

26 February 2018

Property | Real Estate Oper & Svcs

APAC Realty

A Promising Start To 2018

APAC Realty's FY17 net profit comfortably sailed past ours and consensus estimates. It also managed to gain overall market share despite increasing competition and a slight reduction in agent count. 2018 outlook looks promising with the company already securing 20 new launches (11,268 units) until 9M18, higher than the total units clinched last year. Resale volumes are also expected to benefit from higher new launch prices. Dividends came in higher than expected with a 90% payout ratio (guidance: 50%). Maintain BUY as we raise our TP to SGD1.35 (from SGD1.20, 23% upside).

Strengthening its Singapore (SG) market leadership position. Overall SG residential market transaction value in 2017 increased 35%YoY to SGD 61.5bn, on the back of improving market sentiment. More importantly APAC Realty's real estate services brand ERA gained overall market share (+0.4ppt) to 37.9%. We are heartened to see the market share growth, which came in despite growing competition and a slight reduction in agent count.

Strong project pipeline for 2018. ERA has secured agent role for about 20 new launches (11,269 units) up to 9M18, higher than the total number of units secured for last year. We expect more projects to be added to pipeline in 4Q18 as most of the en-bloc projects sold recently should be ready by then. The higher expected new launch prices are also expected to boost secondary transaction volumes as more investors and buyers hunt for bargain purchases. The Housing Development Board (HDB) resale market is expected to remain buoyant on the back of the recent increase in proximity housing grants.

Expansion plans on track. Management is actively looking into the Indonesian market to expand and deepen its presence. This could be via acquisition of its existing franchise or entering into sub-franchise agreements. APAC Realty also plans to acquire its own office building in Singapore to consolidate its business and save on rental expenses. Other expansion plans include acquisition of other real-estate support service business and franchise expansions which would add more stability to its stable non-recurring income stream.

An attractive 4.6% yield, room for more. Management would consider raising future dividend payout ratio (current guidance: 50%) if it does not find suitable avenues to deploy its cash. APAC Realty is currently in a net cash position of SGD62m. We have conservatively raised our future dividend payout ratio to 60% from 50%, translating into an attractive yield of 4.6% for 2018.

Our Top real estate mid-cap Pick. We have revised higher our FY18F-19F earnings by 7% and 8% respectively by adjusting higher our primary and resale volume assumptions. Our higher SGD1.35 TP is based on a DCF valuation (WACC: 8%, TG: 0%). Valuation remains attractive with APAC Realty trading at 13x FY18F P/E, a >10% discount to comparable global peers (Figure 3). Additionally, it also offers an attractive 4.6% yield. Upside potential comes from acquisitions or expansion of business which have not been factored in.

Key risks are increasing competition, disruption from technology players, ability to retain key personnel, and concentration risk (earnings) on the local market.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	288	401	431	445	457
Reported net profit (SGDm)	15.9	25.9	29.7	30.7	31.4
Recurring net profit (SGDm)	15.9	25.9	29.7	30.7	31.4
Recurring net profit growth (%)	87.2	63.1	14.8	3.4	2.1
Recurring EPS (SGD)	0.04	0.07	0.08	0.09	0.09
DPS (SGD)	0.00	0.02	0.05	0.05	0.05
Recurring P/E (x)	24.6	15.1	13.1	12.7	12.4
P/B (x)	4.95	2.94	2.70	2.49	2.30
Dividend Yield (%)	na	1.8	4.6	4.7	4.8
Return on average equity (%)	22.4	24.4	21.4	20.4	19.2
Return on average assets (%)	9.8	12.8	12.1	11.7	11.2
Net debt to equity (%)	0.3	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Buy (Maintained)

Target Price:	SGD1.35
Price:	SGD1.10
Market Cap:	USD296m
Bloomberg Ticker:	APAC SP

Share Data

Avg Daily Turnover (SGD/USD)	0.82m/0.62m
52-wk Price low/high (SGD)	0.66 - 1.12
Free Float (%)	28
Shares outstanding (m)	355
Estimated Return	23%

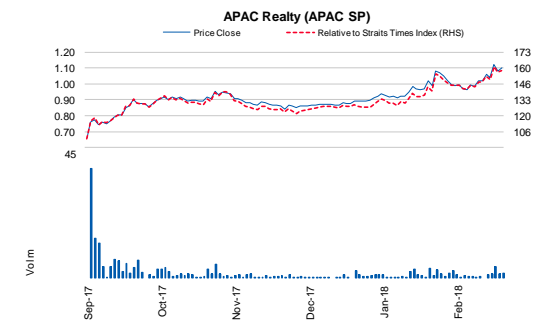
Shareholders (%)

Choon Hong Tan	72.0
FIL Investment Management	4.3
FIL Limited	3.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.7	11.7	25.0		
Relative	21.9	13.3	21.8		

