

Singapore Company Guide

APAC Realty

Version 12 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Feb 2020

HOLD

Last Traded Price (24 Feb 2020): S\$0.47 (STI : 3,142.20)
Price Target 12-mth: S\$0.52 (11% upside) (Prev S\$0.46)

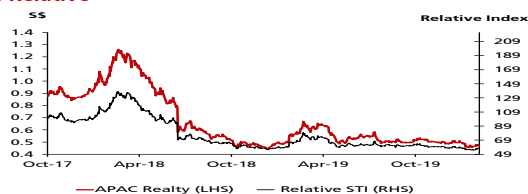
Analyst

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What's New

- Strong 4Q19 mainly on new launches; FY19 above expectations
- Slightly lower overall market share, dragged down by primary market
- Raised FY20F/21F earnings by 18%/15%
- Maintain HOLD with higher TP of S\$0.52

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019A	2020F	2021F
Revenue	424	370	390	407
EBITDA	31.1	20.4	21.2	22.1
Pre-tax Profit	29.2	17.2	18.8	19.7
Net Profit	24.2	14.0	15.5	16.2
Net Pft (Pre Ex.)	24.2	14.0	15.5	16.2
Net Pft Gth (Pre-ex) (%)	(6.4)	(42.2)	10.3	4.8
EPS (S cts)	6.83	3.94	4.35	4.56
EPS Pre Ex. (S cts)	6.83	3.94	4.35	4.56
EPS Gth Pre Ex (%)	(6)	(42)	10	5
Diluted EPS (S cts)	6.83	3.94	4.35	4.56
Net DPS (S cts)	4.50	2.00	2.21	2.31
BV Per Share (S cts)	40.3	41.0	43.1	45.4
PE (X)	6.9	11.9	10.8	10.3
PE Pre Ex. (X)	6.9	11.9	10.8	10.3
P/Cash Flow (X)	14.8	9.8	7.5	9.6
EV/EBITDA (X)	5.8	9.3	8.3	7.6
Net Div Yield (%)	9.6	4.3	4.7	4.9
P/Book Value (X)	1.2	1.1	1.1	1.0
Net Debt/Equity (X)	0.1	0.2	0.1	0.0
ROAE (%)	17.6	9.7	10.3	10.3
Earnings Rev (%)			18	15
Consensus EPS (S cts):			5.0	5.2
Other Broker Recs:		B: 3	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Thomson Reuters

Moderate growth ahead

Stable primary market and a rebound in secondary market after a weak FY19. We expect the private residential primary market to remain stable with 3% to 5% growth in transaction value for FY20F and FY21F, on the back of ample supply coming onstream. The secondary market is expected to rebound 8% in FY20F, after a 30% drop in FY19. We maintain HDB resale growth of 5% y-o-y. Overall, we project the residential market to grow c.5% p.a. in FY20F and FY21F, after a 10% decline in FY19. Maintain HOLD on APAC as we are still expecting modest growth in terms of property transaction values.

Ample supply. To date, ERA has been appointed the marketing agent for 25 projects for 2020 (43 in 2019). There are also about 32,272 (including ECs) unsold units as at end-4Q19.

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 higher TP of S\$0.52. We have revised our earnings estimate up by 18%/15% for FY20F/FY21F, after imputing a higher base for FY19. Accordingly, our TP is raised to S\$0.52 (Previous S\$0.46), pegged to peers' average PE of 12x 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 (\$m/US\$m)	167 / 119
Major Shareholders (%)	
Tan Choon Hong	71.8
Free Float (%)	28.2
3m Avg. Daily Val (US\$m)	0.06
GIC Industry : Real Estate / Real Estate Management & Development	



Live more, Bank less

WHAT'S NEW

Strong 4Q19 mainly on new launches; FY19 above expectations

Strong 4Q19; FY19 above expectations. APAC reported a strong 4Q19, with net profit up 33% y-o-y (+58% q-o-q) to S\$5.4m, on the back of a 32% y-o-y (+9% q-o-q) increase in revenue to S\$107.8m. The increase in revenue was mainly due to higher brokerage income contribution from new home sales, accounting for 79.1% of total revenue. For FY19, net profit of S\$13.9m (-42.8% y-o-y) was 15% above our forecast. Total revenue of S\$369.5m was 12.8% weaker than FY18.

