

Singapore Company Guide

APAC Realty

Version 10 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

oDBS Group Research . Equity

6 Aug 2019

HOLD

Last Traded Price (5 Aug 2019): S\$0.525 (STI : 3,194.51)
 Price Target 12-mth: S\$0.48 (-9% downside) (Prev S\$0.58)

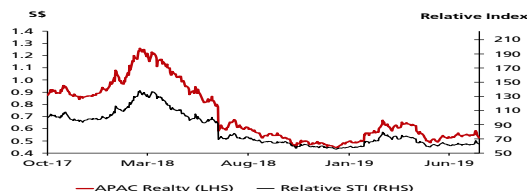
Analyst

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What's New

- 2Q19 results dragged by weak sales in both primary and resale markets; below expectations
- Market share in primary market fell to c.30%
- Ample supply; more project launches to offset slower take up rate
- Cut FY19F/FY20F earnings by 28%/23%; maintain HOLD with lower TP of S\$0.48

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2017A	2018A	2019F	2020F
Revenue	401	424	363	396
EBITDA	31.2	31.1	20.1	22.9
Pre-tax Profit	29.4	29.2	17.7	20.5
Net Profit	25.9	24.2	14.7	17.0
Net Pft (Pre Ex.)	25.9	24.2	14.7	17.0
Net Pft Gth (Pre-ex) (%)	63.1	(6.4)	(39.4)	15.8
EPS (S cts)	7.29	6.83	4.14	4.79
EPS Pre Ex. (S cts)	7.29	6.83	4.14	4.79
EPS Gth Pre Ex (%)	63	(6)	(39)	16
Diluted EPS (S cts)	7.29	6.83	4.14	4.79
Net DPS (S cts)	2.00	4.50	2.48	2.88
BV Per Share (S cts)	37.5	40.3	41.9	43.8
PE (X)	7.2	7.7	12.7	11.0
PE Pre Ex. (X)	7.2	7.7	12.7	11.0
P/Cash Flow (X)	5.4	16.5	9.2	9.2
EV/EBITDA (X)	4.0	6.5	9.5	7.9
Net Div Yield (%)	3.8	8.6	4.7	5.5
P/Book Value (X)	1.4	1.3	1.3	1.2
Net Debt/Equity (X)	CASH	0.1	0.0	CASH
ROAE (%)	24.4	17.6	10.1	11.2
Earnings Rev (%):			(28)	(23)
Consensus EPS (S cts):			6.10	7.50
Other Broker Recs:	B: 3	S: 0	H: 1	

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

Secondary market still weak

Further cut in sales projection for secondary market; expect rebound in FY20F. We have lowered our sales projection for the secondary market, and now expect sales to drop by 35% y-o-y in FY19F, from 20% decline previously, and to rebound by a higher 15% (previously 5%) in FY20F, after a weak FY19F. No change in assumption for primary market and HDB resale segments. In the primary market, we are still expecting a 15% drop, and a 7% rebound FY20F. We maintain HDB resale growth of 5% y-o-y. We expect the slower take up rate for new launches to be partly offset by higher number of project launches and higher commission rates. During the previous round of major property cooling measures in 2015, APAC's earnings had doubled in both 2016 and 2017. For FY20F, we expect earnings to grow 16%, on the back of a muted economic growth outlook. Maintain HOLD call.

Ample supply. ERA has been appointed the marketing agent for 51 projects with about 19,000 new home units to be launched in FY19, as compared to about 27 new project launches totaling about 13,000 units in 2018. There are also about 35,538 (including ECs) unsold units as at end-2Q19.

Where we differ: We are less optimistic in the take up rate of new launches as well as transaction activities in the resale market.

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

Valuation:

Maintain HOLD with lower TP of S\$0.48. On the back of a cut in transaction value assumption for secondary market and lower margins, we lowered FY19F and FY20F earnings by 28% and 23% respectively. Accordingly, our TP is cut to S\$0.48, pegged to peers' average PE of 10x on FY20F earnings.

