INITIATE COVERAGE

PropNex

Steady Hands In Good And Bad Times

PropNex is the largest real estate agency in Singapore, with a dominant share of 43.8% of the residential primary private market in 2017. With negatives from the recent cooling measures priced in, the stock now offers an attractive 12.3% FCF yield (sustaining a 5.5% dividend yield) for 2019. We believe it is a low-risk proxy to Singapore property and a future-proof business model (with strong agent retention). Leveraging on its strong brand equity, the group has expanded regionally into Malaysia, Indonesia and Vietnam.

- **Largest real estate agency in Singapore; sees regional expansion and growth of consultancy services.** PropNex employed 7,512 agents as at 10 Sep 18 (~25% agent share) according to CEA. PropNex, which stands for Property Network for Excellence, had a dominant share of 43.8% in the lucrative residential primary private market in 2017, and 45.8% of the stable HDB resale market in 2016, in terms of transaction value. The group has also expanded regionally via franchising/licensing agreements.
- **Low-risk proxy to Singapore property.** PropNex offers a more risk-mitigated (asset-light) approach to the Singapore property market, compared with developers that face huge capital outlays on land bidding and construction, development risks and holding costs (ie QC extension charges). The cooling measures (announced on 5 Jul 18) have constrained developers in terms of their new-launch pricing, consequently thinning their margins. However, their agency business has been particularly insulated due to higher commissions rate from developers (to incentivise agents to move inventories), a strong pipeline of mandates (20 projects) till end-19, and a still resilient resale market (across private and HDB properties) supported by en blocers' replacement demand.
- **Future-proof business model (with strong agent focus) and owner-sponsored structure.** PropNex's dual-career path, training culture and marketing platform, as well as competitive compensation, have led to higher retention and growth of its agent network. In our view, PropNex would be the preferred "suitor" among smaller agencies as the industry consolidates. Key management Mohamed Ismail (Executive Chairman and CEO), Alan Lim (Executive Director) and Kelvin Fong (Executive Director) own more than 70% of the company, ensuring strong management interest alignment.
- **Inititate coverage with a BUY and target price of S$0.65,** based on an equal balance of DCF (9.75% required return, 0% terminal growth) and 2019F PE of 10x with reference to its closest comparable, Apac Realty (predominantly Singapore-focused, and similar in terms of commission structure and operating segments). Our forecasts conservatively assumed a 10%yoy decline in non-landed new sales volume for 2019 (ie which works to total market transaction volume of 9,108 units, inline with the 9,794 units sold 12 months after TDSR implementation in Jun 2013), as well as 40% marketshare by PropNex. If non-landed new sales volume for 2019 stays flat, our target price will work out to S$0.68.

KEY FINANCIALS

Year to 31 Dec (S$m)	2016	2017	2018F	2019F	2020F
Net turnover	245	361	413	422	443
EBITDA	8	20	26	27	29
Operating profit	7	19	25	27	28
Net profit (rep./act.)	8	16	21	22	23
Net profit (adj.)	8	16	21	22	23
EPS (S$ cent)	2.1	4.4	5.7	5.9	6.3
PE (x)	26.0	12.2	9.4	9.1	8.5
P/B (x)	17.2	10.9	3.1	2.7	2.3
EV/EBITDA (x)	16.0	6.3	4.8	4.6	4.3
Dividend yield (%)	3.4	5.4	5.3	5.5	5.9
Net margin (%)	3.1	4.5	5.1	5.2	5.2
Net debt/(cash) to equity (%)	(140.0)	(152.9)	(123.7)	(123.4)	(123.3)
ROE (%)	75.6	109.9	51.9	31.8	29.1
Consensus net profit ()	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: PropNex, Bloomberg, UOB Kay Hian

BUY

Share Price	S$0.535
Target Price	S$0.65
Upside	+22.3%

COMPANY DESCRIPTION

Singapore's largest real estate agency with dominant market share of the residential primary private and HDB resale market.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PNEX:SP
Shares issued (m):	370.0
Market cap (S$m):	198.0
Market cap (US$m):	143.7
3-mth avg daily t'over (US$m):	

Price Performance (%)

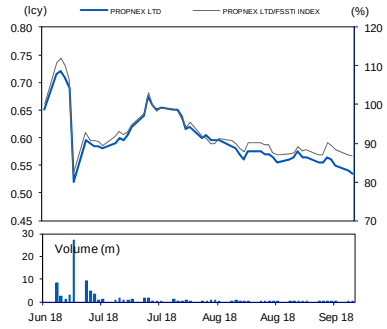
52-week high/low S$0.720/S$0.520

1mth	3mth	6mth	1yr	YTD
(10.1)	n.a.	n.a.	n.a.	n.a.

Major Shareholders	%
P&N Holdings	55.6
Fong Kelvin	7.4
Ismail Mohamed	6.5

FY18 NAV/Share (S$)	0.17
FY18 Net Cash/Share (S$)	0.21

PRICE CHART



Source: Bloomberg

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This report uses the closing prices on 11 September 2018.

Investment Highlights

Market leader with largest agent share (24%) that enables economies of scale. With over 20 years of proven track record, PropNex is a home-grown household brand. The group had a dominant share of 43.8% of the lucrative residential primary private market in 2017, and 45.8% of the stable Housing and Development Board (HDB) market in 2016.

PropNex had a dominant 43.8% share of the residential primary private market in 2017.

With the highest number of salespeople (7,512 persons as of 10 Sep 18), PropNex is the preferred real estate agency among Singapore developers in marketing new launches. Among developers' primary considerations are the size of the salesforce and track record of agencies. A larger salesforce means the agency has more dedicated manpower for executing its marketing strategy, and the capacity to handle higher transaction volumes. Developers typically appoint the top 2-3 marketing agencies to market their developments, as managing too many agencies will pose challenges in logistics and data dissemination. Larger agencies also benefit from higher operational leverage and cost efficiencies, and are able to spread their fixed overheads (eg administrative costs) over a larger revenue base. Mainly due to economies of scale, larger agencies like PropNex and APAC Realty – with 6,121 agents as at 10 Sep 18, according to the Council for Estate Agencies (CEA) – commanded net margins of 5.2% and 6.5% respectively in 2017. Larger agencies are also disproportionately more profitable than smaller peers like Orange Tee & Tie (OrangeTee) (4,184 agents as at 10 Sep 18, according to the CEA) with a 0.4% net margin in 2017.

PropNex's larger sales force means more dedicated manpower for executing marketing strategies. Developers often appoint the top 2-3 agencies to market their developments.

Regional expansion into Malaysia, Indonesia and Vietnam is achieved via franchising/licensing agreements by leveraging on its strong brand equity in Singapore.

Margin expansion from growth of consultancy services. The group continues to seek new growth from the launch of new consultancy services, including property valuation, investment sales and property auction.

Low-risk proxy to Singapore property. PropNex offers a more risk-mitigated exposure to the property market, which will attract new investors and trigger a switch in investment from property developers to agencies. Unlike asset-light property agencies, developers have huge capital outlays on land bidding and construction, development risks and holding costs (ie QC extension charges). Amid the cooling measures (announced on 5 Jul 18), developers are becoming constrained in terms of their new-launch pricing (ie likely 10-15% below what they could have launched at), and are becoming riskier plays with prospects of thinning margins.

Unlike developers, which have huge capital outlay, property agencies offer a low-risk proxy to Singapore property.

Agency commissions (which are volume-driven) are less affected by the margin pressure faced by developers, due to the latter's aggressive land bids at public tenders and en-bloc acquisitions. In the advent of a price correction, property agencies can more than compensate for the loss in selling prices with higher volumes, creating a margin of safety. Dry-volume periods are also sweetened by higher-commission structures, as developers incentivise agents to move inventories. Post-cooling measures, market dynamics has also played out in favour of agencies. Agencies are seeing their commissions upped to 1.5-2.0% (vs 1.2-1.5% pre-cooling measures) on launch weekends. Post-launch (2-4weeks), commissions have also increased to 2-3% (vs 1.5-2.0% pre-cooling measures).

Agency commissions are sweetened post-cooling measures.

Owner-sponsored company ensures strong interest alignment. Key management Mohamed Ismail (Executive Chairman and CEO), Alan Lim (Executive Director) and Kelvin Fong (Executive Director) jointly own, directly or indirectly, more than 70% of the company. Unlike APAC Realty whose major shareholder is a private equity fund, we believe PropNex does not have any overhang issues arising from fund redemption or fund life expiry.

Future-proof business model with strong focus on agents; PropNex is well positioned as the preferred "suitor" among smaller agencies. PropNex has a dual-career path in which experienced team leaders can either focus on sales or choose to devote their resources to mentoring newer agents and still receive overriding commissions to compensate for their time and efforts. The group also enforces a strong collaborative culture through their training platform (eg bootcamps, zonal training, power project presentation courses) and strong corporate values (eg a no-poaching policy among teams). We understand that leaving agents would have to wait 12 months before they can rejoin

PropNex has a strong collaborative culture and focuses on training (eg bootcamps, zonal training, presentation courses).

PropNex, which allows team leaders to fully commit to training agents, even from other teams, without fear of their downlines being poached.

PropNex has higher retention of agents, as evidenced by their lower dropout rate.

We understand that PropNex has solid retention of its top-performing agents. The dual-career path offers a compensation scheme (ie including commissions and a pension programme) that rewards their agents more favourably. It also has higher retention of its agents in general. This is evidenced by a lower dropout rate of agents in the last two years vs ERA Realty Network (ERA), such as -5.8% vs ERA's -8.2% as at 1 Jan 17 and -5.2% vs ERA's -5.9% as at 1 Jan 18, according to Frost & Sullivan, with attrition mainly from agents leaving the industry altogether. Amid industry consolidation, these future-proofing features have also positioned PropNex as the preferred acquirer among smaller agencies. As a platform, PropNex provides greater opportunities and long-term growth for its M&A target's salespeople and for retaining them.

Diversified revenue streams come from project marketing, agency services and others (2017: 31.9%, 66.6% and 1.5% respectively).

Resilience in a downcycle. PropNex has well-diversified revenue streams from different segments, such as project marketing, agency services and others which accounted for 31.9%, 66.6% and 1.5% of revenue respectively in 2017. The group's lean setup (low overhead costs) and defensive segments (leasing and HDB resale) also provide resilience during property downcycles.

Regulatory moat through CEA licensing. Singapore's strong regulatory framework, set by the CEA, requires passing the Real Estate Salesperson Examination (RES). The exam is conducted only three times a year, and we understand that it has a passing rate of around 20%. The stricter regulatory standards effectively create barriers to entry, and protect incumbent agents and agencies from a flood of potentially new agents.

PropNex was appointed a marketing agent for OUE Twin Peaks and achieved the largest share of the units transacted (61%).

Breaking into project marketing. In 2008, PropNex made a strategic move into the project marketing space. They broke into the luxury space when they were appointed as one of the marketing agents for OUE Twin Peaks and went on to achieve the largest share of the units transacted (61%). This marked an inflexion point and PropNex started to clinch more mandates in high-end, luxury launches (Gramercy Park, Martin Modern) as well. PropNex also gained leads in mandated projects, which have translated into strong market share gains in unit and value terms, growing from 10.1% and 9.0% in 2013 to 42.7% and 43.9% in 2017 respectively.

The success in project marketing is built on its key training and marketing strategies, such as zonal training, the tagger system, bus tours, marketing videos and consumer seminars. Zonal training equips salespeople with the required skillset and information of projects in the zone of their choice, covering zonal highlights in the masterplan and comparable or upcoming projects in the zone. We understand that PropNex also has a tagger system in place, where an elite team ("tagger") is positioned at the showflat to assist salespeople and co-broke in their marketing efforts. Salespeople can bring their clients down to the sites even with minimal knowledge of the product. If a sale is concluded, the tagger will get a cut of the sales commission. The group also conducts bus tours to familiarise their salespeople with their products, with team leaders providing site briefings and product training.

We believe the consumer seminars run by their charismatic CEO, Mohammed Ismail, help the group achieve high sales conversion.

Finally, the Executive Chairman and CEO, Mohamed Ismail, also plays the role of keynote speaker in their marketing videos, where he highlights the benefits and selling points of the various new launches. In consumer seminars, he also shares views and insights on the property scene on a regular basis. Based on our industry channel checks, his consumer seminars are always well attended. We believe his charisma and appeal to the clientele have helped the group achieve higher sales conversion.

Valuation

Initiate coverage with BUY and target price of S$0.65, based on the average valuation (50:50) of DCF (9.75% required return, 0% terminal growth) and 10x 2019F PE with reference to APAC Realty. This implies an ex-cash forward PE of 7x and healthy 4.5% dividend yield. Our valuation is around the middle of the peer range of 5-19x.

Our target price is based on the average valuation of DCF and 2019F PE.

FIGURE 1: SENSITIVITY – BLENDED

Target price (S$)								
DCF		PE						
New Sales volumes in FY21 (%yoy) vs FY20	50%	New Sales volumes in FY19 (%yoy) vs FY18	30%	0.65	0.68	0.72	0.75	0.79	0.82	0.86
	40%		20%	0.63	0.66	0.69	0.73	0.76	0.80	0.83
	30%		10%	0.61	0.64	0.67	0.70	0.74	0.77	0.80
	20%		0%	0.59	0.62	0.65	0.68	0.71	0.74	0.77
	10%		-10%	0.57	0.60	0.62	0.65	0.68	0.71	0.74
	0%		-20%	0.55	0.57	0.60	0.63	0.66	0.69	0.71
	-10%		-30%	0.52	0.55	0.58	0.60	0.63	0.66	0.68
	-20%		-40%	0.50	0.53	0.55	0.58	0.61	0.63	0.66
	-30%		-50%	0.48	0.51	0.53	0.56	0.58	0.60	0.63
				7	8	9	10	11	12	13
				Price-to-earnings						
				Discount Factor: 9.75%						

Source: UOB Kay Hian

PE-based valuation approach suggests target of S$0.59, based on 10x 2019F PE with reference to its closest comparable, APAC Realty (9x), as well as 2019 volume (which is 10% lower yoy compared to 2018). APAC Realty provides a holistic range of real estate services from new/resale to leasing across private and HDB units primarily in the Singapore market, with the second-largest fleet of agents of 6,121 (vs PropNex's 7,512) as at 10 Sep 18, according to the CEA.

We believe PropNex's premium over APAC Realty in PE terms is justifiable, due to its higher ROE (109.9% vs APAC Realty's 24.4% in 2017), wider outreach (23% larger agent network), and ownership of its proprietary brand (vs APAC Realty which is the master franchisee for the ERA brand under APAC Realty). In our view, PropNex is also better positioned as the "preferred suitor" amid industry consolidation, due to its stronger industry reputation, training (eg dual career path, boot camps, consumer seminars), and more attractive commission structure for agents and team leaders.

Although there are several globally-listed real estate service providers, they differ in terms of business model (eg commission structures), market cap, exposure to residential and commercial brokerage, spread in terms of operating geographies, and position in the property cycle. Still, they can provide us good guidance on the fair valuation for PropNex.

Superior ROE compared to APAC Realty. We expect PropNex to command a higher FY19F ROE of 31.8% (vs APAC Realty's 14.9% by consensus estimates), due to its higher asset turnover and financial leverage. APAC Realty's S$72.8m acquisition of its new headquarters in Toa Payoh (a building with a site area of 14,983sf, GFA of 44,358sf) is expected to increase its asset base and drag on its ROE in 2019.

Although PropNex has a lower PATMI margin in 2019 than APAC Realty, the gap has been closing over the years. PATMI margin improved from 3.11% to 4.50% between 2016 and 2017, as a result of their penetration into higher-margin project launches (especially in the luxury segment). PropNex's lower PATMI of 4.50% (vs APAC Realty's 6.47%) in 2017 was due to a more favourable payout to agents and team leaders/managers, as well as minority interest attributable to JLL's 28.17% in PropNex's project marketing business (whereas APAC Realty had no minority interest).

