

Singapore Company Guide

APAC Realty

Version 11 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Nov 2019

HOLD

Last Traded Price (13 Nov 2019): S\$0.515 (STI : 3,239.22)
Price Target 12-mth: S\$0.46 (-11% downside) (Prev S\$0.48)

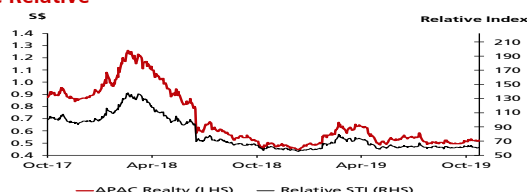
Analyst

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What's New

- 3Q19 results below expectations; secondary market still weak; margins under pressure
- Rebound in primary transactions q-o-q; ample supply ahead
- Cut FY19-20F earnings by 17% to 23% to account for weak secondary market and lower margins
- Maintain HOLD with lower TP of S\$0.46

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019F	2020F	2021F
Revenue	424	370	397	423
EBITDA	31.1	17.1	18.2	19.4
Pre-tax Profit	29.2	14.7	15.8	17.0
Net Profit	24.2	12.2	13.1	14.1
Net Pft (Pre Ex.)	24.2	12.2	13.1	14.1
Net Pft Gth (Pre-ex) (%)	(6.4)	(49.6)	7.1	7.7
EPS (S cts)	6.83	3.44	3.69	3.97
EPS Pre Ex. (S cts)	6.83	3.44	3.69	3.97
EPS Gth Pre Ex (%)	(6)	(50)	7	8
Diluted EPS (S cts)	6.83	3.44	3.69	3.97
Net DPS (S cts)	4.50	2.07	2.21	2.38
BV Per Share (S cts)	40.3	41.7	43.1	44.7
PE (X)	7.5	15.0	14.0	13.0
PE Pre Ex. (X)	7.5	15.0	14.0	13.0
P/Cash Flow (X)	16.2	10.4	11.4	10.7
EV/EBITDA (X)	6.3	11.7	10.6	9.6
Net Div Yield (%)	8.7	4.0	4.3	4.6
P/Book Value (X)	1.3	1.2	1.2	1.2
Net Debt/Equity (X)	0.1	0.1	0.1	0.0
ROAE (%)	17.6	8.4	8.7	9.0
Earnings Rev (%)		(17)	(23)	NEW
Consensus EPS (S cts)		4.60	5.50	5.40
Other Broker Recs:		B: 3	S: 0	H: 1

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

Continued weakness in secondary market

Further cut in sales projection for secondary market; improvement in primary sales on the back of ample supply. We have adjusted up our primary sales assumption and now expect 5% y-o-y decline in transaction value for FY19F from 15% decline previously, and maintain a 7% rebound in FY20F. We now assume a steeper decline of 40% in the resale segment in FY19F, from a 35% drop previously, and to rebound by 10% (from 12%) in FY20F, after a weak FY19F. We maintain HDB resale growth of 5% y-o-y. Overall, we expect the private residential market to decline 13.3% in FY19F, and to rebound 7.4% in FY20F.

Ample supply. ERA has been appointed the marketing agent for 59 projects with about 20,000 new home units to be launched in FY19/20F, as compared to about 27 new project launches totaling about 13,000 units in 2018. There are also about 34,089 (including ECs) unsold units as at end-3Q19.

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\$0.46. On the back of a cut in transaction value assumption in the secondary market and lower margins, partly offset by a slight increase in value in the primary market, we have lowered FY19F and FY20F earnings by 17% and 23% respectively. Accordingly, our TP is cut to 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 (S\$m/US\$m)	183 / 134
Major Shareholders (%)	
Tan Choon Hong	71.8
Free Float (%)	28.2
3m Avg. Daily Val (US\$m)	0.15
GIC Industry : Real Estate / Real Estate Management & Development	



DBS
Live more, Bank less

APAC Realty

WHAT'S NEW

3Q19 results below expectations; secondary market still weak

3Q19 results below expectations; margins pressure. 3Q19 revenue declined 14.1% y-o-y to S\$98.6m while net profit shed 47.7% to S\$3.4m. The weak results were mainly due to the cooling measures implemented in July 2018 that has continued to weigh on market sentiment and buyer demand. Net margins decreased to 3.5%, from 3.8% in 2Q19 and 5.7% in 3Q18, mainly due to higher personnel cost and marketing expenses. Net profit accounted for 24% our previous FY19F earnings on a 3-month basis but only 58% on a 9-month basis as 1H19 earnings was weak, below our and consensus forecasts.