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)	186 / 135
Major Shareholders (%)	
Tan Choon Hong	71.8
Free Float (%)	28.2
3m Avg. Daily Val (US\$m)	0.34
ICB Industry : Real Estate / Real Estate	



Live more, Bank less

WHAT'S NEW

2Q19 results dragged by weak sales in both primary and resale markets

2Q19 results below expectations. 2Q19 revenue saw a 29.8% y-o-y drop to S\$85.7m, mainly stemming from a 29.2% decline in resale and rental of properties, and a 32.9% drop in new home sales. On a q-o-q basis, revenue was up 11% from a weak 1Q19. Coupled with higher expenses, 2Q19 net earnings of S\$3.3m (-57% y-o-y, +89% q-o-q) accounted for 16% of our full year forecast, below expectations. An interim DPS of 0.75 Scts was declared, representing 53% of 1H19 earnings.

Steep drop in resale segment; slight growth in primary and HDB resale segments. The Singapore property market regulatory overhang and muted economic outlook have further weighed on demand for residential properties. In 1H 2019, there was a 50% y-o-y drop in transaction volume in private resale residential transactions to 4,321 units. The primary market saw a slight increase of 6% to 4,188 units while the HDB resale segment gained 7% vs 1H 2018.

Lower market share for primary market. APAC's weaker sales in the primary market segment as compared to the overall market was mainly due to a reduction in market share to c.30% in 1H 2019, vs close to 40% in the last three years, as the landscape becomes more competitive.

Ample supply. To date, ERA has secured marketing agent appointments for 51 projects with about 19,000 new home units to be launched in FY19, as compared to about 27 new project launches totaling about 13,000 units in 2018. There are also about 35,538 (including ECs) unsold units as at end 2Q19 and a potential supply of 7,100 units from Government Land Sale sites and awarded en-bloc sites that have not been granted planning approval yet.

More project launches to offset slower take up rate. Though the take up rates for new launches is expected to be slower, this should be partly offset by a bigger base with more project launches. Furthermore, commission rates for new projects are also on a rising trend, as developers attempt to

clear old inventory and speed up sales amid the ample supply in the market.

Increasing commission rates. Given the ample supply coming onstream from new launches and stockpile from earlier launches, we expect developers to offer higher commission rates especially for the older projects. Commission rates expected to increase to 3% to 3.5%, vs about 1.5% to 2% in the past.

Cut FY19F/FY20F earnings by 28%/23%; maintain HOLD with lower TP of S\$0.48.

We assume a steeper drop in transaction values in the resale segment. No change in assumption for the primary market and HDB resale segments.

We now assume a steeper decline of 35% in the resale segment in FY19F, from 20% drop previously, and to rebound by a higher 15% (previously 5%) in FY20F, after a weak FY19F. For the primary market, we are still expecting a 15% drop in transaction value, and a 7% rebound FY20F. We maintain HDB resale growth of 5% y-o-y. 2H19 is expected to be better than 1H19, on the back of the ample supply, but still below that of 2H18 as the economic outlook is muted.

On the back of a cut in transaction value assumption for the secondary market and lower margins, we have lowered FY19F and FY20F earnings by 28% and 23% respectively. Accordingly, our TP is cut to S\$0.48, pegged to peers' average PE of 10x on FY20F earnings.

In the previous round of major property cooling measures in 2015, APAC's earnings had doubled in both 2016 and 2017. For FY20F, we expect earnings to grow 16%, on the back of a muted economic growth outlook. Maintain HOLD.

APAC Realty

Quarterly / Interim Income Statement (S\$m)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	122	77.4	85.7	(29.8)	10.7
Cost of Goods Sold	(108)	(67.9)	(75.1)	(30.5)	10.6
Gross Profit	14.0	9.46	10.5	(24.7)	11.1
Other Oper. (Exp)/Inc	(4.7)	(6.8)	(6.0)	28.0	(11.3)
Operating Profit	9.25	2.66	4.49	(51.5)	68.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.0	(0.4)	(0.5)	nm	(2.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	9.25	2.22	4.03	(56.4)	81.7
Tax	(1.6)	(0.5)	(0.7)	(52.8)	54.3
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	7.69	1.74	3.30	(57.1)	89.3
Net profit bef Except.	7.69	1.74	3.30	(57.1)	89.3
EBITDA	9.61	3.43	5.25	(45.4)	53.3
Margins (%)					
Gross Margins	11.4	12.2	12.3		
Opg Profit Margins	7.6	3.4	5.2		
Net Profit Margins	6.3	2.3	3.8		