In terms of property transaction value, the whole property market registered a 10% decline as compared to FY18. Among the various segments, the primary market increased 16.7% but the secondary market was weak, down 30.2%. The leasing and HDB segment were stable with 2% growth for each.

Lower DPS. A final DPS of 1.25cts was declared. Including the interim DPS of 0.75cts, FY19 DPS amounted to 2cts (vs 4.5cts in FY18), representing a dividend payout ratio of 51% (66% in FY18).

Agent strength: As at January 2020, APAC has about 7,048 agents, +8.5% y-o-y, with market share of c.23%.

Slightly lower market share. ERA's overall market share in terms of transaction value was 32.8% is slightly lower than the 33.9% in FY18. The weakness was mainly in the primary market, where ERA's market share dropped to about 34.4% from c.40.6% in FY18. One of the reasons could be that ERA

does not encourage the extension of the sale and purchase (SNP) agreement, unlike its key competitors.

Ample supply. To date, ERA has secured marketing agent appointments for 43 projects in 2019 and another 25 projects for 2020. The total number of unsold private residential units stood at 32,272 as at end 2019. The vacancy rate of completed private residential units continues to trend downwards and reached 5.5% as at 31 December 2019, coming down from a high of 8.9% as at 30 June 2016. Apart from the 32,272 unsold units (including ECs) with planning approval as at 31 December 2019, there is a potential supply of 6,050 units (including ECs) from Government Land Sales (GLS) sites and awarded en-bloc sale sites that have not been granted planning approval yet.

Minimal impact from Covid-19. As of now, other than more precautionary measures put in place, APAC is still not seeing any delay in project launch due to Covid-19. However, the situation remains fluid and evolving.

Raised earnings by 18%/15% for FY20F/FY21F. We have revised our earnings estimate up by 18%/15% for FY20F/FY21F, after imputing a higher base for FY19. Accordingly, our TP is raised to S\$0.52 (Previous S\$0.46), pegged to peers' average PE of 12x on FY20F earnings. Maintain HOLD.

APAC Realty
Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Revenue	81.9	98.6	108	31.6	9.3
Cost of Goods Sold	(70.7)	(87.4)	(92.7)	31.1	6.0
Gross Profit	11.2	11.2	13.7	22.1	21.8
Other Oper. (Exp)/Inc	(6.1)	(6.7)	(6.8)	11.2	1.0
Operating Profit	5.11	4.52	6.90	35.0	52.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.4)	(0.5)	(0.4)	(19.3)	4.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	4.75	4.07	6.47	36.2	58.9
Tax	(0.7)	(0.7)	(1.5)	126.0	127.0
Minority Interest	0.0	0.03	0.04	nm	12.1
Net Profit	4.09	3.45	5.46	33.3	58.1
Net profit bef Except.	4.09	3.45	5.46	33.3	58.1
EBITDA	5.47	5.31	7.71	40.9	45.2
Margins (%)					
Gross Margins	13.7	11.4	12.9		
Opg Profit Margins	6.2	4.6	6.5		
Net Profit Margins	5.0	3.5	5.1		