Rebound in primary transactions q-o-q; secondary market still weak. In terms of market segment, 3Q19 transaction value for the private primary market saw a 37.6% jump from the previous quarter but the secondary market was still flat. The leasing market surged 22.4% while the HDB resale segment eased 0.3% q-o-q.

Agent strength: As at 1 Nov 2019, APAC has about 7,034 agents, +8.4% YTD, with market share of c.23%.

Strong market share. ERA maintained a market share slightly below 40% in the private primary and resale segment while its market share for the HDB resale segment is slightly higher than 40% for the 9-month period.

Ample supply. To date, ERA has secured marketing agent appointments for 59 projects with about 20,000 new home units to be launched in FY19/20F, as compared to about 27 new project launches totaling about 13,000 units in 2018. There are also about 34,089 (including ECs) unsold units as at end 3Q19 and a potential supply of 4,900 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. For the 9-month period, new home sales amounted to c.7,500 units. 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 are expected to increase to 3% to 3.5%, vs about 1.5% to 2% in the past.

Cut earnings by 17% to 23% to account for weak secondary market and lower margins. We have cut FY19F/FY20F earnings by 17%/23% to account for the still weak secondary market and also lower margins, partly offset by a slightly better primary market.

We have adjusted up our primary sales assumption and now expect a 5% y-o-y decline in transaction value for FY19F, from 15% drop previously, and maintain a 7% rebound in FY20F. We now assume a steeper decline of 40% in the resale segment in FY19F, from a 35% drop previously, and a 10% rebound (previously 12%) in FY20F, after a weak FY19F. We maintain HDB resale growth of 5% y-o-y. Overall, we expect the private residential market to decline 13.3% in FY19F, and to rebound 7.4% in FY20F.

Maintain HOLD with lower TP of S\$0.46. Target price is reduced to S\$0.46 (Prev S\$0.48), pegged to 12x (prev 10x) local peer vs region peers previously on FY20F earnings, since >90% of its revenue is generated locally. Maintain HOLD.

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

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	115	85.7	98.6	(14.1)	15.1
Cost of Goods Sold	(100)	(75.1)	(87.4)	(12.7)	16.3
Gross Profit	14.8	10.5	11.2	(24.0)	6.7
Other Oper. (Exp)/Inc	(6.6)	(6.0)	(6.7)	1.8	11.1
Operating Profit	8.18	4.49	4.52	(44.7)	0.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.1)	(0.5)	(0.5)	(451.2)	0.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	8.10	4.03	4.07	(49.7)	0.9
Tax	(1.6)	(0.7)	(0.7)	(58.1)	(11.4)
Minority Interest	0.0	0.0	0.03	nm	nm
Net Profit	6.54	3.30	3.45	(47.2)	4.7
Net profit bef Except.	6.54	3.30	3.45	(47.2)	4.7
EBITDA	8.54	5.25	5.31	(37.8)	1.1
Margins (%)					
Gross Margins	12.9	12.3	11.4		
Opg Profit Margins	7.1	5.2	4.6		
Net Profit Margins	5.7	3.8	3.5		