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-02-23

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.04	0.07	0.08	0.09	0.09
Property	EPS (SGD)	0.04	0.07	0.08	0.09	0.09
APAC Realty	DPS (SGD)	0.00	0.02	0.05	0.05	0.05
Bloomberg APAC SP	BVPS (SGD)	0.22	0.37	0.41	0.44	0.48
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	Recurring P/E (x)	24.6	15.1	13.1	12.7	12.4
	P/E (x)	24.6	15.1	13.1	12.7	12.4
	P/B (x)	4.95	2.94	2.70	2.49	2.30
	FCF Yield (%)	5.8	8.7	8.2	9.0	9.1
	Dividend Yield (%)	0.0	1.8	4.6	4.7	4.8
	EV/EBITDA (x)	18.8	10.6	8.6	7.9	7.4
	EV/EBIT (x)	20.4	11.1	9.0	8.3	7.7
Key drivers	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
i. Pick-up in Singapore real estate sales volumes;	Total turnover	288	401	431	445	457
ii. Growth in market share and agents;	Gross profit	40	55	60	62	63
iii. Expanding the franchise network and training services.	EBITDA	21	31	36	38	38
	Depreciation and amortisation	(2)	(1)	(1)	(1)	(2)
	Operating profit	19	30	35	36	37
	Net interest	(1)	(0)	0	0	0
	Pre-tax profit	18	29	35	36	37
	Taxation	(2)	(4)	(5)	(5)	(6)
	Recurring net profit	16	26	30	31	31
Key risks	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
i. Disruption from technology advances;	Change in working capital	3.4	4.2	(1.1)	0.9	0.7
ii. Retaining key management and agents;	Cash flow from operations	22.7	34.6	32.7	35.9	36.4
iii. Loss of market share.	Capex	(0.1)	(0.5)	(0.6)	(0.6)	(1.0)
	Cash flow from investing activities	(0.1)	(0.7)	(0.6)	(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	(17.8)	(18.4)	(18.8)
	Cash flow from financing activities	(19.0)	(1.8)	(17.6)	(20.2)	(20.9)
	Cash at beginning of period	14.2	17.7	62.0	76.5	91.5
	Net change in cash	3.5	32.2	14.5	15.1	14.5
	Ending balance cash	17.7	50.0	76.5	91.5	106.0
Company Profile	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
APAC Realty 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	76	92	106
	Tangible fixed assets	1	1	1	1	2
	Intangible assets	101	100	99	99	98
	Total other assets	0	0	0	0	0
	Total assets	170	236	255	271	288
	Short-term debt	6	0	0	0	0
	Total long-term debt	12	0	0	0	0
	Total liabilities	91	103	110	114	118
	Shareholders' equity	79	133	145	157	170
	Total equity	79	133	145	157	170
	Net debt	0	(62)	(76)	(92)	(106)
	Total liabilities & equity	170	236	255	271	288
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	23.7	39.2	7.7	3.1	2.8
	Recurrent EPS growth (%)	87.2	63.1	14.8	3.4	2.1
	Gross margin (%)	13.9	13.7	13.9	13.9	13.8
	Operating EBITDA margin (%)	7.2	7.8	8.4	8.5	8.4
	Net profit margin (%)	5.5	6.5	6.9	6.9	6.9
	Dividend payout ratio (%)	0.0	27.4	60.0	60.0	60.0
	Capex/sales (%)	0.0	0.1	0.1	0.1	0.2
	Interest cover (x)	17.1	111.6			

Source: Company data, RHB

Operations Overview And Results Highlights

4Q17 net profit up 60% YoY, results above expectations. Gross revenue for the quarter came in 39% higher, driven predominantly by a 89% increase in new home sale commissions. Resale and rental commissions also rose 25% YoY during the quarter. Gross margins were slightly lower at 12.3% due to the change in project sales mix. FY17 net profit was correspondingly higher at SGD25.9m (+63% YoY), accounting for 106% of our full-year forecast.

APAC Realty paid SGD0.02 as final dividend for shareholders, which corresponds to a 90% payout ratio from its listing date of 28 Sep 2017. NAV per share currently stands at SGD0.375.

Figure 1: 4Q17 results highlights

(SGDm)	4Q17	4Q16	YoY (%)	FY17	YoY (%)	Comments
Gross Revenue	129.7	79.8	62.5%	400.6	39.2%	Higher transaction volumes across all market segments
Gross Profit	16.0	11.4	40.4%	54.9	50.4%	
Gross Margin (%)	12.3%	14.3%	-2ppt	13.7%	-0.1ppt	Due to change in project sales mix
Profit Before Tax	8.4	5.3	59.9%	29.4	62.7%	
Profit After Tax	7.9	4.9	59.7%	25.9	63.1%	
DPU (cents)*	2.00	-	n.a	2.00	n.a	4Q17 Payout ratio of 90%.