Source of all data: Company, DBS Bank

APAC Realty

CRITICAL DATA POINTS TO WATCH

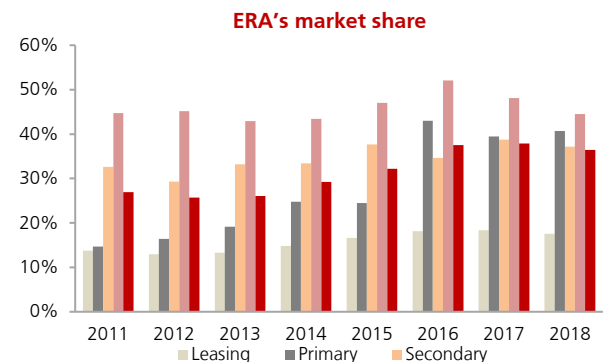
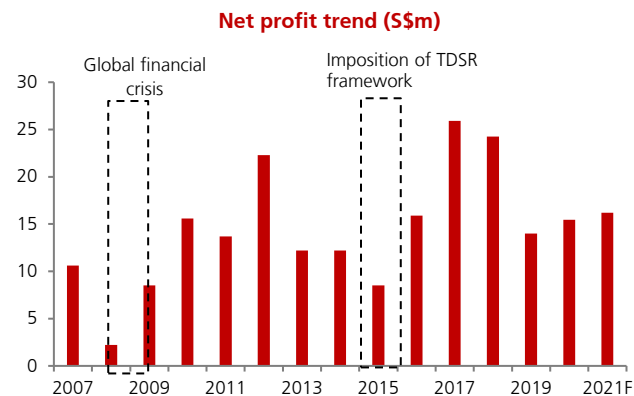
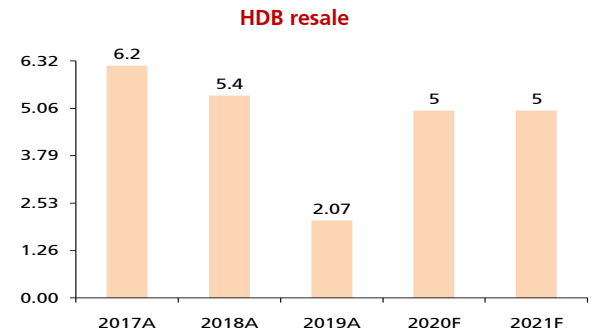
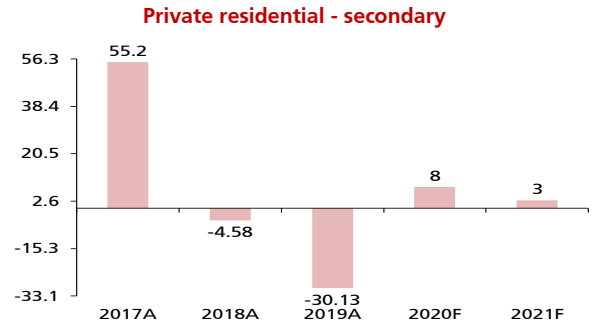
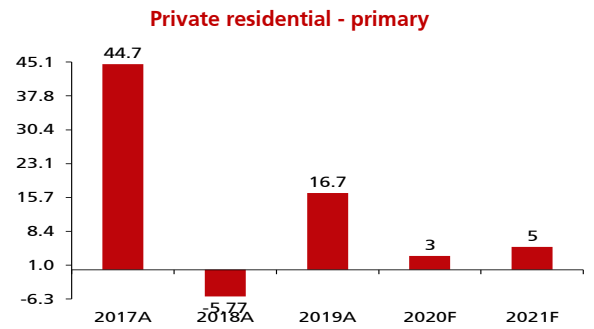
Critical Factors

Property sales – expect moderate growth ahead. About 80% of APAC's revenue is generated from the brokerage segment. About one-third each of total revenue is from the private primary residential market, the private secondary residential market and the HDB resale & leasing market. We expect the private residential primary market to remain stable with a 3% to 5% growth in transaction value for FY20F and FY21F, on the back of the ample supply coming onstream. The secondary market is expected to rebound 8% in FY20F, after a 30% drop in FY19. We maintain HDB resale growth of 5% y-o-y. Overall, we project the whole residential market to grow c.5% in FY20F and FY21F, after a 10% decline in FY19.

Market share is critical. For FY19, ERA's market share for the resale segment is stable at 30%+. However, its market share for the primary market is weaker at c.30%+, from c.40% previously as the group does not encourage the extension of the sale and purchase agreement, which is gaining popularity of late. Going forward, we expect ERA's market share in this segment to remain weak, at c.30%. Market share for the HDB segment is expected to remain stable at slightly over 40%.