FIGURE 2: DU PONT ANALYSIS

	PropNex				ApacRealty			
	2016	2017	2018F	2019F	2016	2017	2018F*	2019F*
ROE (%)	76	110	52	31.8	22	24.4	17	14.9
PATMI margin (%)	3.11	4.50	5.11	5.17	5.52	6.47	6.04	5.75
Asset turnover (x)	5.43	5.04	3.38	2.65	1.77	1.97	1.46	1.28
Financial leverage (x)	4.48	4.84	3.01	2.32	2.29	1.92	1.93	2.03

** Bloomberg consensus estimates*
Source: PropNex, APAC Realty, Bloomberg

FIGURE 3: VALUATION SENSITIVITY – PE VALUATION

Deviation from base		Target price (S$)						
30%	New Sales volumes in FY19 (%yoy) vs FY18	0.49	0.56	0.63	0.70	0.77	0.84	0.91
20%		0.47	0.54	0.61	0.67	0.74	0.81	0.87
10%		0.45	0.52	0.58	0.64	0.71	0.77	0.84
0%		0.43	0.49	0.56	0.62	0.68	0.74	0.80
-10%		0.41	0.47	0.53	0.59	0.65	0.71	0.77
-20%		0.39	0.45	0.51	0.56	0.62	0.67	0.73
-30%		0.37	0.43	0.48	0.53	0.59	0.64	0.69
-40%		0.35	0.41	0.46	0.51	0.56	0.61	0.66
-50%		0.34	0.38	0.43	0.48	0.53	0.57	0.62
		7	8	9	10	11	12	13
		Price-to-earnings						

Source: UOB Kay Hian

FIGURE 4: PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 11 Sep 18 (lcy)	Market Cap (US$m)	PE 2018 (x)	PE 2019 (x)	P/B 2018 (x)	P/B 2019 (x)	Yield 2018 (%)	ROE 2018 (%)	Net Gearing (%)
Real Estate Brokerage											
Apac Realty	APAC SP	S$	0.525	135	7.7	8.6	1.3	1.2	7.6	17.0	(44.2)
Re/Max	RMAX US	US$	48.00	1,455	21.2	19.0	2.5	2.4	1.7	34.1	400.6
Sinyi Realty	9940 TT	TWD	33.1	791	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30.3
Hopefluent	733 HK	HK$	2.95	251	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(13.5)
Midland	1200 HK	HK$	2.00	183	5.9	4.8	0.9	0.8	4.7	16.1	(54.5)
Century 21	8898 JP	¥	1249	127	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(79.0)
Intellex	8940 JP	¥	784	63	8.0	7.5	n.a.	n.a.	4.3	8.1	136.3
Midland Ic&I	459 HK	HK$	0.265	61	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(83.5)
Belvoir Lettings	BLV LN	GBp	107.50	49	9.3	8.8	n.a.	n.a.	6.5	21.5	26.2
Fortune Sun China	352 HK	HK$	0.96	30	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(70.7)
Toubujyuhan	3297 JP	¥	1,312	32	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.5
Japan Living	8854 JP	¥	2,279	41	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.1
M Winkworth	WINK LN	GBp	109	18	12.2	11.6	n.a.	n.a.	6.9	n.a.	(63.3)
Grandes	3261 JP	¥	511	18	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	43.0
Average					10.7	10.1	1.6	1.5	5.3	19.3	19.7

Source: Bloomberg, UOB Kay Hian

DCF-based approach suggests target of S$0.72 assuming a base-case 2021 volume (ie 4,208 units in non-landed new sales, or 10% higher yoy compared to 2020 level) as the property cycle reverts to its long-term mean. The valuation is conservative, assuming 9.75% required return, 0% terminal growth, and no additional income from the consultancy business. Figure 5 shows a sample DCF scenario with a 10% higher volume in 2021 (vs 2020), a 9.75% required return and 0% terminal growth.

FIGURE 5: VALUATION SENSITIVITY- DCF

		Required return						
		8.25%	8.75%	9.25%	9.75%	10.25%	10.75%	11.25%
FY21 volumes (% yoy) vs FY20	50%	0.94	0.89	0.85	0.81	0.77	0.74	0.71
	40%	0.91	0.87	0.82	0.78	0.75	0.72	0.69
	30%	0.89	0.84	0.80	0.76	0.73	0.70	0.67
	20%	0.86	0.82	0.78	0.74	0.71	0.68	0.65
	10%	0.83	0.79	0.75	0.72	0.69	0.66	0.64
	0%	0.81	0.77	0.73	0.70	0.67	0.64	0.62
	-10%	0.78	0.74	0.71	0.68	0.65	0.62	0.60
	-20%	0.75	0.71	0.68	0.65	0.63	0.60	0.58
	-30%	0.72	0.69	0.66	0.63	0.61	0.58	0.56

Source: UOB Kay Hian

FIGURE 6: DCF VALUATION SCENARIO (10% HIGHER THAN IN 2020, 9.75% REQUIRED RETURN, 0% TERMINAL GROWTH)

(S$m)	2018F	2019F	2020F	Normalised earnings	Terminal value
NI	21.1	21.8	23.2	23.7	
Dep	0.4	0.44	0.46	0.46	
(Capex)	-1.9	-2.0	-2.2	-1.3	
(WCInv)	-0.1	-0.2	0.0	-0.3	
NB	0.0	0.0	0.0	0.0	
FCFE	19.5	20.0	21.5	22.5	230.7
Discount factor	0.9112	0.8302	0.7565	0.6893	
PV of FCFE	17.7	16.6	16.3	15.5	
Sum of PV of FCFE	66.1				
PV of Terminal Value	159.0				
Equity Value	225.2				
IPO funds raised	40.9				
Post-money valuation	266.0				
TP (S$)	S$0.72				

Source: UOB Kay Hian

Competitive Strengths

PropNex's competitive strengths lie in its large and effective network of agents, an asset-light model, strong brand equity premium, owner-sponsored structure, track record in retaining and growing agents, and resilient business model. In the property agency space, PropNex's competitors are ERA, OrangeTee & Tie and Huttons Asia. In our view, PropNex has the following key competitive advantages:

Widest network of agents enables economies of scale and leadership in project marketing. Top agencies benefit from their larger and more efficient networks due to developers' preference to award new project mandates to agencies with wider networks, cross-selling opportunities between agents, as well as cost efficiencies and operational leverage (with overheads spread over a wider revenue base).

Larger agencies are disproportionately more profitable.

Hence, the top-ranking agencies generate disproportionately higher net margins. As at 1 Jan 18, PropNex (6,684 agents) and APAC Realty (5,882) generated net margins of 5.2% and 6.5% respectively vs OrangeTee (3,898) with net margin of 0.4%.

FIGURE 7: TOP THREE PROPERTY AGENCIES

	Agent number as of 1 Jan 18	Revenue (S$m)	FY2017 PATMI (S$)	PATMI (%)
PropNex	6,684	361.3	16.3	4.5
ERA	5,882	397.0	25.9	6.5
OrangeTee & Tie	3,898	79.0	0.299	0.4

Source: CEA, respective companies

FIGURE 8: TOP 10 PROPERTY AGENCIES IN SINGAPORE BY AGENT COUNT

	Number of property agents as at							
Company	1 Jan 15	31 Dec 15	1 Jan 16	31 Dec 16	1 Jan 17	31 Dec 17	1 Jan 18	10 Sep 18
PropNex	5,357	6,049	5,464	5,849	5,510	7053	6,684	7,512
ERA	5,707	6,372	5,880	6,489	5,957	6251	5,882	6,121
OrangeTee & Tie	1,850	2,208	1,860	2,465	2,290	3105	3,898	4,184
Huttons	3,182	3,191	2,835	3,076	2,875	3327	3,207	3,477
KF Property	875	713	620	708	671	NA	689	716
SLP Scotia	1,006	518	570	313	605	NA	585	605
Savills	784	838	718	826	715	NA	543	615
Global Alliance Property	466	477	433	NA	572	NA	457	478
HSR International	1,056	767	638	590	475	NA	377	377
C & H Properties	NA	NA	NA	426	NA	NA	328	339

Source: CEA, PropNex, Frost & Sullivan

With the widest agent network of 7,512 salespeople as of 10 Sep 18, according to the CEA, we believe PropNex is the preferred real estate agency among Singapore developers in marketing new launches. Among developers' primary considerations are the size of the salesforce and track record of agencies. A larger salesforce means the agency has more dedicated manpower for executing its marketing strategy, and the ability to commit to higher transaction volumes. Developers typically appoint the top 2-3 property agencies to sell on their behalf, as managing too many agencies will pose challenges in logistics and data dissemination.

PropNex is the leading project marketing agency with a 42.7% share of the Singapore residential primary private market in 2017, based on the number of units sold. They broke into project marketing when they were appointed as one of the marketing agents for OUE Twin Peaks, and went on to achieve the largest share of the units transacted (61%). With that success, PropNex has gone on to clinch more mandates and also moved into other high-end, luxury launches (Gramercy Park, Martin Modern).

PropNex had the leading project marketing agency share (42.7%), based on the number of units sold in 2017

With their enhanced reputation for increasing market share in project launches, PropNex began to be mandated for more development launches at the start of launches, rather than being invited midway as was in the past.

This has translated to strong market share gains in unit and transaction value terms, growing from 10.1% and 9.0% in 2013 to 42.7% and 43.8% respectively in 2017 in the Singapore residential primary private market.

FIGURE 9: TOP 8 PROJECTS OF PROPNEX AS THE APPOINTED MARKETING AGENT AS AT 31 DEC 17

No.	Project Name	Total Units Launched	Total Units Sold as at 31 Dec 17	Number of Units Transacted by PropNex as Appointed Marketing Agent as at 31 Dec 17	Percentage of Units Transacted by PropNex as Appointed Marketing Agent Out of the Total Units Sold
1	Lake Life	546	546	546	100.00
2	The Amore	378	378	310	82.00
3	Parc Riviera	752	752	504	67.00
4	The Criterion	505	473	282	59.60
5	Westwood Residences	480	480	275	57.20
6	Sol Acres	1,327	1,327	720	54.30
7	Northwave	358	289	152	52.60
8	Le Quest	516	289	131	45.30

Source: PropNex, Frost & Sullivan

FIGURE 10: TOP 8 LUXURY PROJECTS OF PROPNEX AS THE APPOINTED MARKETING AGENT IN 2016/2017

No.	Project Name	Location	Total Units Launched	Number of Units Transacted by PropNex as Appointed Marketing Agent as at 31 Dec 17	Percentage of Units Transacted by PropNex as Appointed Marketing Agent Out of the Total Units Launched
1	The Peak @ Cairnhill II	District 9	60	46	79.0
2	26 Newton	District 11	180	51	69.0
3	Oue Twin Peaks	District 9	462	229	61.0
4	6 Derbyshire	District 11	168	73	53.0
5	Marina Collection	Sentosa	124	9	53.0
6	Martin Modern	District 9	450	102	46.0
7	Sophia Hills	District 9	493	72	43.0
8	Gramercy Park	District 10	174	50	35.0

Source: PropNex, Frost & Sullivan

We understand that the success in project marketing is built on its key marketing strategies, such as zonal training, the tagger system, bus tours, marketing videos and consumer marketing seminars. Zonal training equips salespeople with the required skillset and information of projects within the zone of their choice, covering zonal highlights in the masterplan and comparable or upcoming projects in the zone. Under the tagger system, a team specialising in a particular project is positioned at the showflat for the salespeople to tap on to aid their presentations to clients. If a sale is concluded, the tagger will get a cut of the sales commission. In consumer seminars, Mohamed Ismail shares views and insights on the property scene, with close to 1,000 attendees per session. We believe his charisma

and appeal to the clientele have helped the group achieve higher sales conversion. Finally, PropNex also conducts bus tours to familiarise their salespeople with their products, with team leaders providing site briefings and product training.

Regional expansion potential with strong brand equity premium. With over 20 years' proven track record, "PropNex" is a home-grown, established household name which has helped the group retain and attract agents.

With ownership of its own brand, PropNex is not subjected to any franchise covenants and renewal risk. Effectively, the group builds and inherits its franchise (vs building network for the brand owner). The intrinsic brand equity also translates to a premium valuation in potential future franchise revenue. The group has registered its brand as a trademark across 10 jurisdictions (Singapore, Malaysia, Indonesia, Thailand, India, Laos, Cambodia, the Philippines, Vietnam and Myanmar). Besides expanding to Malaysia via licensing (with licensee PropNex Realty Sdn Bhd), as well as Indonesia and Vietnam via franchising, the group has set its sights on more countries within Southeast Asia.

PropNex expanded into Malaysia via licensing, and into Indonesia and Vietnam via franchising.

Owner-sponsored company ensures strong interest alignment and long-term sustainability. Key management Mohamed Ismail (Executive Chairman and CEO), Alan Lim (Executive Director) and Kelvin Fong (Executive Director) together own, directly or indirectly, more than 70% of the firm. Unlike APAC Realty, we believe PropNex does not have any potential negative overhang issues arising from fund redemption or fund life expiry. The structure also incentivises (and gives freer rein to) management to make business decisions for longer-term shareholder interests.

Owner-sponsor structure incentivises business decision-making for longer-term interests.

A low-risk investment vehicle to ride out the cooling measures. Unlike property developers, property agencies like PropNex do not require huge capital outlays on land bidding and construction, development risks and holding costs (ie QC extension charges). Since the announcement of cooling measures (effective from 6 Jul 18), buyers' purchasing power has been eroded, with higher additional buyer stamp duty (ABSD) and loan-to-value (LTV) levied. As a result, developers are becoming constrained in terms of their new-launch pricing (ie likely 10-15% lower than what they could have launched at). Most developers also do not have the flexibility to wait for a price recovery, as they have taken financing on their construction costs with caveats on their sales quota (%), before credit lines are released. Most projects only become self-financing when 30-40% (hurdle) of the total number of units have been moved. Even then, developers still face the prospects of higher development charges (which are reviewed every six months), as well as a finite selling timeline (5+2 years) before QC extension charges take effect. As a result, developers are increasingly pressured to adopt sensitive pricing (despite their locked in costs), and re-look commissions to better entice agents to move units.

Property agencies are primed to ride out the cooling measures.

Agency commissions (which are volume-driven) are less affected by the margin pressure faced by developers due to aggressive land bids at public tenders and en-bloc acquisitions. In a price correction, property agencies can more than compensate for the loss in selling prices with increased volumes, creating a margin of safety. Dry-volume periods are also sweetened by higher-commission structures as developers incentivise agents to move inventories. Notably, PropNex has posted a net profit each year since its inception despite the property slowdown in 2009 and 2013.

Dry-volume periods are sweetened by higher-commission structures.

Post-cooling measures, market dynamics has also played out in favour of agencies. Agencies are seeing their commissions upped to 1.5-2.0% (vs 1.2-1.5% pre-cooling measures) on launch weekends. Post-launch (2-4weeks), commissions have also increased to 2-3% (vs 1.5-2.0% pre-cooling measures).

After the cooling measures, commissions have been raised to 1.5-2.0% (launch weekends) and 2-3% (post-launch).

Proven track record in growing agent network and economies of scale. PropNex pioneered the "dual career path" scheme for its salespeople (which later became an industry norm), where experienced team leaders can either focus on sales or choose to devote their resources to mentoring newer agents and still receive overriding commissions to compensate for their time and efforts. The group also enforces a strong collaborative culture through their training platform (eg bootcamps, zonal training, power project presentation courses) and strong corporate values (eg a no-poaching policy among teams). We underststand that leaving agents would have to wait 12 months before they can rejoin

PropNex, which allows team leaders to fully commit to training agents, even from other teams, without fear of their downlines being poached.

PropNex has a solid retention of its top-performing agents. The dual-career path essentially offers a compensation scheme (including commissions and a pension programme) that rewards their agents more favourably. As a result, PropNex has been fairly successful in drawing in experienced agents from other agencies over time.

PropNex's takeover of DWR allowed them to overtake APAC Realty as the largest agency.

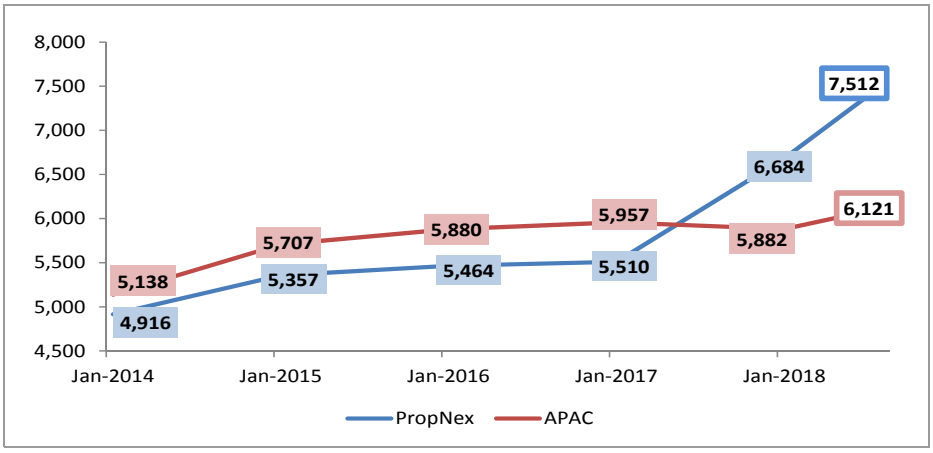
"Preferred suitor" among smaller agencies amid industry consolidation. PropNex's takeover of salespeople from Dennis Wee Realty (DWR) in Jul 17 led to the crossover of more than 800 agents, enabling PropNex to overtake APAC Realty as the largest real estate agency in Singapore. This demonstrates the appeal of PropNex's industry reputation, system, training and attractive payout/commission structure for agents and team leaders.

Often, the crux of a mutually-beneficial M&A deal in the agency business is finding an acquirer that can provide greater opportunities and long-term growth for the target's salespeople (and retaining them). Since agents are independent contractors and not "employees" to any agencies, they may choose not to sign on with the acquiring agency. In that respect, PropNex has provided more project marketing opportunities for DWR agents.

PropNex is the preferred acquirer, as smaller agencies consolidate.

We believe the consolidation cycle is only beginning. With further consolidation ahead, we believe PropNex is well-positioned as the "preferred suitor" among smaller agencies (due to the above attributes and benefits they can bring as a platform), which will further grow its agent network.

FIGURE 11: TOTAL AGENT NUMBERS (AFTER TAKEOVER OF SALESPEOPLE FROM DWR)



Source: CEA: 2018 Licensing and Registration Exercise for Property Agencies and Agents as at 10 Sep 18, UOB Kay Hian

The RES exam has a passing rate of around 20% only, creating barriers to entry in the profession.

Regulatory moat through CEA licensing. All agents have to be licensed by the CEA, which requires passing the RES. The exam is conducted three times a year, and we understand that this exam has a passing rate of around 20%. The licensing creates barriers to entry, and protects incumbent agents and agencies from potentially new agents.

After the cooling measures, the group may look into overseas project marketing (ie developments in Cambodia/Thailand with lower-tier pricing).

