

Singapore Company Guide

APAC Realty

Version 8 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2019

BUY (Upgrade from Hold)

Last Traded Price (28 Feb 2019): S\$0.57 (STI : 3,212.69)

Price Target 12-mth: S\$0.70 (23% upside) (Prev S\$0.56)

Analyst

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What's New

- FY18 results within expectations; weak 4Q18 in line with broader property market
- More project launches to compensate for lower projected take up rates
- Raised FY19F/20F earnings by 24%/28%
- Upgrade to BUY with higher TP of S\$0.70

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2017A	2018A	2019F	2020F
Revenue	401	424	430	455
EBITDA	31.2	31.1	31.6	33.9
Pre-tax Profit	29.4	29.2	29.7	32.0
Net Profit	25.9	24.2	24.6	26.5
Net Pft (Pre Ex.)	25.9	24.2	24.6	26.5
Net Pft Gth (Pre-ex) (%)	63.1	(6.4)	1.5	7.7
EPS (S cts)	7.29	6.83	6.93	7.47
EPS Pre Ex. (S cts)	7.29	6.83	6.93	7.47
EPS Gth Pre Ex (%)	63	(6)	2	8
Diluted EPS (S cts)	7.29	6.83	6.93	7.47
Net DPS (S cts)	2.00	4.50	4.16	4.48
BV Per Share (S cts)	37.5	40.3	43.0	46.0
PE (X)	7.8	8.4	8.2	7.6
PE Pre Ex. (X)	7.8	8.4	8.2	7.6
P/Cash Flow (X)	5.8	18.0	6.1	7.0
EV/EBITDA (X)	4.5	7.0	6.3	5.5
Net Div Yield (%)	3.5	7.9	7.3	7.9
P/Book Value (X)	1.5	1.4	1.3	1.2
Net Debt/Equity (X)	CASH	0.1	CASH	CASH
ROAE (%)	24.4	17.6	16.6	16.8
Earnings Rev (%):			24	28
Consensus EPS (S cts):			5.80	6.00
Other Broker Recs:		B: 1	S: 0	H: 1

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

Bottoming out

Less bearish on sales momentum; upgrade to BUY. We believe the property market has already adjusted to the cooling measures implemented in July last year. Going forward, transaction activities should stabilise. In the primary market, we expect the slower take up rate for new launches to be partly offset by more project launches. Commission rates for new projects are also on a rising trend. In terms of transaction value, we expect primary sales to drop by a lesser 7% in FY19F, compared to the 22% drop in FY18, and rebound in FY20F. Both secondary and HDB resales should see 5% to 6% growth in the next one to two years. Overall, we expect the private residential market to see a slight rebound of 2% in FY19F, vs 10% decline in FY18. The HDB resale segment should continue to see 5% growth.

Given that the worst may be over for APAC, we believe the stock should be valued at its average PE of 12x, instead of 10x previously. Our new TP of S\$0.70 offers 23% upside to current price. Upgrade to BUY.

FY18 results in line; weak 4Q18. Net earnings of S\$24.2m (-6.4% y-o-y) in FY18 was within expectations. The weak 4Q18 results was in tandem with the property market post the cooling measures. The total DPS of 4.55cts for FY18 represents 66% dividend payout, higher than guidance of at least 50%.

Robust pipeline; rising stockpile. ERA has secured marketing agent appointments for 46 projects with close to 20,000 new home units to be launched in FY19. There are also unsold units of about 35,000 and a potential supply of 9,800 units from Government Land Sale sites and awarded en-bloc sites that have not been granted planning approval yet.

Valuation:

Upgrade to BUY with higher TP of S\$0.70. Our target price of S\$0.70 (previous S\$0.56) is pegged to average PE of 12x.

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)	202 / 150
Major Shareholders (%)	
Tan Choon Hong	71.8
FIL Investment	4.3
Free Float (%)	23.9
3m Avg. Daily Val (US\$m)	0.28
ICB Industry : Industrials / Support Services	



WHAT'S NEW

FY18 results within expectations; weak 4Q18, in line with broader market

Results highlight

FY18 results within expectations. Group revenue in FY18 gained 5.8% y-o-y to S\$424m. The new home sale segment posted an increase of 3.6% to S\$128m while the resale and rental segment was up 7.1% to S\$286.5m. Overall net earnings of S\$24.2m (-6.4% y-o-y) was in line. In 2018, the private residential market was down 10% y-o-y to S\$41bn in terms of transaction value.