Project pipeline. To date, ERA has secured marketing agent appointments for 43 projects in 2019 and another 25 projects for 2020. The total number of unsold private residential units stood at 32,272 as at end 2019. The vacancy rate of completed private residential units continues to trend downwards and reached 5.5% as at 31 December 2019, coming down from a high of 8.9% as at 30 June 2016. Apart from the 32,272 unsold units (including ECs) with planning approval as at 31 December 2019, there is a potential supply of 6,050 units (including ECs) from Government Land Sales (GLS) sites and awarded en-bloc sale sites that have not been granted planning approval yet.

Agent strength. APAC has grown its network of agents over the years and has managed to gain market share. As at 1 January 2020, APAC has about 7,048 agents, +8.5% y-o-y, with market share of c.23%, from 15% in 2012. A larger agent force should help to generate more sales for APAC, which would in turn boost the performance of the group.

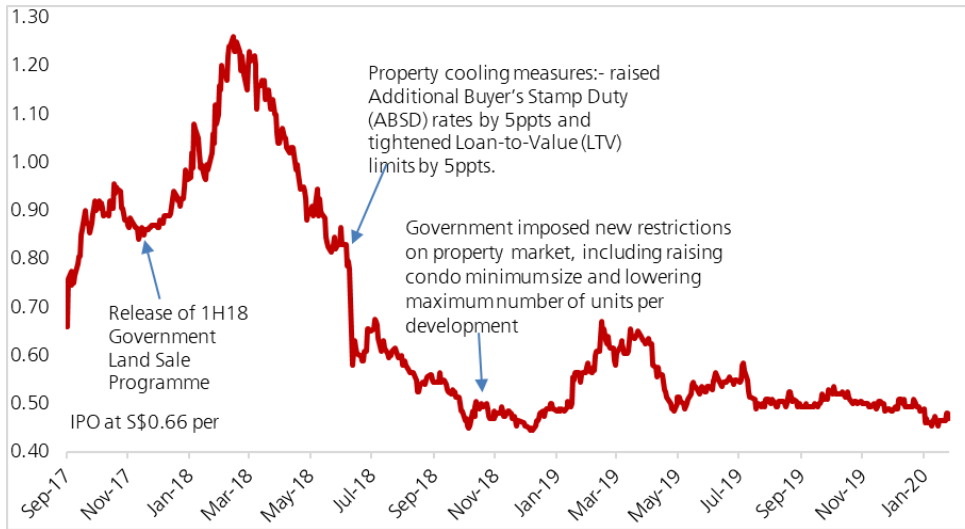


Source: Company, DBS Bank

APAC Realty

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

Property newsflow

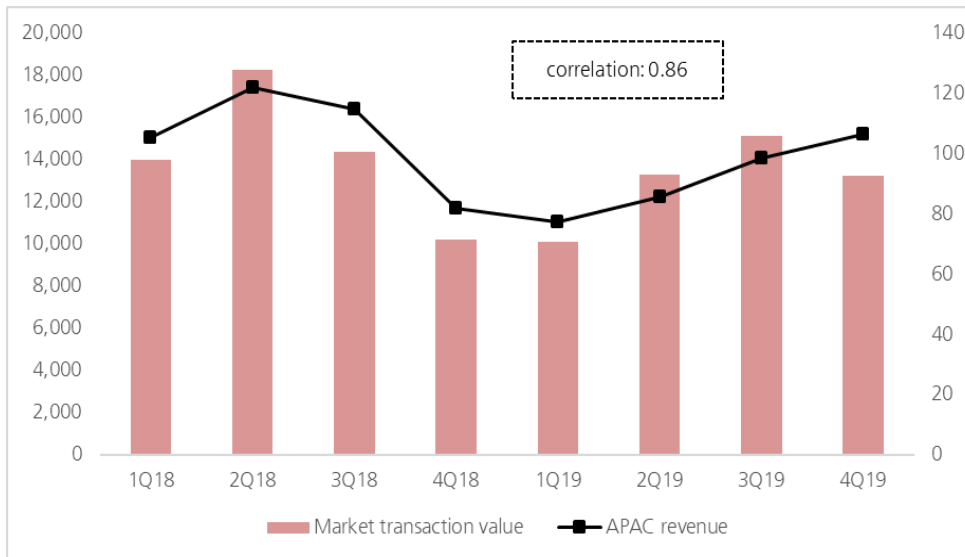


Remarks

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.