Source of all data: Company, DBS Bank

APAC Realty

CRITICAL DATA POINTS TO WATCH

Critical Factors

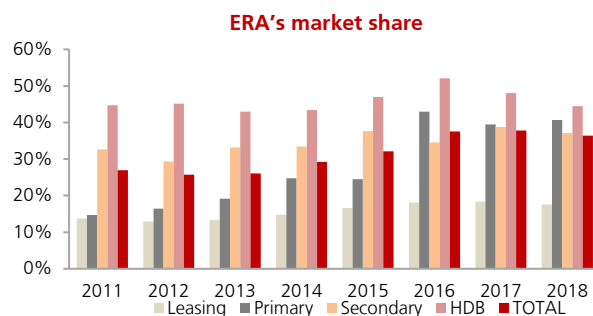
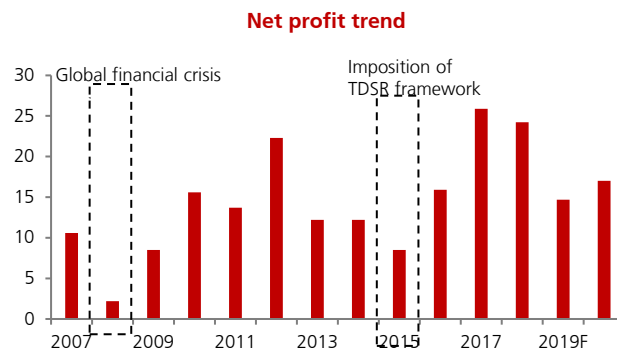
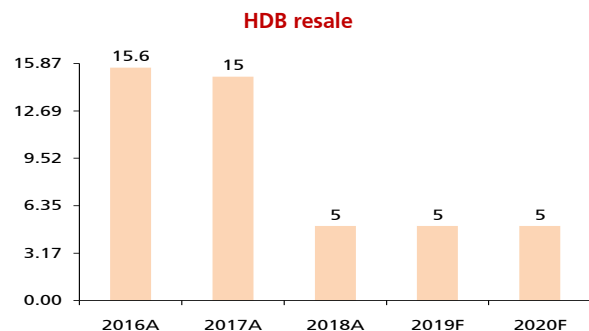
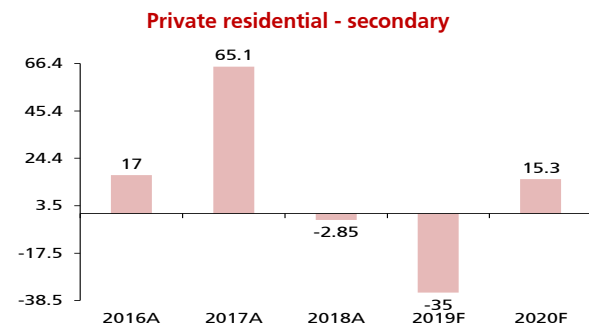
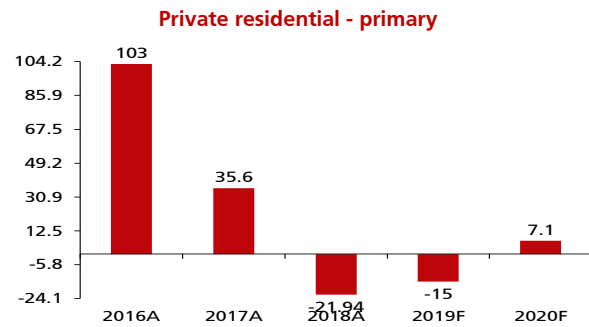
Expect lower sales in FY19F; rebound in FY20F. We assume a steeper drop in transaction value in the resale segment. No change in assumption for the primary market and HDB resale segments. We now assume a steeper decline of 35% in the resale segment in FY19F, from a 20% drop previously, and to rebound by a higher 15% (previously 5%) in FY20F, after a weak FY19F. For the primary market, we are still expecting a 15% drop in transaction value, and a 7% rebound FY20F. We maintain HDB resale growth of 5% y-o-y. 2H19 is expected to be better than 1H19, on the back of the ample supply, but still below that of 2H18 as economic outlook is muted.