Weak 4Q18, in line with broader market. 4Q18 was weak, revenue shed 36.9% to S\$81.9m while net profit plunged 48% to S\$4.1m. This was in tandem with the decline in new and resale transactions in the market post the cooling measures announced in July 2018. Private residential transactions declined 37.8% to 3,860 units in 4Q18 from 4Q17.

Higher dividend payout. A final DPS of 2.5cts was declared. Together with the interim DPS of 2cts, the total DPS of 4.5cts for FY18 represents a 66% dividend payout, higher than guidance of at least 50%.

Stable market share in terms of transaction value and agent strength. ERA's market share was 36.4% in 2018 in terms of transaction value, which is comparable to 37.9% in 2017. In terms of agent strength, it has a 22% market share vs 21% in the previous year.

Earnings and Recommendation

Raised earnings by 24%/28% in FY19F/FY20F. We have raised our assumptions for property transaction value growth. We project transaction value in the primary market segment in FY19F to ease 7% instead of 15% y-o-y drop previously, and to rebound by a higher 7% in FY20F instead of 5% growth. Secondary market and HDB resales is expected to

grow by 5% to 6%, up from our previous assumption of flat growth. On the back of the higher transaction growth, our earnings forecast for FY19F/20F are raised by 24%/25%.

Higher earnings projection supported by the healthy project pipeline. To date, ERA has secured marketing agent appointments for 46 projects with close to 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 unsold units of about 35,000 and a potential supply of 9,800 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 to speed up sales amid the ample supply in the market.

Increasing commission rates

Given the ample supply coming onstream from new launches and also stock pile from previous launches, we expect developers to offer higher commission rates, especially for the older projects. Commission rate can increase to 3% to 3.5%, vs about 1.5% to 2% in the past.

Upgrade to BUY with higher TP of S\$0.70. Given that the worst could be over for APAC, we believe that the stock should be valued at its average PE of 12x, instead of -1SD of 10x previously. Our new TP of S\$0.70 offers 23% upside to current price. Upgrade to BUY.

APAC Realty

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Revenue	130	115	81.9	(36.9)	(28.7)
Cost of Goods Sold	(114)	(100)	(70.7)	(37.9)	(29.4)
Gross Profit	16.0	14.8	11.2	(30.0)	(24.2)
Other Oper. (Exp)/Inc	(7.6)	(6.6)	(6.1)	(19.7)	(7.5)
Operating Profit	8.43	8.18	5.11	(39.4)	(37.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.0	(0.1)	(0.4)	nm	(341.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	8.43	8.10	4.75	(43.7)	(41.4)
Tax	(0.5)	(1.6)	(0.7)	19.7	(57.9)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	7.88	6.54	4.09	(48.1)	(37.5)
Net profit bef Except.	7.88	6.54	4.09	(48.1)	(37.5)
EBITDA	8.79	8.54	5.47	(37.8)	(36.0)
Margins (%)					
Gross Margins	12.3	12.9	13.7		
Opg Profit Margins	6.5	7.1	6.2		
Net Profit Margins	6.1	5.7	5.0		

