

# Singapore Company Update

## APAC Realty

Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2021

### BUY

Last Traded Price (23 Feb 2021): S\$0.425 (STI : 2,890.70)  
Price Target 12-mth: S\$0.61 (44% upside) (Prev S\$0.53)

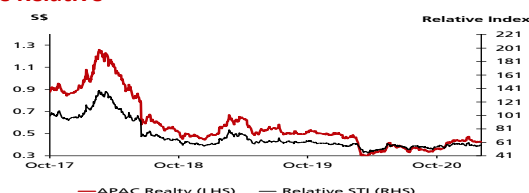
#### Analyst

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### What's New

- A commendable set of FY20 results despite the COVID-19 pandemic, trumping expectations
- Resale and rental did better than new home sale; higher DPS declared
- Secured marketing agent for 24 projects in 2021, similar to 2020
- Maintain BUY with higher TP of S\$0.61; expect a better 2021

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2019A	2020A	2021F	2022F
Revenue	370	395	421	448
EBITDA	20.4	21.3	24.4	26.5
Pre-tax Profit	17.2	19.6	22.8	24.9
Net Profit	14.0	16.4	18.9	20.7
Net Pft (Pre Ex.)	14.0	16.4	18.9	20.7
Net Pft Gth (Pre-ex) (%)	(42.2)	17.3	15.1	9.5
EPS (S cts)	3.94	4.63	5.33	5.83
EPS Pre Ex. (S cts)	3.94	4.63	5.33	5.83
EPS Gth Pre Ex (%)	(42)	17	15	9
Diluted EPS (S cts)	3.94	4.63	5.33	5.83
Net DPS (S cts)	2.00	2.50	2.88	3.15
BV Per Share (S cts)	41.0	43.6	46.0	48.7
PE (X)	10.8	9.2	8.0	7.3
PE Pre Ex. (X)	10.8	9.2	8.0	7.3
P/Cash Flow (X)	8.9	7.5	8.0	6.7
EV/EBITDA (X)	8.5	7.9	6.6	5.6
Net Div Yield (%)	4.7	5.9	6.8	7.4
P/Book Value (X)	1.0	1.0	0.9	0.9
Net Debt/Equity (X)	0.2	0.1	0.1	CASH
ROAE (%)	9.7	10.9	11.9	12.3
<b>Earnings Rev (%):</b>			25	21
<b>Consensus EPS (S cts):</b>			4.10	4.30
<b>Other Broker Recs:</b>		B: 3	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Expect a better 2021

#### Investment Thesis:

**Stronger transaction volume amid COVID-19.** We expect the overall market transaction value to continue to grow at 6.5% in FY21F and 6.6% in FY22F, after registering 21.5% growth in 2020. Factors that can drive market activities include the low interest rate environment and healthy supply of projects. New home sales saw a 5% y-o-y increase to 10,940 units (including ECs) in 2020. The private residential resale market recorded sales of 10,927 units, an increase of 18.3% y-o-y. The HDB resale market also reported an increase of 4.4% to 24,748 units in 2020.

**Attractive valuations.** APAC is trading at an attractive 8x FY21F PE, which is near the -1SD of its 5-year average PE.

**Supply still healthy despite fewer project launches.** ERA has launched 24 projects in 2020, vs. 43 in FY2019, with another 24 more projects in the pipeline for 2021.

**Potential catalyst:** 1) Strong pick-up in private property transaction activities; 2) Easing of property cooling measures.

#### Valuation:

Maintain BUY with higher TP of S\$0.61. We have raised FY20F-21F earnings by 21-25%. Our TP, which is still pegged to 11.4x or its 5-year average PE on FY21F earnings, rises to S\$0.61 (S\$0.53 prev.) on our higher earnings projections.

#### Where we differ:

We are positive on APAC's ability to benefit from the resilience in the property market, being one of the leading players in the real estate brokerage industry in Asia.

#### Key Risks to Our View:

Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

#### At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (S\$m/US\$m)	151 / 114
Major Shareholders (%)	
Tan Choon Hong	71.8
FIL Investment Management	4.3
Free Float (%)	23.9
3m Avg. Daily Val (US\$m)	0.10
<b>GIC Industry :</b> Real Estate / Real Estate Management & Development	



Live more, Bank less

## APAC Realty

### WHAT'S NEW

#### A commendable set of FY20 results despite COVID

**Better FY20 despite COVID-19, driven by locals amid low interest rate.** Despite the on-going COVID-19 pandemic and the suspension of the real estate business during the circuit breaker period from 7 April to 1 June 2020, APAC has performed better relative to FY19. 2H20 was stronger than 1H20, driven mainly by local buyers, HDB upgraders amid the low interest rate environment. 2H20 revenue and net profit gained 28.6% and 11.9%, respectively, as compared to 1H20.