Market share is critical. ERA's market share based on transaction value for the private property segment saw a decrease to c.30% in 2Q19, from close to 40% in the last three years, as the landscape becomes more competitive. Market shares for the secondary market and HDB resale remain relatively stable, at about 40% each.

Project pipeline. To-date, ERA has secured marketing agent appointments for 51 projects with about 19,000 new home units to be launched in FY19, as compared to about 27 new project launches totaling about 13,000 units in 2018. There are also about 35,538 (including ECs) unsold units as at end 2Q19 and a potential supply of 7,100 units from Government Land Sale sites and awarded en-bloc sites that have not been granted planning approval yet.

Agent strength. APAC has one of the largest numbers of registered real estate agents. APAC's agents are its primary sales force through which units are transacted and are not employees of the group. APAC has grown its network of agents over the years and has managed to gain market share. As at 1 Aug 2019, APAC has about 6,897 agents, with market share of c.23%.

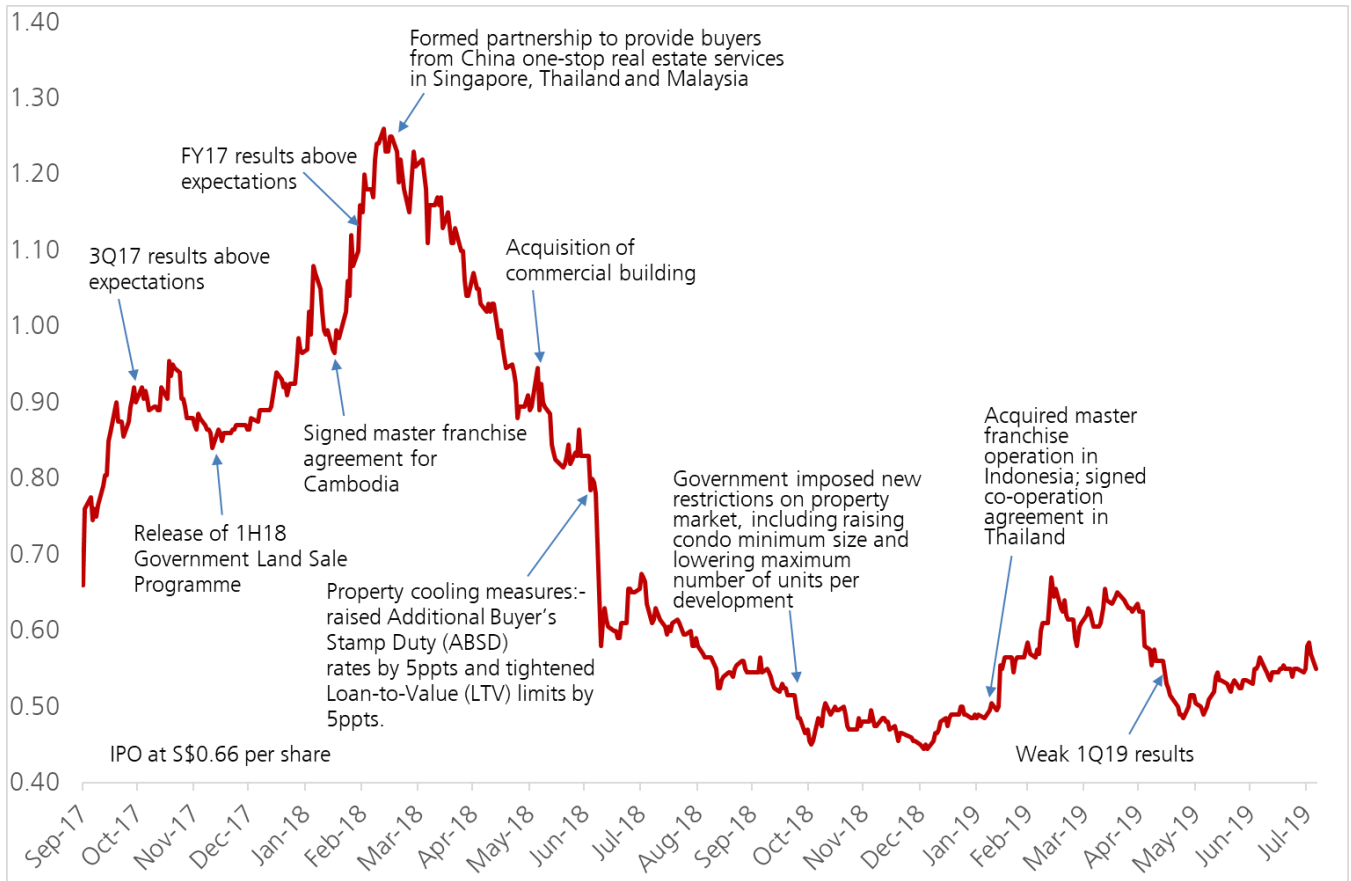
Technological initiatives to enhance competitiveness. APAC currently offers various tools such as mobile applications to its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities to enhance its competitiveness. It has launched a new Property Investment Calculator in its i-ERA mobile app, which will provide salespersons with a one-stop financial analysis tool for any property. They will be able to assist their clients to make more effective buying and selling decisions as all variables are dynamically updated.



