

15 June 2020

Property | Real Estate Oper & Svcs

## APAC Realty (APAC SP)

**Buy** (Maintained)

### Riding Through Market Cycles

- **Maintain BUY with a lower TP of SGD0.50 from SGD0.60, 25% upside with c.4% yield.** While COVID-19 pandemic is expected to cause a sharp slowdown in near-term volumes, we expect transactions to slowly rebound once the economy is opened up. This is on the back of resilient local buying demand, a low interest rate environment and stringent additional buyer's stamp duty deadlines limiting developers from holding inventory.
- **COVID-19 and circuit breaker (CB) impact to be felt in 2H; Preliminary data shows signs of primary market recovery.** The suspension of real estate activities (physical viewings, etc.) during the CB saw April new sales plunging 62% YoY but recovering in May with a 75% MoM jump to 484 units (-49% YoY) based on Knight Frank data. As there is a 2-6 months' time lag of earnings recognition from project sales, the impact on APAC's earnings will only be felt in 3Q. 1Q new sales (excluding EC's) grew healthy 17% YoY with APAC registering a market share of 34.8% (1Q19: 29.6%) which should contribute positively in 2Q. Overall, we expect primary transaction volumes to fall 30-40% in 2020 (Refer to: [Ample Room To Cushion A Fall](#)) but expect the market to pick up towards the end of the year, backed by low interest rates, strong household balance sheets and pent-up demand.
- **Resale market to see a bigger short-term impact but recovery expected once economy is fully opened up.** Based on SRX data, private resale volumes in May were down 80% YoY while HDB resale volumes fell to a 30-year low. The sharp fall in volumes is understandable, as buyers in the resale market generally tend to purchase units only upon physical inspections. The Group also expects to receive c.SGD1.7m (13% of FY19 personnel costs) from Government on measures such as the Jobs Support Scheme, offsetting some of the fixed costs.
- **ERA APAC Centre fully leased, overseas contributions likely to be delayed.** Over last two years, ERA acquired stakes in its Indonesia, Thailand, Malaysia and Vietnam franchisees, to diversify and mitigate concentration risks. While initially we expected positive contributions from 2020 onwards, with the sudden shift in market conditions we believe it will take another two years before we see meaningful contributions. On the positive side, the revamped ERA APAC centre achieved full occupancy as of the end of last year and it has minimal lease renewals due in 2020. Management will pass the entire property tax rebates as rental rebates and it has not receive many rental deferment requests. Overall ERA APAC Centre is expected to contribute SGD0.5-1.0m to overall net income.
- **Earnings and assumption changes.** We reduce FY20-21F net profit by 30% and 13% due to revisions of volume assumptions. We have also raised our WACC by 30bps to 8.1% to factor in higher market returns. Share price in the near-term is likely to be volatile but we remain positive on long-term fundamentals.

Target Price (Return): SGD0.50 (25.0%)  
 Price: SGD0.40  
 Market Cap: USD101m  
 Avg Daily Turnover (SGD/USD) 0.08m/0.06m

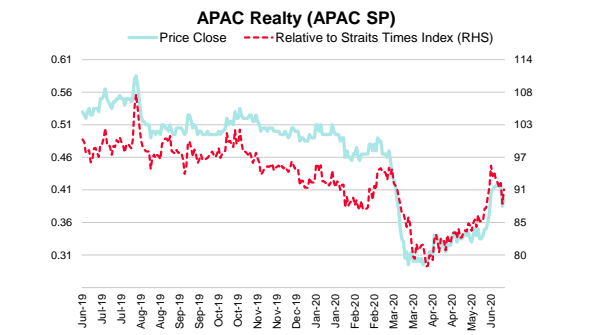
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.4)	16.2	0.0	(21.8)	(26.2)
Relative	(2.7)	12.5	(0.2)	(5.8)	(9.9)
52-wk Price low/high (SGD)	0.30 – 0.59				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	424	370	291	354	389
Recurring net profit (SGDm)	24	14	10	13	16
Recurring net profit growth (%)	(6.4)	(42.3)	19.7	24.9	11.2
Recurring EPS (SGD)	0.07	0.04	0.03	0.04	0.04
DPS (SGD)	0.05	0.02	0.01	0.02	0.02
Recurring P/E (x)	5.78	10.01	13.61	10.52	8.78
P/B (x)	0.98	0.96	0.93	0.89	0.86
Dividend Yield (%)	11.4	5.1	3.7	4.8	5.7
Return on average equity (%)	17.6	9.7	6.9	8.4	9.5
Net debt to equity (%)	10.1	15.5	12.2	6.0	1.3