**Commendable FY20 results, coming in above expectations.** FY20 net profit gained 17.3% to S\$16.4m, on the back of the 6.9% increase in total revenue to S\$395.1m. FY20 net margins improved to 4.2% from 3.8% in FY19. Overall, FY20 results were 15% above our net profit projection.

**Resale and rental did better than new home sales.** In terms of segmental breakdown, FY20 brokerage income from resale and rental of properties improved 10.7% y-o-y to S\$267.4m but income from new home sales slid 1% y-o-y to \$116.4m.

**Higher DPS declared.** A final DPS of 1.75Scts was declared. Together with the interim DPS of 0.75Scts, total DPS for FY20 of 2.5Scts represents a dividend payout ratio of 54%, slightly higher than the 51% for FY19.

**Market share improved to 28%.** ERA's market share for the residential segment improved to 28% in FY20 in terms of transaction volume, from 26.6% in FY19. ERA's market share for the new homes segment was down in 1H 2020 but it managed to pick up in Q4 2020 after the government announced no more extension of Option to Purchase (OTP). ERA has seen its market share picked up to around 35% to 40% for recent launches.

The number of agents increased to 7,771 as at 1 Jan 2021, up 11.5% y-o-y.

**For the overall property market, all segments recorded higher unit sale.** For the overall property market, new home sales saw a 5% y-o-y increase to 10,940 units (including ECs) in 2020. The private residential resale market recorded sales of 10,927 units, an increase of 18.3% y-o-y. The HDB resale market also reported an increase of 4.4% to 24,748 units in 2020.

**Healthy project pipeline.** As of 31 December 2020, there were 26,426 unsold units (including ECs). The vacancy rate of completed private residential units has increased to 7.0% as at 31 December 2020, from 5.5% a year ago. Apart from the 26,426 unsold units (including ECs) with planning approval as at 31 December 2020, there is a potential supply of 4,700 units (including ECs) from Government Land Sales (GLS) sites that have not been granted planning approval yet.

**Secured marketing agent for 24 projects in 2021, similar to 2020.** Amid a challenging market, ERA was appointed marketing agent to 24 projects with more than 7,200 new home units launched during 2020. The group has secured marketing agent mandates for 24 residential projects with more than 8,800 new home units launched and to be launched in FY2021.

**Expect a better FY21F; Maintain BUY with higher TP of S\$0.61.** Overall, we expect a stronger FY21F, on the back of the healthy project pipeline and strong demand amid the low interest rate environment. We now expect total property transaction value to grow 6.5% in FY21F and 6.6% in FY22F, after registering 21.5% growth in FY20 vs our previous assumption of -2.4% in FY20, +3.4% in FY21F and +7.9% in FY22F. On the back of the higher transaction value assumption, net profit for FY21F/FY22F is raised by 25%/21%. Our higher TP of S\$0.61 is still based on a 5-year average PE of 11.4x. Maintain BUY.

#### Company Background

APAC Realty Limited ("APAC") is one of the leading players in the real estate brokerage industry in Asia. APAC Realty operates three main business segments – the real estate brokerage services; franchise agreements; and training, valuation and other ancillary services.

## APAC Realty

### Interim Income Statement (S\$m)

FY Dec	2H2019	1H2020	2H2020	% chg yoy	% chg hoh
Revenue	206	173	222	7.7	28.6
Cost of Goods Sold	(180)	(151)	(196)	9.1	30.0
<b>Gross Profit</b>	<b>26</b>	<b>22</b>	<b>26</b>	<b>(1.9)</b>	<b>19.3</b>
Other Oper. (Exp)/Inc	(13)	(12)	(15)	9.2	23.2
<b>Operating Profit</b>	<b>13</b>	<b>10</b>	<b>11</b>	<b>(13.5)</b>	<b>14.4</b>
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	(1)	0	54.9	40.4
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>12</b>	<b>9</b>	<b>11</b>	<b>(11.8)</b>	<b>16.7</b>
Tax	(2)	(1)	(2)	(9.0)	41.9
Minority Interest	0	0	0	(42.9)	(28.6)
<b>Net Profit</b>	<b>9</b>	<b>8</b>	<b>9</b>	<b>(2.5)</b>	<b>11.9</b>
Net profit bef Except.	9	8	9	(2.5)	11.9
EBITDA	14	11	13	(13.0)	11.0
<b>Margins (%)</b>					
Gross Margins	12.8	12.5	11.6		
Opg Profit Margins	6.2	5.6	5.0		
Net Profit Margins	4.3	4.5	3.9		

