

# PropNex Ltd (PROP SP)

## Holding steady

### 3Q22 above expectations; retain BUY

Propnex's 3Q22 PATMI rose 21.9% YoY to SGD17.6m, beating our and street expectations. This brought 9M22 earnings to SGD44.6m (-2.5% YoY) and forms about 92% of MIBG/consensus full-year estimates. We therefore raise our FY22E EPS by 12% on better-than-expected transaction volumes but leave our FY23-24E forecasts intact amid the current macro uncertainties. Maintain BUY with an unchanged TP of SGD1.95 (still based on 14x FY23E P/E), and backed by an attractive 8% dividend yield.

### New private home sales to rebound in 2023

Revenue for the quarter grew 10.2% YoY to SGD258.4m, driven by robust turnover from agency services (higher number of transactions completed) but partially offset by decrease in commission income from project marketing services (fewer new launches by developers). GPM narrowed slightly by 0.2ppt to 10.3% due to lower contribution from project marketing services which generally command better margins as compared to agency services' resale transactions. We are expecting new private home sales to pick up next year given the strong project pipeline.

### Winning market share despite lower resale volumes

We forecast a moderation of HDB resale volumes in the wake of fresh cooling measures (introduced on 30 Sep 2022) aimed at reining in the pace of price growth in the public housing segment. This comes on the back of tighter lending curbs and a new 15-month wait-out period for private property sellers looking to downgrade to HDB resale. That said, we reckon the strong quarterly performance likely suggests that the group continues to gain market share at the expense of its smaller competitors. Indeed, Propnex saw an 11.8% increase in salesforce headcount to 12,065 (as at 2 Nov) from 10,796 salespersons in 1 Jan 2022.

### Solid balance sheet with attractive yield of 8%

The group's balance sheet remains solid with net cash/market cap of around 25% (or SGD0.34/share) underpinned by its cash-generative business model. We anticipate that Propnex will distribute a final DPS of SGD0.055 in 4Q, bringing its full year payout to SGD0.11. This also represents about 75% of FY22E underlying net profit, and would translate into an attractive annualised yield of almost 8%.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	516	957	924	884	908
EBITDA	30	71	71	68	71
Core net profit	29	60	54	51	53
Core EPS (cts)	7.9	16.2	14.6	13.9	14.4
Core EPS growth (%)	45.0	106.4	(10.2)	(4.5)	3.2
Net DPS (cts)	5.5	12.5	11.0	11.0	11.0
Core P/E (x)	9.9	10.4	9.5	9.9	9.6
P/BV (x)	3.4	5.7	3.2	2.5	2.0
Net dividend yield (%)	7.1	7.4	8.0	8.0	8.0
ROAE (%)	37.8	61.9	40.1	28.1	23.0
ROAA (%)	16.8	24.6	16.2	13.3	12.5
EV/EBITDA (x)	6.3	6.9	4.7	4.3	3.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	48	50	51
MKE vs. Consensus (%)	-	-	12.9	4.0	3.3

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# BUY

Share Price	SGD 1.38
12m Price Target	SGD 1.95 (+41%)
Previous Price Target	SGD 1.95

### Company Description

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

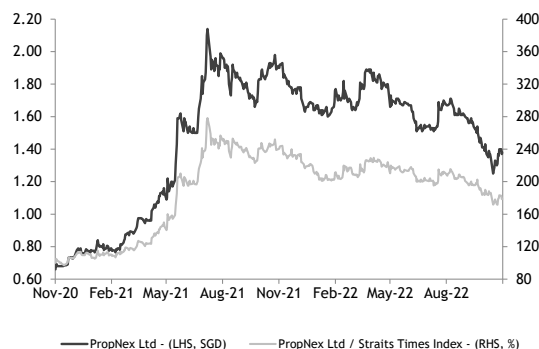
### Statistics

52w high/low (SGD)	1.93/1.25
3m avg turnover (USDm)	0.1
Free float (%)	21.0
Issued shares (m)	370
Market capitalisation	SGD510.6M USD364M