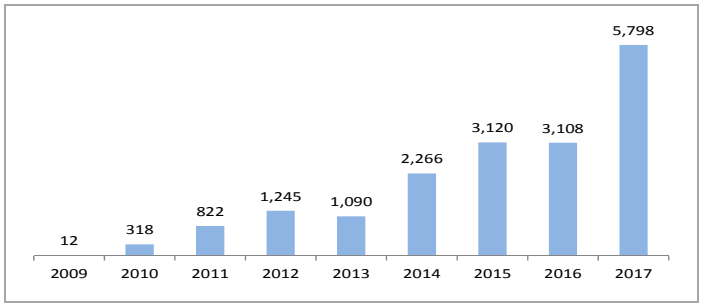
Growth into other geographies & real estate-related services. Brokerage services accounted for the bulk (99.1%) of the group's revenue in 2017, followed by property management services (0.6%) and training services (0.3%). In 1Q18, PropNex entered into real estate consultancy to provide auction/corporate sales services and investment/en-bloc services, which are traditionally high-margin revenue streams (as expenses are predominantly fixed in nature).

Post-cooling measures (effective from 6 Jul 18), management guided that they may also begin looking at overseas project marketing (ie developments in Cambodia/Thailand with lower-tier pricing), which may see increased interest as Singaporean buyers affected by the ABSD at home look abroad for investment alternatives. Overseas project marketing projects also tend to offer higher commissions (ie averaging 3%) than local projects, in order to attract agents to sell. Given the cyclical nature of residential real estate brokerage, we believe increasing exposure to different segments and geographies would help build more stable recurring cash flows for the group, and provide another source of growth.

Breaking into project marketing, growing market share (by units) from 10.1% to 42.7% between 2013 and 2017. In transactional value terms, PropNex's share also grew from 9.0% to 43.8% during the same period.

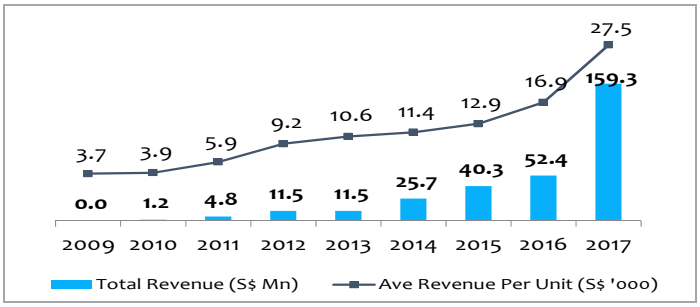
PropNex's break into project marketing came after their appointment at OUE Twin Peaks, with PropNex transacting the largest share of units (61%). From the traction gained, they moved into private housing (and lately into the high-end luxury space).

FIGURE 12: TOTAL UNITS SOLD BY PROPNEX (PROJECT LAUNCHES ONLY)



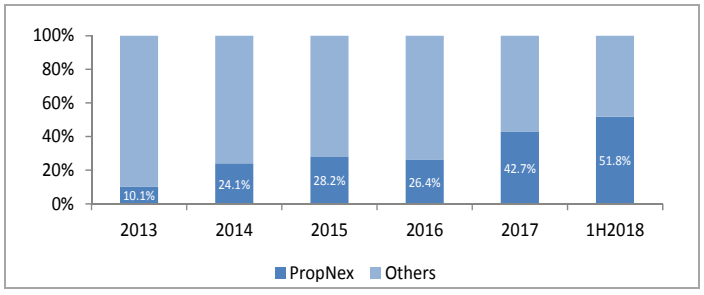
Note: By transactions submitted (not invoices recognized)
Source: URA Realis, PropNex, Frost & Sullivan

FIGURE 13: TOTAL REVENUE AND AVERAGE REVENUE PER UNIT SOLD



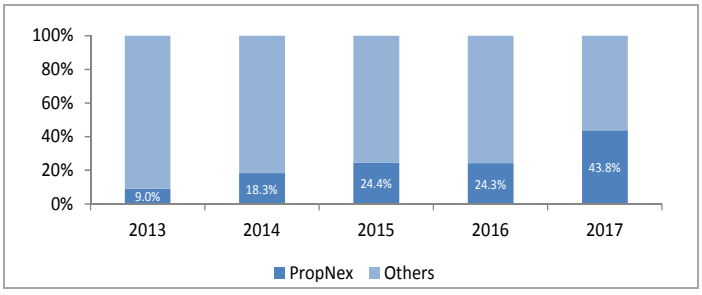
Source: URA Realis, PropNex, Frost & Sullivan

FIGURE 14: MARKET SHARE IN THE SINGAPORE RESIDENTIAL PRIMARY PRIVATE MARKET BY NUMBER OF UNITS



Source: URA Realis, PropNex, Frost & Sullivan

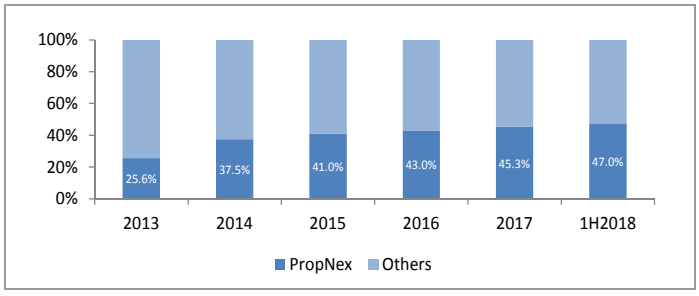
FIGURE 15: MARKET SHARE IN THE SINGAPORE RESIDENTIAL PRIMARY PRIVATE MARKET BY TRANSACTION VALUE



Source: URA Realis, PropNex, Frost & Sullivan

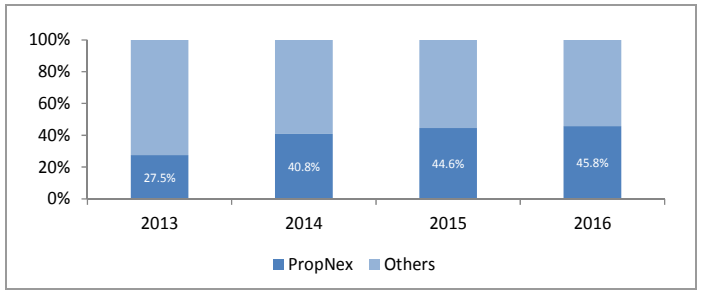
HDB and private resale: A traditional PropNex stronghold. PropNex had its beginnings as Nooris Consultants in 1996, serving mainly the Malay clientele and focusing on HDB resale transactions. The company continued to build up its strengths in HDB resale, increasing its market share from 25.6% to 43.0% (by units) between 2013 and 2017, and 27.5% to 45.8% (by transaction value) between 2013 and 2016.

FIGURE 16: MARKET SHARE IN THE SINGAPORE RESIDENTIAL HDB RESALE MARKET BY NUMBER OF UNITS



Source: URA Realis, PropNex, Frost & Sullivan

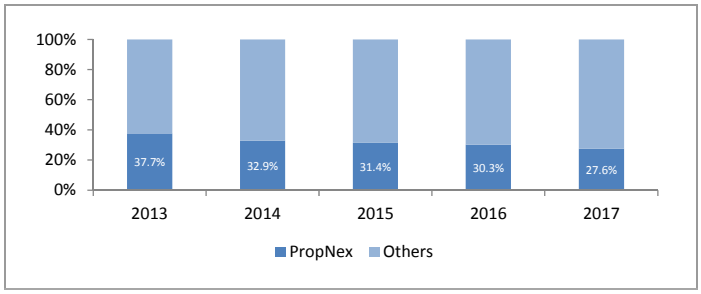
FIGURE 16: MARKET SHARE IN THE SINGAPORE RESIDENTIAL HDB RESALE MARKET BY TRANSACTION VALUE



Source: URA Realis, PropNex, Frost & Sullivan

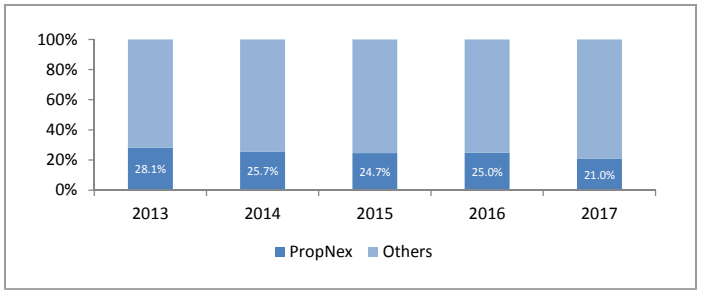
PropNex's private resale segment commanded a market share of 37.7% (by units) and 28.1% (by transaction value) in 2013. Its market share in private resale has softened in recent years to 27.6% (by units), while market share by transaction value declined by a lesser extent to 21.0% in 2017 as PropNex diverts more resources towards project marketing (which commands a higher gross margin of 11% vs 8% from resale and other agency services).

FIGURE 18: MARKET SHARE IN THE SINGAPORE RESIDENTIAL RESALE PRIVATE MARKET BY NUMBER OF UNITS



Source: URA Realis, PropNex, Frost & Sullivan

FIGURE 19: MARKET SHARE IN THE SINGAPORE RESIDENTIAL RESALE PRIVATE MARKET BY TRANSACTION VALUE

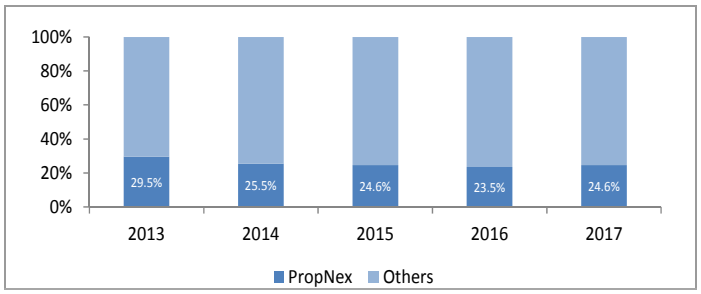


Source: URA Realis, PropNex, Frost & Sullivan

Diversified revenue streams and defensive segments to provide resilience during downcycle. PropNex has well-diversified revenue streams, such as project marketing (31.9% in 2017), agency services (66.6%) and others (1.5%). The group's lean setup (low overheads) and more defensive segments (HDB and private leasing) within agency services also provide resilience during downcycles.

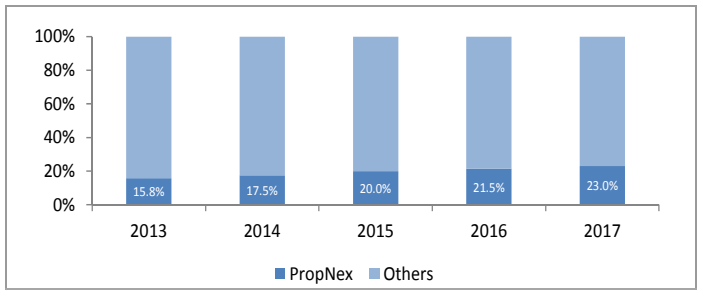
In 2017, PropNex's share of the HDB leasing market edged down to 24.6% (2013: 29.5%) in terms of volume. Between 2013 and 2017, its market share of residential private leasing increased from 15.8% to 23.0% in transaction volume, and from 9.7% to 14.4% in transaction value. PropNex has not gained much traction in the leasing markets as it diverts resources to more lucrative segments like project marketing.

FIGURE 20: MARKET SHARE IN SINGAPORE RESIDENTIAL HDB LEASING MARKET BY NUMBER OF UNITS



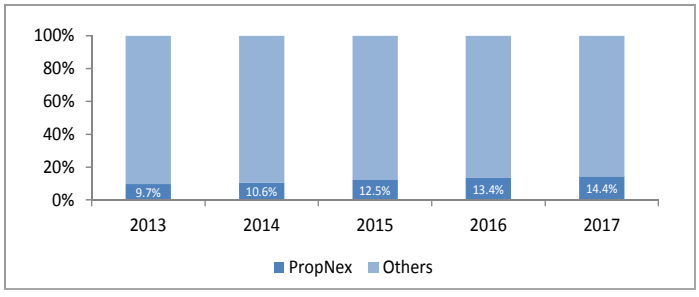
Source: URA Realis, PropNex, Frost & Sullivan

FIGURE 21: MARKET SHARE IN SINGAPORE RESIDENTIAL PRIVATE LEASING MARKET BY NUMBER OF UNITS



Source: URA Realis, PropNex, Frost & Sullivan

FIGURE 22: MARKET SHARE IN SINGAPORE RESIDENTIAL PRIVATE LEASING MARKET BY TRANSACTION VALUE

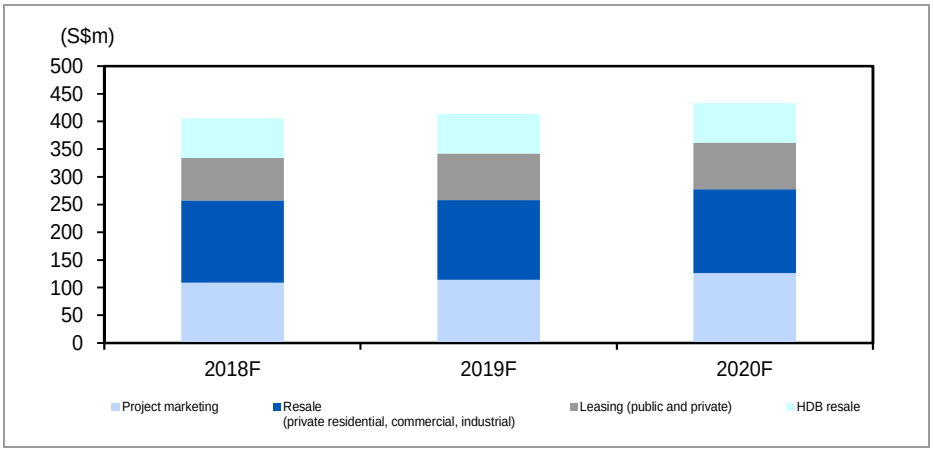


Source: URA Realis, PropNex, Frost & Sullivan

Financials

We forecast 7% revenue CAGR in 2018-20 on the back of rising commissions from higher transactional volumes and ASPs across segments (project marketing, resale, leasing and HDB resale), based on our expectations of the industry outlook and our estimates of PropNex's market share.

FIGURE 23: REVENUE GROWTH BY SEGMENT



Source: PropNex, UOB Kay Hian

FIGURE 24: TRANSACTION VOLUME AND ASP

	-------- 2018F --------		--------- 2019F --------		-------- 2020F --------	
(yoy % chg)	Volume	Prices	Volume	Prices	Volume	Prices
Project marketing	-10	5	-10	-5	5	5
Resale (private residential, commercial, industrial)	20	10	-5	0	5	0
Leasing (public and private)	10	0	10	0	0	0
HDB resale	25	0	0	0	0	0

Source: UOB Kay Hian

Project marketing: Softening transaction volumes (-10% p.a.) in 2018-19. Based on industry channel checks, we expect PropNex to secure 60-80% of the upcoming primary residential sale mandates in 2018-19, with PropNex taking a market share of 30-50% of primary residential transactions.

We see transactional volumes slowing in the next two years, amid adjustments by buyers and sellers to the new equilibrium post-cooling measures. Most homebuyers expect prices to fall to cope with higher stamp duties and equity requirements, while developers (especially those that have bought sites late in the cycle) face constraints in giving discounts as the majority of their development costs have been locked in. Cautious developers may also employ more agencies (instead of the usual largest 2-3 agencies) to spread risk, which will further weigh on the volume of units sold through PropNex.

We expect buyers to become more price-sensitive.

Our view is that any (large) price increases in the near term will be deferred. Higher ABSD rates may see some second-home and foreign buyers priced out. However, launch prices may not go much lower too, due to the high land prices and development costs locked in by developers. We conservatively expect a full-year 2018 forecast of a 5% rise in ASPs. Although the Residential Price Index surged 7.4% in 1H18, we believe prices will moderate (with a slight pullback) in 2H18 as buyers defer purchases at higher price points. Thereafter, we expect prices to moderate in 2019 (-5%), and gain a stronger footing in 2020 (+5%).

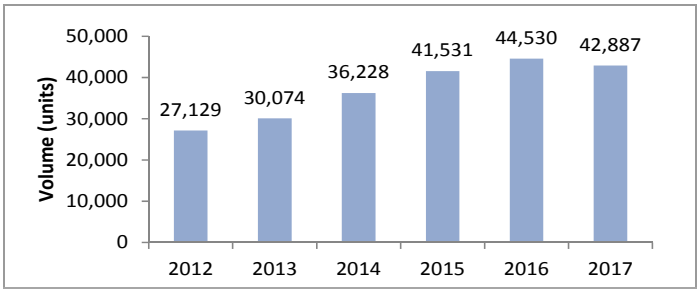
Private resale: A traditional PropNex stronghold; we expect to see higher volumes (+20%) in 2018. Private non-landed residential secondary market transactions (which we understand make up the bulk of private resale in value terms) are seeing signs of a recovery, underpinned by replacement demand from cash-rich en-blocers. The hike in the market value of resale properties in 2017 was due to more units being sold and buyers increasing their asking prices (above perceived market rates). We see PropNex sustaining

its current market share in private resale (on a low base), and growing its transacted volumes (+20%) and prices (+10%) on the back of en-bloc replacement demand and resale prices playing catch-up (which have lagged transacted prices for new sales).

HDB resale: Volumes (+25%) and prices (flat yoy) to grow in 2018. We see transaction volumes increasing, supported by displacement demand from en-bloc transactions, especially for older owners who may cash out and downgrade to HDB units.

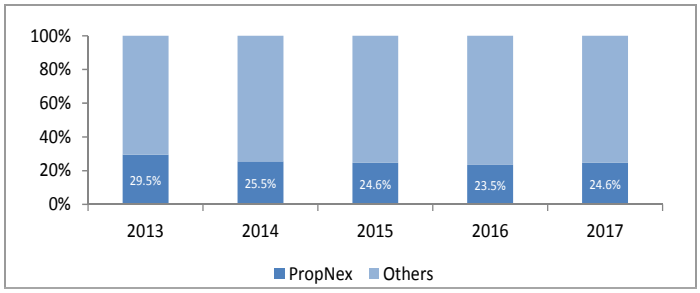
Leasing: Volumes to grow 10% and rentals to stay flat in 2018-19. Private non-landed residential leasing (which makes up 60% of leasing) is supported by the drop in the number of vacant homes, improved occupancy rates to 92.9% (+70bp ytd) as at end-2Q18, and displaced households from en blocs.