Source: Company, DBS Bank

APAC Realty

Appendix 1: A look at Company's listed history – what drives its share price?



Source: DBS Bank; Bloomberg Finance L.P.

APAC Realty

Balance Sheet:

Cash-generative business. Barring any major capital expenditure, APAC is a cash-generating business with good cash conversion cycle as APAC only pays out to its agents after receiving payments from its debtors.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to c.S\$100m as at end 2Q19, derived from ERA and Coldwell Banker. Franchise rights are held for the exclusive use of the brand names "ERA" and "Coldwell Banker". The exclusive ERA Regional master franchise rights is for an initial term of 30 years from 19 November 1999 and expires in 2029, with the option to renew for another 30 years. The ERA sub-franchise rights in Singapore is for an initial term of 30 years from 28 June 1990, and expires in 2020, also with the option to renew for another 30 years.

Share Price Drivers:

We believe that APAC is largely viewed by the market as a proxy to Singapore's private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market would have an impact on APAC's share price.

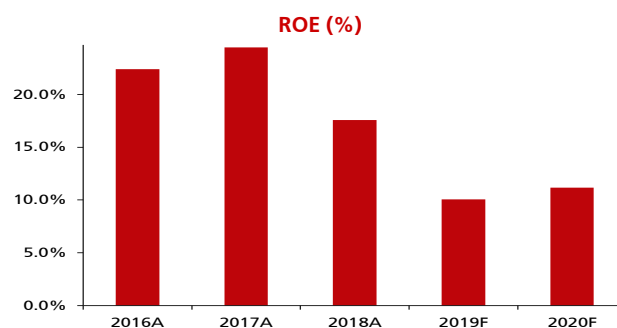
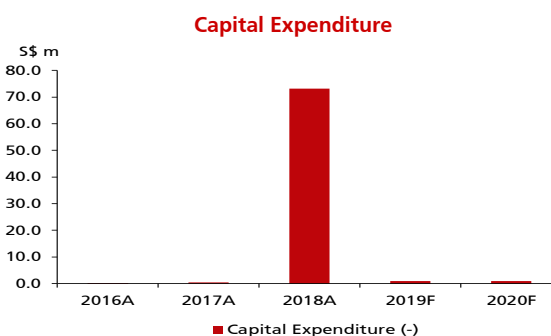
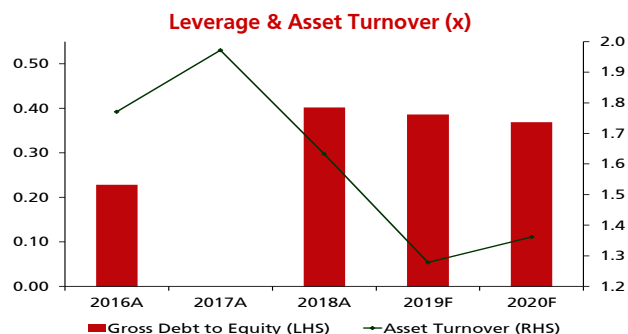
Key Risks:

APAC is highly dependent on Singapore's residential property market and macroeconomic conditions. Any change in government policies might affect the property market, which will in turn affect APAC. For example, residential transaction volumes and values suffered a sharp decline with the 5ppts hike in Additional Buyer's Stamp Duty (ABSD) and tightening of Loan-to-Value (LTV) limits. On the supply side, the government has revised up the average development home sizes. Under the new rules, the maximum number of dwelling units per development will be lesser, which could lead to lower demand for land sites.