*Note: Dividend payout ratio calculated from its listing date of 28 Sep 2017

Source: Company data, RHB

Figure 2: APAC Realty's DCF valuation

(SGD m)	FY18F	FY19F	FY20F	FY21F	Terminal Value
EBIT * (1- Tax rate)	29.0	30.0	30.7	31.7	
Add: Depreciation and Amortisation	1.4	1.5	1.5	1.7	
Less : Working capital changes	-1.1	0.9	0.7	0.3	
Less : Capex	0.6	0.6	1.0	2.0	
Total Free Cash Flow	31.0	30.0	30.5	31.0	387.7
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	29.9	26.7	25.1	23.7	296.1
Sum of PV of FCF	105.4				
PV of Terminal Value	296.1				
Enterprise Value	401.5				
Add: Net Cash	76.5				
Total Equity Value (SGD m)	478.0				
No. of shares (m)	355.2				
Value per share (SGD)	1.35				
Assumptions					
Risk-free rate	2.75%				
Market return	8.0%				
Beta	1.0				
Equity risk premium	5.3%				
WACC	8.0%				
Terminal Growth	0%				

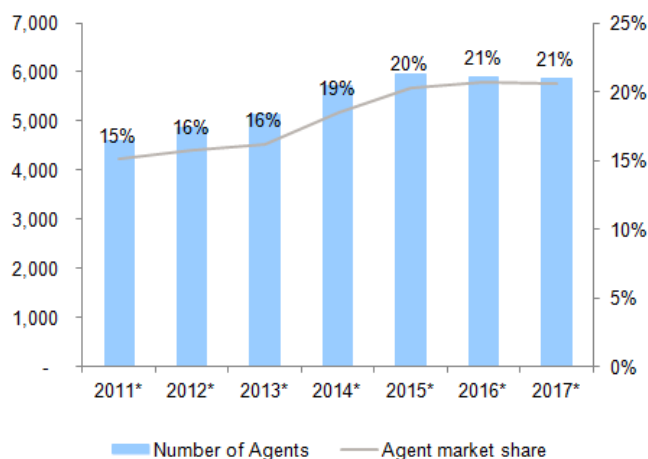
Source: RHB

Figure 3: Global peer comparison

Company Name	Market Cap (USDm)	Exchange listed	EV/EBITDA FY17	FY17 P/E (x)	FY18 P/E (x)	Price/Book (X)	Dividend Ind Yield (%)	ROE (%)	Total Debt/ Equity (%)	Total Debt/ Total Asset (%)
Large Cap Peers										
CBRE Group	15,598	New York	11.4	15.3	14.2	3.9	N.A	23.3	71.3	25.3
Colliers International Group	2,518	New York	11.1	18.7	17.1	8.7	0.2	31.1	57.5	17.3
Realogy	3,301	New York	9.1	15.8	12.9	1.3	1.5	9.2	150.3	50.0
Average	7,139		10.5	16.6	14.7	4.6	0.8	21.2	93.0	30.9
Mid-small Cap Peers										
Re/Max Holdings	971	New York	5.3	25.9	24.0	2.1	1.5	4.2	406.6	69.4
Sinyi Realty	838	Taiwan	N.A	9.1	10.4	2.3	2.6	29.1	42.3	16.7
Century 21 Real Estate - Japan	145	Tokyo	8.0	N.A	N.A	2.6	3.7	16.4	1.9	1.6
Japan Living Service	45	Tokyo	8.4	N.A	N.A	0.7	3.3	5.7	85.8	38.2
Savills	1,974	London	5.2	14.1	13.7	3.7	1.5	28.0	8.8	3.1
Countrywide PLC	296	London	7.9	7.2	6.8	0.4	N.A	5.7	61.1	30.4
Foxtons Group PLC	313	London	11.4	29.1	27.2	1.6	0.9	7.7	0.0	0.0
LSL Property Services PLC	380	London	6.8	10.2	9.9	2.0	3.9	20.5	17.3	8.9
Midland Holding	211	Hong Kong	11.4	11.2	9.7	1.3	N.A	20.2	30.0	9.5
Hopefluent Group	326	Hong Kong	N.A	N.A	N.A	1.0	1.2	13.7	10.4	7.1
Average - Comparable Peers	550		8.1	15.3	14.5	1.8	2.3	15.1	66.4	18.5
Technology Peer										
Zillow Group Inc	8,922	New York	57.4	55.5	38.5	3.4	N.A	0.2	14.5	11.9