### Major shareholders:

P & N Holdings Pte Ltd	55.6%
Mohamed Ismail Gafoore	9.3%
Kelvin Fong Keng Seong	8.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(18)	(27)
Relative to index (%)	(2)	(15)	(25)

Source: FactSet

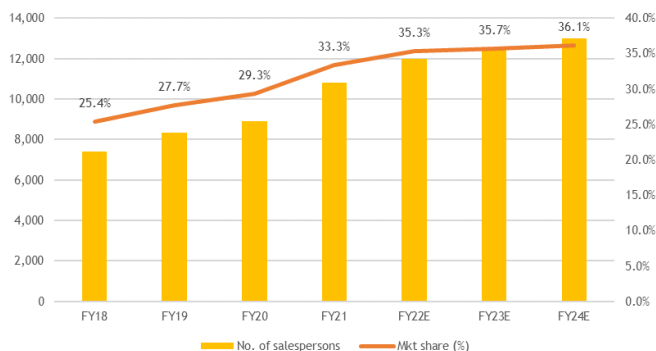
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## Value Proposition

- Propnex is Singapore's largest listed real estate group with 12,065 professionals as at 2 Nov 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.

### Growing salesforce

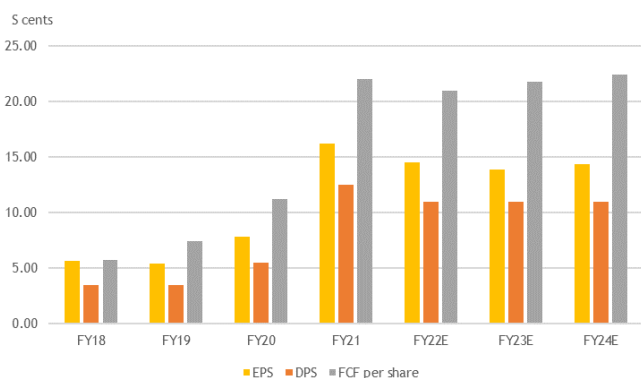


Source: Company, Maybank IBG Research

## 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 7-8%.

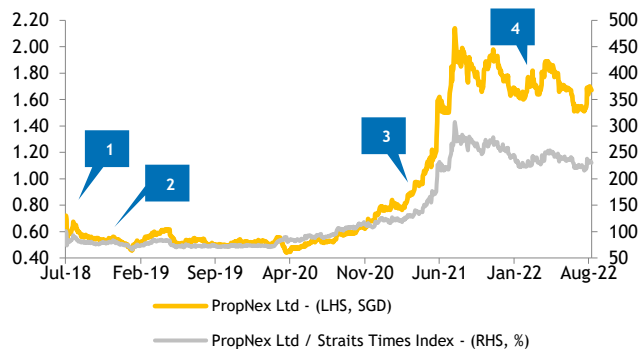
### EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

## 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.

## 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.

Risk Rating & Score <sup>1</sup>	Not Rated
Score Momentum <sup>2</sup>	Na
Last Updated	Na
Controversy Score <sup>3</sup>	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 CO<sub>2</sub>e.
- 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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
	<b>Total</b>	<b>tCO2e</b>	<b>141.22</b>	<b>112.31</b>	<b>104.74</b>	<b>N/A</b>
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	<b>Total</b>	<b>tCO2e</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>472.7</b>
	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
	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
	Employee turnover	%	23.7%	7.8%	17.6%	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%
	Shareholder payout	%	65%	70%	77%	75.5%

Qualitative Parameters (Score: 50)	
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>No</i>