In the longer term, the real estate brokerage industry may also be disrupted by technology with increasing adoption of websites that facilitate private sales.

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.



Source: Company, DBS Bank

APAC Realty

Key Assumptions

FY Dec	2016A	2017A	2018A	2019F	2020F
Private residential - primary	103	35.6	(21.9)	(15.0)	7.10
Private residential - secondary	17.0	65.1	(2.9)	(35.0)	15.3
HDB resale	15.6	15.0	5.00	5.00	5.00

Affected by property cooling measures

Segmental Breakdown

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenues (\$\$m)					
Brokerage	279	391	415	352	384
Non-brokerage	8.62	9.38	9.46	10.4	11.5
Total	288	401	424	363	396
Gross profit (\$\$m)					
Brokerage	32.2	46.6	44.5	35.2	38.4
Non-brokerage	7.66	8.29	8.34	8.85	9.73
Total	39.9	54.9	52.8	44.1	48.2
Gross profit Margins (%)					
Brokerage	11.5	11.9	10.7	10.0	10.0
Non-brokerage	88.9	88.4	88.2	85.0	85.0
Total	13.9	13.7	12.5	12.2	12.2

Income Statement (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	288	401	424	363	396
Cost of Goods Sold	(248)	(346)	(371)	(319)	(348)
Gross Profit	39.9	54.9	52.8	44.1	48.2
Other Opng (Exp)/Inc	(20.7)	(25.2)	(23.1)	(25.9)	(27.2)
Operating Profit	19.2	29.7	29.7	18.2	21.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.01	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(0.3)	(0.4)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	18.1	29.4	29.2	17.7	20.5
Tax	(2.2)	(3.5)	(5.0)	(3.0)	(3.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	15.9	25.9	24.2	14.7	17.0
Net Profit before Except.	15.9	25.9	24.2	14.7	17.0
EBITDA	20.8	31.2	31.1	20.1	22.9
Growth					
Revenue Gth (%)	23.7	39.2	5.8	(14.4)	9.1
EBITDA Gth (%)	59.6	49.7	(0.1)	(35.4)	13.9
Opg Profit Gth (%)	67.3	54.7	0.0	(38.8)	15.4
Net Profit Gth (Pre-ex) (%)	87.2	63.1	(6.4)	(39.4)	15.8
Margins & Ratio					
Gross Margins (%)	13.9	13.7	12.5	12.2	12.2
Opg Profit Margin (%)	6.7	7.4	7.0	5.0	5.3
Net Profit Margin (%)	5.5	6.5	5.7	4.1	4.3
ROAE (%)	22.4	24.4	17.6	10.1	11.2
ROA (%)	9.8	12.8	9.3	5.2	5.9
ROCE (%)	14.3	21.5	13.9	6.9	7.7
Div Payout Ratio (%)	0.0	27.4	65.9	60.0	60.0
Net Interest Cover (x)	17.1	111.6	66.9	40.9	47.2

Source: Company, DBS Bank

APAC Realty

Quarterly / Interim Income Statement (\$\$m)

FY Dec	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	122	115	81.9	77.4	85.7
Cost of Goods Sold	(108)	(100)	(70.7)	(67.9)	(75.1)
Gross Profit	14.0	14.8	11.2	9.46	10.5
Other Oper. (Exp)/Inc	(4.7)	(6.6)	(6.1)	(6.8)	(6.0)
Operating Profit	9.25	8.18	5.11	2.66	4.49
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	(0.1)	(0.4)	(0.4)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.25	8.10	4.75	2.22	4.03
Tax	(1.6)	(1.6)	(0.7)	(0.5)	(0.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	7.69	6.54	4.09	1.74	3.30
Net profit bef Except.	7.69	6.54	4.09	1.74	3.30
EBITDA	9.61	8.54	5.47	3.43	5.25

