

PropNex Ltd (PROP SP)

Applying the brakes

Fresh property cooling measures kick in today

The government introduced more property cooling measure late last night, largely aimed to moderate demand in the HDB resale market to ensure affordability. Even though buyers may take some time to digest the new rules, we think the impact should be quite modest compared to the previous rounds. In our view, the latest measures are likely to come as a sigh of relief to investors and remove a major overhang given the government is careful not to be overzealous to cool the Singapore residential market. Maintain BUY and TP of SGD1.95.

More prudent borrowing and longer wait

Wef 30 Sep 2022, the measures include tightening maximum loan quantum limits and lowering the loan-to-value limit for HDB loans to 80% from 85%. But these should not materially affect first-time and lower-income flat buyers as these potential homeowners still receive significant housing grants. The agencies will also introduce a 15-month wait-out period for private home owners buying HDB resale flats. However, this looks like a temporary measure to moderate demand for resale flats, which the government will review depending on overall demand and market changes.

Lower resale volumes partly offset by new launches

For private residential properties, a higher 4% interest rate (+0.5ppt) will now apply for Total Debt Servicing Ratio and Mortgage Servicing Ratio. In 1H22, HDB and private resale markets accounted for c. 14% and 26% of total revenues, while project marketing makes up about 39%. We reduced our FY22-24E turnover slightly by 1-2% on lower resale volumes but keep EPS forecasts due to higher pricing and take-up rate for new launches that typically command better margins.

Strong balance sheet with yield of >7%

While total transaction volumes may slow down in the near term amid rising interest rates, we reckon Propnex should be less affected given its increasing market share along with its growing sales force. Coupled with the group's cash-generative business model, its balance sheet remains rock solid with net cash/market cap of almost 24% (or SGD0.36 per share). Hence, we believe Propnex can well afford to maintain its high dividend payout of at least 70%. This would also translate into an attractive prospective yield of more than 7%.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	516	957	872	922	963
EBITDA	30	71	64	69	73
Core net profit	29	60	48	52	54
Core EPS (cts)	7.9	16.2	13.0	13.9	14.7
Core EPS growth (%)	45.0	106.4	(19.8)	7.1	5.4
Net DPS (cts)	5.5	12.5	11.0	11.5	12.0
Core P/E (x)	9.9	10.4	11.8	11.1	10.5
P/BV (x)	3.4	5.7	3.7	2.8	2.3
Net dividend yield (%)	7.1	7.4	7.1	7.5	7.8
ROAE (%)	37.8	61.9	36.6	29.1	24.1
ROAA (%)	16.8	24.6	15.2	14.3	13.3
EV/EBITDA (x)	6.3	6.9	6.3	5.2	4.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	49	51	53
MKE vs. Consensus (%)	-	-	(0.9)	1.1	2.7

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BUY

Share Price	SGD 1.54
12m Price Target	SGD 1.95 (+27%)
Previous Price Target	SGD 1.95

Company Description

PropNex is Singapore's largest listed real estate agency with over 11,000 sales professionals

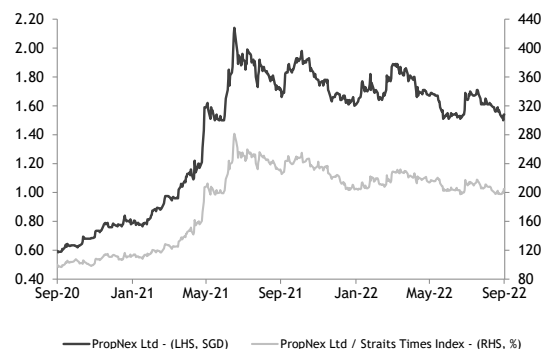
Statistics

52w high/low (SGD)	1.98/1.50
3m avg turnover (USDm)	0.1
Free float (%)	20.9
Issued shares (m)	370
Market capitalisation	SGD569.8M USD397M

Major shareholders:

P&N Holdings Pte Ltd.	55.6%
MOHAMED ISMAIL /PROPNE/	9.3%
FONG KENG SEONG	8.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	1	(10)
Relative to index (%)	(3)	0	(11)