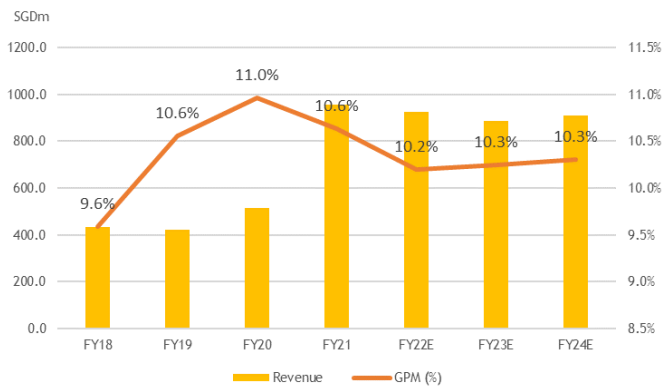
Target (Score: 100)		
Particulars	Target	Achieved
Maintain zero letter of complaints from authorities concerning breaches of customer privacy/data	0	0
Maintain zero non-compliant with environmental laws and regulations	0	0
Maintain zero non-compliant with socio-economic laws and regulations	0	0
Number of consumer empowerment seminars/webinars held	50	82
Make monetary contribution to local charity beneficiaries	SGD0.5m	SGD2.1m
<b>Impact</b>		
NA		
<b>Overall Score: 55</b>		
As per our ESG matrix, Propnex Ltd (PROP SP) has an overall score of 55.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	36	18
Qualitative	25%	50	13
Target	25%	100	25
<b>Total</b>			<b>55</b>

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 55, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

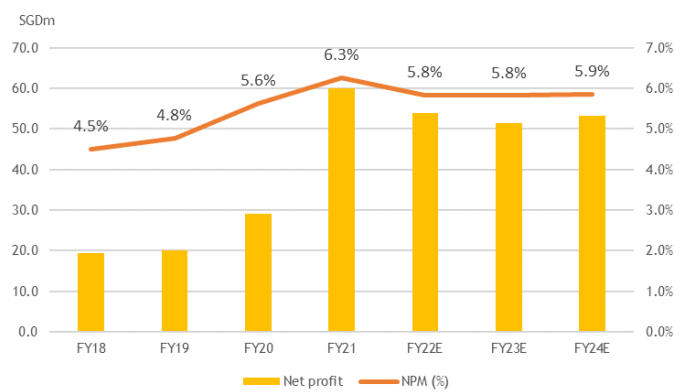
# Focus charts

**Fig 1: Revenue and GPM trend**



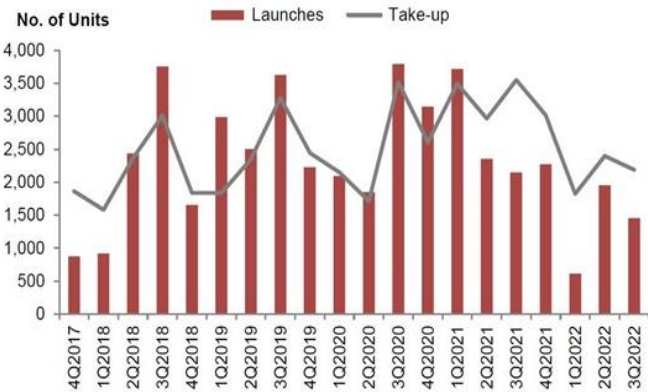
Source: Company data, Maybank IBG Research

**Fig 2: Net profit and NPM**



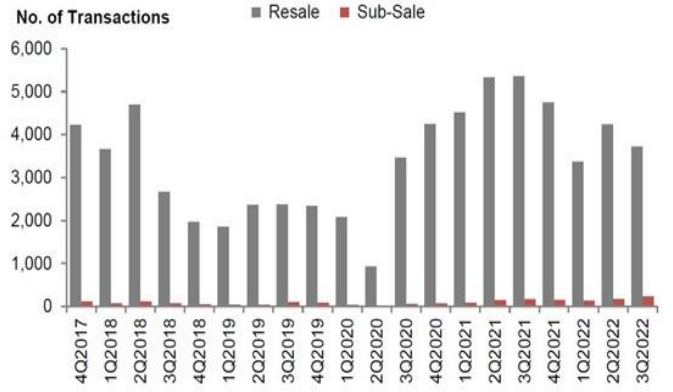
Source: Company data, Maybank IBG Research