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.07	0.04	0.03	0.04	0.04
Property	EPS	0.07	0.04	0.03	0.04	0.04
<b>APAC Realty</b>	DPS	0.05	0.02	0.01	0.02	0.02
APAC SP	BVPS	0.40	0.41	0.42	0.44	0.46
BUY	Return on average equity (%)	17.6	9.7	6.9	8.4	9.5
	Return on average assets (%)	9.3	4.8	3.4	4.2	4.7
<b>Valuation basis</b>						
DCF methodology	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Recurring P/E (x)	5.78	10.01	13.61	10.52	8.78
	P/B (x)	1.0	1.0	0.9	0.9	0.9
	Dividend Yield (%)	11.4	5.1	3.7	4.8	5.7
	EV/EBITDA (x)	4.98	7.93	10.09	7.73	6.31
<b>Key drivers</b>						
i. Resilience in Singapore real estate volumes;						
ii. Growth in market share and agents;						
iii. Expanding franchise network and training services						
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Sharp and prolonged slowdown in residential volumes,	Total turnover	424	370	291	354	389
ii. Disruption from technology advances;	Gross profit	53	46	38	44	48
iii. Loss of market share	EBITDA	31	21	16	19	23
	Depreciation and amortisation	(1)	(2)	(2)	(2)	(2)
	Operating profit	30	19	14	18	21
	Net interest	(0)	(2)	(2)	(2)	(2)
	Pre-tax profit	29	17	12	16	19
	Taxation	(5)	(3)	(2)	(3)	(3)
	Reported net profit	24	14	10	13	16
	Recurring net profit	24	14	10	13	16
<b>Company Profile</b>						
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	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(13.3)	(0.4)	(1.5)	1.2	0.8
	Cash flow from operations	14.1	17.0	11.8	17.8	20.2
	Capex	(76.0)	(1.2)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(76.3)	(11.7)	(1.0)	(1.0)	(1.0)
	Dividends paid	(14.2)	(11.5)	(5.2)	(6.7)	(8.0)
	Cash flow from financing activities	97.9	(19.2)	(6.5)	(8.0)	(10.4)
	Cash at beginning of period	62.0	43.0	32.0	42.7	56.0
	Net change in cash	35.7	(13.9)	4.3	8.8	8.8
	Ending balance cash	97.7	29.1	36.3	51.6	64.8
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	43	32	36	45	53
	Tangible fixed assets	74	74	75	75	76
	Intangible assets	99	99	98	97	96
	Total other assets	0	6	5	5	5
	Total assets	283	295	282	302	315
	Short-term debt	3	3	3	3	3
	Total long-term debt	55	52	52	52	52
	Total liabilities	140	150	131	144	152
	Shareholders' equity	143	146	151	157	163
	Minority interests	0	(0)	0	0	0
	Total equity	143	145	151	157	163
	Total liabilities & equity	283	295	282	302	315
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	5.8	(12.8)	2.3	20.7	9.6
	Recurring net profit growth (%)	(6.4)	(42.3)	19.7	24.9	11.2
	Recurrent EPS growth (%)	(6.4)	(42.3)	19.7	24.9	11.2
	Gross margin (%)	12.5	12.5	13.1	12.6	12.4
	Recurring net profit margin (%)	5.7	3.8	3.5	3.8	4.1
	Dividend payout ratio (%)	58.6	82.4	50.0	50.0	50.0

Source: Company data, RHB

Figure 1: APAC Realty's DCF valuation table

(SGD m)	FY20F	FY21F	FY22F	FY23F	Terminal Value
EBIT * (1- Tax rate)	11.8	15.8	11.8	14.8	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	(1.5)	1.2	0.8	(0.2)	
Less : Capex	1.0	1.0	1.0	1.0	
Total Free Cash Flow	13.8	14.1	14.8	15.9	196.9
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	13.3	12.6	12.2	12.1	150.0
Sum of PV of FCF (SGD m)	50.2				
PV of Terminal Value (SGD m)	150.0				
Enterprise Value (SGD m)	200.1				
Add: Net Cash/(Debt)	(22.6)				
Total Equity Value (SGD m)	177.5				
No. of shares (m)	355.2				
Value per share (SGD)	<b>0.50</b>				
<b>Assumptions</b>					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	0.9				
Equity risk premium	5.8%				
WACC	8.1%				
Terminal Growth	0%				