Source: FactSet

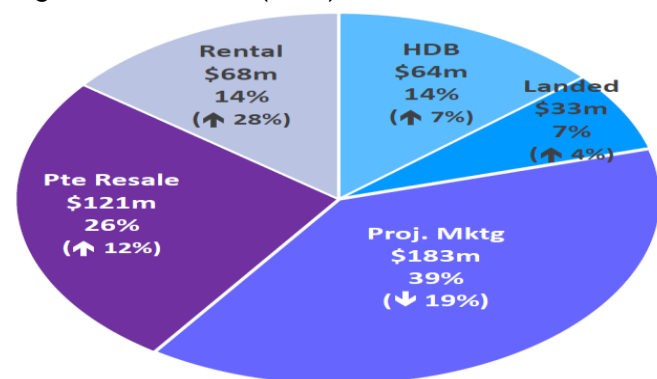
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Tear Sheet Insert

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OPPORTUNITY+

Value Proposition

- Propnex is Singapore's largest listed real estate group with 11,744 professionals as at 1 Aug 2022.
- The Group leads in real estate agency services, with substantial market share in the residential segments of new project launches, private resale, HDB resale and rental.
- It aims to be the first to introduce new initiatives especially in technological innovations with a focus on improving the productivity of its salespersons.
- Propnex recently expanded its brand to Australia and is also penetrating into the GCB segment in 2022.

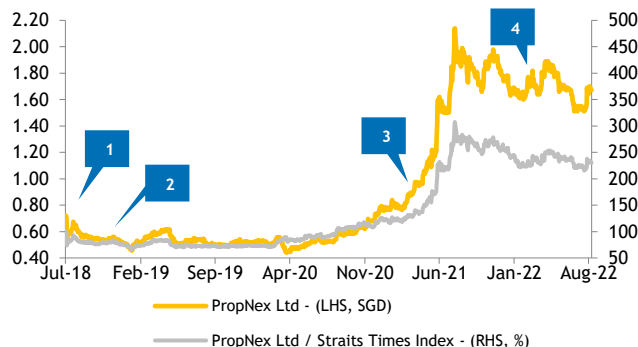
Segment contribution (1H22)



Source: Company

Price Drivers

Historical share price trend



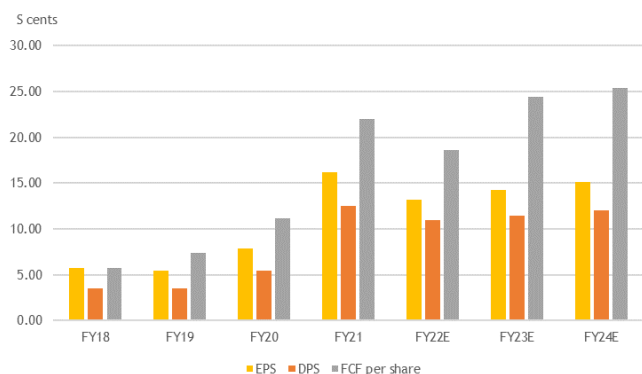
Source: Company, Maybank IBG Research

- In Jul 2018, Propnex made its trading debut on the SGX at IPO price of SGD0.65.
- Extends regional footprint to Vietnam with operations commencing in 3Q18.
- Acquires a 70% stake in Ovyv to expand into proptech with the provision of value-added real estate services.
- Strategic foray into GCB luxury landed deals to further complement its existing presence in the high-end segment.

Financial Metrics

- PropNex enjoys significant operating leverage as the Group revenue grew at a CAGR of 31% from FY15-21, while its NPAT rose almost 41% over the same period.
- The Group is debt free with a robust balance sheet with cash and cash equivalents of SGD134m as at end-Jun 2022.
- Given its strong cash-generative business, Propnex has paid out >70% of its EPS as dividends in the past two financial years. This implies an attractive yield of around 7%.

EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Higher-than-expected transaction volumes
- Improvement in margins from rising operating leverage
- Continued market share gains from other competitors

Downside

- Introduction of new cooling measures may deter potential buyers as they adopt a wait-and-see approach and held back on property purchases to monitor the impact.
- Uncertain macroeconomic environment may weigh on market sentiment and buying interest.
- The rise in interest rate may negatively impact sales due to steeper borrowing costs.