FIGURE 25: HDB LEASING TRANSACTION VOLUME



Source: URA Realis, PropNex, Frost & Sullivan

FIGURE 26: MARKET SHARE IN THE SINGAPORE RESIDENTIAL HDB LEASING MARKET (BY NUMBER OF UNITS)



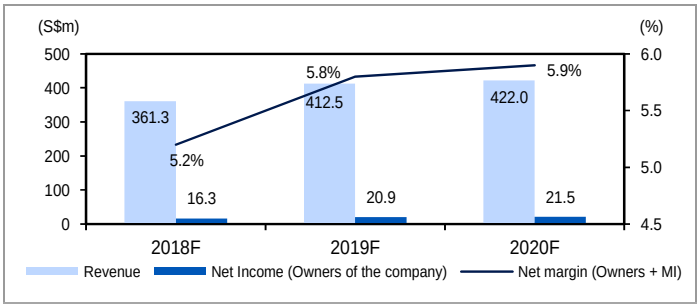
Source: URA Realis, PropNex, Frost & Sullivan

PropNex's share of the HDB leasing market declined to 24.6% in 2017 from 29.5% in 2013 in terms of volumes as the company allocates more resources to more lucrative segments (eg project marketing) during property upcycles. We see HDB leasing volumes (non-landed, EC and condo) growing 0-10% p.a. in 2018-20, reflecting the market's organic growth and increased leasing demand from en-blocers (who will need an immediate roof after being displaced).

Other revenue streams. Although meagre compared to brokerage commissions, revenues from licensing and franchising fees are set to grow, as well as new contributions from real estate consultancy services.

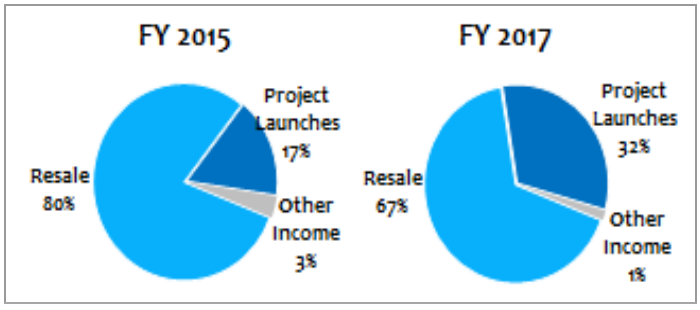
Higher net margin of 5.9% by 2020 on higher revenue mix towards project marketing. We see net margin growing from 5.2% in 2018 to around 5.9% in 2020, mainly supported by a shift in revenue mix towards the higher-margin project marketing (on the back of higher inventories). In 2017, project marketing commanded 11.3% in gross margin (vs 8.0% for agency services). We expect the proportion of revenue from project marketing to grow slightly from 27% in 2018 to 29% in 2020.

FIGURE 27: REVENUE AND NET PROFIT



Source: PropNex, UOB Kay Hian

FIGURE 28: NET PROFIT (S$M) AND NET MARGIN (%)



Source: PropNex, APAC Realty

Key Risks

High dependence on Singapore residential property market. PropNex is highly-reliant on the Singapore residential market, which makes it vulnerable to changes in government policies (ie cooling measures) and macroeconomic conditions.

Cooling measures may lead to subdued transaction volumes and thinning market share. Most homebuyers expect prices to go lower, to help them with the higher stamp duties and equity requirements. On the other hand, developers have limited flexibility in giving discounts (or even higher agent commissions), as the majority of their development costs have been locked in. The mismatched expectations are likely to lead to slower sales volumes in the next few months, amid the wait-and-see attitude of buyers.

Cautious developers may even employ more marketing agencies to spread the risks, despite the logistical challenges of coordination. For The Tre Ver at Potong Pasir, six agencies were appointed instead of the usual 2-3. PropNex's market share in The Tre Ver narrowed to 30.2% (vs 43.5% for Daintree Residences and 35.3% for Park Colonial as at 31 Jul 18, where they were one of the only 2-3 agencies appointed).

Disruption threat from proptech. The introduction of disruptors in Singapore real estate brokerage has been relatively muted, compared with other markets like the US and the UK. The more prominent real estate tech platforms locally are 99.co, PropertyGuru, SRX Property and TheEdgeProperty.com. Instead of taking away business from traditional brokers, they help agents become more productive by extending agents' reach to a wider pool of potential buyers and faster access to information (eg past transaction data, listings).

Proptech (eg 99.co, PropertyGuru, SRX Property and TheEdgeProperty.com) has enabled agents to become more productive.

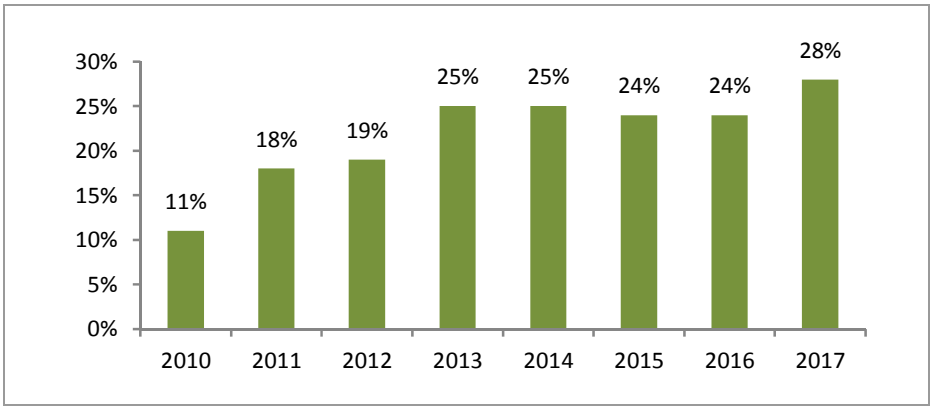
Nevertheless, some do-it-yourself (DIY) real estate platforms (OhMyHome, DirectHome and Yotcha.com) compete with traditional brokerage models by facilitating transactions without an agent and allowing for cost savings. These DIY portals have gained little traction scaling up and penetrating the Singapore real estate market (mostly confined to government housing ie HDB resale units), according to Cushman & Wakefield. We believe property agents still have their value-add and relevance. In the Singapore private residential space, the transaction quantum can still be large; therefore personalised service and human interaction with agents are still vital factors in completing a sale.

But some DIY platforms still compete with traditional brokerage models.

According to HDB data, the proportion of resale HDB buyers and sellers engaging in DIY transations grew from 11% in 2010 to 28% in 2017. With the revamped HDB portal (rolled out in Jan 18), HDB resale transactions can be completed in as short as eight weeks, half the time taken in the past to close a deal. This could further encourage even more buyers and sellers to go the DIY route for HDB resale transactions, which are more standardised in nature vs private resale.

More and more buyers are going the DIY route for HDB resale transactions.

FIGURE 29: PERCENTAGE OF RESALE BUYERS AND SELLERS WHO DIY FOR HBD RESALE TRANSACTIONS



Source: HDB, The Straits Times, UOB Kay Hian

Embracing proptech. PropNex, APAC Realty and Huttons Asia came together to form a joint website portal called SoReal Prop in 2017. Soreal Prop Pte Ltd operates this online platform for salespeople and consumers. The establishment of Soreal represents a milestone in the Singapore real estate services industry where major players recognise the need for collaboration in the use of data analytics to boost transparency and productivity. The online platform was launched on 12 Mar 18.

SoReal was jointly created by the top three agencies, PropNex, APAC Realty and Huttons Asia.

We believe the SoReal app platform has huge value waiting to be unlocked, in view of the valuations (US$1-2b) and 60-70% margins assigned to leading property portals in the US. Propertyguru.com alone is reputed to be valued at S$1b.

Loss of key management and top agents. PropNex's business model depends heavily on the leadership of its charismatic founder and CEO, Mohamed Ismail, who has been instrumental in creating a nurturing and collaborative culture in PropNex, and has groomed many of its top agents. Another key personnel is Kelvin Fong (Executive Director), who used to lead the largest team in PropNex, and has been overseeing the training curriculum. The group's ability to retain its top team leaders is also critical to its continued success.

Mohamed Ismail and Kelvin Fong have played instrumental roles in the growth of PropNex.

FIGURE 30: PROFIT & LOSS

Year to 31 Dec (S$m)	2016	2017	2018F	2019F	2020F
Revenue, net	245.0	361.3	412.5	422.0	442.6
Operating expenses	(237.7)	(342.0)	(387.2)	(395.4)	(414.1)
EBIT	7.3	19.3	25.4	26.6	28.4
Other non-operating income	2.5	2.8	3.2	3.3	3.5
Associate contributions	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Net interest income/(expense)	0.1	0.1	0.3	0.5	0.5
Pre-tax profit	10.0	22.2	28.8	30.3	32.4
Tax	(1.1)	(3.3)	(4.7)	(5.1)	(5.5)
Minorities	(1.2)	(2.6)	(3.1)	(3.3)	(3.7)
Net profit(rep./act.)	7.6	16.3	21.1	21.8	23.2
Net profit(adj.)	7.6	16.3	21.1	21.8	23.2
Deprec. & amort.	0.4	0.4	0.4	0.4	0.5
EBITDA	7.7	19.6	25.8	27.0	28.9
Per share data (S$ cent)					
EPS - diluted	2.1	4.4	5.7	5.9	6.3
Reported EPS - diluted	2.1	4.4	5.7	5.9	6.3
Book value per shares (BVPS)	3.1	4.9	17.1	20.0	23.1
Dividend per share (DPS)	1.8	2.9	2.8	2.9	3.1

Source: PropNex, UOB Kay Hian

FIGURE 31: BALANCE SHEET

Year to 31 Dec (S$m)	2016	2017	2018F	2019F	2020F
Cash/Near cash equiv.	16.1	27.7	78.0	91.3	105.6
Accounts receivable/debtors	34.0	62.9	71.9	73.5	77.1
Stocks	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Current assets	50.2	90.6	149.9	164.8	182.7
Fixed assets	0.7	1.7	2.0	2.0	2.1
Investments	0.0	0.0	0.0	0.0	0.0
Other financial assets	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other non-current tangible assets	0.0	0.0	0.0	0.0	0.0
Total non-current assets	0.7	1.8	2.0	2.1	2.2
Total assets	50.9	92.4	151.9	166.9	184.8
Accounts payable/creditors	36.0	67.2	76.7	78.5	82.3
Short-term debt/borrowings	0.0	0.0	0.0	0.0	0.0
Other current liabilities	1.8	3.8	8.0	7.0	5.9
Current liabilities	37.8	71.1	84.8	85.5	88.2
Long-term debt	0.0	0.0	0.0	0.0	0.0
Deferred tax liability	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.0	0.1	0.1	0.1	0.1
Total non-current liabilities	0.0	0.1	0.1	0.1	0.1
Total provisions	0.0	0.0	0.0	0.0	0.0
Total liabilities	37.8	71.2	84.9	85.6	88.3
Minority interest - accumulated	1.5	3.1	3.9	7.2	10.9
Shareholders' equity	11.5	18.1	63.1	74.0	85.6
Liabilities and shareholders' funds	50.8	92.4	151.9	166.9	184.8

Source: PropNex, UOB Kay Hian

FIGURE 32: CASH FLOW

Year to 31 Dec (S$m)	2016	2017	2018F	2019F	2020F
Operating cashflows	10.1	23.7	25.0	26.3	27.9
Pre-tax profit	10.0	22.2	28.8	30.3	32.4
Tax	(1.1)	(3.3)	(4.7)	(5.1)	(5.5)
Deprec. & amort.	0.4	0.4	0.4	0.4	0.5
Associates	0.0	0.0	0.0	0.0	0.0
Working capital changes	2.3	0.6	0.1	0.2	0.0
Non-cash items	0.1	0.1	0.3	0.5	0.5
Others	(1.6)	3.7	0.0	0.0	0.0
Cash from investing activities	(0.2)	(1.4)	(2.2)	(2.5)	(2.7)
Capex (growth)	(0.3)	(1.5)	(1.9)	(2.0)	(2.2)
Capex (maintenance)	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0	0.0
Others	0.1	0.1	(0.3)	(0.5)	(0.5)
Cash from financing activities	(6.7)	(10.8)	27.6	(10.5)	(10.9)
Dividend payments	(6.7)	(10.8)	(13.3)	(10.5)	(10.9)
Issue of shares	0.0	0.0	40.9	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0	0.0
Net increase/(decrease) in cash	3.2	11.5	50.4	13.3	14.3
Beginning cash	12.9	16.1	27.7	78.0	91.3
Changes due to forex impact	0.0	0.0	0.0	0.0	0.0
End cash	16.1	27.7	78.0	91.3	105.6

Source: PropNex, UOB Kay Hian

FIGURE 33: KEY METRICS

Year to 31 Dec (%)	2016	2017	2018F	2019F	2020F
Growth					
Turnover	19.7	47.4	14.2	2.3	4.9
EBITDA	11.5	153.6	31.4	4.7	7.0
Pre-tax profit	6.8	122.4	30.2	5.0	7.0
Net profit	16.4	113.7	29.5	3.5	6.5
Net profit (adj.)	n.a.	113.7	29.5	3.5	6.5
EPS	16.4	113.7	29.5	3.5	6.5
Profitability					
EBITDA margin	3.2	5.4	6.3	6.4	6.5
EBIT margin	3.0	5.3	6.1	6.3	6.4
Gross margin	7.8	9.3	10.2	10.5	10.6
Pre-tax margin	4.1	6.1	7.0	7.2	7.3
Net margin	3.1	4.5	5.1	5.2	5.2
ROE	75.6	109.9	51.9	31.8	29.1
ROA	16.9	22.7	17.3	13.7	13.2
ROIC	49.5	90.3	43.3	26.4	24.1
RONTA	11.9	19.2	14.8	11.6	11.2
Leverage					
Debt to total capital	0.0	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(140.0)	(152.9)	(123.7)	(123.4)	(123.3)
Current ratio (x)	1.3	1.3	1.8	1.9	2.1

Source: PropNex, UOB Kay Hian

Appendix I: Company Background

PropNex is Singapore's largest real estate agency, providing services in real estate brokerage and project marketing. With over 20 years of proven track record, PropNex is a proprietary homegrown brand. Their core business can be categorised into:

a) **Real estate brokerage.** Real estate brokerage services, provided via PropNex Realty and PropNex International, comprise real estate agency and project marketing services, including brokerage of new/resale of residential, commercial and industrial properties.

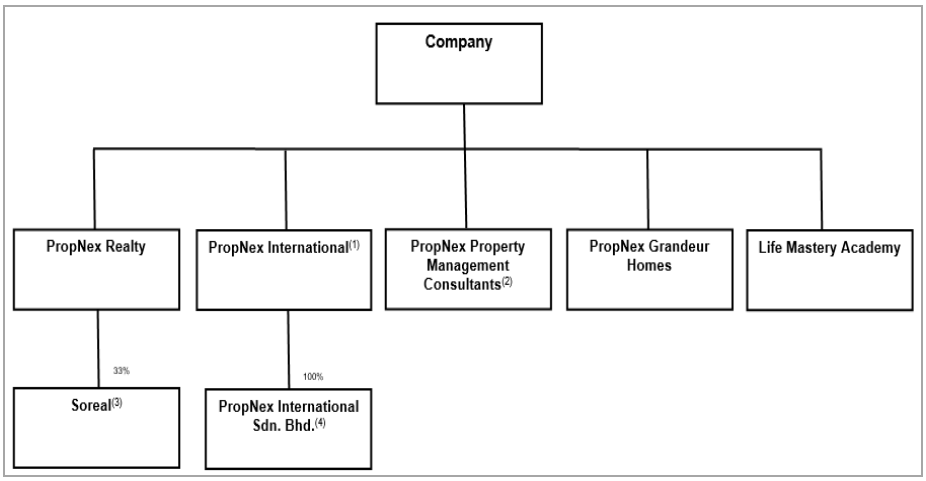
b) **Training.** PropNex's subsidiary, Life Mastery Academy, operates training programmes and courses to individuals so that they meet the licensing and registration framework requirements of the CEA, continuing professional development courses for existing agents, and seminars for consumers on investing in Singapore real estate.

c) **Property management.** PropNex, through PropNex Property Management, provides services such as property and facility maintenance, administration of common areas, security management and building diagnostics.

d) **Real estate consultancy**. PropNex has recently set up a consultancy arm to provide auction/corporate sales services, and investment sales and en-bloc services.

Corporate structure. PropNex comprises of six subsidiaries and one associated company.

