

31 August 2018

Property | Real Estate Oper & Svcs

## APAC Realty

### Spreading Its Wings In China; BUY

**Maintain BUY and TP of SGD0.77, offering 33% upside. APAC's entry into Hainan market offers a stepping stone to tap into the vast potential of China's real estate market. While near-term earnings contribution may not be significant, the move provides lot of intangible benefits in terms of understanding the dynamics of real estate agency business in China, and potentially cross-selling its Singapore projects to Chinese clients. In our view, these diversification strategies are pivotal for long-term earnings sustainability and will help mitigate cyclical vagaries of Singapore's real estate market. The stock currently trades at reasonable 8.8x FY18F P/E vs global peers – 11.7x, and offers healthy yields of > 6%.**

**New JV to boost project sales in China.** APAC Realty announced its foray into Hainan, China by entering into a JV (40% stake) with Hainan Zhong Zhi Sheng He Real Estate Investment Consulting Co Ltd (ZZSH) (40% stake) and Bei Guo Tou (Shanghai) Equity Investment and Fund Management Co Ltd (BGT) (20% stake). The new JV – to be called ERA Hainan Real Estate Marketing Co Ltd (ERA Hainan) – will conduct brokerage and resale brokerage businesses, and establish training for and the licensing of real estate agents in Hainan. ERA Hainan registered capital is CNY20m (SGD 4m) and APAC would fund its share of SGD1.6m from internal funds.

**Ready pipeline access from JV partners.** ZZSH has been in real estate consultancy and marketing services since 2015 with about 50 employees. It has acted as an agent for 12 projects and secured marketing rights to six upcoming projects with >10,000 units in the pipeline. As a part of the JV, all existing project-sale business from ZZSH would be transferred to the new entity. We understand that ZZSH business was profitable last year and has about 10-15% of market share in project sales. The other JV partner, BGT, is a private equity venture capital player and fund manager with investment directions including proptech and real estate.

**Minimal near-term earnings contribution, but we see intangible benefits.** With a muted outlook for the Hainan property market on various cooling measures, we do not expect any significant earnings contribution in the near-term. However, we believe the entry will offer a lot of intangible benefits for APAC in understanding real-estate agency dynamics and paves way for future expansions in China. APAC would also be able to help JV partners in the resale market and offers training expertise, thereby increasing agent productivity.

**Other regional presence.** To recall, APAC has exclusive ERA regional master franchise rights in 17 countries in the Asia-Pacific region, of which, it currently has presence in nine countries (Figure 4) with >16,000 agents in 627 offices. Management has plans to deepen its presence in Indonesia via a potential acquisition of its franchisee and build its own brokerage arm.

**Maintain BUY and TP of SGD 0.77,** based on our DCF-model – WACC: 8%, TG: 0%. We currently have not factored in any earnings contribution from the above JV pending more details. APAC is currently trading at 8.8x FY18F P/E. Its closest peer, PropNex (PROP SP, NR), is trading at 12.7x historical FY17 P/E, a 60% premium to APAC's FY17 P/E.

**Buy** (Maintained)

Target Price: SGD0.77  
Price: SGD0.58  
Market Cap: USD151m  
Bloomberg Ticker: APAC SP

#### Share Data

Avg Daily Turnover (SGD/USD) 0.4m/0.3m  
52-wk Price low/high (SGD) 1.28 - 0.57  
Free Float (%) 26.4  
Shares outstanding (m) 355  
Estimated Return 33%

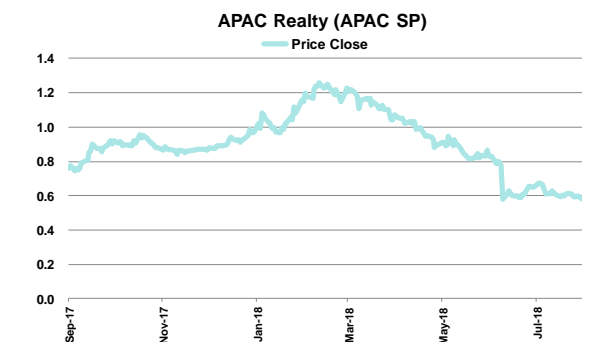
#### Shareholders (%)