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As Singapore's largest real estate agency, PropNex fulfils an important role within the real estate sector by facilitating the buying, selling, renting and leasing of property in the country.
- PropNex provides gainful employment to thousands of employees and salespersons. Notably, the Group's salesforce grew to 10,796 as at 1 Jan 2022 from 8,918 (+21% YoY) a year ago.
- Being a service-oriented company working closely with customers, PropNex needs to closely abide by the Personal Data Protection Act, ensuring the security of its customers' private data.
- Like other real estate practitioners, PropNex also adheres to the regulatory framework of the Estate Agents Act as guided by the Council for Estate Agencies (CEA) - a government agency under the Ministry of National Development (MND).

Material E issues

- The Group has logged its electrical consumption captured at various corporate premises at HDB Hub, Branch Office and General Magnetic Building. Tabulations were based on utility bills from the electricity supplier.
- All electricity is purchased from the national grid and is produced almost entirely by the combustion of natural gas, which is classified as Scope 2 emissions.
- A total 490,251kWh of electricity was used, which translates to 104.74 CO2e.
- No incident of non-compliance with environmental laws and regulations were identified within the reporting year.

Material S issues

- Technology in the real estate realm has disrupted and transformed how business is conducted, and will continue to play a pivotal role in the way corporations conduct their business.
- One of the Group's key strategies is to enhance its digital capabilities by improving its salespersons' productivity by providing relevant and reliable technological support.
- For example, Propnex leverages online alternatives such as webinars/social media to substitute face to face meetups and physical seminars due to the COVID-19 situation.

Key G metrics and issues

- The board has five directors, including the Executive Chairman and CEO, one Executive Director and three independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board spearheads its sustainability agenda, including determining the material ESG factors that the Group focuses on.
- Executive Chairman/CEO, Ismail Gafoore and Executive Director, Kelvin Fong own about 55.6% and 8.7% stakes in the company respectively.
- Key management/ directors' compensation accounted for about 23%/1.4% of total employee compensation in 2021.
- The external auditor is KPMG LLP.
- There were no non-compliant incidents with relevant laws and regulations that resulted in significant fines or legal actions against Propnex.
- There were also no letter of complaints against the Group from Personal Data Protection Commission (PDPC) concerning breaches of customer privacy and losses of customer data. It had no incidents of corruption in 2021.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 36)						
	Particulars	Unit	2019	2020	2021	APAC Realty (APAC SP, FY21)
E	Scope 1 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	tCO2e	141.22	112.31	104.74	N/A
	Total	tCO2e	141.22	112.31	104.74	N/A
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Total	tCO2e	N/A	N/A	N/A	472.7
	GHG intensity (Scope 1 and 2)	tCO2e/t	N/A	N/A	N/A	1.35
	Carbon emission	CO2e	141.22	112.31	104.74	39.4
	Carbon emission intensity	t/SGDm	0.3	0.2	0.1	0.02
	Electricity consumption	m kWh	0.66	0.53	0.49	1.15
	Energy intensity	kWh/sqft	N/A	N/A	N/A	1.32
	Air emissions intensity	ton/kT	N/A	N/A	N/A	N/A
	NPE (New Plastic Economy) investments	SGD m	N/A	N/A	N/A	N/A
	Cases of environmental non-compliance	number	0	0	0	0
S	% of women in workforce	%	N/A	N/A	N/A	64.7%
	% of women in management roles	%	22.2%	22.2%	22.2%	18.2%
	No. of consumer empowerment seminars	number	9	131	82	N/A
	Monetary contribution to local community	SGDm	0.53	0.75	2.12	0.3
G	CEO/MD salary as % of reported net profit	%	4.5%	3.2%	1.7%	5.9%
	Board salary as % of reported net profit	%	13.3%	7.8%	5.1%	4.2%
	Independent directors on the Board	%	50%	60%	60%	60%
	Female directors on the Board	%	0%	0%	0%	0%

Qualitative Parameters (Score: 68)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. The Sustainability Steering Committee will assist the Board in integrating ESG considerations into the group's strategic formulation, as well as monitor, manage and report on its ESG performance.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No. But it will undertake further initiatives to promote environmental sustainability.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The group will continue to explore and consider various initiatives such reducing the spaces and effectively using energy efficient appliances, motion sensors for lights etc.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