Source of all data: Company, DBS Bank

APAC Realty

CRITICAL DATA POINTS TO WATCH

Critical Factors

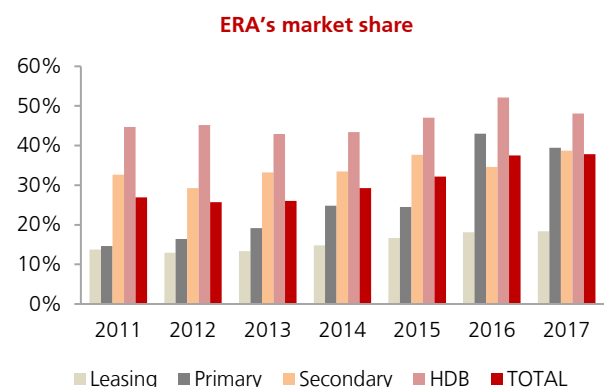
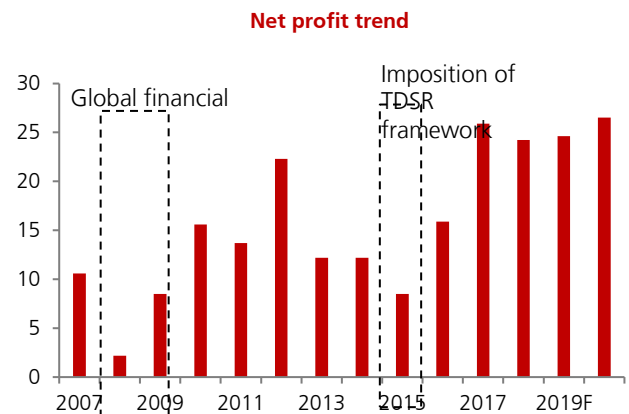
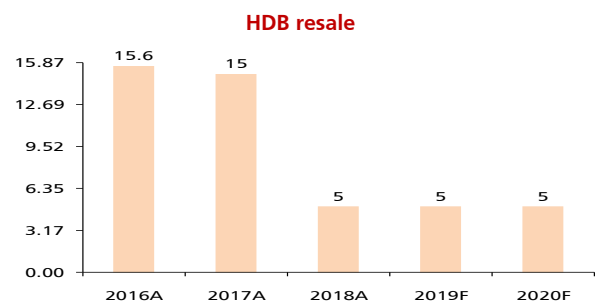
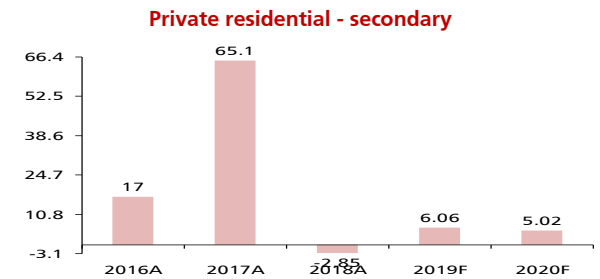
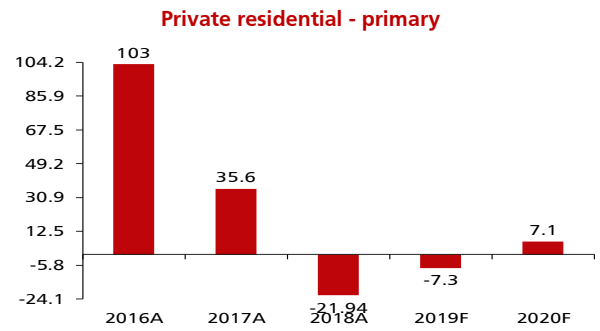
Less bearish on sales momentum. Given the ample supply coming onstream, from the new launches and also stock pile from previous launches, we are now less bearish on the sales momentum going forward. We have raise our assumptions for property transaction value growth. We project transaction value in the primary market segment in FY19F to ease 7% instead of 15% y-o-y drop previously, and to rebound by a higher 7% in FY20F instead of 5% growth. Secondary market and HDB resale is expected to grow by 5% to 6%, up from our previous assumption of flat growth.

Market share is critical. ERA's market share based on transaction value for the private property segment increased from 26.9% in 2011 to about 36.4% in 2018. ERA has established itself as one of the market leaders in project marketing, alongside Huttons whose strength is in mass market projects, and Savills and Knight Frank which are both strong in luxury developments.

Project pipeline To date, ERA has secured marketing agent appointments for 46 projects with close to 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 unsold units of about 35,000 and a potential supply of 9,800 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 January 2019, APAC has over 6,490 agents with a market share of around 22%, up from 16% in 2014.