Source of all data: Company, DBS Bank

APAC Realty

CRITICAL DATA POINTS TO WATCH

Critical Factors

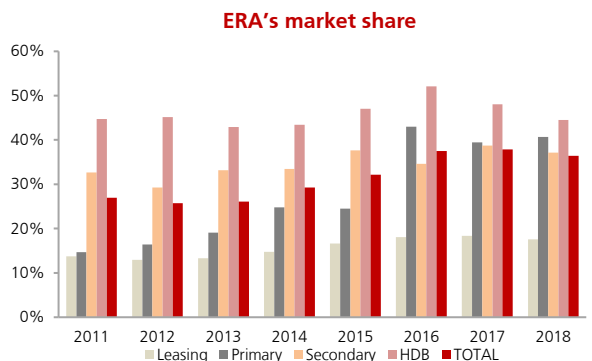
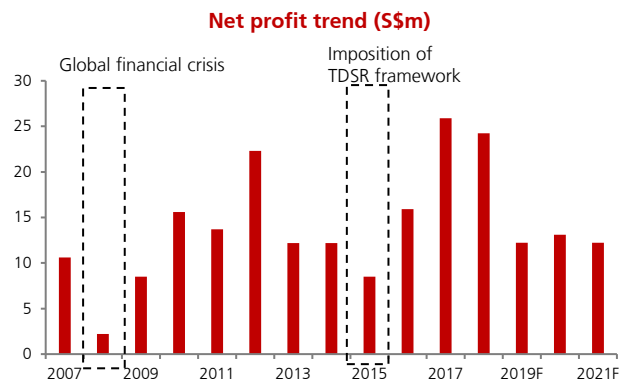
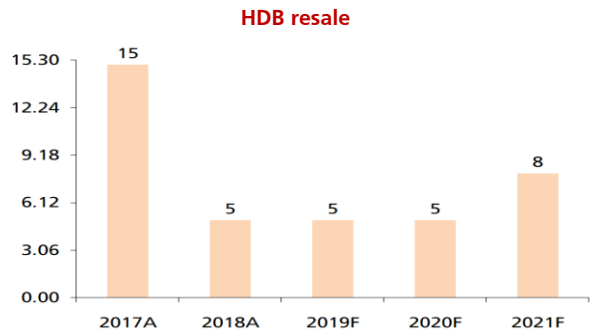
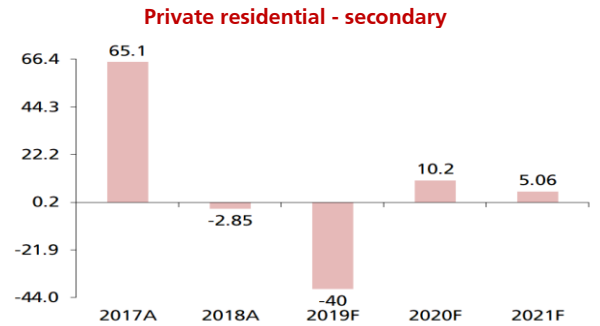
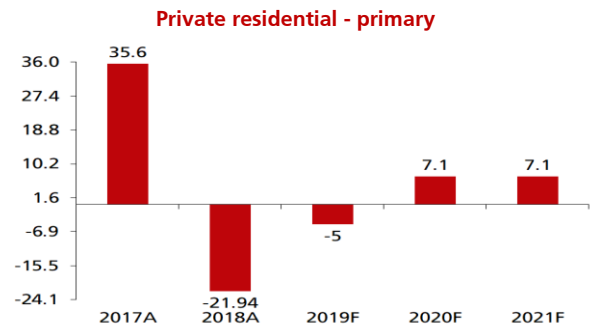
Expect lower sales in FY19F; rebound in FY20F. We have adjusted up our primary sales assumption and now expect a 5% y-o-y decline in transaction value for FY19F, from 15% fall previously, and maintain a 7% rebound in FY20F. We now assume a steeper decline of 40% in the resale segment in FY19F, from a 35% drop previously, and to rebound by 10% (previously 12%) in FY20F, after a weak FY19F. We maintain HDB resale growth of 5% y-o-y. Overall, we expect the private residential market to decline 13.3% in FY19F, and to rebound 7.4% in FY20F.

Market share is critical. ERA maintained a market share slightly below 40% in the private primary and resale segment while its market share for the HDB resale segment is slightly higher than 40% for the 9-month period.

Project pipeline. To-date, ERA has secured marketing agent appointments for 59 projects with about 20,000 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 34,089 (including ECs) unsold units as at end 3Q19 and a potential supply of 4,900 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 Nov 2019, APAC has about 7,034 agents, +8.4% YTD, with market share of c.23%.