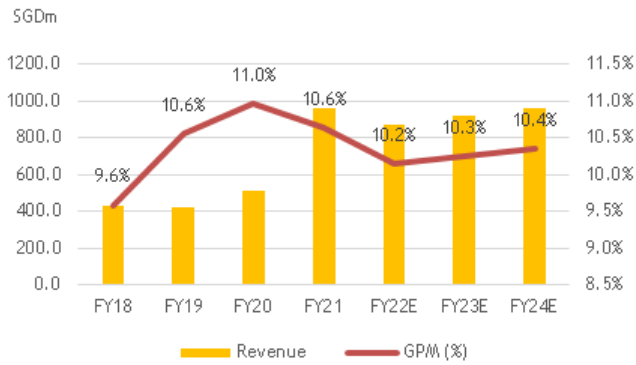
Target (Score: 100)		
Particulars	Target	Achieved
Maintain zero letter of complaints from authorities concerning breaches of customer privacy/data	0	0
Maintain zero non-compliant with environmental laws and regulations	0	0
Maintain zero non-compliant with socio-economic laws and regulations	0	0
Number of consumer empowerment seminars/webinars held	50	82
Make monetary contribution to local charity beneficiaries	SGD0.5m	SGD2.1m
Impact		
NA		
Overall score: 60		
As per our ESG matrix, Propnex Ltd (PROP SP) has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	36	18
Qualitative	25%	68	17
Target	25%	100	25
Total			60

As per our ESG assessment, Propnex has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. Its overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

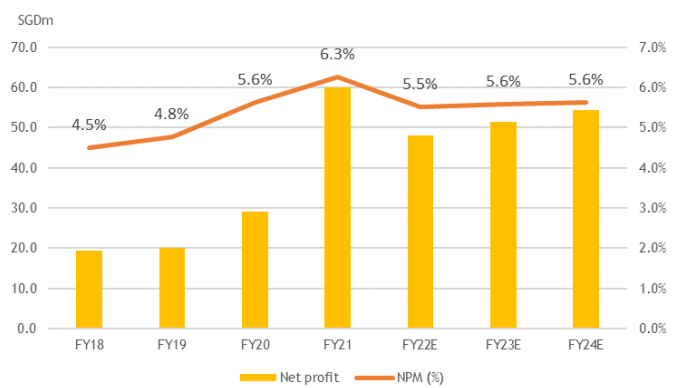
Focus charts

Fig 1: Revenue and GPM trend



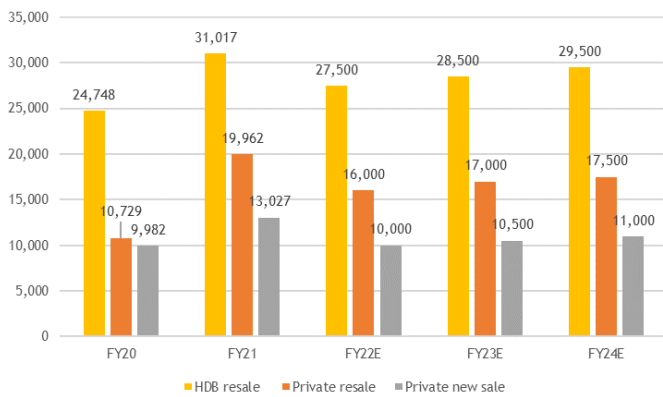
Source: Company data, Maybank IBG Research

Fig 2: Net profit and NPM



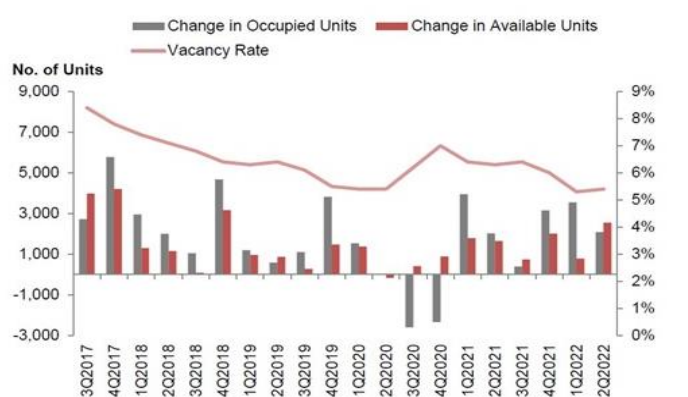
Source: Company data, Maybank IBG Research