Choon Hong Tan 72.0  
FIL Investment Management 4.3  
FIL 3.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(33.7)	(14.1)	(34.8)	(51.7)	-
Relative	(28.5)	(11.6)	(28.5)	(43.4)	-

Source: Bloomberg



Source: Bloomberg

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)	13.0	8.0	8.8	9.4	9.9
P/B (x)	2.61	1.55	1.45	1.36	1.29
Dividend Yield (%)	n.a	3.4	6.8	6.4	6.1
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

#### Analyst

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Figure 1: 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 Ind Yield (%)	ROE (%)	Total Debt/Equity (%)	Total Debt/Total Asset (%)
<b>Large Cap Peers</b>										
CBRE Group	16,293	New York	11.5	15.2	14.3	3.7	N.A	18.6	71.3	25.3
Colliers International Group	3,220	New York	N.A	21.9	18.5	N.A	0.1	24.2	57.5	17.3
Realty	2,745	New York	9.5	11.8	9.6	1.1	1.7	16.7	135.1	48.3
<b>Average</b>	<b>7,420</b>		<b>10.5</b>	<b>16.3</b>	<b>14.1</b>	<b>2.4</b>	<b>0.9</b>	<b>19.8</b>	<b>88.0</b>	<b>30.3</b>
<b>Mid-small Cap Peers</b>										
<b>APAC Realty</b>	<b>152</b>	<b>Singapore</b>	<b>7.1</b>	<b>8.8</b>	<b>9.4</b>	<b>1.5</b>	<b>6.8</b>	<b>17.0</b>	<b>0.0</b>	<b>0.0</b>
Propnex Ltd	153	Singapore	8.1	N.A	N.A	N.A	N.A	109.9	0.0	0.0
Re/Max Holdings	1,509	New York	8.4	22.0	19.8	1.9	1.6	2.8	406.6	69.4
Sinyi Realty	817	Taiwan	6.3	14.8	N.A	2.4	6.5	20.4	100.7	42.7
Century 21 Real Estate - Japan	126	Tokyo	7.6	N.A	N.A	2.3	4.0	16.5	0.9	0.8
Japan Living Service	41	Tokyo	8.4	N.A	N.A	0.7	3.5	4.7	85.8	38.2
Savills	1,478	London	8.9	10.7	10.0	2.6	1.9	18.9	24.9	8.7
Countrywide PLC	51	London	7.8	5.2	4.5	0.7	N.A	-137.4	69.4	30.8
LSL Property Services PLC	388	London	7.9	11.6	11.2	2.0	3.9	19.8	21.5	12.0
Midland Holding	194	Hong Kong	3.6	6.2	5.0	1.1	1.5	15.2	26.4	8.2
Hopefluent Group	261	Hong Kong	2.7	N.A	N.A	0.7	4.6	12.9	20.6	13.3
<b>Average - Comparable Peers</b>	<b>506</b>		<b>7.0</b>	<b>11.7</b>	<b>10.1</b>	<b>1.6</b>	<b>3.4</b>	<b>-2.9</b>	<b>84.1</b>	<b>24.9</b>
<b>Technology Peer</b>										
Zillow Group Inc	9,686	New York	N.A	86.0	64.6	N.A	N.A	-3.3	14.5	11.9

Note: \*Data is as at 30 Aug 2018

Source: RHB, Bloomberg

Figure 1: Pipeline projects in Hainan

S.No	Project Name and Developer	Total Units
1	富力湾 Phase 2 by R&F Properties	1,500
2	碧桂园珊瑚宫殿 by Country Garden	1,084
3	雅居乐清水湾 by Agile Group	664
4	国家海岸保利海棠湾 by Poly Real Estate	571
5	万科湖畔度假公园 by Vanke	6,300
6	万宁日月湾旅游度假区 by Sunac	Currently unknown

