

12 July 2018

Property | Real Estate Oper & Svcs

APAC Realty

Buy (Maintained)

Adjusting To The New Reality

Maintain BUY with lower DCF-derived TP of SGD0.77 from SGD1.35, 26% upside. APAC's recent share price performance did not pan out as per our earlier expectations, as it was negatively impacted by the listing of Propnex and the unexpected implementation of property cooling measures by the Government. While transaction volumes are expected to slow due to the cooling measures, we believe the steep share price fall has already factored in most of the negatives. The stock still offers an attractive FY18F dividend yield of ~6%, based on our revised earnings. It is trading at a 25% discount to global peers (FY18 P/E) and a 35% discount to Propnex's historical FY17 P/E.

What went wrong? APAC's share price has slumped by 50% since hitting a peak of SGD1.28 in March. We believe this is due mainly to two key factors – the listing of its Singapore peer Propnex in July that resulted in investors taking profit and switching out of APAC into Propnex, and the unexpected implementation of property cooling measures that dampened market sentiment.

Bright spots despite dampened sentiment. While volumes are expected to drop, we believe the impact on agencies will be mitigated by several factors. Firstly, developers have started countering the measures by being more realistic in their pricing expectations and are offering discounts (5-10%) in new launches, which should draw more first time buyers.

Our channel checks shows that ~200 more units have been sold this week in new launches post measures, which is encouraging. Developers are also offering higher agency commissions in a few of the new launches (3-4% vs the typical 1.5%) to incentivise agents. Note that developers are bound by the stringent 5-year timeline to sell all units in projects, failing which they would have to pay stiff additional buyer's stamp duty (ABSD) penalties of 15%.

Non brokerage income, leasing and HDB resale accounted for ~35% of 1Q18 gross profit. The above segments' earnings are very stable in our view, and should not be impacted by the recent cooling measures. Management also plans to diversify its earnings by expanding to Indonesia and China.

Assumption changes and sensitivity analysis. Post the recent measures, we now expect overall transaction volumes (both primary and secondary) to fall by 10% in 2018 (from 12-15% increase) and have assumed a further 5% fall (from 1-3% increase) in transactions next year. Based on our sensitivity analysis (Figure 1), every 5% change in volumes will have an 8% impact on our FY18F net profit forecast.

Attractive FY18F yield of 6%, based on 60% payout ratio. The yields are comparable to the S-REIT sector's average yields and should support share price. Gearing (net debt/equity) is expected to remain low at 1.5% post the expected completion of the acquisition of commercial property by August.

Maintain BUY with revised DCF-derived TP of SGD 0.77. We have lowered our FY18F-20F net profits by 22-35%, mainly on lowering our transaction volume assumptions. APAC is trading at 9.5x FY18 P/E, a 25% discount to its global peers. Its closest peer Propnex is trading at 13.3x historical FY17 P/E, a 54% premium to APAC's FY17 P/E.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	288	401	383	368	364
Reported net profit (SGDm)	15.9	25.9	23.3	21.8	20.9
Recurring net profit (SGDm)	15.9	25.9	23.3	21.8	20.9
Recurring net profit growth (%)	87.2	63.1	(9.9)	(6.5)	(4.4)
Recurring EPS (SGD)	0.04	0.07	0.07	0.06	0.06
DPS (SGD)	0.00	0.02	0.04	0.04	0.04
Recurring P/E (x)	13.8	8.4	9.4	10.0	10.5
P/B (x)	2.77	1.64	1.53	1.45	1.37
Dividend Yield (%)	na	3.3	6.4	6.0	5.7
Return on average equity (%)	22.4	24.4	17.0	14.9	13.4
Return on average assets (%)	9.8	12.8	8.7	7.2	6.8
Net debt to equity (%)	0.3	net cash	1.5	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Target Price:	SGD0.77
Price:	SGD0.62
Market Cap:	USD161m
Bloomberg Ticker:	APAC SP

Share Data

Avg Daily Turnover (SGD/USD)	1.53m/1.14m
52-wk Price low/high (SGD)	0.58 - 1.26
Free Float (%)	28
Shares outstanding (m)	355
Estimated Return	26%

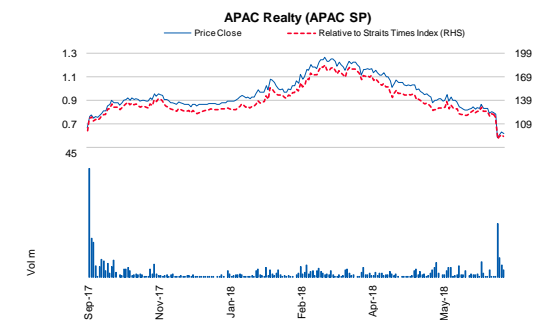
Shareholders (%)

Choon Hong Tan	72.0
FIL Investment Management	4.3
FIL Limited	3.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.7)	(27.2)	(47.4)	(34.6)	
Relative	(25.2)	(21.6)	(40.8)	(27.1)	

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-07-12.

