.4%	19.0%	-3.0%	-6.4%	5.0%
PAT	113.7%	19.3%	3.2%	-5.6%	5.9%
Margins					
GP margin	10.2%	9.6%	10.6%	10.8%	10.4%
PBT margin	6.7%	6.1%	6.1%	6.3%	6.2%
PAT Margin	4.9%	4.5%	4.8%	5.0%	5.0%

Key Ratios

ROE (%)	76.9%	27.6%	27.9%	24.0%	23.4%
ROA (%)	17.6%	13.7%	13.0%	12.6%	12.6%
Gearing (x)	-	-	-	-	-



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Siti Nursyazwina - syazwina@phillip.com.sg

Property | REITs

Natalie Ong - natalieongpf@phillip.com.sg

Property | REITs

Tan Jie Hui - tanjih@phillip.com.sg

Banking & Financials | Healthcare

Tay Wee Kuang - taywk@phillip.com.sg

Technical Analyst

Chua Wei Ren – chuawr@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

Credit Analyst (Bonds)

Timothy Ang – timothyang@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.