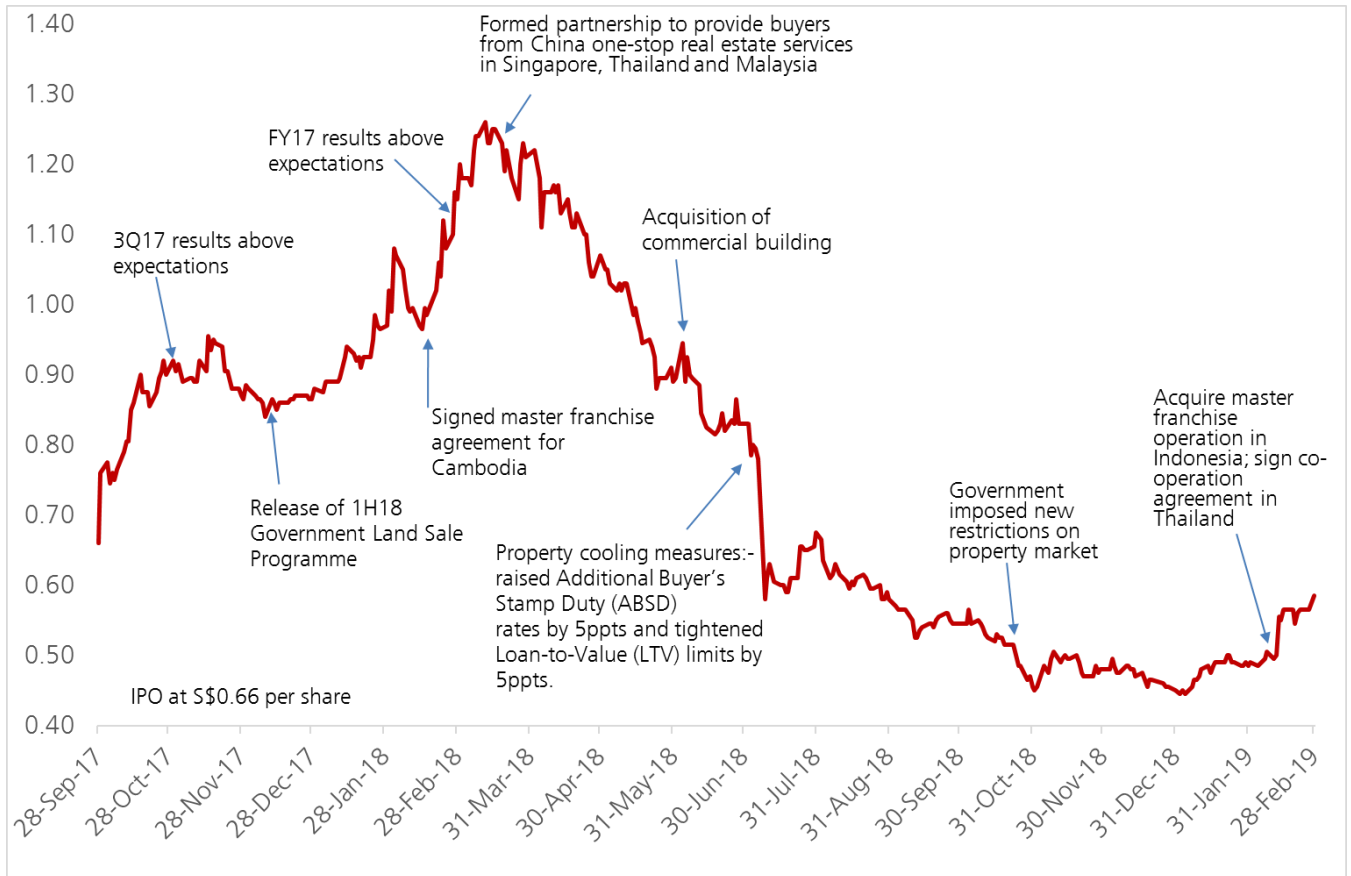
Technological initiative to enhance competitiveness. APAC currently offers various tools such as mobile applications to its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities to enhance its competitiveness. It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



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. As at 31 December 2018, APAC has a S\$58m debt, to partly finance the acquisition of the office headquarters. As such, FY18 dipped into a slight net debt position. We expect APAC to be in a net cash position in FY19F.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to S\$100m as at December 2018, 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 expiring 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.