CORPORATE STRUCTURE



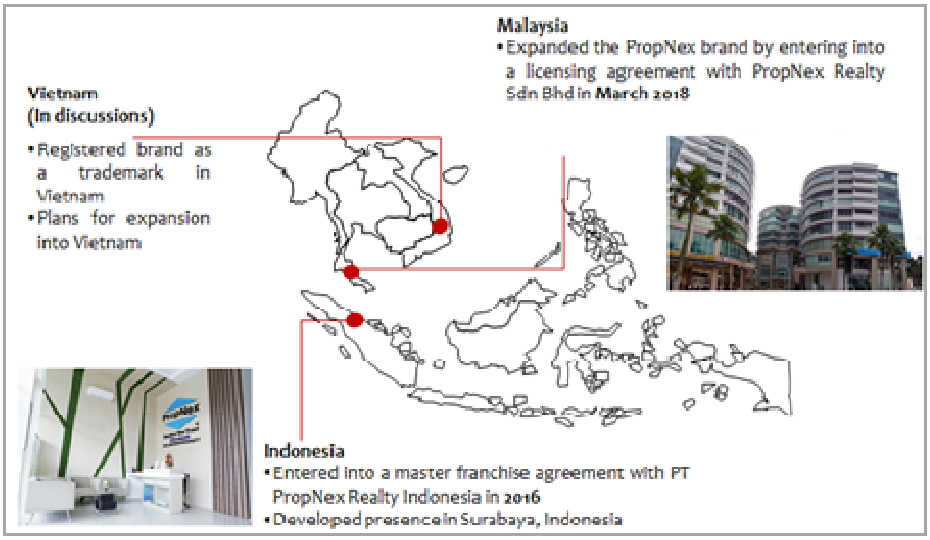
Notes:
(1) The remaining 28.17% is held by Jones Lang LaSalle Property Consultants Pte Ltd.
(2) The remaining 25% is held by Mr. Paul Lawrence.
(3) The remaining 34% and 33% are held by Electronic Realty Associates Pte. Ltd and H Investment Pte. Ltd. respectively which are unrelated third parties.
(4) Dormant company in the process of being struck off.
Source: PropNex

SUBSIDIARIES AND ASSOCIATES

Subsidiaries and associates	Nature of business	Effective Equity Interest (%)
PropNex Realty	Real estate brokerage & consultancy services	100.00
PropNex International	Project marketing services to local and international markets	71.83
Life Mastery Academy	Training	100.00
PropNex Property Management	Property Management	75.00
PropNex Grandeur Homes	Administrative support services to salespeople	100.00
Soreal	Online platform for salespeople	33.00
PropNex International Sdn Bhd	Dormant company in the process of being struck off.	100.00

Source: PropNex

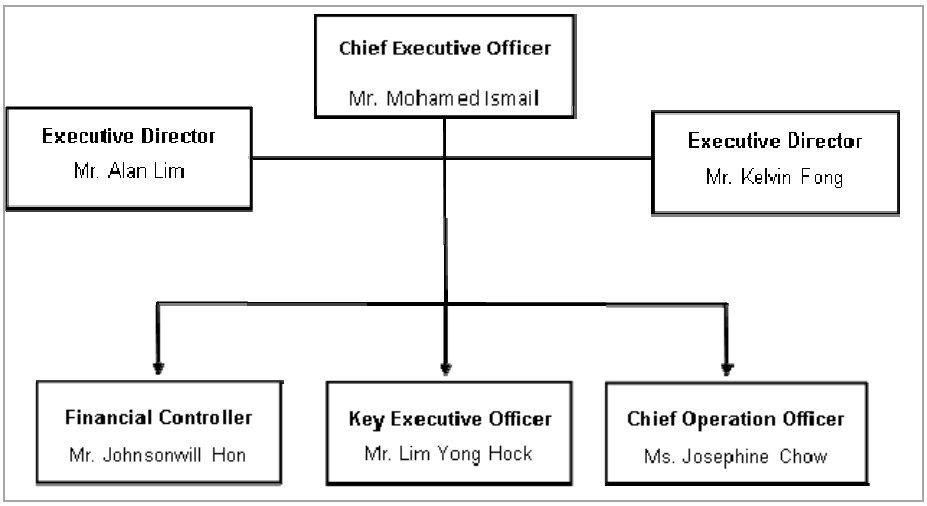
REGIONAL REACH



Source: PropNex

KEY MANAGEMENT

ORGANISATION CHART AND KEY MANAGEMENT



Source: PropNex

SELECTED DIRECTORS/PERSONNEL

Name	Position	Experience
Mohamed Ismail	Co-founder, Executive Chairman and CEO	• More than 20 years of experience in the real estate industry. • Responsible for PropNex's strategic direction and oversees business operations of the group. • Presently member of the Workforce Development Agency of Singapore's Lifelong Learning Council. • Currently holds the rank of Colonel (NS) in the Singapore Armed Forces. • Holds a bachelor's degree in Land Economics and an IBMEC higher diploma in Real Estate & Property Management from the University of Technology, Sydney.
Alan Lim	Co-founder and Executive Director	• More than 20 years of experience in the real estate industry. • Responsible for formulating the group's corporate strategies and analysing business development opportunities. • Oversees recruitment of salespeople. • Developed the group's "Dual Career Path" scheme together with other co-founders. • Prior to co-founding the group, Alan was the founder of Prulink Realty and Linkvest Realty and was responsible for all aspects of the real estate businesses. • Holds a Diploma in Electrical Engineering from Singapore Polytechnic.
Lim Yong Hock	Key Executive Officer	• Heads PropNex's real estate agency business. • Oversees the daily operations of the agency, including management and training of all the group's real estate service agents. • Joined the group in Apr 06 as a marketing recruitment and training manager and promoted to senior vice president in Jul 09. Appointed the Key Executive Officer of PropNex Realty in Jan 13. Prior to joining the group, he was a real estate salesperson leading a team of salespeople from other real estate agencies from 1994 to 2006. • Holds a Diploma in Business Administration from the Thames School of Commerce, Singapore and a Diploma in Electronic Engineering from Ngee Ann Polytechnic.
Kelvin Fong	Proposed Executive Director	• Responsible for training development curriculum and also for real estate salesperson skills. • Also oversees development of IT strategies and technology innovations so as to improve the company's competitive edge in the industry. • Before being employed by the company as an Executive Director, Kelvin was one of the top team leaders and his sales team has a strong track record for outstanding sales performance and excellent customer service. Kelvin joined as a PropNex salesperson in 2003. • Holds a bachelor's degree in Business Administration from La Trobe University, Australia and a Diploma in Electronics Engineering from Singapore Polytechnic.
Johnsonwill Hon	Financial Controller	• Responsibilities include overseeing the daily operations of the finance and accounts department and ensuring the group's compliance with taxation and financial reporting requirements. • Works closely with the Board in formulating financial forecasts, budgets and cash flow projections, as well as reviewing potential IR investment opportunities. • Joined the subsidiary PropNex Realty as an accounts manager in Nov 06 and was with the group for two years until Jul 08, before he left to join Alston Holdings as an accountant. In Nov 09, he re-joined the group as a senior accounts manager. On 1 Jul 13, he was promoted to Financial Controller. He began his career in the field of accounting and finance in 1993. Prior to joining the group, he was an accountant with Far East Organisation from July 2000 to October 2006. • Fellow of the Association of Chartered Certified Accountants (ACCA) and member of the Institute of Singapore Chartered Accountants (ISCA).
Josephine Chow	Chief Operations Officer	• Oversees the group's operations, including the HR, associate affairs, procurement and facilities departments. • Formulates the group's corporate direction, policy and strategy. • Leads, directs and oversees implementation of best practices for the group's HR and service operations and implementation of franchise operations. • Holds a bachelor's degree in Business Administration (with merit) from the National University of Singapore.

Source: PropNex, UOB Kay Hian

KEY MILESTONES

The group's history can be traced back to 1999 with the incorporation of Nooris Consultants by Mohamed Ismail and Prulink Realty by Alan Lim and Joseph Lee.

In that year, Nooris Consultants and Prulink Realty merged, bringing with them about 200 salespeople each into the fold. The trio co-founded First Class Consultants, which provided real estate services through a franchise model and pioneered the dual-career path for salespeople, which has become a key industry practice. This concept allows salespeople to build a career by combining project/secondary sales with training and mentoring their own teams on a profit-sharing basis.

In 2003, the three co-founders incorporated their controlling shareholder, P&N Holdings (formerly known as Prulink Nooris Corporation and PropNex Corporation). They also incorporated PropNex Grandeur Homes with the intention of penetrating the luxury homes real estate market.

In 2004, the unified PropNex Realty was formed with over 3,000 salespeople. This involved a merger of four franchisee partners and transfer of the PropNex trademark to PropNex Realty, which was helmed by Mohamed Ismail, Alan Lim and Joseph Lee (who retired in 2013 and sold his equity interest in P&N Holdings to the other two co-founders). The headquarters then moved to the HDB Hub centre in Singapore.

In 2007, PropNex International was incorporated to market real estate projects for the local and international markets.

In 2013, Joseph Lee retired and sold his equity interest in P&N Holdings to Mohamed Ismail and Alan Lim, who continue to manage the group.

In 2014, PropNex entered into a JV with Jones Lang LaSalle Incorporated (which now owns 28.17% of PropNex International) to tap its project marketing strengths and global outreach.

In 2017, PropNex acquired the real estate agency business of DWR, resulting in the transfer of 845 DWR salespeople to PropNex Realty on 10 Jul 17, according to the CEA. Upon the transfer, PropNex Realty became Singapore's largest real estate agency with 6,688 salespeople as at 10 Jul 17. In that year, the group also acquired a 33% stake of the issued and paid up capital in Soreal Prop Pte Ltd.

Business model. PropNex has four core business segments - real estate brokerage, training, property management and real estate consultancy.

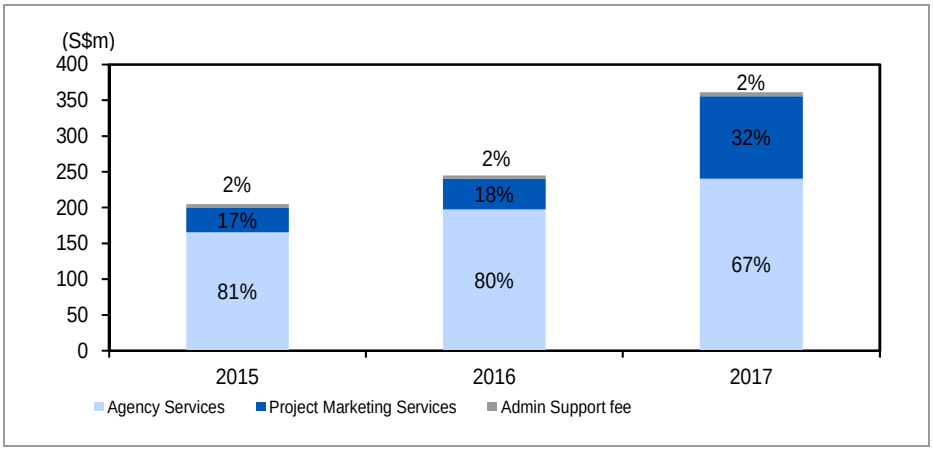
SALES BREAKDOWN

	2015		2016		2017	
	(S$m)	(%)	(S$m)	(%)	(S$m)	(%)
Agency Services	165.8	81.0	197.3	80.5	240.5	66.6
Project Marketing Services	34.3	16.8	43.1	17.6	115.3	31.9
Admin Support fee	4.6	2.2	4.7	1.9	5.5	1.5
Brokerage Revenue	*202.1*	*98.7*	*242.3*	*98.9*	*357.9*	*99.1*
Property Management	1.9	0.9	2.0	0.8	2.3	0.6
Training Services	0.8	0.4	0.7	0.3	1.1	0.3
Total revenue	204.8	100	245.0	100	361.3	100

Source: PropNex, UOB Kay Hian

The real estate brokerage segment contributed to the bulk of revenue and gross profit, accounting for 99.1% and 94.8% respectively in 2017. This business segment is operated through wholly-owned PropNex Realty (which is supported by PropNex International in project marketing), under the PropNex brand. Revenue is made up of mainly commission-based fees from the sales and rental of residential, commercial and industrial properties.

BROKERAGE REVENUE



Source: PropNex, UOB Kay Hian

Commission structure. Commissions earned from the sale or rental of residential, commercial and industrial properties are first paid directly to PropNex. Subsequently, the agent's share of commission is deducted and paid out. The agents' share increases when they achieve certain commission targets, which are typically in the range of 70-90% of the commissions paid to the group. We believe a progressive structure is in place, aimed at encouraging loyalty and performance. The split between PropNex and its agents varies according to the project type, primary vs secondary sales and seniority of the agents (ie cumulative commissions earned).

COMMISSION STRUCTURE FOR PROJECT MARKETING, PRIVATE RESALE AND HDB RESALE

Party	Commission
Project Marketing	
Developer	Generally pay 1-2% of transaction price. In some cases, developers may pay up to 10% when they want to clear completed or nearing completion units
Private Resale	
Seller	Generally pay 2% of transaction price, with a minimum of 1%. If agents are involved (co-broke), the commission is shared between the two agents
HDB Resale	
Seller	Pay 2% of transaction price
Buyer	Pay 1% of transaction price

Source: Frost & Sullivan, industry sources

Additionally, each team leader and manager is entitled to 4-13% of the over-riding commission for each transaction, completed by a supervised salesperson (depending on the commission scheme).

Project launch commissions are generally in the range of 1-2%. The commissions are structured to be split between PropNex, project ICs (designated persons managing a specific project) and team leaders/managers.

Private resale commissions are generally in the range of 1-3%, usually with a minimum of 1%. Again, the agent's share depends on the transaction record. Most of the agents are in the highest tier split of 90%/10% of overall commissions (earning cumulative commissions of S$80,001 and above). The balance is then shared between PropNex and team leaders/managers.

RESALE COMMISSIONS SCHEME

Cumulative Commissions	Commission Payout (%)
S$20,000 and below	70
S$20,001 - 50,000	80
S$50,001 - 80,000	85
S$80,001 and above	90

Source: PropNex, industry sources, Frost & Sullivan

HDB and private leasing commissions are typically one month for a two-year lease, based on our industry channel checks. The gross broking commission is typically paid by the landlord for monthly rents above S$2,000. The agent serving the landlord and the agent serving the tenant split the commissions in halves. If the tenant is required to pay commissions (typically below S$2,000 monthly rents), agents receive their commissions from their respective landlords/tenants served.

Brokerage income for rentals typically peak in the third quarter of the year as they are driven by renewal leases of families and students as it is the start of the academic year.

Property management. PropNex Property Management is a one-stop consultancy, a managing boutique for high-end condominiums. Services include building diagnostic and facility management, property and facility maintenance, administration of common areas, communal and lifestyle services, security management, defects resolution and project management. The management team may be located on-site, depending on the number of units under management.

These fees earned by PropNex Property Management are typically contract-based and recurring.

Training services. PropNex, through its subsidiary Life Mastery Academy (an Approved Course Provider appointed by the CEA), conducts training targeting:

a) Individuals who intend to pursue careers as salespeople and need to meet the licensing and registration requirements of the CEA.
b) Existing salespeople for their continuing professional development.
c) Consumers who are investing in Singapore real estate (through seminars).

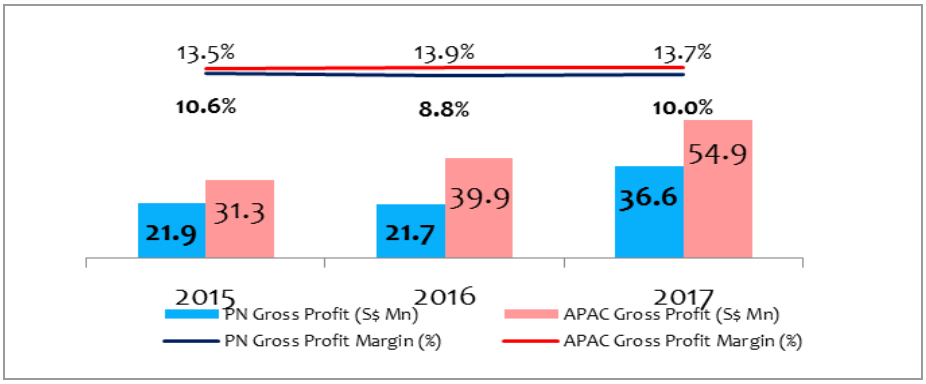
Based on the current regulatory framework, all practising salespeople in Singapore are required to undertake mandatory Continuing Professional Development (CDP) courses for a minimum of six hours of credits each calendar year. Revenue from PropNex's training business grew 27.8% in 2015-17.

Real estate consultancy. The group continues to seek new growth from the launch of new consultancy services, including property valuation and property auction. In 1Q18, PropNex established its real estate consultancy arm under PropNex Realty, providing auction and corporate sales services, as well as investment or en-bloc services.