About 80% of APAC's revenue is generated from the brokerage segment. Thus, APAC's revenue is closely related to the property market transaction value.

Property market transaction value vs APAC's revenue (\$m)



Source: DBS Bank; Realis

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, includes goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to c.S\$100m as at end 4Q19, 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 an 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 an 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.

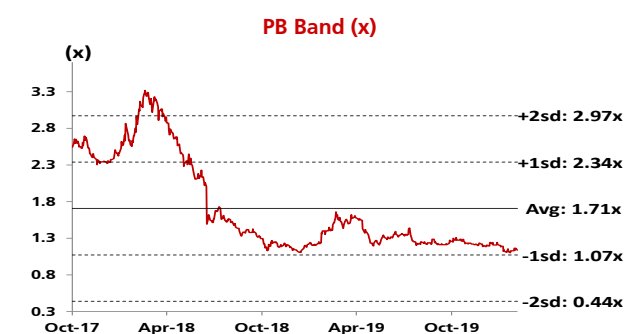
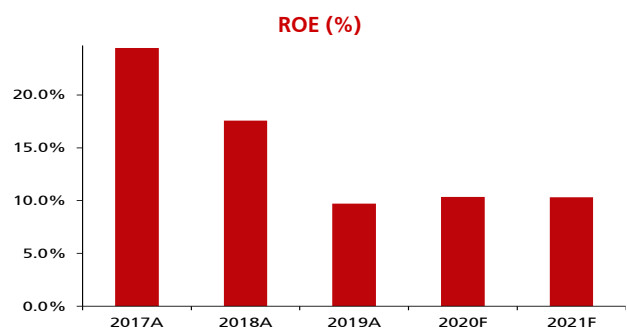
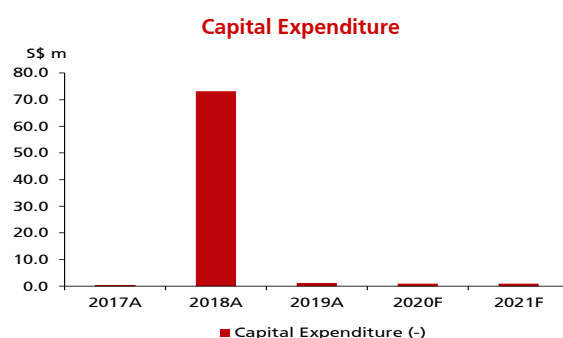
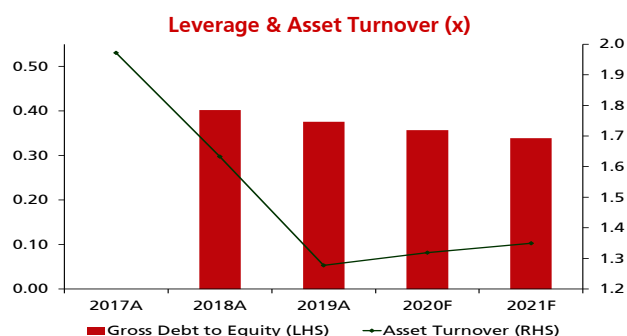
Key Risks:

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	2017A	2018A	2019A	2020F	2021F
Transaction value growth (%)					
Private residential - primary	44.7	(5.8)	16.7	3.00	5.00
Private residential - secondary	55.2	(4.6)	(30.1)	8.00	3.00
HDB resale	6.20	5.40	2.07	5.00	5.00

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$m)					
Brokerage	391	413	360	380	396
Non-brokerage	9.38	10.6	9.24	9.70	10.2
Total	401	424	370	390	407
Gross profit (\$m)					
Brokerage	46.6	44.5	37.3	39.9	41.6
Non-brokerage	12.3	10.2	0.0	0.0	0.0
Total	58.9	54.7	37.3	39.9	41.6
Gross profit Margins (%)					
Brokerage	11.9	10.8	10.3	10.5	10.5
Non-brokerage	131.2	96.5	0.0	0.0	0.0
Total	14.7	12.9	10.1	10.2	10.2