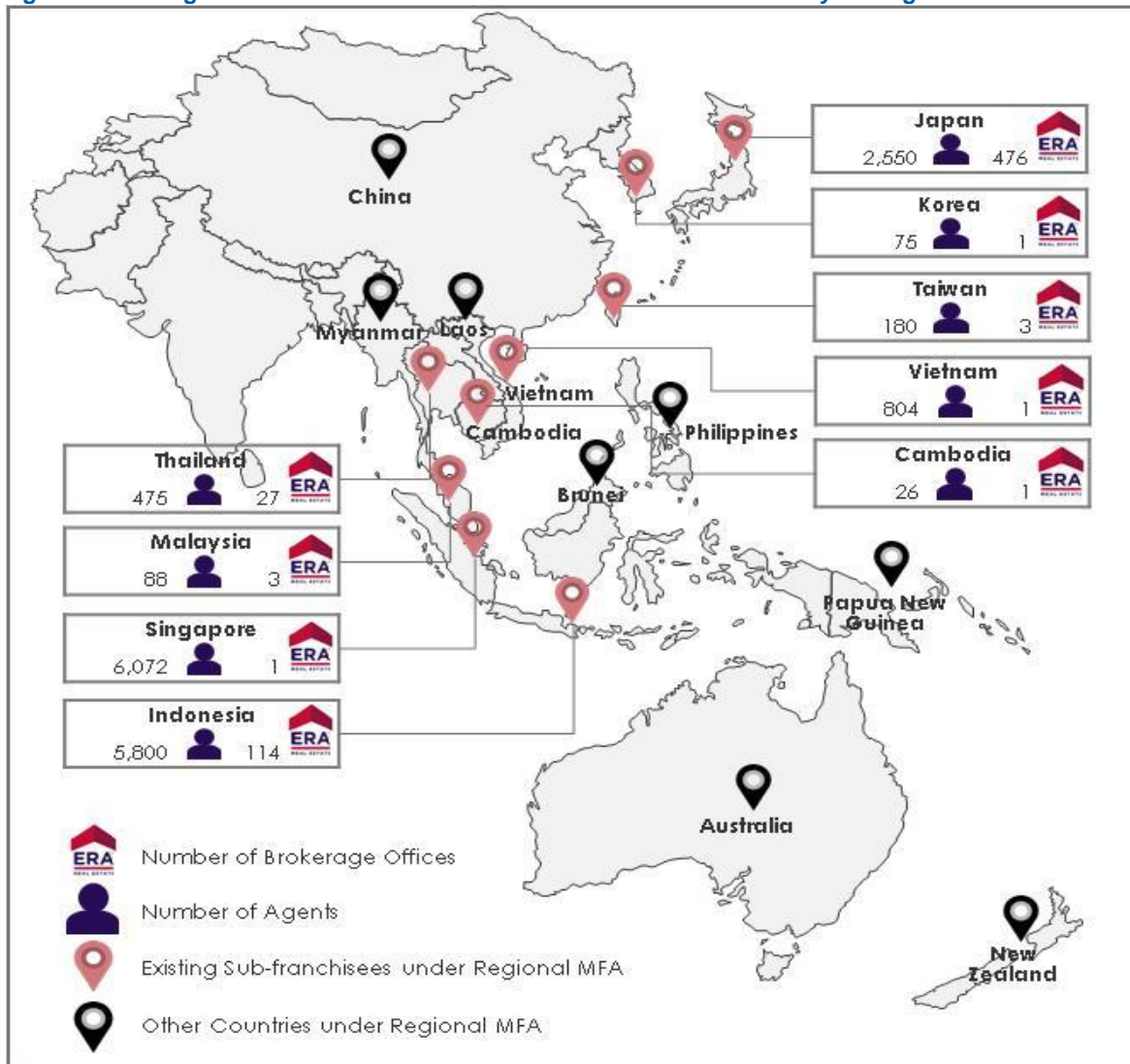
Source: Company data

Figure 2: Developer partners in Hainan



Source: Company data

Figure 4: Existing ERA sub-franchisees and the other countries covered by the regional MFA



Source: Company

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**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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