**Fig 3: New launches and take-up (Excl ECs)**



Source: URA

**Fig 4: Resale/Sub-sale transactions for pvt residential units**



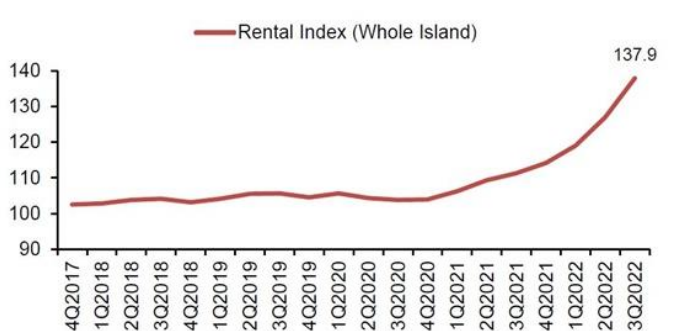
Source: URA

**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
<b>Key Metrics</b>					
P/E (reported) (x)	7.2	8.9	9.5	9.9	9.6
Core P/E (x)	9.9	10.4	9.5	9.9	9.6
P/BV (x)	3.4	5.7	3.2	2.5	2.0
P/NTA (x)	3.4	5.8	3.3	2.5	2.0
Net dividend yield (%)	7.1	7.4	8.0	8.0	8.0
FCF yield (%)	9.8	7.6	15.3	15.7	16.1
EV/EBITDA (x)	6.3	6.9	4.7	4.3	3.6
EV/EBIT (x)	6.3	6.9	4.9	4.5	3.8
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	515.6	957.5	924.0	884.3	908.0
EBITDA	30.1	70.5	71.3	68.4	70.7
Depreciation	(3.7)	(3.5)	(3.4)	(3.6)	(3.7)
Amortisation	(0.0)	(0.3)	(0.3)	(0.4)	(0.5)
EBIT	30.1	70.8	67.6	64.5	66.5
Net interest income / (exp)	(0.1)	(0.0)	0.8	0.9	1.0
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	68.4	65.3	67.5
Income tax	(5.9)	(13.5)	(11.9)	(11.4)	(11.8)
Minorities	(2.1)	(5.1)	(2.5)	(2.4)	(2.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.1	60.0	53.9	51.5	53.2
Core net profit	29.1	60.0	53.9	51.5	53.2
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	105.8	145.6	181.2	220.3	261.6
Accounts receivable	79.6	142.1	175.6	168.0	172.5
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	1.5	1.5	1.5
Intangible assets	0.1	0.9	6.2	6.2	6.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.4	1.0	6.3	6.3	6.3
<b>Total assets</b>	<b>192.7</b>	<b>294.6</b>	<b>370.8</b>	<b>402.2</b>	<b>448.0</b>
ST interest bearing debt	2.1	1.6	0.0	0.0	0.0
Accounts payable	72.3	132.6	190.8	174.6	171.0
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	18.0	18.0	18.0
<b>Total Liabilities</b>	<b>105.1</b>	<b>182.0</b>	<b>208.5</b>	<b>192.5</b>	<b>189.2</b>
Shareholders Equity	84.6	109.4	159.3	206.7	255.8
Minority Interest	3.0	3.1	3.0	3.0	3.0
<b>Total shareholder equity</b>	<b>87.6</b>	<b>112.6</b>	<b>162.3</b>	<b>209.7</b>	<b>258.8</b>
<b>Total liabilities and equity</b>	<b>192.7</b>	<b>294.6</b>	<b>370.8</b>	<b>402.2</b>	<b>448.0</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	37.2	78.7	68.4	65.3	67.5
Depreciation & amortisation	3.8	3.8	3.7	4.0	4.2
Adj net interest (income)/exp	(0.1)	(0.0)	0.0	0.0	0.0
Change in working capital	3.3	7.7	(4.2)	1.1	0.1
Cash taxes paid	3.2	7.1	11.9	11.4	11.8
Other operating cash flow	4.3	7.0	0.0	0.0	0.0
Cash flow from operations	42.6	83.4	79.8	81.7	83.6
Capex	(0.5)	(0.5)	(1.5)	(1.5)	(1.5)
Free cash flow	28.2	47.7	78.3	80.2	82.1
Dividends paid	(13.9)	(35.2)	(40.7)	(40.7)	(40.7)
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)	0.8	0.9	1.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>24.2</b>	<b>39.8</b>	<b>36.4</b>	<b>38.4</b>	<b>40.4</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	22.8	85.7	(3.5)	(4.3)	2.7
EBITDA growth	60.8	134.5	1.1	(4.0)	3.4
EBIT growth	60.7	135.2	(4.5)	(4.6)	3.2
Pretax growth	45.6	111.4	(13.2)	(4.4)	3.3
Reported net profit growth	45.2	106.3	(10.1)	(4.5)	3.2
Core net profit growth	45.2	106.3	(10.1)	(4.5)	3.2
<b>Profitability ratios (%)</b>					
EBITDA margin	5.8	7.4	7.7	7.7	7.8
EBIT margin	5.8	7.4	7.3	7.3	7.3
Pretax profit margin	7.2	8.2	7.4	7.4	7.4
Payout ratio	70.0	77.1	75.5	79.0	76.6
<b>DuPont analysis</b>					
Net profit margin (%)	5.6	6.3	5.8	5.8	5.9
Revenue/Assets (x)	2.7	3.3	2.5	2.2	2.0
Assets/Equity (x)	2.3	2.7	2.3	1.9	1.8
ROAE (%)	37.8	61.9	40.1	28.1	23.0
ROAA (%)	16.8	24.6	16.2	13.3	12.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	49.9	41.7	61.9	69.9	67.5
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	48.1	42.1	70.2	82.9	76.4
Dividend cover (x)	1.4	1.3	1.3	1.3	1.3
Current ratio (x)	1.8	1.6	1.7	2.1	2.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.6	1.8	2.1	2.4
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)	(181.2)	(220.3)	(261.6)