Appendix II: Peer Comparison

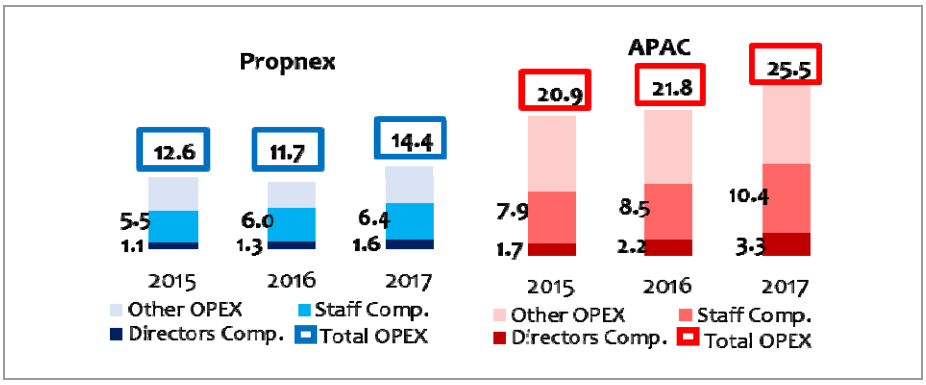
FINANCIAL COMPARISON

GROSS PROFIT



Source: PropNex, APAC Realty

COST STRUCTURE



Source: PropNex, APAC Realty

NON-FINANCIAL COMPARISON

	PropNex	APAC Realty	Comments on PropNex
Number of agents as at 10 Sep 18	7,512	6,115	Larger agent network and outreach by 23%
Standard setter	+ Dual Career Path (DCP) + Pension scheme + RealHome app	+ RealHome app	More involved in setting industry standards, best practices, cultures and procedures ahead of regulatory curve
Brand	Owns brand	Master franchisee for brand in APAC region (1) Until 2029 (option to renew every 30 years) (2) S$250,000 p.a. franchisee fees	Brand equity premium can have more room to be monetised over time, as PropNex has ownership over its proprietary brand; more flexibility in shaping the growth and direction of the brand
Regional network (franchised and licensed) - number of agents	Master licensees: Malaysia (100) Master franchisee: Indonesia (800)	Sub-franchised: Thailand (480), Malaysia (114), Indonesia (7,790), Korea (89), Japan (2,515), Taiwan (150), Vietnam (308), Cambodia (1)	Potential to grow further in the region

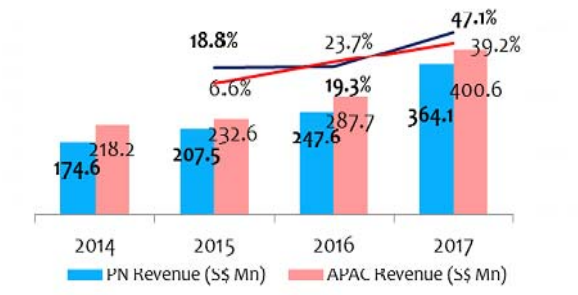
Source: PropNex, APAC Realty

FINANCIAL COMPARISON

	PropNex	APAC Realty	Comments on PropNex
Financials (2017)			
Revenue	S$361m	S$401m	(+) PropNex's 2017 revenue takes into account only two months of sales from the incoming sales forces following the acquisition of DWG on 10 Jul 17. (+) APAC also has additional revenue stream from collective sale consultancy
EBITDA	S$22m	S$31m	(+) PropNex's lower margins are due to retention schemes for future proofing the business.
EBITDA margin (%)	6.2%	7.7%	(+) APAC Realty's higher margins may not be sustainable in the longer run, as agents
Net Profit (Owners+MI)	S$18.9m	S$25.9m	migrate to platforms offering higher commissions (with greater commission
Net Profit margin (%)	5.20%	6.50%	transparency)
PATMI (S$m)	S$16.3m	S$25.9m *(no MI)	(+) PropNex's MI is mostly attributable to JLL's 28% stake in its project marketing business

Source: PropNex, APAC Realty

REVENUE (S$M)



- Growth in agent numbers reflected in PropNex's accelerating top-line growth, achieving a 28% three-year CAGR against 22% for APAC Realty in 2014-17.

** S$364.1m includes other revenue*
Source: PropNex

Appendix III: Industry Review And Outlook

BROKERAGE INDUSTRY

In Singapore, 1,269 agencies and 28,571 property agents were registered with the CEA, as at 1 Jan 18. An industry-wide consolidation has been taking place in the agency market (ie registered agents from the top three largest agencies have increased their agent share from 46% to 58% between Jan 15 and Jan 18) as the profit margins of smaller agencies are under pressure.

NUMBER OF REGISTERED AGENTS

	As at Jan 15	Jan 16	Jan 17	Jan 18
PropNex	5,357	5,464	5,510	6,684
ERA Realty Network	5,707	5,880	5,957	5,882
OrangeTee & Tie	1,850	1,860	2,290	3,898
Huttons Asia	3,182	2,835	2,875	3,207
KF Property Network	875	620	671	689
SLP Scotia	1,006	570	605	585
Savills Residential	784	718	715	543
Global Alliance Property	466	433	572	457
HSR International Realtors	1,056	638	475	377
C & H Properties	n.a.	n.a.	n.a.	328
Other agencies	10,547	10,244	8,727	5,921
Total	30,830	29,262	28,397	28,571
Top 3 agencies	14,246	14,179	14,342	16,464
% share of top 3 agencies	46	48	51	58

Source: CEA, PropNex, Frost & Sullivan

Real estate brokerage commissions driven by transaction volumes and value. Brokerage revenue comes from taking a commission on each property transaction brokered by the agency's salespeople. Agents are independent contractors of the agency, and typically are free to leave at short notice (and potentially joining other agencies). With the recovery in primary and secondary residential markets, improved transaction volumes are expected to benefit the agency business.

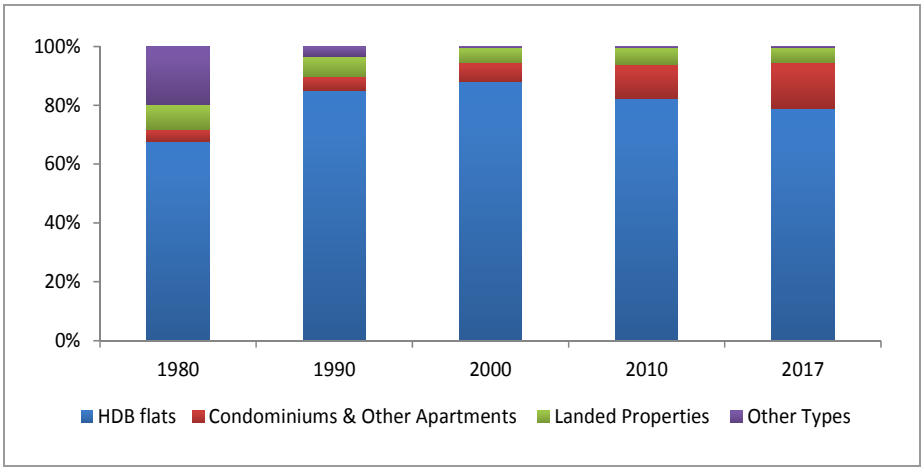
Industry competition. Key competitors include ERA, OrangeTee and Huttons Asia. PropNex competes with them on several dimensions, including brand image, variety of products and services, quality of products and services, and prices.

SINGAPORE PROPERTY MARKET

The Singapore housing landscape comprises two distinct markets, namely the public housing market (ie HDB flats) and the private one. .In 2017, according to data from Singstat, about 79% of households live in HDB flats, and the remainder in condominiums & other apartments (15.6%), landed properties (5.2%) and other dwelling types (0.2%). Condominiums & other apartments also consist of executive condominiums (EC) which are a hybrid between HDB flats and private properties. ECs cater mainly to Singapore citizens whose household income does not exceed S$14,000 per month and are typically HDB upgraders aspiring to private housing. The proportion of households living in condominiums & other apartments has grown steadily over the years from 5% (in 1990) to 16% (in 2017), according to data from Singstat.

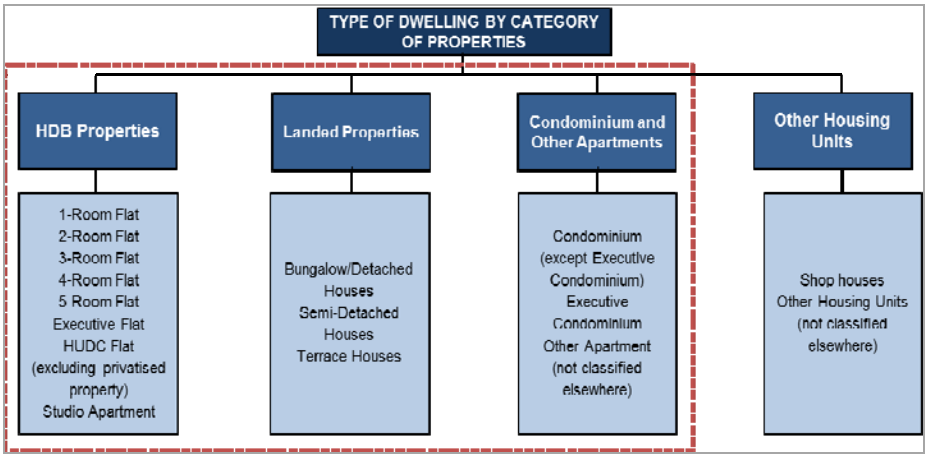
High, mid and mass-market tiers of private residential property in Singapore. The high-end residential market is located in the Core Central Region (CCR) consisting of Districts 9, 10, 11, Downtown area and Sentosa. Mid-tier properties are outside of CCR but within the Rest of Central Region (RCR), while mass-market properties are located in the Outside Central Region (OCR).

HOUSEHOLDS BY DWELLING TYPE



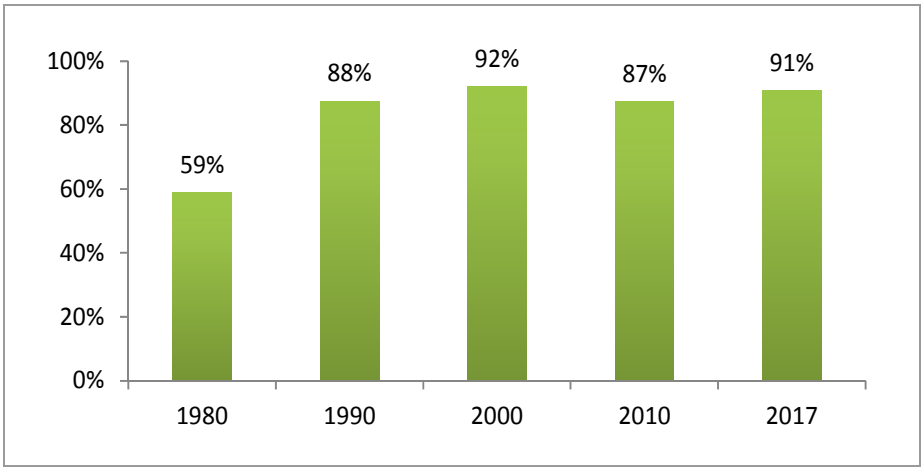
Source: SingStat, CEIC, UOB Kay Hian

DWELLING BY PROPERTY CATEGORY



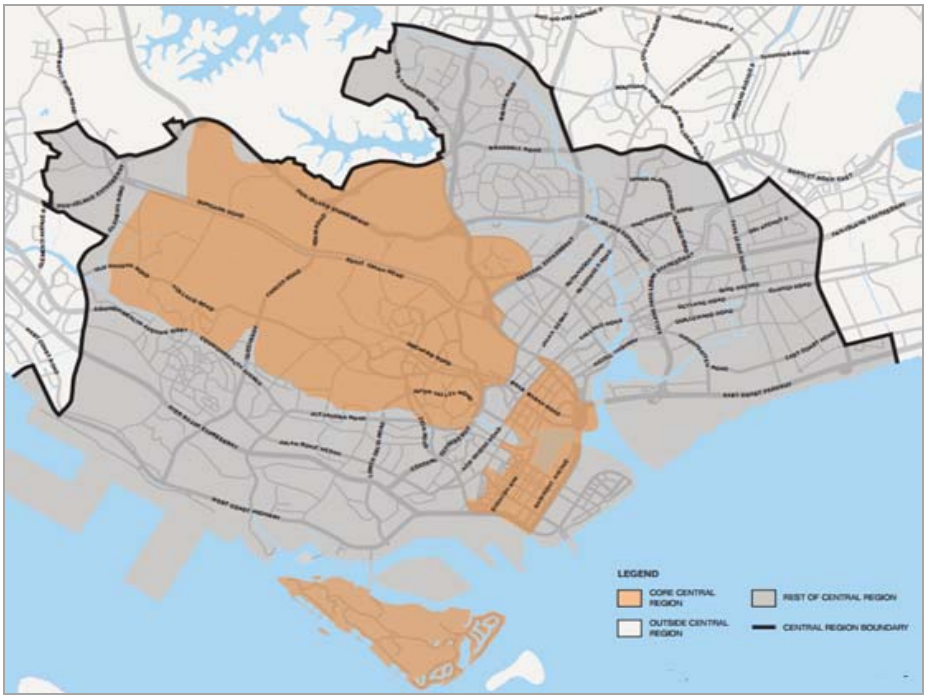
Source: Singapore Standard Classification of Type of Dwelling, Singstat, Frost & Sullivan

HOME OWNERSHIP RATE AMONG RESIDENT HOUSEHOLDS



Source: SingStat, CEIC, UOB Kay Hian

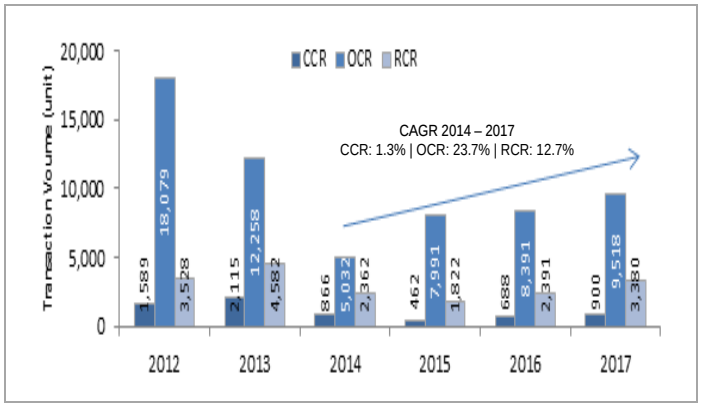
SINGAPORE BY GEOGRAPHICAL MARKET SEGMENT



Source: Singapore Standard Classification of Type of Dwelling, Singstat, Frost & Sullivan

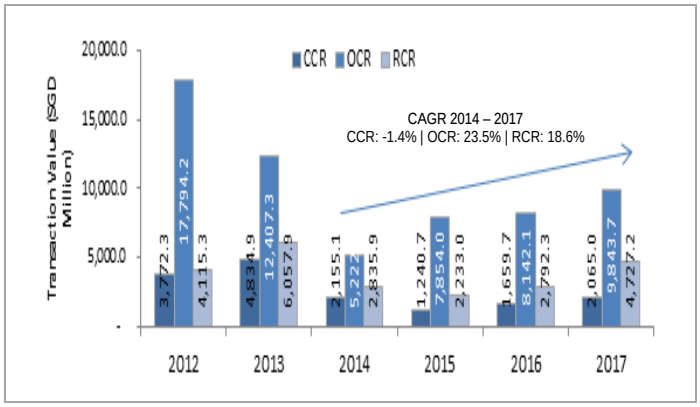
Project marketing: Revival in new sales. The private primary market demand has seen a revival in transactional volumes, growing at a 18.7% CAGR over the last three years. This has come off the low base in 2014, which was affected by cooling measures implemented by the government (ie resale levy for second-time applicants, and revision of mortgage servicing ratio from 60% to 30% of borrower's gross monthly income in 2013). A rise in transaction volumes is usually a precursor to price increases. Increasingly, the newer units being built are shifting towards higher-quality, higher-priced PSFs due to rising land bids, although this is also supported by increased affordability of buyers with growing incomes and lower dependency (lower birth rates). Developers are also building smaller units in order to lower or maintain overall price quantum and increase affordability.

PRIMARY PRIVATE RESIDENTIAL TRANSACTION VOLUME BY MARKET SEGMENT



Source: URA REALIS, Frost & Sullivan, UOB Kay Hian

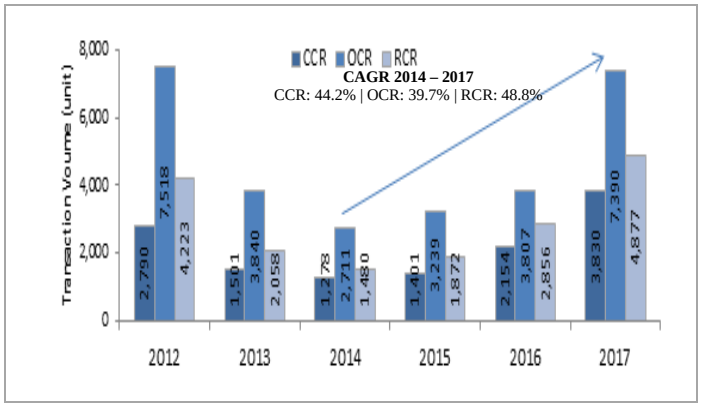
PRIMARY PRIVATE RESIDENTIAL TRANSACTION VALUE BY MARKET SEGMENT



Source: URA REALIS, Frost & Sullivan, UOB Kay Hian

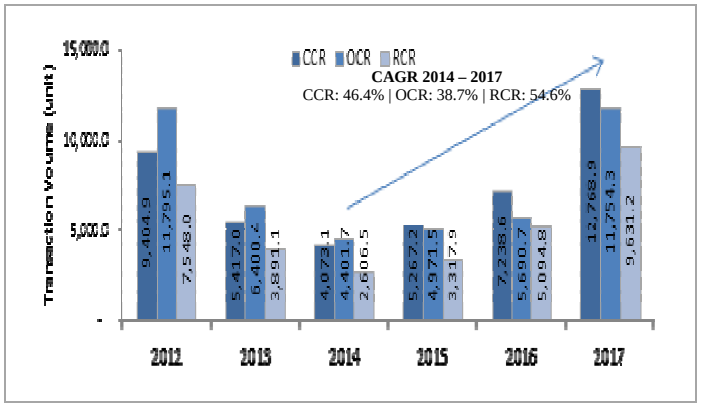
Private resale market. Secondary market transactions are seeing signs of recovery, buoyed by replacement demand from cash-rich en-blocers. Demand increased from 6,512 units sold in 2015 to 16,097 units sold in 2017. The hike in the market value of resale properties in 2017 was also due to more units being sold and buyers increasing their asking prices (above perceived market rates).