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.04	0.07	0.07	0.06	0.06
Property	EPS (SGD)	0.04	0.07	0.07	0.06	0.06
APAC Realty	DPS (SGD)	0.00	0.02	0.04	0.04	0.04
Bloomberg APAC SP	BVPS (SGD)	0.22	0.37	0.40	0.43	0.45
Buy	Weighted avg adjusted shares (m)	355	355	355	355	355
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
DCF methodology	Recurring P/E (x)	13.8	8.4	9.4	10.0	10.5
	P/E (x)	13.8	8.4	9.4	10.0	10.5
	P/B (x)	2.77	1.64	1.53	1.45	1.37
	FCF Yield (%)	10.3	15.6	(22.3)	11.2	10.8
	Dividend Yield (%)	0.0	3.3	6.4	6.0	5.7
	EV/EBITDA (x)	10.5	5.0	7.5	7.4	7.4
	EV/EBIT (x)	11.4	5.3	7.9	7.8	7.8
Key drivers	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
i. Pick-up in Singapore real estate;	Total turnover	288	401	383	368	364
ii. Growth in market share and agents;	Gross profit	40	55	53	52	52
iii. Expanding franchise network and training services.	EBITDA	21	31	29	28	27
	Depreciation and amortisation	(2)	(1)	(1)	(1)	(1)
	Operating profit	19	30	28	27	26
	Net interest	(1)	(0)	(0)	(1)	(1)
	Pre-tax profit	18	29	27	26	25
	Taxation	(2)	(4)	(4)	(4)	(4)
	Recurring net profit	16	26	23	22	21
Key risks	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
i. Sharp drop in residential volumes;	Change in working capital	3.4	4.2	(2.4)	(0.3)	0.2
ii. Disruption from technology advances;	Cash flow from operations	22.7	34.6	24.7	25.1	24.7
iii. Loss of market share.	Capex	(0.1)	(0.5)	(73.4)	(0.6)	(1.0)
	Cash flow from investing activities	(0.1)	(0.7)	(73.4)	(0.6)	(1.0)
	Proceeds from issue of shares	0.0	28.2	0.0	0.0	0.0
	Dividends paid	0.0	0.0	(14.0)	(13.1)	(12.5)
	Cash flow from financing activities	(19.0)	(1.8)	42.6	(15.2)	(14.6)
	Cash at beginning of period	14.2	17.7	62.0	55.9	65.2
	Net change in cash	3.5	32.2	(6.1)	9.3	9.0
	Ending balance cash	17.7	50.0	55.9	65.2	74.2
Company Profile	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
APAC Realty Pte. Ltd. is one of the largest real estate agencies in Singapore and has regional master franchise rights to 17 countries in the Asia-Pacific region	Total cash and equivalents	18	62	56	65	74
	Tangible fixed assets	1	1	74	74	75
	Intangible assets	101	100	99	99	98
	Total other assets	0	0	0	0	0
	Total assets	170	236	299	304	312
	Short-term debt	6	0	0	0	0
	Total long-term debt	12	0	58	58	58
	Total liabilities	91	103	156	153	153
	Shareholders' equity	79	133	142	151	159
	Total equity	79	133	142	151	159
	Net debt	0	(62)	2	(7)	(16)
	Total liabilities & equity	170	236	299	304	312
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	23.7	39.2	(4.4)	(4.0)	(0.9)
	Recurrent EPS growth (%)	87.2	63.1	(9.9)	(6.5)	(4.4)
	Gross margin (%)	13.9	13.7	13.7	14.2	14.2
	Operating EBITDA margin (%)	7.2	7.8	7.7	7.7	7.5
	Net profit margin (%)	5.5	6.5	6.1	5.9	5.7
	Dividend payout ratio (%)	0.0	27.4	60.0	60.0	60.0
	Capex/sales (%)	0.0	0.1	19.2	0.2	0.3
	Interest cover (x)	17.1	111.6	65.6	21.1	18.6

Source: Company data, RHB

Figure 1: APAC's FY18F net profit (SGDm) – sensitivity to market share and percentage changes in transaction value

Transaction volume % chg. Vs. chg. In market share	(15.00)	(10.00)	(5.00)	-	5.0	10.0	15.0
(3)	15.1	16.9	18.7	20.5	22.3	24.1	25.9
(2)	15.9	17.8	19.6	21.5	23.3	25.2	27.0
(1)	16.7	18.6	20.5	22.4	24.3	26.2	28.1
-	17.5	19.4	21.4	23.3	25.3	27.2	29.2
1	18.3	20.3	22.3	24.3	26.3	28.3	30.3
2	19.1	21.1	23.2	25.2	27.3	29.3	31.4
3	19.8	21.9	24.0	26.2	28.3	30.4	32.5

Source: RHB

Figure 2: APAC's FY19F net profit (SGDm) – sensitivity to market share and percentage changes in transaction value