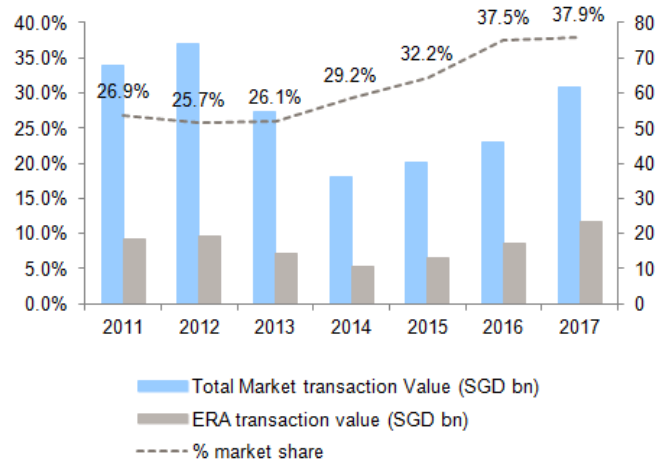
Source: RHB, Bloomberg

Figure 4: Agents and market share



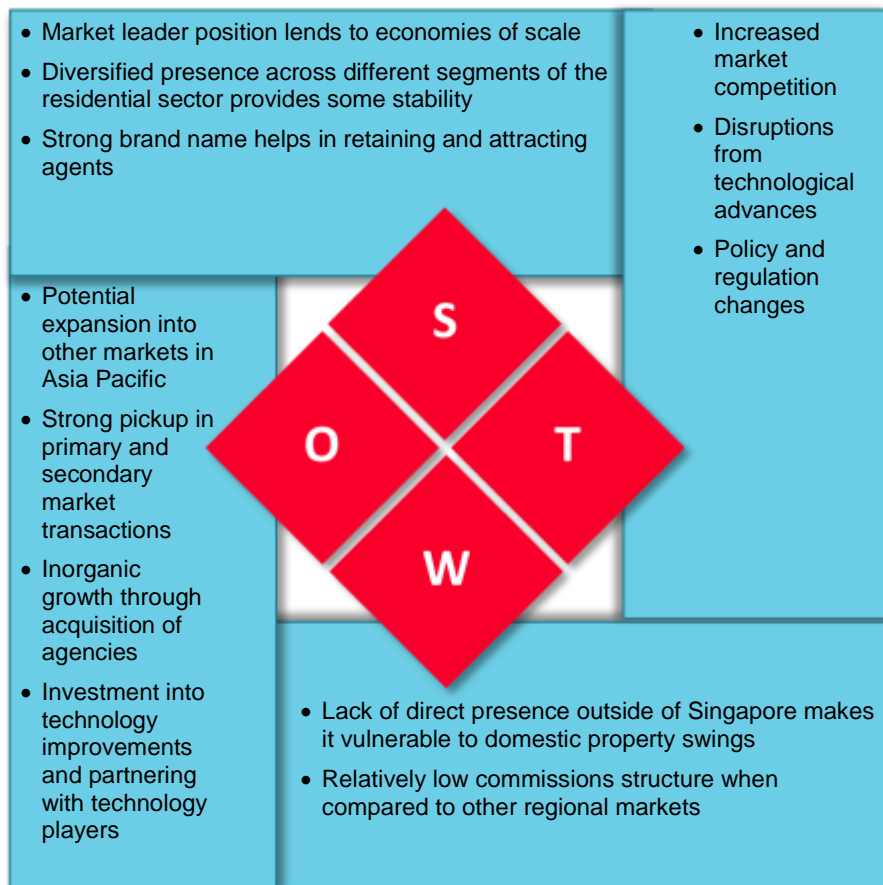
Note: *Data as at 1 Jan of the following year
Source: Company data, Cushman and Wakefield

Figure 5: ERA's overall market share

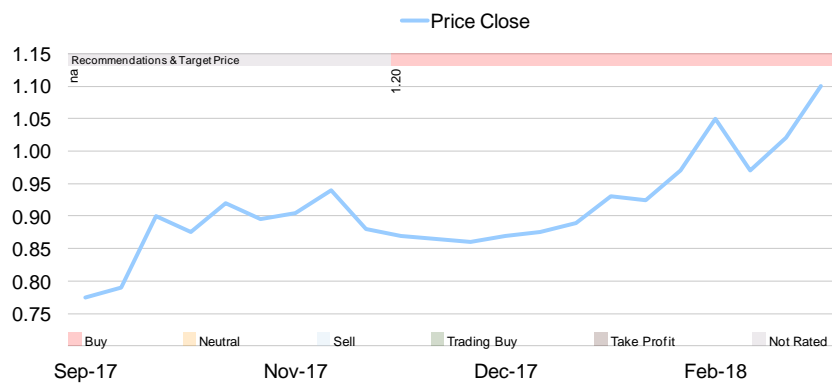


Source: RHB, Company data

SWOT Analysis



Recommendation Chart



Date	Recommendation	Target Price	Price
2017-11-30	Buy	1.20	0.88

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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