

# APAC Realty Ltd

The recovery is underway



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## SINGAPORE | REAL ESTATE (AGENCIES) | 4Q19 RESULTS

26 February 2020

- 4Q19 revenue met our estimates. Net profit was below due to higher than expected provision for doubtful debts and effective tax. Net earnings rebounded 32% YoY.
- New homes sales the largest driver to revenue. The sluggish resale market is undergoing a recovery as the gap in buyer expectation narrows.
- Maintained a market share of around 33% for all residential property transactions (resale, new, leasing and HDB).
- We maintain our ACCUMULATE recommendation. Our target price is maintained at S\$0.55.** The outlook is positive as property transactions are beginning to recover. New launches with attractive pricing enjoy good take-up rates. HDB resale market will be spurred by the enhanced grant and more units meeting their MOP. Resale market recovery is less clear and dependent on sentiment. But the widening price gap between new and older units will reach an inflexion point for buyers.

### ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 0.490
FORECAST DIV	SGD 0.023
TARGET PRICE	SGD 0.55
TOTAL RETURN	17.0%

#### COMPANY DATA

BLOOMBERG CODE:	APAC SP Equity
O/S SHARES (MN):	355
MARKET CAP (USD mn / SGD mn):	130 / 179
52 - WK HI/LO (SGD):	0.95 / 0.44
3M Average Daily T/O (mn):	1.74

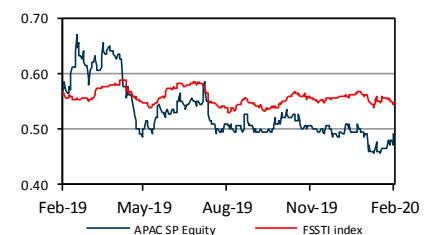
#### MAJOR SHAREHOLDERS (%)

TAN CHOON HONG	71.8%
FIL INVESTMENT MANAGEMENT	4.3%
QILIN ASSET MANAGEMENT	3.4%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(14.0)	(5.8)	(38.9)
STI RETURN	(5.8)	0.4	(6.4)

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, SGD (mn)	FY18	FY19	FY20e	FY21e
Revenue	424.0	369.5	409.5	442.2
Gross Profit	52.8	46.4	49.1	53.1
PATMI	24.2	13.9	16.6	19.3
P/E (x)	7.2	12.5	10.5	9.0
P/B (x)	1.1	1.2	1.1	1.1
EPS, SGD cents	6.8	3.9	4.7	5.4
Dividend yield, %	9.2	4.1	4.8	5.6
ROE	16.9%	9.5%	10.8%	11.8%
ROA	8.6%	4.7%	5.5%	6.2%

Source: Company Data, PSR

#### Valuation Method

DCF (Cost of equity 8.0%, Terminal growth 0%)

Paul Chew (+65 6212 1851)

Head of Research

paulchewkl@phillip.com.sg

### Results at a glance

(SGD 000)/Dec Yr End	4Q19	4Q18	YoY (%)	Comments
Revenue	107,846	81,863	32%	
- resale and rental	62,800	56,100	12%	
a) resale	44,300	40,200	10%	Recovery process is underway
b) rental	18,500	15,900	16%	
- new home sales	42,000	23,500	79%	The main growth driver for the business.
Gross profit	15,167	11,196	35%	GP margin stable at
Operating expenses	8,268	6,429	29%	
Operating Profit	6,899	4,767	45%	
PATMI	5,382	4,092	32%	Effective tax was 21% vs 14% a year ago
Dividend Per Share (S\$ cts)	1.25	2.50	-50%	

Source: Company, PSR

### The Positives

**+ New home sales surged 79% YoY.** The spike in home sales volumes was in comparison to new home sales a year ago, due to the fall out from the July 2018 cooling measures. Revenue from new homes sales in 4Q19 was the 2<sup>nd</sup> highest in history. The lag between the transaction date of the property and revenue recognition is 3 to 6 months depending on the project.

### The Negatives

**- Provision for doubtful debts jumped in 4Q19.** Provision for doubtful debts swung from write-back of S\$300k to an allowance of S\$869k. APAC has a policy of making full provision of a trade receivable when due more than a certain period outstanding. These are one-off provisions likely from resale and do not appear systemic. Disputes over commission are some triggers for the provision. Exposure is offset by a trade payable write-back in cost of services for the amount due to the agent. Total exposure is 10% of the provision.