Transaction volume % chg. Vs. chg. In market share	(15.00)	(10.00)	(5.00)	-	5.0	10.0	15.0
(3)	11.0	14.0	17.0	19.9	22.9	25.9	28.9
(2)	11.6	14.6	17.6	20.6	23.6	26.6	29.6
(1)	12.1	15.1	18.2	21.2	24.2	27.3	30.3
-	12.6	15.7	18.8	21.8	24.9	28.0	31.0
1	13.2	16.3	19.4	22.5	25.6	28.7	31.8
2	13.7	16.8	20.0	23.1	26.2	29.4	32.5
3	14.3	17.4	20.6	23.8	26.9	30.1	33.2

Source: RHB

Figure 3: Global peer comparison

Company Name	Market Cap (USDm)	Exchange listed	EV/EBITDA FY17	FY18 P/E (x)	FY19 P/E (x)	Price/Book (X)	Dividend Yield (%)	ROE (%)	Total Debt/ Equity (%)	Total Debt/ Total Asset (%)
Large Cap Peers										
CBRE Group	16,372	New York	11.5	15.4	14.4	3.8	N.A	19.4	71.3	25.3
Colliers International Group	3,127	New York	11.1	21.8	18.8	9.9	0.1	30.6	57.5	17.3
Realty	2,965	New York	9.5	12.8	10.5	1.2	1.5	7.9	135.1	48.3
Average	7,488		10.7	16.7	14.6	5.0	0.8	19.3	88.0	30.3
Mid-small Cap Peers										
APAC Realty	160	Singapore	7.7	9.4	10.0	1.5	6.4	17.0	0.0	0.0
Propnex Ltd	159	Singapore	8.5	N.A	N.A	N.A	N.A	110.1	0.0	0.0
Re/Max Holdings	1,694	New York	8.4	25.4	22.8	2.1	1.4	-0.5	406.6	69.4
Sinyi Realty	816	Taiwan	6.3	14.8	N.A	2.1	6.5	28.2	100.7	42.7
Century 21 Real Estate - Japan	124	Tokyo	7.6	N.A	N.A	2.3	4.1	16.4	0.9	0.8
Japan Living Service	40	Tokyo	8.4	N.A	N.A	0.7	3.6	5.8	85.8	38.2
Savills	1,604	London	8.9	11.4	10.7	2.8	1.8	23.9	24.9	8.7
Countrywide PLC	157	London	7.8	7.4	6.8	0.4	N.A	3.3	69.4	30.8
LSL Property Services PLC	366	London	7.9	10.8	10.4	1.9	4.2	18.7	21.5	12.0
Midland Holding	190	Hong Kong	3.6	6.1	5.0	1.1	2.4	14.7	26.4	8.2
Hopefluent Group	289	Hong Kong	2.7	N.A	N.A	0.8	4.1	13.3	20.6	13.3
Average - Comparable Peers	545		7.0	12.6	11.2	1.6	3.5	13.7	84.1	24.9
Technology Peer										
Zillow Group Inc	12,346	New York	57.4	95.3	63.7	4.4	N.A	0.0	14.5	11.9

Source: RHB, Bloomberg

Figure 4: APAC's DCF valuation

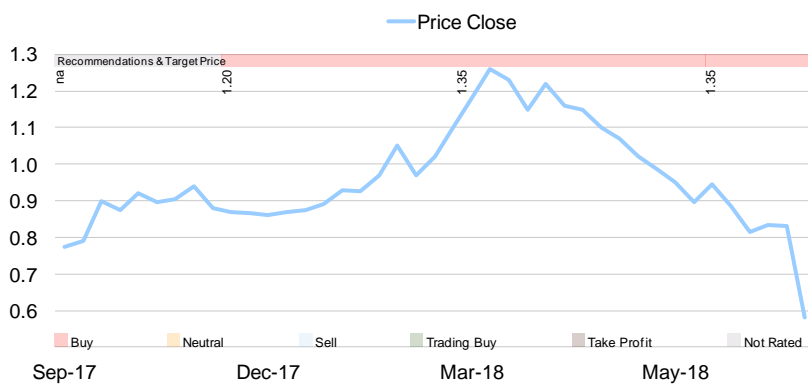
(SGD m)	FY18F	FY19F	FY20F	FY21F	Terminal Value
EBIT * (1- Tax rate)	23.1	22.4	21.5	21.4	
Add: Depreciation and Amortisation	1.4	1.4	1.4	1.4	
Less : Working capital changes	-2.4	-0.3	0.2	-0.2	
Less : Capex	0.6	0.6	1.0	2.5	
Total Free Cash Flow	26.4	23.5	21.8	20.6	256.9
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	25.4	21.0	18.0	15.7	196.2
Sum of PV of FCF	80.1				
PV of Terminal Value	196.2				
Enterprise Value	276.3				
Add: Net Cash	-2.1				
Total Equity Value (SGD m)	274.2				
No. of shares (m)	355.2				
Value per share (SGD)	0.77				
Assumptions					
Risk-free rate	2.75%				
Market return	8.0%				
Beta	1.0				
Equity risk premium	5.3%				
WACC	8.0%				
Terminal Growth	0%				

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-28	Buy	1.35	0.91
2018-02-25	Buy	1.35	1.10
2017-11-30	Buy	1.20	0.88

Source: RHB, Bloomberg

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