Fig 3: Est. sales volume for SG residential market



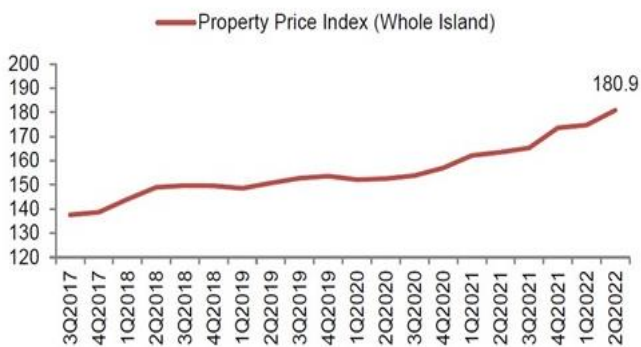
Source: Company data, Maybank IBG Research

Fig 4: Stock and vacancy of private residential units (excl. ECs)



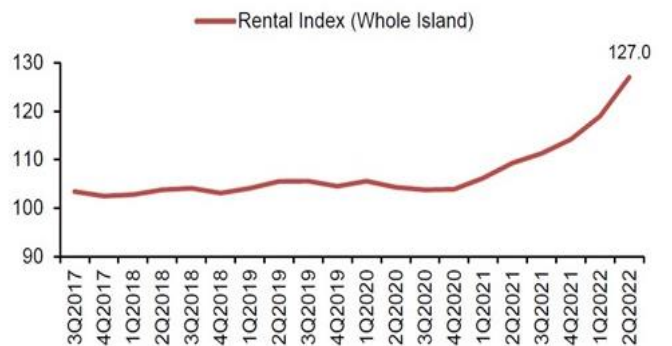
Source: URA

Fig 5: Price index of private residential properties



Source: URA

Fig 6: Rental index of private residential properties



Source: URA

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	7.2	8.9	11.8	11.1	10.5
Core P/E (x)	9.9	10.4	11.8	11.1	10.5
P/BV (x)	3.4	5.7	3.7	2.8	2.3
P/NTA (x)	3.4	5.8	3.8	2.9	2.3
Net dividend yield (%)	7.1	7.4	7.1	7.5	7.8
FCF yield (%)	9.8	7.6	11.8	15.4	16.1
EV/EBITDA (x)	6.3	6.9	6.3	5.2	4.3
EV/EBIT (x)	6.3	6.9	6.6	5.5	4.5
INCOME STATEMENT (SGD m)					
Revenue	515.6	957.5	871.5	921.5	962.9
EBITDA	30.1	70.5	64.4	69.0	72.9
Depreciation	(3.7)	(3.5)	(3.4)	(3.6)	(3.7)
Amortisation	(0.0)	(0.3)	(0.3)	(0.4)	(0.4)
EBIT	30.1	70.8	60.7	65.1	68.8
Net interest income / (exp)	(0.1)	(0.0)	0.5	0.6	0.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	37.2	78.7	61.1	65.7	69.5
Income tax	(5.9)	(13.5)	(10.6)	(11.4)	(12.2)
Minorities	(2.1)	(5.1)	(2.4)	(2.7)	(3.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.1	60.0	48.1	51.5	54.3
Core net profit	29.1	60.0	48.1	51.5	54.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	105.8	145.6	171.2	215.8	262.3
Accounts receivable	79.6	142.1	156.9	156.7	158.9
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5.7	4.9	1.7	1.6	1.5
Intangible assets	0.1	0.9	3.0	2.8	2.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.4	1.0	6.4	6.4	6.4
Total assets	192.7	294.6	339.2	383.2	431.6
ST interest bearing debt	2.1	1.6	0.0	0.0	0.0
Accounts payable	72.3	132.6	164.4	161.3	159.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1.0	1.3	0.0	0.0	0.0
Other liabilities	30.0	46.0	17.0	17.0	16.0
Total Liabilities	105.1	182.0	181.6	178.0	175.9
Shareholders Equity	84.6	109.4	153.5	200.8	250.7
Minority Interest	3.0	3.1	4.0	4.5	5.0
Total shareholder equity	87.6	112.6	157.5	205.3	255.7
Total liabilities and equity	192.7	294.6	339.1	383.3	431.5
CASH FLOW (SGD m)					
Pretax profit	37.2	78.7	61.1	65.7	69.5
Depreciation & amortisation	3.8	3.8	3.7	3.9	4.1
Adj net interest (income)/exp	(0.1)	(0.0)	0.0	0.0	0.0
Change in working capital	3.3	7.7	(6.7)	8.4	7.4
Cash taxes paid	3.2	7.1	10.6	11.4	12.2
Other operating cash flow	4.3	7.0	0.0	0.0	0.0
Cash flow from operations	42.6	83.4	68.7	89.4	93.2
Capex	(0.5)	(0.5)	(1.5)	(1.5)	(1.5)
Free cash flow	28.2	47.7	67.2	87.9	91.7
Dividends paid	(13.9)	(35.2)	(40.7)	(42.6)	(44.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	(2.0)	(2.0)	(2.0)
Other invest/financing cash flow	(1.4)	(5.6)	0.5	0.6	0.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	24.2	39.8	25.0	44.0	46.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.8	85.7	(9.0)	5.7	4.5
EBITDA growth	60.8	134.5	(8.7)	7.2	5.6
EBIT growth	60.7	135.2	(14.3)	7.4	5.7
Pretax growth	45.6	111.4	(22.3)	7.5	5.8
Reported net profit growth	45.2	106.3	(19.8)	7.1	5.4
Core net profit growth	45.2	106.3	(19.8)	7.1	5.4
Profitability ratios (%)					
EBITDA margin	5.8	7.4	7.4	7.5	7.6
EBIT margin	5.8	7.4	7.0	7.1	7.1
Pretax profit margin	7.2	8.2	7.0	7.1	7.2
Payout ratio	70.0	77.1	84.5	82.6	81.7
DuPont analysis					
Net profit margin (%)	5.6	6.3	5.5	5.6	5.6
Revenue/Assets (x)	2.7	3.3	2.6	2.4	2.2
Assets/Equity (x)	2.3	2.7	2.2	1.9	1.7
ROAE (%)	37.8	61.9	36.6	29.1	24.1
ROAA (%)	16.8	24.6	15.2	14.3	13.3
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	49.9	41.7	61.8	61.2	59.0
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	48.1	42.1	68.3	70.9	66.9
Dividend cover (x)	1.4	1.3	1.2	1.2	1.2
Current ratio (x)	1.8	1.6	1.8	2.1	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.6	1.9	2.2	2.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	na	na	na
Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.1	0.1	0.2	0.2	0.2
Net debt/ (net cash)	(102.6)	(142.7)	(171.2)	(215.8)	(262.3)