**- Taxes higher in 4Q19.** The effective tax was 21% compared to 14% last year due to certain allowances not allowable. Full-year the effective tax was 19.4% (FY18: 17%).

**- Dividends cut by 50%.** Final dividend was cut 50% to 1.25 cents in-line (FY19: 2 cents) with the drop in earnings. Dividend payout ratio policy is still at least 50%.

## Outlook

We expect earnings to rebound in FY20e. Transaction volumes are picking-up across all three core business segments – new home sales, HDB resale and private resale. Some of the other non-macro drivers to growth include agency force rising 8.6% YoY to 7,048 agents, ERA APAC Centre turning to profitability and secured agency rights to 25 projects for 2020 so far. Unclear at present is whether APAC will subsidise agency fees of S\$230 per year. It is a sizeable S\$1.6mn out of pocket expense for the 7,000 plus agents.

Other updates:

### New Home Sales

1. There URA data shows around 32,272 unsold units with planning approvals (End Dec19). With historical private residential take-up of 9,000 to 10,000 units per annum as a guide, it would take c.4 years for the number of units in the pipeline to be absorbed by the market. As a reference, private residential units excluding EC sold in 2019 and 2018 were 9,912 and 8,795 units respectively.
2. Recent successful launch of a high-end private project, “The M” by Wing Tai Asia (366 sold from 522 units) was due to the attractive pricing. Nearby projects were selling at S\$2800-\$3200, in comparison to The M’s launch price of S\$2100-S\$2600. Investors see the value of the project and many smaller units have been taken up.
3. Another recent EC project performed well due to proximity to MRT.
4. 50 new project launches are expected in 2020.

### Resale market

1. One of the advantages of purchasing a new residential project is the benefit of progress payment over the construction period. Additionally, most new projects would experience greater price appreciation by the time the project achieves TOP, in comparison to resale units.
2. New launches will help spur the resale transaction as the price premium will widen.

### Covid-19

1. Marketing of property and balloting is conducted more online.
2. Developers are cautious of show flat becoming potential areas of transmission.
3. More planning required to arrange time slots to visit show flats to reduce group size.

## **Maintain ACCUMULATE with an unchanged target price of S\$0.55**

We maintained our recommendation and target price. Our FY20e earnings cut by 13% on higher expenses and effective tax rate.

## Financials

### Income Statement

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
<b>Revenue</b>	<b>400.6</b>	<b>424.0</b>	<b>369.5</b>	<b>409.5</b>	<b>442.2</b>
Cost of services	345.8	371.2	323.2	360.4	389.1
<b>Gross profit</b>	<b>54.9</b>	<b>52.8</b>	<b>46.4</b>	<b>49.1</b>	<b>53.1</b>
Personnel cost	13.8	13.0	13.0	13.8	14.3
Other costs and expenses	11.7	10.5	16.1	15.4	15.5
<b>Profit before tax</b>	<b>29.4</b>	<b>29.2</b>	<b>17.2</b>	<b>20.0</b>	<b>23.3</b>
Tax	(3.5)	(5.0)	(3.3)	(3.4)	(4.0)
<b>Profit after tax</b>	<b>25.9</b>	<b>24.2</b>	<b>13.9</b>	<b>16.6</b>	<b>19.3</b>

### Per share data

SGD cents, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS	8.0	6.8	3.9	4.7	5.4
DPS	2.0	4.5	2.0	2.3	2.7
NAV per share	41.9	45.1	41.0	43.3	46.0