PRIVATE RESIDENTIAL: RESALE TRANSACTION VOLUME BY MARKET SEGMENT



Source: URA Realis, PropNex, Frost & Sullivan

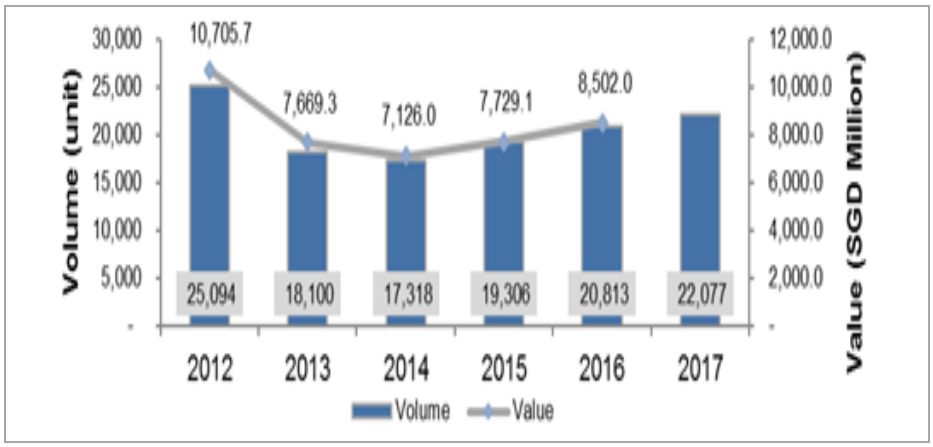
PRIVATE RESIDENTIAL: RESALE TRANSACTION VALUE BY MARKET SEGMENT



Source: URA Realis, PropNex, Frost & Sullivan

HDB resale market sees signs of recovery. Due to the large supply of BTO flat projects in 2013, demand for HDB flat resale transactions was impacted in that year. As a result, HDB resale transaction volumes dropped to 17,673 units in 2014 before recovering to 20,894 units in 2016. HDB transaction value also fell from S$10.7b in 2012 to S$7.1b in 2014, before recovering to S$8.5b in 2016.

FIGURE 45: HDB RESALE TRANSACTION VOLUME AND VALUE

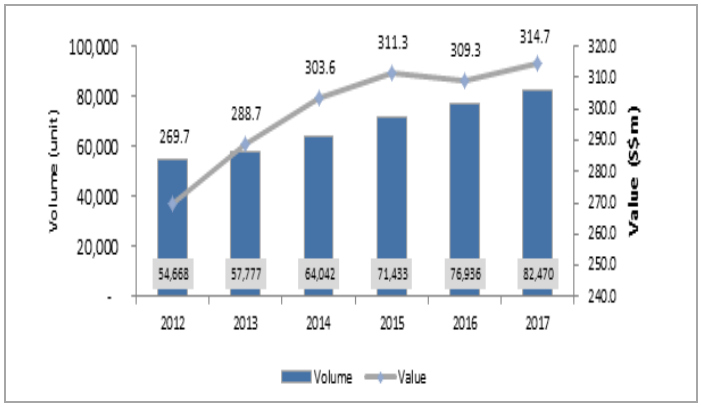


Source: URA Realis, PropNex, Frost & Sullivan

Private leasing market grew at a CAGR of 8.6% from 54,688 units in 2012 to 82,470 units in 2017. The rental market has been weak since 2013 due to the oversupply of properties in the market, with about 50,000 units introduced p.a. in 2014-16. Vacancy also remained high at 8.1% in 2017 (2012: 5.2%).

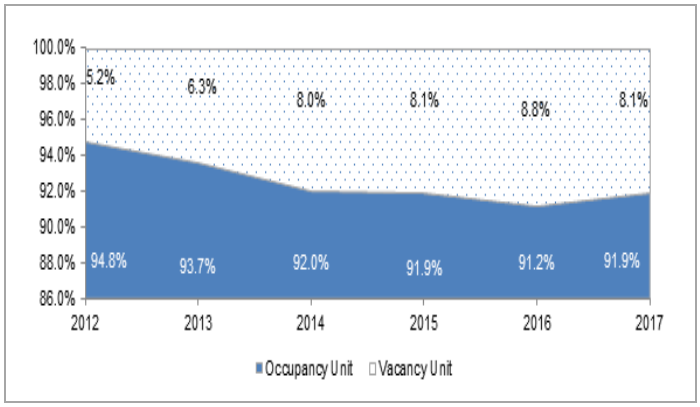
In May 17, URA announced that private residential properties are not allowed to be rented out to more than six unrelated persons. The restriction is likely to boost the real estate business as the market would require more rental units to meet demand.

PRIVATE RESIDENTIAL PROPERTY LEASING TRANSACTION VOLUME AND VALUE



Source: URA Realis, PropNex, Frost & Sullivan

OCCUPANCY AND VACANCY OF PRIVATE RESIDENTIAL PROPERTY



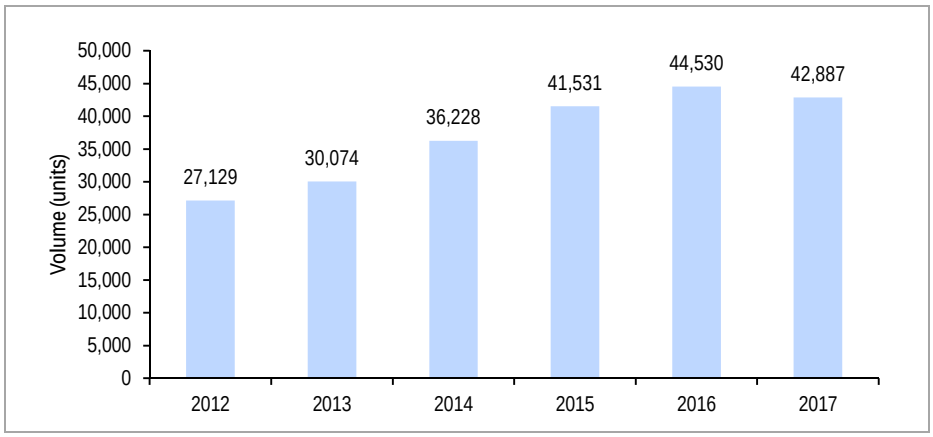
Source: URA Realis, PropNex, Frost & Sullivan

Between 2013 and 2017, PropNex's market share for private leasing grew from 15.8% to 23.0% in terms of transaction volume, and from 9.7% to 14.4% in terms of transaction value.

The HDB leasing market has seen approved subletting applications grow at a CAGR of 13.2% from 27,129 in 2012 to 44,530 in 2016, but dropped to 42,887 in 2017. Despite the rising transaction volumes, HDB rentals declined 3.9% and 3.5% in 2016-17 respectively.

The slowdown in HDB rental growth has been partly attributed to the enforcement of the non-citizens subletting quota by HDB (non-Malaysian foreigners renting an entire HDB flat at 8% at neighbourhood level, and 11% at block level).

HDB LEASING TRANSACTION VOLUME



Source: URA Realis, PropNex, Frost & Sullivan

Outlook: Singapore residential prices to moderate, despite signs of uplift in recent quarters. Private non-landed home prices rose 7.4% in 1H18, the steepest hike in seven years, with rises in the CCR (+6.4%), OCR (+6.9%) and RCR (+8.7%). 2017 also posted a first full-year growth of 1% in the Urban Redevelopment Authority's (URA) property price index (PPI) since 2013, marking a turn in the Singapore property market.

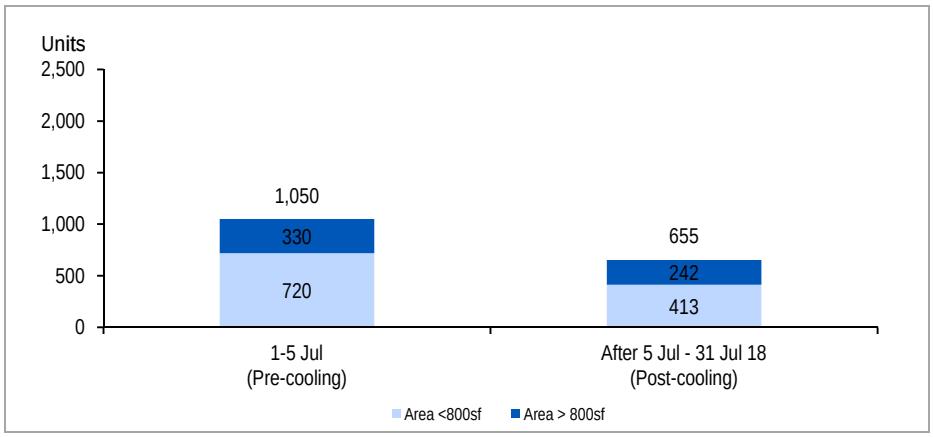
The onset of property cooling measures (announced on 5 Jul 18), however, has moderated the outlook on prices and volume growth. We expect property prices to finish the full year with 5-10% growth in 2018 (1H18:+7.4%), and to stay flattish (0 to -5%) in 2019 as buyers become more sensitive to higher price points. We also expect volumes to soften by 10% p.a. in 2018-19, due to the lack of demand drivers. Foreign participation is likely to stay muted, due to the increased 20% ABSD. Domestic buyers are also likely to adopt a wait-and-see approach, as they grapple with the lower LTV and higher ABSD (in hopes of discount pricing down the road).

Cooling measures: A sense of déjà vu. During the previous cooling measures in 2013, transaction volumes fell 25% yoy. As for the prices of residential properties during the

previous cooling measures since 2009, the PPI held up well in 2010-12 but eventually declined steadily in 3Q13-2Q17 (11.6% decline from peak PPI in 3Q13) as the full brunt of the property cooling measures reined in prices. Notable were the measures introduced in 2013 which included a jump in ABSD in January and introduction of total debt service ratio (TDSR) in June. The TDSR resulted in a 33% hoh decline in transactions of private residential property six months after its introduction.

Residential property sales volume is expected to fall as only first-time home buyers are exempted from the higher ABSD. We estimate current investment demand at 20-25%, which could slow down significantly. Already, this is reflected in a shift in buyer preferences away from smaller-sized units after the cooling measures took effect. Some 1,705 URA caveats for non-landed (ex-EC) new sales were lodged in July, based on our download on 17 Aug 18. The proportion of smaller units (<800 sf) sold decreased from 69% pre-cooling measures (1-5 Jul 18) to 63% post-cooling measures (6 Jul-31 Jul 18).

NON-LANDED (EX-EC) NEW SALES IN JUL



Source: URA Realis

Demand-supply dynamics in private residential. In 2017, vacancy dropped to 7.8% despite an increase in private residential supply and foreign buyers declining 1.6%. We believe Singaporeans are forming smaller households and occupying these units. The average household size among resident households has also declined from 4.1 persons in 1993 to 3.3 in 2017. The en-bloc wave will also result in around 6,800 units (and counting) being demolished, and bring down vacancies further.

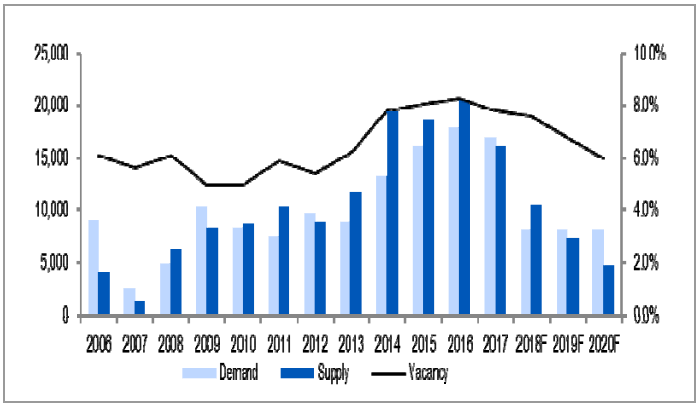
We expect overall private housing vacancy to narrow from 7.8% in 2017 to 5.9% in 2020, based on muted residential demand of about 8,200 units p.a. in 2017-20, with population growth at 1.2% CAGR. As of 2Q18, unsold inventory (including completed units) of 38,774 units was near trough levels, based on URA data stretching back to 1999.

SINGAPORE RESIDENTIAL PRICES AND VOLUME

	2017		2018F		2019F	
(yoy % chg)	Prices	Volume	Prices	Volume	Prices	Volume
New and resale						
HDB (resale)	-1.5	6.1	2-5	10-20	2-5	10-20
Private (URA PPI)	1.0	51.2	5-10	-10	-5 to 0%	-10
Leasing						
HDB	-3.3	-3.8	2-5		2-5	
Private	-1.9	7.2	5-10		5-10	

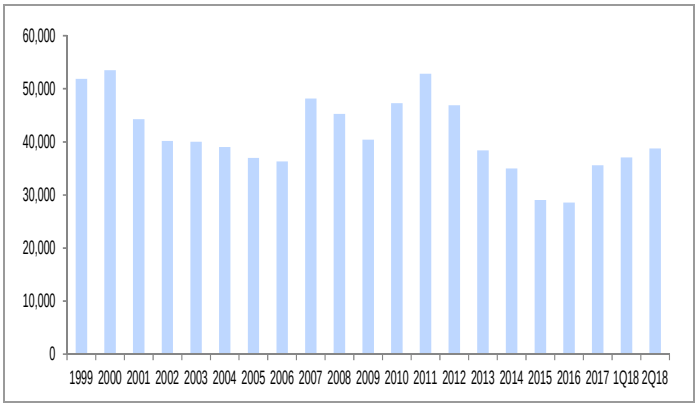
Source: URA, CBRE, UOB Kay Hian

FUNDAMENTAL IMPROVEMENT IN PRIVATE RESIDENTIAL MARKET (EX-EC)



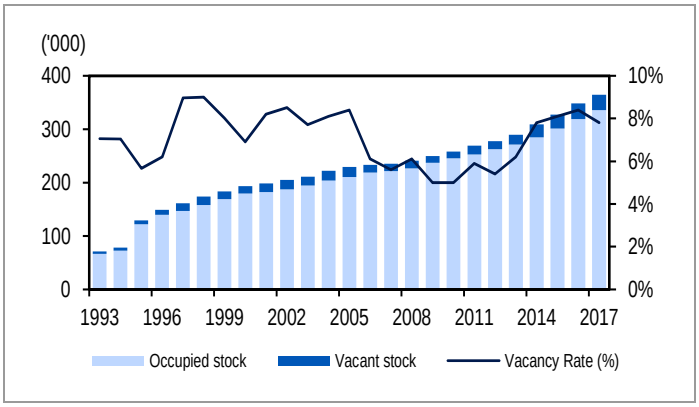
Source: URA, UOB Kay Hian, media sources

PRIVATE RESIDENTIAL MARKET INVENTORY



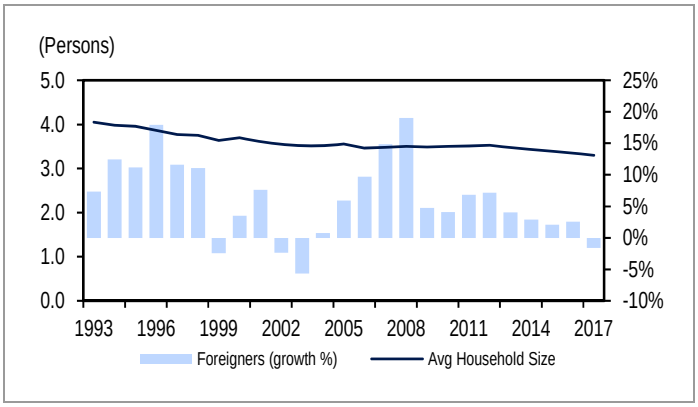
Source: Business Times, UOB Kay Hian

OCCUPIED STOCK, VACANT UNITS & VACANCY



Source: URA, UOB Kay Hian

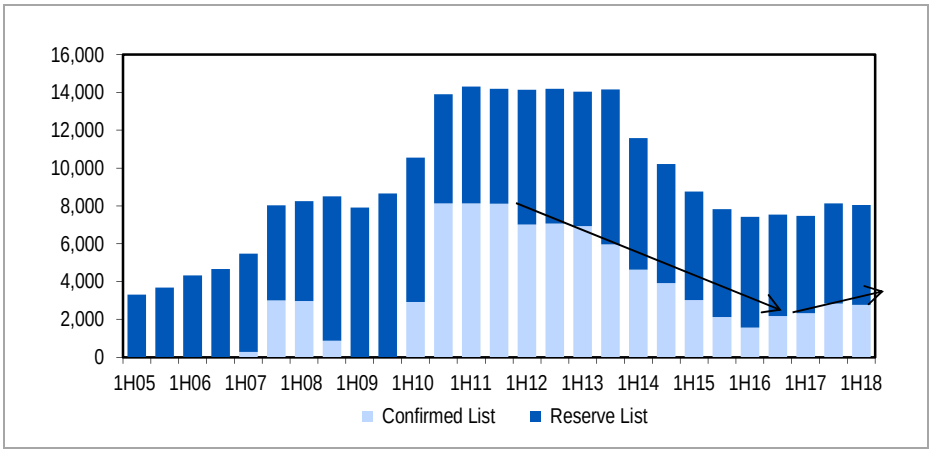
HOUSEHOLD SIZE & FOREIGNERS GROWTH



Source: URA, UOB Kay Hian

Supply from GLS has stabilised. The 1H18 Government Land Sale (GLS) programme (8,045 units) has stabilised at about the same level as the number of units released in 2H17 GLS (8,125 units), after bottoming in 1H16. In planning the 1H18 GLS, the government considered the strong demand for sites by real estate developers, a pick-up in transaction volumes, upcoming supply (38,000 units from en-bloc and previous GLS sites), and 30,000 existing private housing units that are vacant.