Income Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	401	424	370	390	407
Cost of Goods Sold	(346)	(371)	(323)	(340)	(355)
Gross Profit	54.9	52.8	46.4	49.5	51.7
Other Opng (Exp)/Inc	(25.2)	(23.1)	(27.4)	(28.9)	(30.2)
Operating Profit	29.7	29.7	19.0	20.6	21.5
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.01	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.4)	(1.8)	(1.8)	(1.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.4	29.2	17.2	18.8	19.7
Tax	(3.5)	(5.0)	(3.3)	(3.4)	(3.6)
Minority Interest	0.0	0.0	0.14	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	25.9	24.2	14.0	15.5	16.2
Net Profit before Except.	25.9	24.2	14.0	15.5	16.2
EBITDA	31.2	31.1	20.4	21.2	22.1
Growth					
Revenue Gth (%)	39.2	5.8	(12.8)	5.5	4.3
EBITDA Gth (%)	49.7	(0.1)	(34.3)	3.5	4.3
Opg Profit Gth (%)	54.7	0.0	(36.0)	8.5	4.4
Net Profit Gth (Pre-ex) (%)	63.1	(6.4)	(42.2)	10.3	4.8
Margins & Ratio					
Gross Margins (%)	13.7	12.5	12.5	12.7	12.7
Opg Profit Margin (%)	7.4	7.0	5.1	5.3	5.3
Net Profit Margin (%)	6.5	5.7	3.8	4.0	4.0
ROAE (%)	24.4	17.6	9.7	10.3	10.3
ROA (%)	12.8	9.3	4.8	5.2	5.4
ROCE (%)	21.5	13.9	5.9	6.5	6.6
Div Payout Ratio (%)	27.4	65.9	50.7	50.7	50.7
Net Interest Cover (x)	111.6	66.9	10.7	11.6	12.1

Source: Company, DBS Bank

APAC Realty

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	81.9	77.4	85.7	98.6	106
Cost of Goods Sold	(70.7)	(67.9)	(75.1)	(87.4)	(92.7)
Gross Profit	11.2	9.46	10.5	11.2	13.7
Other Oper. (Exp)/Inc	(6.1)	(6.8)	(6.0)	(6.7)	(6.8)
Operating Profit	5.11	2.66	4.49	4.52	6.90
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	(0.4)	(0.4)	(0.5)	(0.5)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.75	2.22	4.03	4.07	6.47
Tax	(0.7)	(0.5)	(0.7)	(0.7)	(1.5)
Minority Interest	0.0	0.0	0.0	0.03	0.04
Net Profit	4.09	1.74	3.30	3.45	5.46
Net profit bef Except.	4.09	1.74	3.30	3.45	5.46
EBITDA	5.47	3.43	5.25	5.31	7.71

Growth

Revenue Gth (%)	(28.7)	(5.4)	10.7	15.1	7.8
EBITDA Gth (%)	(36.0)	(37.4)	53.3	1.1	45.2
Opg Profit Gth (%)	(37.5)	(47.9)	68.4	0.8	52.5
Net Profit Gth (Pre-ex) (%)	(37.5)	(57.4)	89.3	4.7	58.1

Margins

Gross Margins (%)	13.7	12.2	12.3	11.4	12.9
Opg Profit Margins (%)	6.2	3.4	5.2	4.6	6.5
Net Profit Margins (%)	5.0	2.3	3.8	3.5	5.1