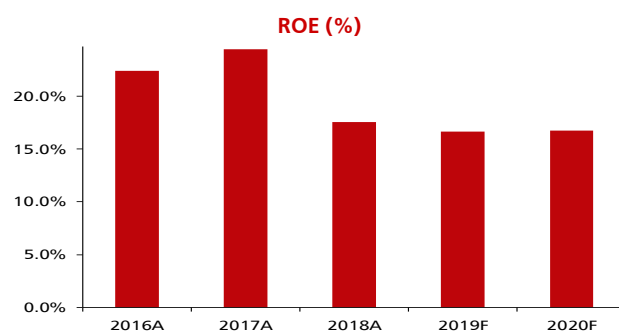
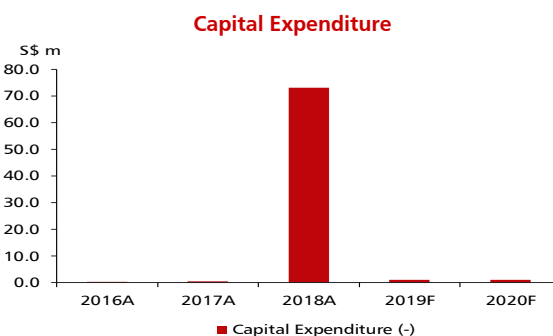
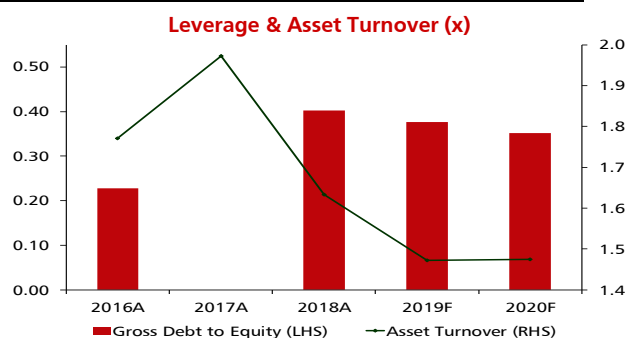
Key Risks:

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
Transaction value growth (%)					
Private residential - primary	103	35.6	(21.9)	(7.3)	7.10
Private residential - secondary	17.0	65.1	(2.9)	6.06	5.02
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	420	444
Non-brokerage	8.62	9.38	9.46	10.4	11.5
Total	288	401	424	430	455
Gross profit (\$\$m)					
Brokerage	32.2	46.6	44.5	45.0	47.6
Non-brokerage	7.66	8.29	8.34	9.37	10.3
Total	39.9	54.9	52.8	54.4	57.9
Gross profit Margins (%)					
Brokerage	11.5	11.9	10.7	10.7	10.7
Non-brokerage	88.9	88.4	88.2	90.0	90.0
Total	13.9	13.7	12.5	12.6	12.7

Income Statement (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	288	401	424	430	455
Cost of Goods Sold	(248)	(346)	(371)	(376)	(397)
Gross Profit	39.9	54.9	52.8	54.4	57.9
Other Opng (Exp)/Inc	(20.7)	(25.2)	(23.1)	(24.3)	(25.5)
Operating Profit	19.2	29.7	29.7	30.1	32.4
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	29.7	32.0
Tax	(2.2)	(3.5)	(5.0)	(5.1)	(5.4)
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	24.6	26.5
Net Profit before Except.	15.9	25.9	24.2	24.6	26.5
EBITDA	20.8	31.2	31.1	31.6	33.9
Growth					
Revenue Gth (%)	23.7	39.2	5.8	1.4	5.8
EBITDA Gth (%)	59.6	49.7	(0.1)	1.4	7.3
Opg Profit Gth (%)	67.3	54.7	0.0	1.4	7.6
Net Profit Gth (Pre-ex) (%)	87.2	63.1	(6.4)	1.5	7.7
Margins & Ratio					
Gross Margins (%)	13.9	13.7	12.5	12.6	12.7
Opg Profit Margin (%)	6.7	7.4	7.0	7.0	7.1
Net Profit Margin (%)	5.5	6.5	5.7	5.7	5.8
ROAE (%)	22.4	24.4	17.6	16.6	16.8
ROA (%)	9.8	12.8	9.3	8.4	8.6
ROCE (%)	14.3	21.5	13.9	11.5	11.8
Div Payout Ratio (%)	0.0	27.4	65.9	60.0	60.0
Net Interest Cover (x)	17.1	111.6	66.9	67.8	73.0

Source: Company, DBS Bank

APAC Realty

Quarterly / Interim Income Statement (\$5m)

