

PropNex Ltd

Bumper quarter



SINGAPORE | REAL ESTATE (AGENCIES) | 2Q21 RESULTS

16 August 2021

- 2Q21 PATMI surged 127% YoY to S\$16.5mn. A major beat. 1H21 PATMI at 75% of our forecast. All four revenue streams grew.
- Private resales stood out with a more than 3-fold jump in revenue. Resale prices more attractive than new-unit prices. Interim DPS up almost 3-fold to 5.5 cents, a 65% payout for 1H21.
- 2H21 to remain buoyant, underpinned by a virtuous cycle underway. HDB upgraders are pushing up new home sales, driving demand for resale units due to their price differential. Rising affordability forms the foundation of this upcycle. After a decade, the property price index is only up around 13%. Rising income and TDSR should contain speculation.
- We raise FY21e PATMI by 53% to S\$63.5mn as we lift revenue by 77%. DCF target price (WACC 9.8%) rises from S\$1.36 to S\$2.08. That said, recent rally has priced in most of the positives. Downgrade to ACCUMULATE from BUY.

ACCUMULATE (Downgraded)

LAST DONE PRICE	SGD 1.900
FORECAST DIV	SGD 0.115
TARGET PRICE	SGD 2.080
TOTAL RETURN	15.5%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN):	370.0
MARKET CAP (USD mn / SGD mn):	519 / 703
52 - WK HI/LO (SGD):	2.21 / 0.57
3M Average Daily T/O (mn):	1.1

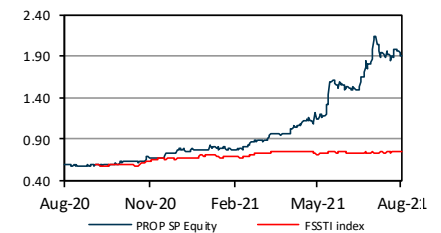
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.2%
SEONG KELVIN FONG KENG	8.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.6	55.7	152.2
STI RETURN	0.7	2.2	13.9

PRICE VS. STI



Source: Bloomberg, PSR

Results at a glance

SGD mn	2Q21	2Q20	YoY	Comments
Revenue	260.5	105.4	147%	
- Agency services	125.5	54.8	129%	
a) Private resale	69.9	21.3	228%	Includes condo and landed sales.
b) HDB resale	32.1	19.1	68%	Grants, BTO delay and MOP are major drivers.
c) Rental	30.1	14.4	109%	Larger units in demand and construction delays.
- Project Marketing	126.8	49.2	158%	
Staff costs	(4.1)	(3.4)	19%	Huge operating leverage underway.
Gross profit	27.8	12.3	126%	
Operating profit	21.9	8.8	149%	
PATMI	16.5	7.3	127%	Government grant declined S\$0.6mn to S\$0.2mn.
Interim dividend (cts)	5.50	1.50	267%	

Source: Company, PSR, BTO = Build-To-Order, MOP = minimum occupation period, BTO

The Positives

+ Resales led growth. Private resales grew the fastest. 2Q21 revenue spiked 228% YoY to S\$70mn, supported by a four-fold rise in industry resales to 5,333 units. Last year's circuit breaker had severely affected volumes. Private residential resales in Singapore are on track to touch their highest in a decade. Attractive prices compared to new-home prices are the main reason.

+ Interim DPS raised almost 3x. Interim DPS has been bumped up from 1.5 cents to 5.5 cents, representing a 65% payout. The S\$20.3mn payout is well supported by S\$33mn of operating cash flows in 1H21. Net cash as at June 2021 was S\$120.6mn, up from S\$99.7mn in June 2020.

+ Attractive operating leverage. PropNex's operating leverage was in full display in 2Q21. Revenue jumped 147% while operating costs only rose 38% YoY. The bulk of the increase was for variable referral fees and marketing expenses.

The Negative

- Nil.

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY19	FY20	FY21e	FY22e
Revenue	419.8	515.6	977.5	937.0
Gross Profit	44.3	56.5	106.6	102.1
Operating Profit	24.5	36.5	81.2	75.2
PATMI	20.0	29.1	63.5	59.6
P/E (x)	35.1	24.2	11.1	11.8
P/B (x)	9.8	8.0	5.8	4.9
EPS, SGD cents	5.4	7.9	17.1	16.1
DPS, SGD cents	3.5	5.5	11.5	11.0
Dividend yield (%)	1.8	2.9	6.1	5.8
ROE (%)	27.9	33.2	52.6	41.6

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 9.8%, Terminal growth 0%)

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Outlook

We expect the transaction momentum to continue. A virtuous cycle is underway from HDB upgraders, which is supporting demand for resale units due to their price differential. The next source of demand could be a return of foreign buyers when borders re-open.