Balance Sheet (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	1.22	72.8	72.8	73.3	73.8
Invt in Associates & JVs	0.0	0.35	0.44	0.53	0.53
Other LT Assets	101	101	106	106	106
Cash & ST Invt	62.0	43.0	32.0	45.3	53.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	70.1	59.7	68.2	55.2	57.5
Other Current Assets	1.92	6.79	15.4	15.4	15.4
Total Assets	236	283	295	296	307
ST Debt	0.0	2.90	2.90	2.90	2.90
Creditor	82.0	63.5	71.9	65.0	67.7
Other Current Liab	16.4	14.8	15.6	15.7	15.8
LT Debt	0.0	54.6	51.7	51.7	51.7
Other LT Liabilities	4.49	4.29	7.55	7.55	7.55
Shareholder's Equity	133	143	146	153	161
Minority Interests	0.0	0.04	(0.1)	(0.1)	(0.1)
Total Cap. & Liab.	236	283	295	296	307
Non-Cash Wkg. Capital	(26.5)	(11.8)	(3.9)	(10.1)	(10.6)
Net Cash/(Debt)	62.0	(14.5)	(22.6)	(9.3)	(1.2)
Debtors Turn (avg days)	53.7	55.8	63.2	57.8	50.6
Creditors Turn (avg days)	73.0	71.8	76.8	73.5	68.4
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.0	1.6	1.3	1.3	1.3
Current Ratio (x)	1.4	1.3	1.3	1.4	1.5
Quick Ratio (x)	1.3	1.3	1.1	1.2	1.3
Net Debt/Equity (X)	CASH	0.1	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.2	0.1	0.0
Capex to Debt (%)	N/A	127.2	2.3	1.8	1.8
Z-Score (X)	2.7	3.0	2.7	2.8	2.9

Acquisition of commercial building

Source: Company, DBS Bank

APAC Realty

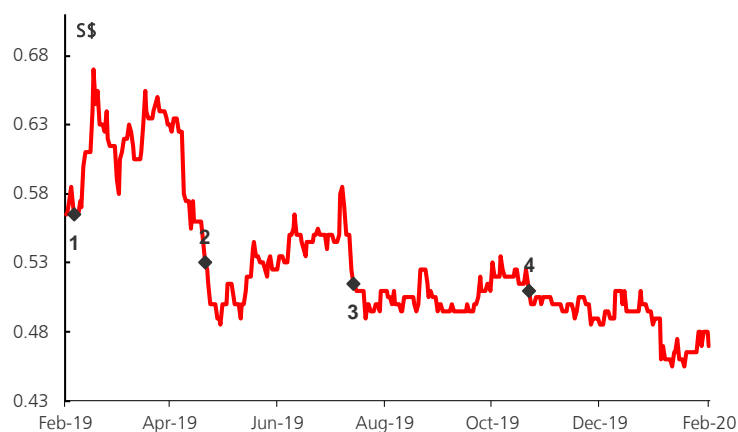
Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	29.4	29.2	17.2	18.8	19.7
Dep. & Amort.	1.44	1.44	1.44	0.55	0.55
Tax Paid	(3.2)	(5.0)	(5.3)	(3.3)	(3.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.16	(16.1)	(0.4)	6.14	0.41
Other Operating CF	2.80	1.69	3.98	0.0	0.0
Net Operating CF	34.6	11.3	17.0	22.2	17.3
Capital Exp.(net)	(0.5)	(73.2)	(1.2)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(0.2)	(0.4)	(0.1)	(0.1)	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	(10.3)	0.0	0.0
Net Investing CF	(0.7)	(73.5)	(11.7)	(1.1)	(1.0)
Div Paid	0.0	(14.2)	(11.5)	(7.8)	(8.2)
Chg in Gross Debt	(18.0)	57.5	(4.8)	0.0	0.0
Capital Issues	28.2	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	10.2	43.3	(16.3)	(7.8)	(8.2)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	44.2	(19.0)	(11.0)	13.3	8.10
Opg CFPS (S cts)	8.58	7.71	4.88	4.52	4.76
Free CFPS (S cts)	9.62	(17.4)	4.43	5.97	4.59

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:	01 Mar 19	0.57	0.70	BUY
2:	14 May 19	0.53	0.58	HOLD
3:	06 Aug 19	0.52	0.48	HOLD
4:	14 Nov 19	0.51	0.46	HOLD

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

Source: DBS Bank

Analyst: Lee Keng LING

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: 25 Feb 2020 01:34:09 (SGT)

Dissemination Date: 25 Feb 2020 08:40:54 (SGT)

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