Source: Company; Maybank IBG Research

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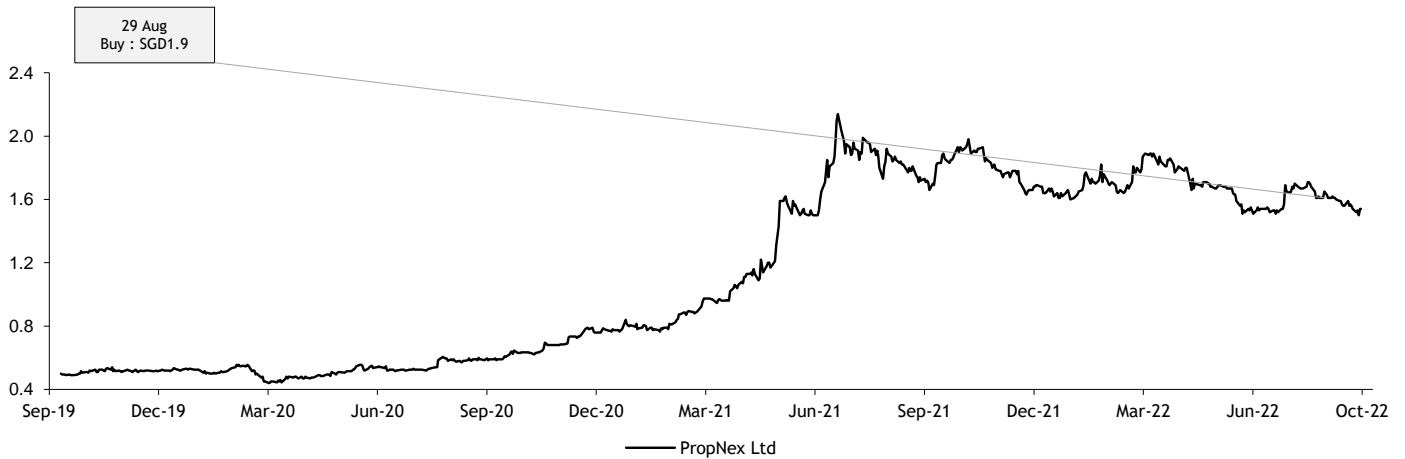
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