Source: Company; Maybank IBG Research



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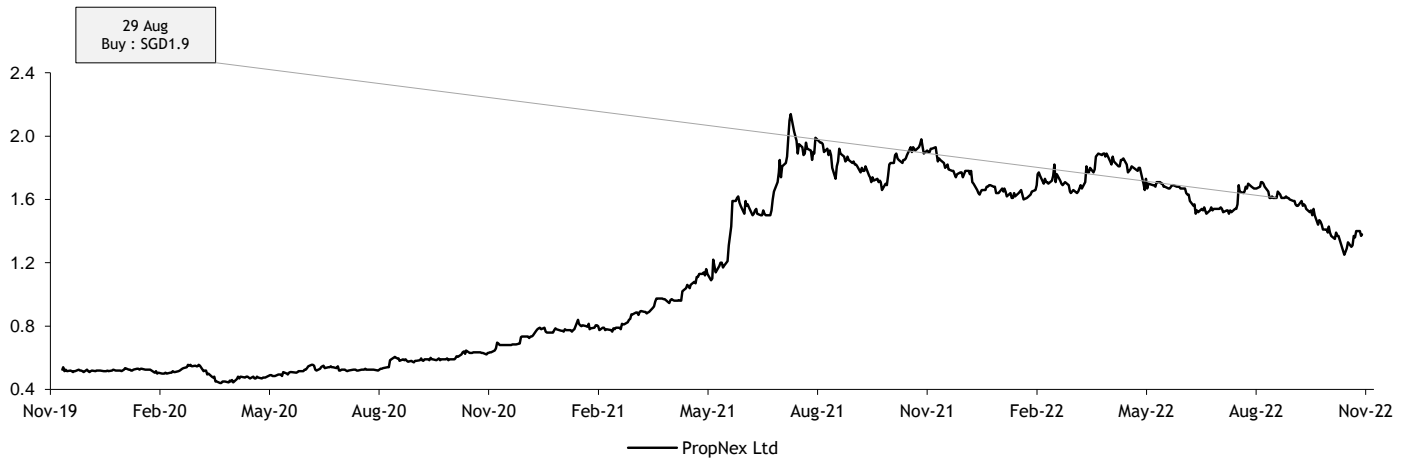
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