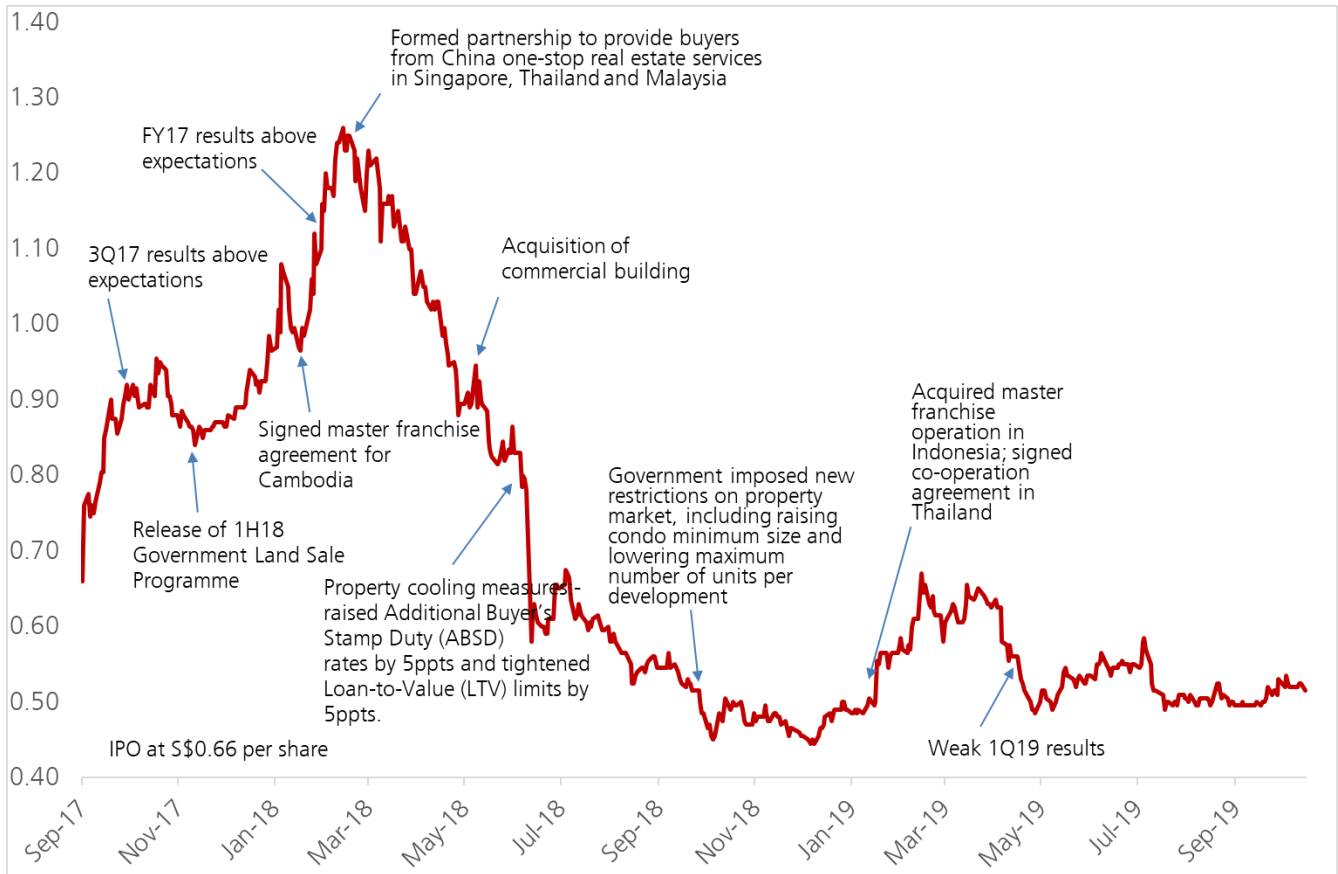
Technological initiatives to enhance competitiveness. APAC currently offers various tools such as mobile applications to its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities to enhance its competitiveness. It 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 3Q19, 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.

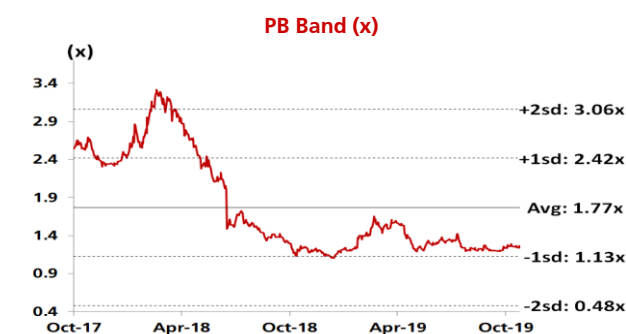
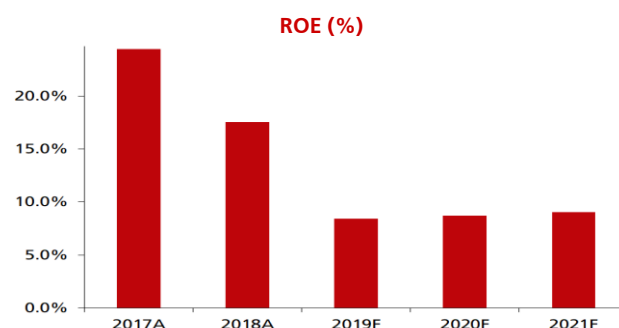
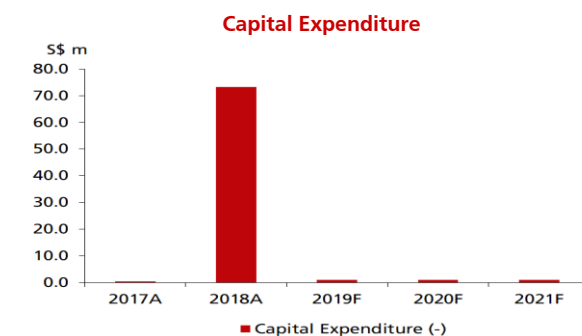
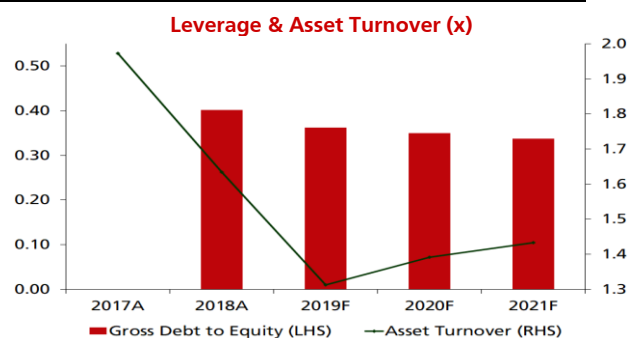
Key Risks:

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	2017A	2018A	2019F	2020F	2021F
Private residential - primary	35.6	(21.9)	(5.0)	7.10	7.10
Private residential - secondary	65.1	(2.9)	(40.0)	10.2	5.06
HDB resale	15.0	5.00	5.00	5.00	8.00

Affected by property cooling measures

Segmental Breakdown

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenues (\$\$m)					
Brokerage	391	415	359	386	412
Non-brokerage	9.38	9.46	10.4	10.9	11.5
Total	401	424	370	397	423
Gross profit (\$\$m)					
Brokerage	46.6	44.5	34.8	37.0	39.1
Non-brokerage	8.29	8.34	9.06	9.51	9.98
Total	54.9	52.8	43.9	46.6	49.1
Gross profit Margins (%)					
Brokerage	11.9	10.7	9.7	9.6	9.5
Non-brokerage	88.4	88.2	87.0	87.0	87.0
Total	13.7	12.5	11.9	11.7	11.6

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	401	424	370	397	423
Cost of Goods Sold	(346)	(371)	(326)	(350)	(374)
Gross Profit	54.9	52.8	43.9	46.6	49.1
Other Opng (Exp)/Inc	(25.2)	(23.1)	(28.7)	(30.3)	(31.7)
Operating Profit	29.7	29.7	15.2	16.2	17.5
Other Non Opg (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)	(0.4)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.4	29.2	14.7	15.8	17.0
Tax	(3.5)	(5.0)	(2.5)	(2.7)	(2.9)
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	25.9	24.2	12.2	13.1	14.1
Net Profit before Except.	25.9	24.2	12.2	13.1	14.1
EBITDA	31.2	31.1	17.1	18.2	19.4
Growth					
Revenue Gth (%)	39.2	5.8	(12.8)	7.4	6.7
EBITDA Gth (%)	49.7	(0.1)	(45.0)	6.1	6.7
Opg Profit Gth (%)	54.7	0.0	(48.8)	6.9	7.5
Net Profit Gth (Pre-ex) (%)	63.1	(6.4)	(49.6)	7.1	7.7
Margins & Ratio					
Gross Margins (%)	13.7	12.5	11.9	11.7	11.6
Opg Profit Margin (%)	7.4	7.0	4.1	4.1	4.1
Net Profit Margin (%)	6.5	5.7	3.3	3.3	3.3
ROAE (%)	24.4	17.6	8.4	8.7	9.0
ROA (%)	12.8	9.3	4.3	4.6	4.8
ROCE (%)	21.5	13.9	5.7	6.1	6.4
Div Payout Ratio (%)	27.4	65.9	60.0	60.0	60.0
Net Interest Cover (x)	111.6	66.9	34.2	36.6	39.3

Source: Company, DBS Bank

APAC Realty

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

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	115	81.9	77.4	85.7	98.6
Cost of Goods Sold	(100)	(70.7)	(67.9)	(75.1)	(87.4)
Gross Profit	14.8	11.2	9.46	10.5	11.2
Other Oper. (Exp)/Inc	(6.6)	(6.1)	(6.8)	(6.0)	(6.7)
Operating Profit	8.18	5.11	2.66	4.49	4.52
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	(0.1)	(0.4)	(0.4)	(0.5)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	8.10	4.75	2.22	4.03	4.07
Tax	(1.6)	(0.7)	(0.5)	(0.7)	(0.7)
Minority Interest	0.0	0.0	0.0	0.0	0.03
Net Profit	6.54	4.09	1.74	3.30	3.45
Net profit bef Except.	6.54	4.09	1.74	3.30	3.45
EBITDA	8.54	5.47	3.43	5.25	5.31