Growth

Revenue Gth (%)	16.0	(5.9)	(28.7)	(5.4)	10.7
EBITDA Gth (%)	28.2	(11.1)	(36.0)	(37.4)	53.3
Opg Profit Gth (%)	29.8	(11.6)	(37.5)	(47.9)	68.4
Net Profit Gth (Pre-ex) (%)	30.0	(14.9)	(37.5)	(57.4)	89.3

Margins

Gross Margins (%)	11.4	12.9	13.7	12.2	12.3
Opg Profit Margins (%)	7.6	7.1	6.2	3.4	5.2
Net Profit Margins (%)	6.3	5.7	5.0	2.3	3.8

Lower gross margins as more agents move up the commission scale

Balance Sheet (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	1.44	1.22	72.8	72.8	72.8
Invt in Associates & JVs	0.0	0.0	0.35	0.35	0.35
Other LT Assets	102	101	101	99.7	98.7
Cash & ST Invt	17.7	62.0	43.0	53.4	62.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	47.8	70.1	59.7	51.3	56.0
Other Current Assets	1.63	1.92	6.79	6.79	6.79
Total Assets	170	236	283	284	297
ST Debt	6.00	0.0	2.90	2.90	2.90
Creditor	55.6	82.0	63.5	60.8	66.4
Other Current Liab	13.1	16.4	14.8	12.7	13.2
LT Debt	12.0	0.0	54.6	54.6	54.6
Other LT Liabilities	4.67	4.49	4.29	4.29	4.29
Shareholder's Equity	78.9	133	143	149	156
Minority Interests	0.0	0.0	0.04	0.04	0.04
Total Cap. & Liab.	170	236	283	284	297
Non-Cash Wkg. Capital	(19.4)	(26.5)	(11.8)	(15.4)	(16.7)
Net Cash/(Debt)	(0.3)	62.0	(14.5)	(4.1)	4.96
Debtors Turn (avg days)	51.6	53.7	55.8	55.8	49.5
Creditors Turn (avg days)	70.1	73.0	71.8	71.6	67.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.8	2.0	1.6	1.3	1.4
Current Ratio (x)	0.9	1.4	1.3	1.5	1.5
Quick Ratio (x)	0.9	1.3	1.3	1.4	1.4
Net Debt/Equity (X)	0.0	CASH	0.1	0.0	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	0.1	0.0	CASH
Capex to Debt (%)	0.8	N/A	127.2	1.7	1.7
Z-Score (X)	3.2	3.2	3.2	3.2	3.2

Acquisition of commercial building

Source: Company, DBS Bank

APAC Realty

Cash Flow Statement (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	18.1	29.4	29.2	17.7	20.5
Dep. & Amort.	1.62	1.44	1.44	1.93	1.93
Tax Paid	(1.6)	(3.2)	(5.0)	(5.2)	(3.0)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	3.35	4.16	(16.1)	5.72	0.86
Other Operating CF	1.22	2.80	1.69	0.0	0.0
Net Operating CF	22.7	34.6	11.3	20.2	20.3
Capital Exp.(net)	(0.1)	(0.5)	(73.2)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(0.2)	(0.4)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(0.1)	(0.7)	(73.5)	(1.0)	(1.0)
Div Paid	0.0	0.0	(14.2)	(8.8)	(10.2)
Chg in Gross Debt	(19.0)	(18.0)	57.5	0.0	0.0
Capital Issues	0.0	28.2	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(19.0)	10.2	43.3	(8.8)	(10.2)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.53	44.2	(19.0)	10.4	9.08
Opg CFPS (S cts)	5.44	8.58	7.71	4.08	5.47
Free CFPS (S cts)	6.34	9.62	(17.4)	5.41	5.43

Part financing for the acquisition of commercial building

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Aug 18	0.62	0.62	HOLD
2:	06 Sep 18	0.57	0.62	HOLD
3:	14 Nov 18	0.50	0.56	HOLD
4:	11 Feb 19	0.50	0.56	HOLD
5:	01 Mar 19	0.57	0.70	BUY
6:	14 May 19	0.53	0.58	HOLD

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

Source: DBS Bank

Analyst: Lee Keng LING

Derek TAN

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*

Completed Date: 6 Aug 2019 07:36:26 (SGT)

Dissemination Date: 6 Aug 2019 08:40:36 (SGT)

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

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