### Cash Flow

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
<b>CFO</b>					
Profit before tax	29.4	29.2	17.2	20.0	23.3
Adjustments	4.4	3.3	6.4	6.6	6.6
WC changes	4.2	(13.3)	(0.4)	(7.6)	(5.1)
Interest and Taxes paid, others	(3.4)	(5.1)	(6.3)	(5.0)	(5.6)
<b>Cashflow from operations</b>	<b>34.6</b>	<b>14.1</b>	<b>17.0</b>	<b>13.9</b>	<b>19.1</b>
<b>CFI</b>					
Acquisition of investment ppty	-	(72.8)	-	-	-
Purchase of PP&E	(0.5)	(0.4)	(1.2)	-	-
Others	(0.2)	(3.2)	(10.4)	-	-
<b>Cashflow from investments</b>	<b>(0.7)</b>	<b>(76.3)</b>	<b>(11.7)</b>	<b>-</b>	<b>-</b>
<b>CFE</b>					
Change in loans and borrowings	(18.0)	57.5	(2.9)	-	-
Payment of dividends	-	(14.2)	(11.5)	(8.3)	(9.7)
Others	28.2	-	-	-	-
<b>Cashflow from financing</b>	<b>10.2</b>	<b>43.3</b>	<b>(16.3)</b>	<b>(8.3)</b>	<b>(9.7)</b>
<b>Net change in cash</b>	<b>44.2</b>	<b>(19.0)</b>	<b>(11.0)</b>	<b>5.6</b>	<b>9.5</b>
<b>CCE, end</b>	<b>62.0</b>	<b>43.0</b>	<b>32.0</b>	<b>37.6</b>	<b>47.1</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
<b>ASSETS</b>					
Investment property	-	72.8	72.8	72.8	72.8
PP&E	1.2	1.1	1.7	1.1	0.5
Intangible assets	100.4	99.5	98.5	97.6	96.7
Others	0.4	0.4	6.5	4.9	3.3
<b>Total non-current assets</b>	<b>102.0</b>	<b>173.7</b>	<b>179.5</b>	<b>176.3</b>	<b>173.2</b>
Trade & other receivables	71.7	53.4	68.2	70.6	75.5
Cash balance	62.0	43.0	32.0	37.6	47.1
Others	0.2	13.1	15.4	15.4	15.4
<b>Total current assets</b>	<b>133.9</b>	<b>109.5</b>	<b>115.7</b>	<b>123.7</b>	<b>138.0</b>
<b>Total Assets</b>	<b>236.0</b>	<b>283.2</b>	<b>295.1</b>	<b>300.0</b>	<b>311.2</b>

### LIABILITIES

Trade & other payables	91.5	71.3	81.2	77.8	79.4
Loans and borrowings	-	2.9	2.9	2.9	2.9
Provision for taxation	5.0	5.2	3.3	3.3	3.3
Others	2.0	1.8	3.0	3.0	3.0
<b>Total current liabilities</b>	<b>98.5</b>	<b>81.2</b>	<b>90.4</b>	<b>87.0</b>	<b>88.6</b>
Loans and borrowings	-	54.6	51.7	51.7	51.7
Deferred taxation	4.5	4.3	4.2	4.2	4.2
<b>Total non-current liabilities</b>	<b>4.5</b>	<b>58.9</b>	<b>59.3</b>	<b>59.3</b>	<b>59.3</b>
<b>Total Liabilities</b>	<b>102.9</b>	<b>140.1</b>	<b>149.7</b>	<b>146.3</b>	<b>147.8</b>

### EQUITY

Share capital	98.9	98.9	98.9	98.9	98.9
Accumulated profits	34.1	44.1	46.6	54.9	64.5
Non-controlling interests	-	0.0	(0.1)	(0.1)	(0.1)
<b>Total Equity</b>	<b>133.0</b>	<b>143.1</b>	<b>145.5</b>	<b>153.8</b>	<b>163.4</b>

### Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	6.1	7.2	12.5	10.5	9.0
P/B (x)	1.2	1.1	1.2	1.1	1.1
Dividend Yield (%)	4.1	9.2	4.1	4.8	5.6