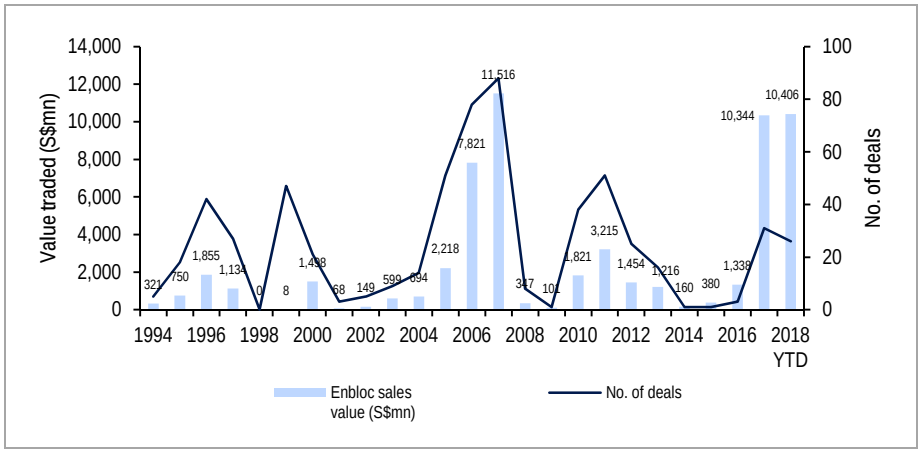
GLS PROGRAMME



Source: URA, UOB Kay Hian

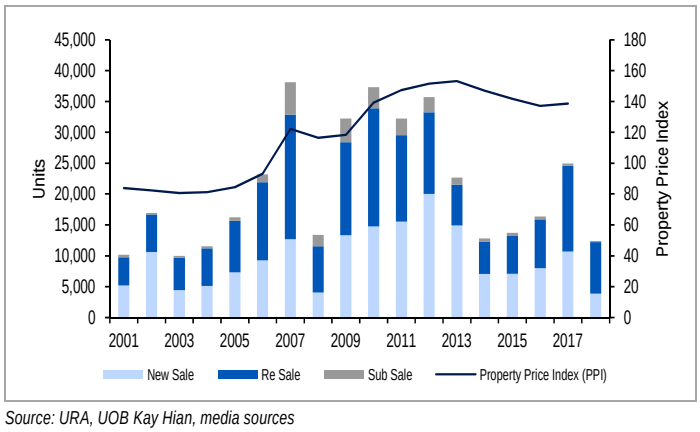
En-bloc sales fever topped S$22.1b (114th percentile of 2006/07 cycle). Over 6,800 units have been taken out that could yield about 23,800 new units (vs 20,000 units yielded from the 10,000 displaced in the 2006/07 cycle). Newly-minted en-bloc millionaires will be seeking replacement properties, although a part of the displacement demand will be siphoned (ie those who cash out and turn to HDB flats, or opt to lease). Still, we believe the wealth effect will see the majority upgrading to mid-range/high-tier resale properties and feeding into the property upcycle. The en-bloc wave will also result in around 6,800 units being demolished, bringing down vacancies further in the near term.

EN-BLOC SALES



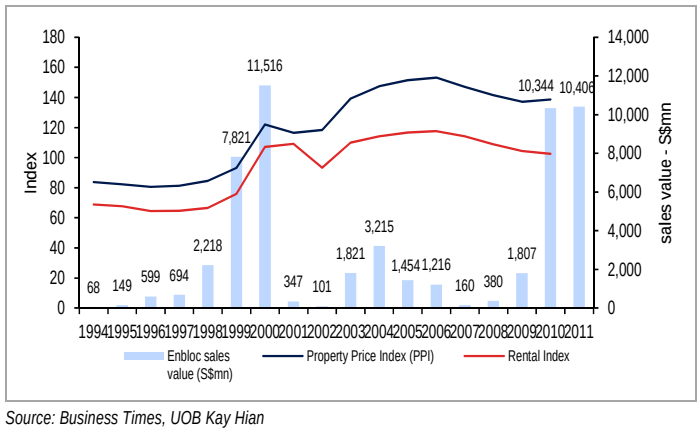
** Value includes development charges and lease top-up premium*
Source: Business Times, UOB Kay Hian

URA PRIVATE RESIDENTIAL INDEX AND SALES VOLUME



Source: URA, UOB Kay Hian, media sources

EN-BLOC WAVE

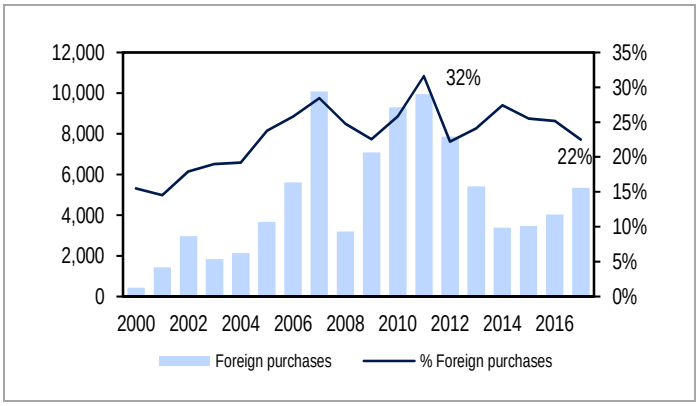


Source: Business Times, UOB Kay Hian

Return of foreigners to boost mid-range/high-end property segments. Although foreign purchases grew 33% yoy in 2017, they accounted for only 22% of total sales volume in the private residential market, vs 30/32% in the 2007/11 cycle. There is scope for Singapore to absorb potential capital inflow from foreign buyers (ie typically dominated by the Chinese, Malaysians, Indians and Indonesians). The growth in foreign home purchases has been led by the Chinese, with their purchases growing in both absolute and relative terms. Their 2017 purchases was 4.4x that in 2005. According to our channel checks, the Chinese are among the most enthusiastic foreign buyers of the New Futura project.

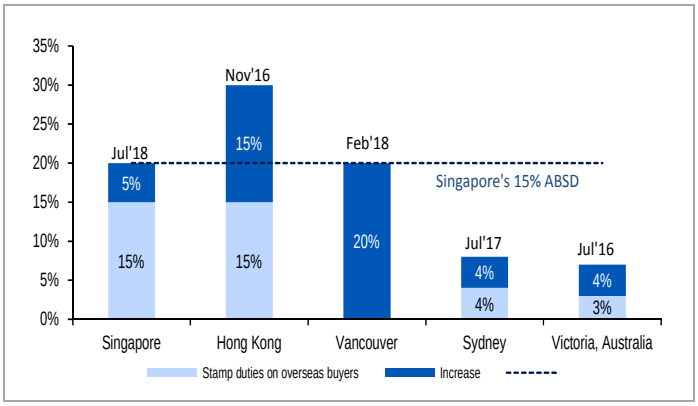
Levelling of playing field among different tax regimes builds relative appeal of Singapore. Although the ABSD had risen further to 20% (from 15%) in Jul 18, overseas regimes have time and again caught up with harsher cooling measures to limit foreigners' participation. For example, Hong Kong has doubled stamp duties for overseas property buyers to 30% in Nov 16. Taipei also implemented a punitive divestment gains tax of as high as 45% in Jan 16 (with no expiration), dwarfing Singapore's sellers stamp duty (SSD) of 12% (3-year limit). Australia and Canada have also followed suit with their own property curbs targeted at foreign buyers.

FOREIGN BUYERS IN THE PRIVATE RESIDENTIAL MARKET



Source: URA, UOB Kay Hian, media sources

STAMP DUTIES FOR FOREIGN HOMEBUYERS



As at 05 Jul 2018
Source: UOb Kay Hian, various stat boards

EN-BLOC SALES IN CURRENT CYCLE

Property	Date of sale	Land area (sf)	GFA (sf)	No. of units	Max no. of potential units	Site cost (S$m)	Site cost (S$ psf Ppr)	Breakeven (S$ psf ppr)	Est Selling Price (S$psf)	District	Classification	Developer
2018												
Phoenix Heights	9 Jul 18	42,750	59,850	32	75	45.9	767	1,154	1,282	23	Mass market	OKP Holdings (25%), Chye Joo Construction (25%), Hwa Seng (25%), and Ho Lee Group (25%)
Casa Meyfort	10 Jul 18	85,249	238,697	76	298	377.08	1,580	2,100	2,400	15	Mid market	GuocoLand
Teck Guan Ville	28Jun 18	42,289	59,205	14	74	60	1,013	1,423	1,581	16	Mass market	Tee Land
Kemaman Point	18 Jun 18	43,825	134,981	89	169	149.98	1,111	1,587	1,814	12	Mid market	Soilbuild Group
Pomex Court	6 Jun 18	26,471	37,059	19	34	37.6	1,015	1,481	1,693	15	Mid market	K16 Development
Chinatown Plaza	18 May 18	33,953	118,836	38	149	260	2,188	2,823		2	High end	Royal Golden Eagle
Chancery Court	18 May 18	259,134	362,788	136	481	584	1,610	2,191	3,321 2,577	11	High end	Far East Organisation
Peak Court	14 Aug 18	57,378	80,329	20	106	125	1,558	2,134	2,510	11	High end	Rich Capital Holdings (30%), Tuan Sing Holdings (70%)
Villa D' Este	10 May 18	55,480	49,072	12	61	93	1,898	2,506	2,948	10	High end	KOP Limited
Dunearn Gardens	23 Apr 18	95,442	267,236	114	334	512	1,914	2,524	2,969	11	High end	EL Development
Asia Gardens	18 Apr 18	72,059	221,942	80	264	343	1,545	2,120	2,494	2	High end	Sustained Land-led consortium
Tulip garden	13 Apr 18	316,708	506,733	162	670	907	1,790	2,387	2,809	10	High end	Yanlord Land (50%), MCL Land (50%)
Katong Omega	6 Apr 18	27,902	42,969	18	36	49	1,141	1,619	1,851	15	Mid-market	Global Dragon
The Estoril	5 Apr 18	84,600	148,896	44	215	224	1,504	2,074	2,305	10	High end	Far East Consortium
Cairnhill Heights	3 Apr 18	15,407	43,141	20	42	86	1,995	2,612	3,073	9	High end	Tiong Seng (60%), Ocean Sky International (40%)
Fairhaven	28 Mar 18	16,660	34,986	15	44	57	1,629	2,211	2,602	9	High end	Lafe Corporation
Ampas Apartment	27 Mar 18	30,239	88,537	43	120	95	1,073	1,545	1,766	12	Mid-market	Oxley Holdings
Makeway View	22 Mar 18	41,582	116,430	32	146	189.26	1,626	2,207	2,597	9	High end	Bukit Sembawang Estates
Pacific Mansion	19 Mar 18	128,352	542,544	290	678	980	1,806	2,405	2,830	9	High end	GuocoLand (40%), Intrepid Investments (40%), Hong Realty (20%)
Katong Park Towers	16 Mar 18	140,758	295,592	116	388	405	1,370	1,871	2,138	15	Mid-market	Bukit Sembawang Estates
Goodluck Garden	10 Mar 18	360,130	554,600	210	693	610	1,100	1,518	1,687	21	Mass market	Qingjian Realty
Eunos Mansion	12 Mar 18	111,735	196,780	107	246	220	1,118	1,595	1,823	14	Mid-market	Fragrance Group
Toho Mansion	9 Mar 18	47,659	73,396	32	92	120.4	1,640	2,224	2,616	10	High end	Koh Brothers
Hollandia	2 Mar 18	53,505	107,688	48	135	183.4	1,703	2,292	2,697	10	High end	Far East Consortium
Brookvale Park	16 Feb 18	373,008	656,494	160	821	556	847	1,241	1,379	21	Mass market	Hoi Hup Realty (60%), Sunway Developments (30%), SC Wong (10%)
Riviera Point	15 Feb 18	14,579	49,265	33	62	72	1,461	2,028	2,386	9	High end	Macly Group
Cairnhill Mansions	15 Feb 18	43,106	156,581	61	200	362	2,311	2,958	3,480	9	High end	Low Keng Huat
Pearl Bank	14 Feb 18	82,376	613,530	288	800	929	1,515	2,029	2,319	3	Mid-market	Capitaland
City Towers	8 Feb 18	104,531	219,516	77	190	405.4	1,847	2,450	2,882	10	High end	Japura Development
16 Lor 35 Geylang		23,892	66,896			13	194					
The Wislshire	26 Jan 18	39,130	64,310	20	80	102.9	1,600	2,180	2,564	10	High end	Roxy-Pacific (40%), TE2 Development (45%), Kim Seng (15%)
Kismis View	19 Jan 18	90,863	127,208	43	168	120	941	1,344	1,494	21	Mass market	Roxy-Pacific (60%), TE2 Development (40%)
Park West	11 Jan 18	628,340	505,409	432	632	1131.6	2,239	2,822	3,225	5	Mid-market	SingHaiyi (50%), Haiyi Wealth (50%)
Total		3,197,588	5,995,394	2,487	7,308	8,870						
2017												
Balestier Road	Dec 17	12,038	36,115	8	45	38	1,052	1,523	1,740	12	Mid-market	Oxley Holdings
Vista Park	Dec 17	319,250	446,950	209	559	490	1,096	1,571	1,795	5	Mid-market	Oxley Holdings
Parkway Mansion	Dec 17	38,975	109,130	32	136	167.99	1,539	2,056	2,350	15	Mid-market	SL Capital
Derby Court	Dec 17	18,506	53,149	20	66	73.88	1,390	1,950	2,294	11	High end	Roxy-Pacific
8 Apartment	Dec 17	9,667	20,301	8	na	21.5	1,061	1,532	1,751	13	Mid-market	Oxley Holdings
Royalville	Dec 17	174,176	243,846	104	323	477.9	1,960	2,574	3,028	10	High end	Allgreen Properties
Crystal Tower	Dec 17	60,482	98,179	28	130	180.7	1,840	2,442	2,873	10	High end	Allgreen Properties
How Sun Park	Nov 17	54,943	76,920	20	102	84.0	1,092	1,509	1,677	19	Mass market	SingHaiyi Group
Lodge 77	Nov 17	13,123	39,369	11	49	35.5	902	1,358	1,553	15	Mid-market	KTC Group
Mayfair Gardens	Nov 17	208,475	291,865	124	387	363.0	1,244	1,675	1,862	21	Mass market	Oxley Holdings
Tai Wah Building	Nov 17	13,148	39,809	6	50	84.9	2,132	2,763	3,250	9	High end	Lucrum Capital
Casa Contendere	Nov 17	37,972	53,161	11	70	87.1	1,638	2,222	2,614	11	High end	Tee Land
Dunearn court	Oct 17	19,203	26,884	12	35	36.9	1,371	1,928	2,269	11	High end	Roxy-Pacific
Florence Regency	Oct 17	389,236	1,089,861	336	1,400	917.6	842	1,235	1,373	19	Mass market	Logan Property
Changi Gardens	Oct 17	200,093	280,130	72	300	248.8	888	1,286	1,429	17	Mass market	Chip Eng Seng
Normanton Park	Oct 17	661,000	1,388,100	488	1,200	1344.6	969	1,431	1,636	5	Mid-market	Kingsford Huray Development
Amber Park	Oct 17	213,670	598,290	200	800	906.7	1,515	2,030	2,320	15	Mid-market	City Developments (80%), Hong Leong (Hong Realty) (20%)
Nanak Mansions	Sep 17	109,630	153,482	36	203	219.3	1,429	1,935	2,212	15	Mid-market	UOL Group (50%), Kheng Leong (50%)
Elite Building	Sep 17	14,274	41,866	16	52	52.0	1,242	1,731	1,978	14	Mid-market	The Tabernacle Church and Missions
Six plots at Seraya Crescent	Sep 17	24,069	33,697	na	42	31.4	932	1,448	1,703	11	High end	TEE Land
Jervois Gardens	Sep 17	34,038	47,653	17	270	81.9	1,718	2,309	2,716	10	High end	SC Global Investments
Sun Rosier	Sep 17	146,046	204,464	78	256	271.0	1,325	1,765	1,961	19	Mass market	SingHaiyi Group (50%), Huajiang International (50%)
Tampines Court	Aug 17	702,155	1,966,034	560	2,609	1329.0	676	1,054	1,171	18	Mass market	Sim Lian Group
208 Yio Chu Kang	Aug 17	14,136	19,790	6	25	8.4	424	778	865	19	Mass market	Oxley Holdings
Lotus at Pasir Panjang	Jul 17	89,620	125,468	106	150	121.0	964	1,427	1,630	5	Mid-market	Oxley Holdings
Serangoon Ville	Jul 17	296,913	831,356	244	1,200	694.0	835	1,228	1,364	19	Mass market	Oxley Holdings
The Albracca	Jul 17	23,400	49,140	11	65	69.1	1,406	1,911	2,184	15	Mid-market	Sustained Land
Eunosville	May 17	376,713	1,054,796	330	1,399	958	909	1,365	1,560	14	Mid-market	Hong Kong Land
Goh & Goh Building	May 17	30,874	92,622	7	100	101.5	1,096	1,513	1,682	21	Mass market	BBR Holdings
Rio Casa	May 17	396,231	1,109,447	286	1,400	783.0	706	1,086	1,207	19	Mass market	Oxley Holdings (35%), Heeton Holdings (20%), Lian Beng (20%), Apricot Capital (10%)
One Tree Hill Gardens	May 17	39,063	39,063	13	14	65.0	1,664	2,250	2,647	10	High end	Lum Chang Group
Total		4,741,120	10,660,939	3,399	13,437	10,344						
2016												
Raintree Gardens	Oct 16	201,405	563,934	175	750	449	797	1,243	1,421	13	Mid-market	UOL Group (50%), UIC Group (50%)
Harbour View Gardens	Aug 16	30,745	43,043	14	57	33	772	1,216	1,390	5	Mid-market	Roxy-Pacific
Shunfu Ville	May 16	409,000	1,145,200	358	1,000	855	747	1,188	1,358	20	Mid-market	Qingjian Group
Total		641,150	1,752,177	547	1,807	1,338						

Source: Media, URA, UOB Kay Hian

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