FY Dec	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	130	105	122	115	81.9
Cost of Goods Sold	(114)	(92.3)	(108)	(100)	(70.7)
Gross Profit	16.0	12.9	14.0	14.8	11.2
Other Oper. (Exp)/Inc	(7.6)	(5.8)	(4.7)	(6.6)	(6.1)
Operating Profit	8.43	7.13	9.25	8.18	5.11
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	0.0	0.0	(0.1)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	8.43	7.13	9.25	8.10	4.75
Tax	(0.5)	(1.2)	(1.6)	(1.6)	(0.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	7.88	5.92	7.69	6.54	4.09
Net profit bef Except.	7.88	5.92	7.69	6.54	4.09
EBITDA	8.79	7.49	9.61	8.54	5.47

Growth

Revenue Gth (%)	22.9	(18.9)	16.0	(5.9)	(28.7)
EBITDA Gth (%)	26.5	(14.8)	28.2	(11.1)	(36.0)
Opg Profit Gth (%)	27.9	(15.4)	29.8	(11.6)	(37.5)
Net Profit Gth (Pre-ex) (%)	43.0	(24.9)	30.0	(14.9)	(37.5)

Margins

Gross Margins (%)	12.3	12.2	11.4	12.9	13.7
Opg Profit Margins (%)	6.5	6.8	7.6	7.1	6.2
Net Profit Margins (%)	6.1	5.6	6.3	5.7	5.0

Lower gross margins as more agents move up the commission scale

Balance Sheet (\$5m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	1.44	1.22	72.8	73.3	73.8
Invts 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 Invts	17.7	62.0	43.0	60.3	72.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	47.8	70.1	59.7	60.8	64.4
Other Current Assets	1.63	1.92	6.79	6.79	6.79
Total Assets	170	236	283	301	316
ST Debt	6.00	0.0	2.90	2.90	2.90
Creditor	55.6	82.0	63.5	71.7	75.8
Other Current Liab	13.1	16.4	14.8	14.7	15.1
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	153	164
Minority Interests	0.0	0.0	0.04	0.04	0.04
Total Cap. & Liab.	170	236	283	301	316
Non-Cash Wkg. Capital	(19.4)	(26.5)	(11.8)	(18.8)	(19.8)
Net Cash/(Debt)	(0.3)	62.0	(14.5)	2.76	14.8
Debtors Turn (avg days)	51.6	53.7	55.8	51.1	50.2
Creditors Turn (avg days)	70.1	73.0	71.8	65.9	68.0
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.8	2.0	1.6	1.5	1.5
Current Ratio (x)	0.9	1.4	1.3	1.4	1.5
Quick Ratio (x)	0.9	1.3	1.3	1.4	1.5
Net Debt/Equity (X)	0.0	CASH	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	0.1	CASH	CASH
Capex to Debt (%)	0.8	N/A	127.2	1.7	1.7
Z-Score (X)	3.0	3.0	3.0	3.0	3.0

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	29.7	32.0
Dep. & Amort.	1.62	1.44	1.44	1.44	1.44
Tax Paid	(1.6)	(3.2)	(5.0)	(5.2)	(5.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	3.35	4.16	(16.1)	7.08	0.57
Other Operating CF	1.22	2.80	1.69	0.0	0.0
Net Operating CF	22.7	34.6	11.3	33.0	28.9
Capital Exp.(net)	(0.1)	(0.5)	(73.2)	(1.0)	(1.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts 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)	(14.8)	(15.9)
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	(14.8)	(15.9)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.53	44.2	(19.0)	17.3	12.0
Opg CFPS (S cts)	5.44	8.58	7.71	7.30	7.98
Free CFPS (S cts)	6.34	9.62	(17.4)	9.02	7.86

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:	19 Mar 18	1.19	1.42	BUY
2:	10 May 18	1.03	1.32	BUY
3:	06 Jun 18	0.90	1.32	BUY
4:	14 Jun 18	0.82	1.22	BUY
5:	06 Jul 18	0.58	0.66	FULLY VALUED
6:	08 Aug 18	0.62	0.62	HOLD
7:	06 Sep 18	0.57	0.62	HOLD
8:	14 Nov 18	0.50	0.56	HOLD
9:	11 Feb 19	0.50	0.56	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 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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 1 Mar 2019 08:20:44 (SGT)

Dissemination Date: 1 Mar 2019 08:29:29 (SGT)

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

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