### Growth & Margins (%)

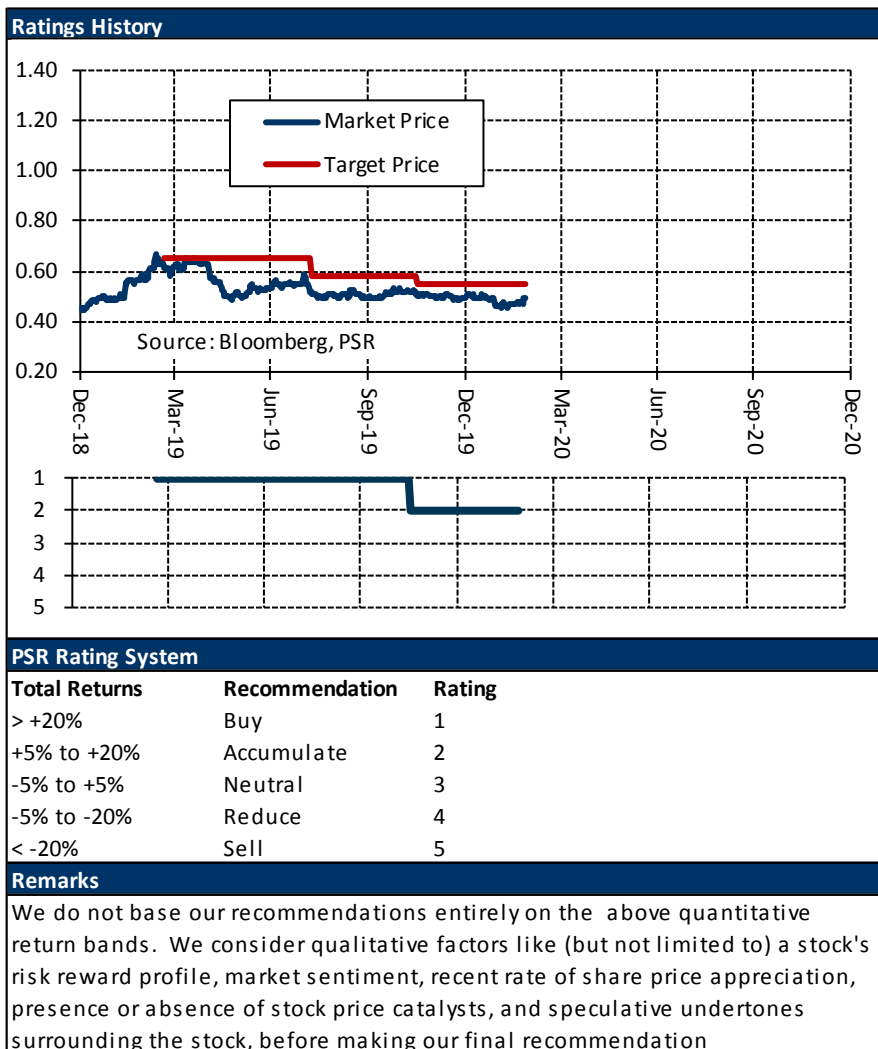
<b>Growth</b>					
Revenue	39.2%	5.8%	-12.8%	10.8%	8.0%
Gross profit	37.7%	-3.8%	-12.2%	6.0%	8.0%
PBT	62.7%	-0.6%	-41.1%	16.0%	16.6%
PAT	63.1%	-6.4%	-42.8%	19.5%	16.6%

### Margins

GP margin	13.7%	12.5%	12.5%	12.0%	12.0%
PBT margin	7.3%	6.9%	4.7%	4.9%	5.3%
PAT Margin	6.5%	5.7%	3.8%	4.0%	4.4%

### Key Ratios

ROE (%)	19.5%	16.9%	9.5%	10.8%	11.8%
ROA (%)	11.0%	8.6%	4.7%	5.5%	6.2%
Gearing (x)	-	0.40	0.38	0.36	0.33



**Contact Information (Singapore Research Team)**
**Head of Research**

 Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)
**Research Admin**

 Siti Nursyazwina - [syazwina@phillip.com.sg](mailto:syazwina@phillip.com.sg)
**Property | REITs**

 Natalie Ong - [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)
**Small Mid Cap**

 Tan Jie Hui - [tanjh@phillip.com.sg](mailto:tanjh@phillip.com.sg)
**Banking & Financials | Healthcare**

 Tay Wee Kuang - [taywk@phillip.com.sg](mailto:taywk@phillip.com.sg)
**Technical Analyst**

 Chua Wei Ren – [chuawr@phillip.com.sg](mailto:chuawr@phillip.com.sg)
**China/HK Equity**

 Zheng Jieyuan – [zhengjy@phillip.com.sg](mailto:zhengjy@phillip.com.sg)
**Credit Analyst (Bonds)**

 Timothy Ang – [timothyang@phillip.com.sg](mailto:timothyang@phillip.com.sg)
**Contact Information (Regional Member Companies)**
**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangkok,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**

**Phillip Capital Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

**INDIA**

**PhillipCapital (India) Private Limited**  
No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

**CAMBODIA**

**Phillip Bank Plc**  
Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Phillip Capital Limited**  
Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**TURKEY**

**PhillipCapital Menkul Degerler**  
Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**

**Asha Phillip Securities Limited**  
2nd Floor, Lakshmans Building,  
No. 321, Galle Road,  
Colombo 03, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

**DUBAI**

**Phillip Futures DMCC**  
Member of the Dubai Gold and  
Commodities Exchange (DGEX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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