Growth

Revenue Gth (%)	(5.9)	(28.7)	(5.4)	10.7	15.1
EBITDA Gth (%)	(11.1)	(36.0)	(37.4)	53.3	1.1
Opg Profit Gth (%)	(11.6)	(37.5)	(47.9)	68.4	0.8
Net Profit Gth (Pre-ex) (%)	(14.9)	(37.5)	(57.4)	89.3	4.7

Margins

Gross Margins (%)	12.9	13.7	12.2	12.3	11.4
Opg Profit Margins (%)	7.1	6.2	3.4	5.2	4.6
Net Profit Margins (%)	5.7	5.0	2.3	3.8	3.5

Lower gross margins as more agents move up the commission scale

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	1.22	72.8	72.8	72.8	72.8
Invt in Associates & JVs	0.0	0.35	10.4	10.4	10.4
Other LT Assets	101	101	102	101	99.8
Cash & ST Invt	62.0	43.0	36.3	43.5	51.1
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	70.1	59.7	52.3	56.1	59.9
Other Current Assets	1.92	6.79	6.79	6.79	6.79
Total Assets	236	283	280	290	301
ST Debt	0.0	2.90	2.90	2.90	2.90
Creditor	82.0	63.5	62.2	66.9	71.4
Other Current Liab	16.4	14.8	12.2	12.4	12.6
LT Debt	0.0	54.6	50.6	50.6	50.6
Other LT Liabilities	4.49	4.29	4.29	4.29	4.29
Shareholder's Equity	133	143	148	153	159
Minority Interests	0.0	0.04	0.04	0.04	0.04
Total Cap. & Liab.	236	283	280	290	301
Non-Cash Wkg. Capital	(26.5)	(11.8)	(15.3)	(16.3)	(17.3)
Net Cash/(Debt)	62.0	(14.5)	(17.2)	(10.1)	(2.5)
Debtors Turn (avg days)	53.7	55.8	55.3	49.9	50.0
Creditors Turn (avg days)	73.0	71.8	70.8	67.6	67.8
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.0	1.6	1.3	1.4	1.4
Current Ratio (x)	1.4	1.3	1.2	1.3	1.4
Quick Ratio (x)	1.3	1.3	1.1	1.2	1.3
Net Debt/Equity (X)	CASH	0.1	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.1	0.1	0.0
Capex to Debt (%)	N/A	127.2	1.9	1.9	1.9
Z-Score (X)	2.8	3.1	2.8	2.8	2.9

Acquisition of commercial building

Source: Company, DBS Bank

APAC Realty

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	29.4	29.2	14.7	15.8	17.0
Dep. & Amort.	1.44	1.44	1.93	1.93	1.93
Tax Paid	(3.2)	(5.0)	(5.2)	(2.5)	(2.7)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.16	(16.1)	6.09	0.84	0.82
Other Operating CF	2.80	1.69	0.0	0.0	0.0
Net Operating CF	34.6	11.3	17.6	16.0	17.1
Capital Exp.(net)	(0.5)	(73.2)	(1.0)	(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)	(10.0)	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	(2.0)	0.0	0.0
Net Investing CF	(0.7)	(73.5)	(13.0)	(1.0)	(1.0)
Div Paid	0.0	(14.2)	(7.3)	(7.9)	(8.5)
Chg in Gross Debt	(18.0)	57.5	(4.0)	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	(11.3)	(7.9)	(8.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	44.2	(19.0)	(6.7)	7.19	7.60
Opg CFPS (S cts)	8.58	7.71	3.24	4.28	4.57
Free CFPS (S cts)	9.62	(17.4)	4.67	4.24	4.52

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:	14 Nov 18	0.50	0.56	HOLD
2:	11 Feb 19	0.50	0.56	HOLD
3:	01 Mar 19	0.57	0.70	BUY
4:	14 May 19	0.53	0.58	HOLD
5:	06 Aug 19	0.52	0.48	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: 14 Nov 2019 08:36:53 (SGT)

Dissemination Date: 14 Nov 2019 08:40:53 (SGT)

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

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