Source of all data: Company, DBS Bank

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## APAC Realty

### Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
<b>Revenues (\$m)</b>					
Brokerage	413	359	384	409	436
Non-brokerage	10.6	10.2	11.2	11.8	12.4
<b>Total</b>	<b>424</b>	<b>370</b>	<b>395</b>	<b>421</b>	<b>448</b>
<b>Gross profit (\$m)</b>					
Brokerage	44.5	37.3	37.3	40.9	43.6
Non-brokerage	10.2	10.2	0.0	0.0	0.0
<b>Total</b>	<b>54.7</b>	<b>47.5</b>	<b>37.3</b>	<b>40.9</b>	<b>43.6</b>

### Income Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	424	370	395	421	448
Cost of Goods Sold	(371)	(323)	(348)	(369)	(394)
<b>Gross Profit</b>	<b>52.8</b>	<b>46.4</b>	<b>47.5</b>	<b>51.5</b>	<b>54.7</b>
Other Opng (Exp)/Inc	(23.1)	(27.4)	(26.6)	(27.6)	(28.7)
<b>Operating Profit</b>	<b>29.7</b>	<b>19.0</b>	<b>20.9</b>	<b>23.8</b>	<b>26.0</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.2)	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(1.8)	(1.1)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>29.2</b>	<b>17.2</b>	<b>19.6</b>	<b>22.8</b>	<b>24.9</b>
Tax	(5.0)	(3.3)	(3.3)	(3.8)	(4.2)
Minority Interest	0.0	0.14	0.10	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>24.2</b>	<b>14.0</b>	<b>16.4</b>	<b>18.9</b>	<b>20.7</b>
Net Profit before Except.	24.2	14.0	16.4	18.9	20.7
EBITDA	31.1	20.4	21.3	24.4	26.5
<b>Growth</b>					
Revenue Gth (%)	5.8	(12.8)	6.9	6.5	6.6
EBITDA Gth (%)	(0.1)	(34.3)	4.0	14.6	8.8
Opg Profit Gth (%)	0.0	(36.0)	9.9	14.1	9.0
Net Profit Gth (Pre-ex) (%)	(6.4)	(42.2)	17.3	15.1	9.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	12.5	12.5	12.0	12.2	12.2
Opg Profit Margin (%)	7.0	5.1	5.3	5.7	5.8
Net Profit Margin (%)	5.7	3.8	4.2	4.5	4.6
ROAE (%)	17.6	9.7	10.9	11.9	12.3
ROA (%)	9.3	4.8	5.3	6.0	6.5
ROCE (%)	13.9	5.9	7.3	8.2	8.7
Div Payout Ratio (%)	65.9	50.7	54.0	54.0	54.0
Net Interest Cover (x)	66.9	10.7	19.5	22.3	24.3

Source: Company, DBS Bank

## APAC Realty

### Interim Income Statement (\$m)

FY Dec	2H2018	1H2019	2H2019	1H2020	2H2020
Revenue	197	163	206	173	222
Cost of Goods Sold	(171)	(143)	(180)	(151)	(196)
<b>Gross Profit</b>	<b>26.0</b>	<b>20.0</b>	<b>26.3</b>	<b>21.7</b>	<b>25.8</b>
Other Oper. (Exp)/Inc	(12.7)	(12.8)	(13.5)	(11.9)	(14.7)
<b>Operating Profit</b>	<b>13.3</b>	<b>7.15</b>	<b>12.9</b>	<b>9.74</b>	<b>11.1</b>
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	(0.2)
Net Interest (Exp)/Inc	(0.4)	(0.9)	(0.9)	(0.7)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>12.8</b>	<b>6.25</b>	<b>12.0</b>	<b>9.07</b>	<b>10.6</b>
Tax	(2.2)	(1.2)	(2.1)	(1.4)	(1.9)
Minority Interest	0.0	0.0	0.07	0.06	0.04
<b>Net Profit</b>	<b>10.6</b>	<b>5.04</b>	<b>8.91</b>	<b>7.76</b>	<b>8.68</b>
Net profit bef Except.	10.6	5.04	8.91	7.76	8.68
EBITDA	14.0	8.68	14.5	11.3	12.6

### Growth

Revenue Gth (%)	(13.4)	(17.1)	26.6	(16.3)	28.6
EBITDA Gth (%)	(18.1)	(38.1)	66.7	(21.6)	11.0
Op Profit Gth (%)	(18.9)	(46.2)	80.1	(24.4)	14.4
Net Profit Gth (%)	(21.9)	(52.6)	76.8	(12.9)	11.9

### Margins

Gross Margins (%)	13.2	12.3	12.8	12.5	11.6
Op Profit Margins (%)	6.8	4.4	6.2	5.6	5.0
Net Profit Margins (%)	5.4	3.1	4.3	4.5	3.9