Cooling measures. Cooling measures are unlikely in the near term, in our view. Firstly, TDSR has contained a large part of speculation in the residential segment. Secondly, recent commentaries by the authorities suggest that the market is not overheated and intervention is not required. Thirdly, the rule of thumb is a double-digit rise in the property price index over 12 months before intervention is considered. Over the past four quarters, the index was up only 7.1%.

Private new homes. Unsold inventories for developers are dwindling fast. They are now 19.4k, down 30% or 8.6k from a year ago. Based on current run rates of 12.6k units sold per year, the industry's inventory-to-sales ratio is at a 4-year low of 1.5 years (Figure 1). To help developers replenish their land banks, there could be more aggressive government land sales or en-bloc projects. PropNex's revenue in FY22e could be affected by a lack of new launches. This could be mitigated by its entry into en-bloc brokerage. A pipeline of around S\$6bn has been identified.

Private resales. Private resale volumes are notoriously volatile. Their 10-year average is around 10k units per year, swinging from a highest of 14k in 2017 to a lowest of around 5k in 2014. 1H21 units transacted were 9.8k. Annualised, resales are on track to break a record in a decade. High price premiums of new homes over resale homes and lifestyle changes from working and spending more time at home are some of the demand catalysts.

HDB resales. Attractive government grants and a jump in the expiry of minimum occupation periods continue to anchor the vibrant HDB resale market. Other factors include downsizing by households most affected by the pandemic and a preference for resale units due to delays in BTO construction.

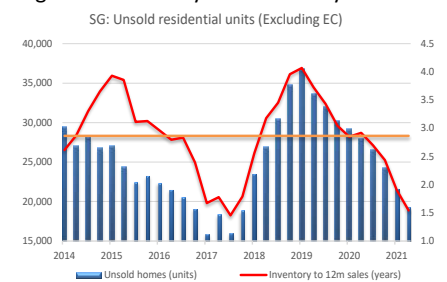
Rental. Tenants are shifting to larger units and foreign demand has been resilient as outflow has not been particularly large. Another group of tenants is buyers of BTO flats or new launches who require temporary housing as construction has been delayed.

Foreign demand. Ultra-high-end properties such as penthouses and good class bungalows have been selling well, to buyers not only from China but also Vietnam, Korea and the US. Despite travel restrictions, sales can be closed with virtual viewing. Once travel restrictions are lifted, we believe foreign buyers can support demand in the CCR/OCR region at the S\$2-5mn price points. Unsold inventories of private homes are the highest in the CCR/OCR region.

Downgrade from BUY to ACCUMULATE with higher TP of S\$2.08, from S\$1.36

Our FY21e PATMI has been raised by 53% to S\$63.5mn as we lift revenue by 77%. Accordingly, our DCF target price (WACC 9.8%) increases from S\$1.36 to S\$2.08. Nevertheless, downgrade to ACCUMULATE following its recent share-price rally. ROE has climbed from 30% levels to 40-50%. We raise FY21e DPS to 11.5 cents from 6.5 cents.

Figure 1: Inventory to sales at 4-year low



Source: PSR, CEIC, URA

Financials

Income Statement

SGD mn, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
Revenue	431.5	419.8	515.6	977.5	937.0
Cost of services	(390.2)	(375.5)	(459.1)	(871.0)	(834.8)
Gross profit	41.4	44.3	56.5	106.6	102.1
Staff costs	(12.1)	(12.8)	(14.7)	(19.0)	(18.0)
Finance and other income	4.2	6.9	8.0	7.1	5.4
Other costs and expenses	(7.1)	(12.8)	(12.6)	(12.3)	(13.0)
Operating profit	25.6	24.5	36.5	81.2	75.2
Profit before tax	26.4	25.6	37.2	82.2	76.4
Tax	(4.4)	(4.5)	(5.9)	(14.0)	(13.0)
PAT	21.9	21.1	31.2	68.2	63.4
Minority Interest	(2.5)	(1.1)	(2.1)	(4.8)	(3.8)
PATMI	19.4	20.0	29.1	63.5	59.6

Per share data

SGD cents, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS	5.2	5.4	7.9	17.1	16.1
DPS	3.5	3.5	5.5	11.5	11.0
NAV per share	19.0	19.4	23.7	32.6	38.8