Source: RHB

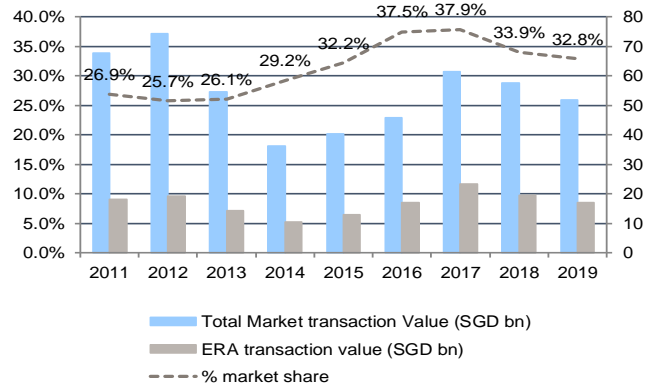
Figure 2: 1Q20 market overview

Market Transaction Volume <sup>1</sup>	1Q 2020 (units)	1Q 2019 (units)	Change (%)
<b>New Homes</b>			
Private Residential	2,149	1,838	16.9
Executive Condominiums (ECs)	<u>590</u>	<u>10</u>	nm
	<u>2,739</u>	<u>1,848</u>	48.2
<b>Resale</b>			
Private	2,120	1,905	11.3
HDB	<u>5,893</u>	<u>4,835</u>	21.9
	<u>8,013</u>	<u>6,740</u>	18.9
<b>Rental</b>			
Private	21,191	21,426	(1.1)
HDB	<u>11,591</u>	<u>11,775</u>	(1.6)
	<u>32,782</u>	<u>33,201</u>	(1.3)
<b>ERA Market Share<sup>2</sup> (estimated)</b>			
New Homes - Private and ECs	34.8%	29.6%	
Resale - Private and HDB	41.4%	40.2%	

nm - not meaningful

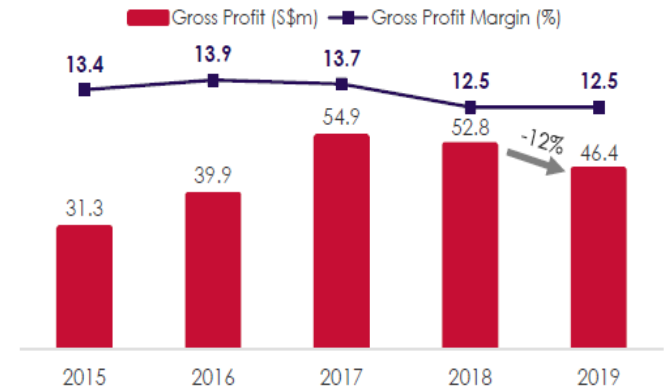
Source: Company Data

Figure 3: Market share – based on transaction value



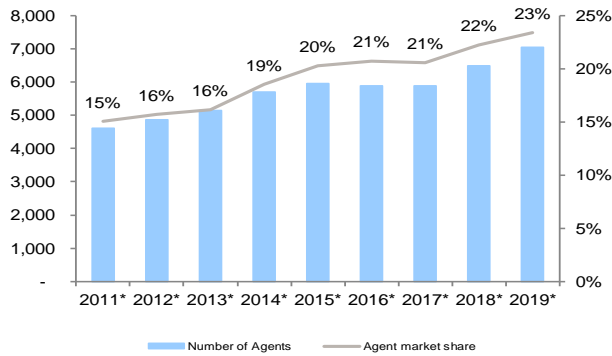
Source: Company data, RHB

Figure 4: Gross profit and GP margin trend



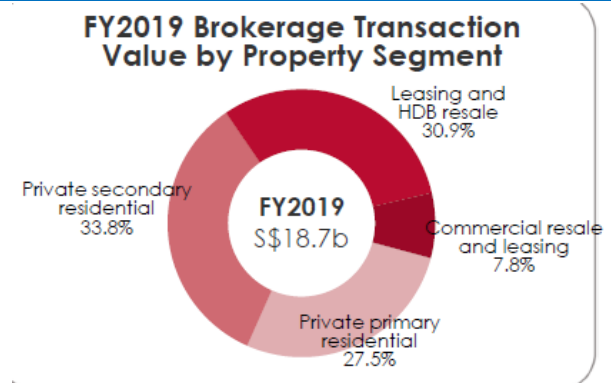
Source: Company data, RHB

Figure 5: Agents and market share



\*Data as of 1st Jan next year;  
Source: CEA, Company Data

Figure 6: Brokerage revenue breakdown by segments



Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-25	Buy	0.60	0.49
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53
2019-03-01	Buy	0.72	0.57
2018-08-31	Buy	0.77	0.57
2018-08-08	Buy	na	0.62
2018-07-12	Buy	0.77	0.61

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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