### Balance Sheet (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	72.8	72.8	73.9	74.4	74.9
Invts in Associates & JVs	0.35	0.44	2.43	2.43	2.43
Other LT Assets	101	106	103	103	103
Cash & ST Invts	43.0	32.0	35.1	42.7	52.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	59.7	68.2	79.6	59.5	63.4
Other Current Assets	6.79	15.4	27.4	27.4	27.4
<b>Total Assets</b>	<b>283</b>	<b>295</b>	<b>321</b>	<b>309</b>	<b>324</b>
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	63.5	71.9	90.9	70.5	75.1
Other Current Liab	14.8	15.6	18.2	17.8	18.2
LT Debt	54.6	51.7	48.8	48.8	48.8
Other LT Liabilities	4.29	7.55	5.94	5.94	5.94
Shareholder's Equity	143	146	155	163	173
Minority Interests	0.04	(0.1)	(0.2)	(0.2)	(0.2)
<b>Total Cap. &amp; Liab.</b>	<b>283</b>	<b>295</b>	<b>321</b>	<b>309</b>	<b>324</b>
Non-Cash Wkg. Capital	(11.8)	(3.9)	(2.1)	(1.4)	(2.5)
Net Cash/(Debt)	(14.5)	(22.6)	(16.6)	(9.0)	1.15
Debtors Turn (avg days)	55.8	63.2	68.3	60.3	50.0
Creditors Turn (avg days)	71.8	76.8	85.6	79.9	67.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.6	1.3	1.3	1.3	1.4
Current Ratio (x)	1.3	1.3	1.3	1.4	1.5
Quick Ratio (x)	1.3	1.1	1.0	1.1	1.2
Net Debt/Equity (X)	0.1	0.2	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.1	0.2	0.1	0.1	CASH
Capex to Debt (%)	127.2	2.3	0.3	1.9	1.9
Z-Score (X)	2.8	2.4	2.4	2.5	2.5

Source: Company, DBS Bank

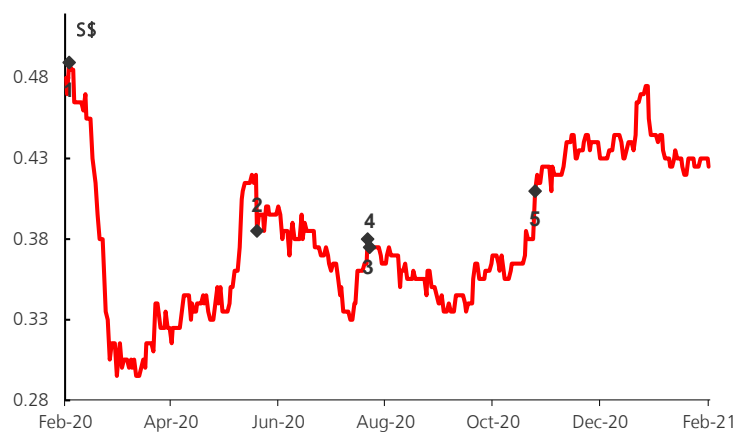
## APAC Realty

### Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	29.2	17.2	19.6	22.8	24.9
Dep. & Amort.	1.44	1.44	0.55	0.55	0.55
Tax Paid	(5.0)	(5.3)	(2.5)	(4.2)	(3.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.16	0.0	0.0
Chg in Wkg.Cap.	(16.1)	(0.4)	(4.3)	(0.4)	0.75
Other Operating CF	1.69	3.98	6.46	0.0	0.0
<b>Net Operating CF</b>	<b>11.3</b>	<b>17.0</b>	<b>20.0</b>	<b>18.8</b>	<b>22.4</b>
Capital Exp.(net)	(73.2)	(1.2)	(0.2)	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(0.4)	(0.1)	(2.2)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(10.3)	(2.6)	0.0	0.0
<b>Net Investing CF</b>	<b>(73.5)</b>	<b>(11.7)</b>	<b>(4.9)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Div Paid	(14.2)	(11.5)	(7.1)	(10.2)	(11.2)
Chg in Gross Debt	57.5	(4.8)	(4.9)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>43.3</b>	<b>(16.3)</b>	<b>(12.0)</b>	<b>(10.2)</b>	<b>(11.2)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(19.0)	(11.0)	3.10	7.57	10.2
Opg CFPS (S cts)	7.71	4.88	6.85	5.39	6.09
Free CFPS (S cts)	(17.4)	4.43	5.59	5.01	6.02

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 20	0.49	0.52	HOLD
2:	11 Jun 20	0.39	0.41	HOLD
3:	13 Aug 20	0.38	0.41	HOLD
4:	14 Aug 20	0.38	0.40	HOLD
5:	16 Nov 20	0.41	0.53	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

**APAC Realty**

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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