Cash Flow

SGD mn, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
CFO					
PAT	21.9	21.1	31.2	68.2	63.4
Adjustments	4.7	8.2	10.6	17.2	16.4
WC changes	(0.5)	5.0	3.3	(4.1)	(0.4)
Interest and Taxes paid, others	(3.0)	(5.0)	(3.2)	(14.0)	(13.0)
Cashflow from operations	23.2	29.3	42.0	67.4	66.5
CFI					
Acquisition of plant and equipment	(1.8)	(1.9)	(0.5)	(1.0)	(1.0)
Others	0.5	0.8	0.7	-	-
Cashflow from investments	(1.3)	(1.0)	0.2	(1.0)	(1.0)
CFE					
Payment of dividends	(13.3)	(19.6)	(15.4)	(35.2)	(40.7)
Others	39.4	(2.7)	(2.6)	(1.0)	(1.0)
Cashflow from financing	26.1	(22.4)	(18.0)	(36.2)	(41.7)
Net change in cash	48.0	5.9	24.2	30.3	23.8
CCE, end	75.6	81.5	105.7	136.0	159.8

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PP&E	2.8	3.5	2.6	2.8	3.0
Others	0.2	5.9	3.7	1.2	(1.4)
Total non-current assets	3.0	9.4	6.3	4.0	1.6
Trade & other receivables	63.5	63.5	80.6	151.5	145.2
Cash and cash equivalents	75.7	81.6	105.8	136.1	159.9
Total current assets	139.1	145.1	186.4	287.6	305.1
Total Assets	142.1	154.4	192.7	291.7	306.7
LIABILITIES					
Trade & other payables	65.8	71.7	94.3	161.1	154.4
Current tax liabilities	4.9	4.3	7.0	7.0	7.0
Others	0.9	3.5	2.6	1.6	0.6
Total current liabilities	71.5	79.5	103.9	169.8	162.1
Deferred tax liability	0.2	0.2	0.2	0.2	0.2
Others	0.0	2.9	1.0	1.0	1.0
Total non-current liabilities	0.2	3.0	1.2	1.2	1.2
Total Liabilities	71.7	82.5	105.1	171.0	163.3
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
Accumulated profits	26.4	28.9	44.1	72.4	91.4
Non-controlling interests	3.5	2.6	3.0	7.8	11.6
Total Equity	70.4	71.9	87.6	120.7	143.4

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	36.2	35.1	24.2	11.1	11.8
P/B (x)	10.0	9.8	8.0	5.8	4.9
Dividend Yield (%)	1.8	1.8	2.9	6.1	5.8

Growth & Margins

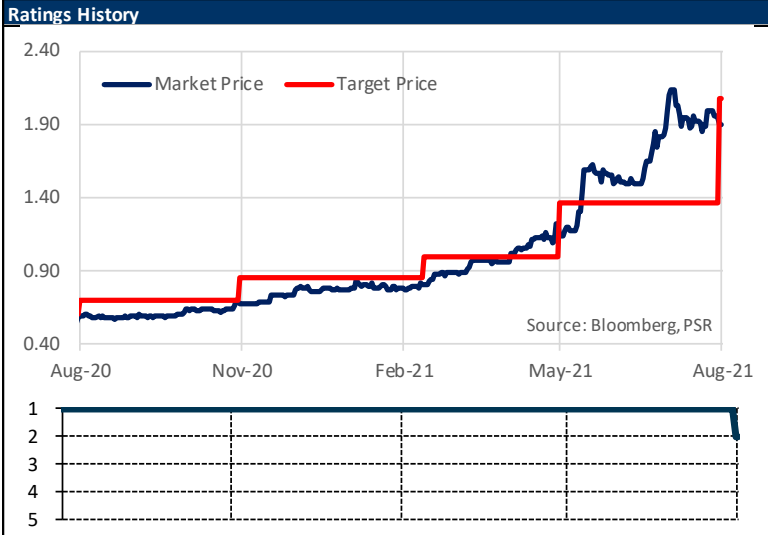
	FY18	FY19	FY20	FY21e	FY22e
Growth					
Revenue	30.0%	-2.7%	22.8%	89.6%	-4.1%
Gross profit	22.5%	7.1%	27.6%	88.5%	-4.1%
PBT	19.0%	-3.0%	45.3%	121.2%	-7.0%
PAT	19.3%	3.2%	45.2%	118.1%	-6.0%

Margins

	FY18	FY19	FY20	FY21e	FY22e
GP margin	9.6%	10.6%	11.0%	10.9%	10.9%
PBT margin	6.1%	6.1%	7.2%	8.4%	8.2%
PAT Margin	4.5%	4.8%	5.6%	6.5%	6.4%

Key Ratios

	FY18	FY19	FY20	FY21e	FY22e
ROE (%)	27.6%	27.9%	33.2%	52.6%	41.6%
ROA (%)	13.7%	13.0%	15.1%	21.8%	19.4%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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