

Singapore Company Update

APAC Realty

Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Nov 2020

BUY (Upgrade from HOLD)

Last Traded Price (13 Nov 2020): S\$0.380 (STI : 2,711.39)

Price Target 12-mth: S\$0.53 (39% upside) (Prev S\$0.40)

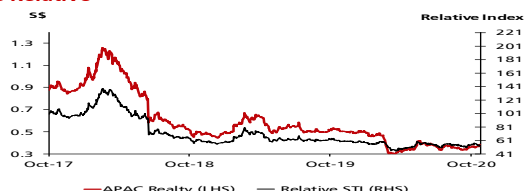
Analyst

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What's New

- Upgrade to BUY on steady transaction volume and attractive valuations
- Only a slight decline in transaction volume in 9M20 despite the COVID-19 pandemic
- Raised sales assumptions, FY20-21F earnings raised 22-25%
- Supply still healthy despite fewer project launches

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	370	361	374	403
EBITDA	20.4	19.6	20.6	23.0
Pre-tax Profit	17.2	17.2	18.3	20.7
Net Profit	14.0	14.3	15.2	17.1
Net Pft (Pre Ex.)	14.0	14.3	15.2	17.1
Net Pft Gth (Pre-ex) (%)	(42.2)	2.1	6.1	12.9
EPS (S cts)	3.94	4.03	4.27	4.83
EPS Pre Ex. (S cts)	3.94	4.03	4.27	4.83
EPS Gth Pre Ex (%)	(42)	2	6	13
Diluted EPS (S cts)	3.94	4.03	4.27	4.83
Net DPS (S cts)	2.00	2.04	2.17	2.45
BV Per Share (S cts)	41.0	43.0	45.1	47.4
PE (X)	9.6	9.4	8.9	7.9
PE Pre Ex. (X)	9.6	9.4	8.9	7.9
P/Cash Flow (X)	8.0	6.7	8.3	7.1
EV/EBITDA (X)	7.7	7.4	6.7	5.6
Net Div Yield (%)	5.3	5.4	5.7	6.4
P/Book Value (X)	0.9	0.9	0.8	0.8
Net Debt/Equity (X)	0.2	0.1	0.0	CASH
ROAE (%)	9.7	9.6	9.7	10.4
Earnings Rev (%):		25	22	NEW
Consensus EPS (S cts):		3.9	4.0	4.3
Other Broker Recs:		B: 2	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Resilience amid the crisis

Investment Thesis:

Upgrade to BUY on stable transaction volume and attractive valuations. The property market was resilient amid the COVID-19 pandemic. Transaction activities in the various segments only saw a slight decrease of between 1.2% to 5.2% y-o-y in 9M20. We now expect the overall market transaction value to ease 2.4% in FY20F and rebound 3.4% in FY21F and 7.9% in FY22F. APAC is trading at an attractive 9.4x FY20F PE, which is slightly below -1SD of its 5-year average PE. Hence, we upgrade the stock to BUY from Hold with a higher TP of S\$0.53. Factors that can drive market activities include the low interest rate environment and healthy supply of projects.

Supply still healthy despite fewer project launches. ERA has launched 21 projects during Jan-Oct 2020, vs 43 projects in the full year 2019. There are 21 more projects slated for launch during the rest of this year and in FY2021.

Potential catalyst: 1) Strong pick up in private property transaction activities; 2) Easing of property cooling measures.

Valuation:

Upgrade to BUY with higher TP of S\$0.53. We have raised FY20F-21F earnings by 22-25%. TP is increased to S\$0.53 (prev S\$0.40) on higher earnings and valuation peg of 12.4x PE on FY21F earnings, average of its 5-year PE, vs 11.4x at -1SD previously, as we believe the worst is over.

Where we differ:

We are positive on APAC's ability to benefit from the resilience in the property market, being one of the leading players in the real estate brokerage industry in Asia.

Key Risks to Our View:

Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (\$m/US\$m)	135 / 100
Major Shareholders (%)	
Tan Choon Hong	71.8
FILInvestment	4.3
Free Float (%)	23.9
3m Avg. Daily Val (US\$m)	0.04
GIC Industry :	Real Estate / Real Estate Management & Development



Live more, Bank less

APAC Realty

WHAT'S NEW

Upgrade to BUY on stable transaction volume and attractive valuations

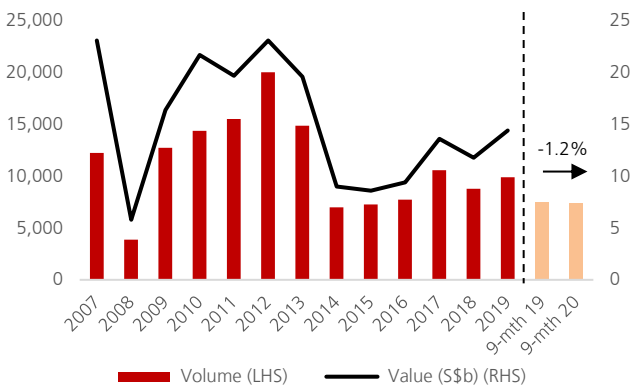
Upgrade to BUY on stable transaction volume. We upgrade APAC to BUY from HOLD on better than expected property transaction activities. The property market remains resilient amid the COVID-19 pandemic. 9M20 transaction activities for the overall market only saw a slight decrease y-o-y. We are now expecting the overall market transaction value to ease 2.4% in FY20F and rebound 3.4% in FY21F and 7.9% in FY22F. Factors that can drive the market activities include the low interest rate environment and healthy supply of projects.

Attractive valuations. On the back of the higher transaction value assumptions, we have raised FY20F and FY21F earnings by 25% and 22% respectively. Target price is increased to S\$0.53 (prev S\$0.40) pegged to 5-year average PE of 12.4x on FY21F earnings. At the current valuation, APAC is trading at an attractive 9.4x FYxxF PE, which is slightly below -1SD of its 5-year average.

Transaction volume – Stable

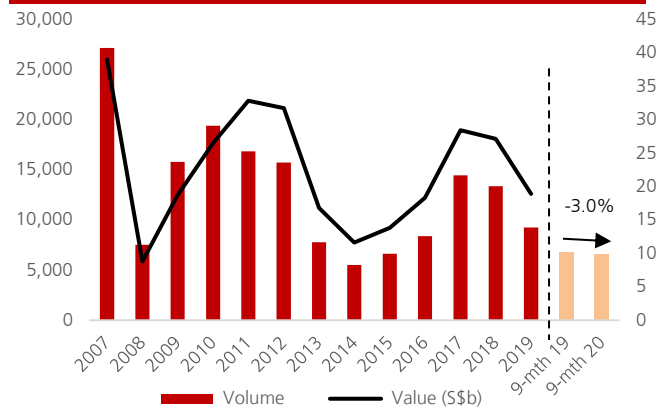
Stable volume despite COVID-19 impact. 9M20 transaction volume for all the different segments remained stable, with only a slight decline y-o-y despite the COVID-19 impact. The real estate market was affected during the Circuit Breaker period from 7 April to 1 June 2020. As Singapore emerged from the Circuit Breaker Period, the market offered potential buyers an attractive proposition supported by low interest rates, stable asset pricing and ample supply of inventory.

Market transaction activities – Private new homes



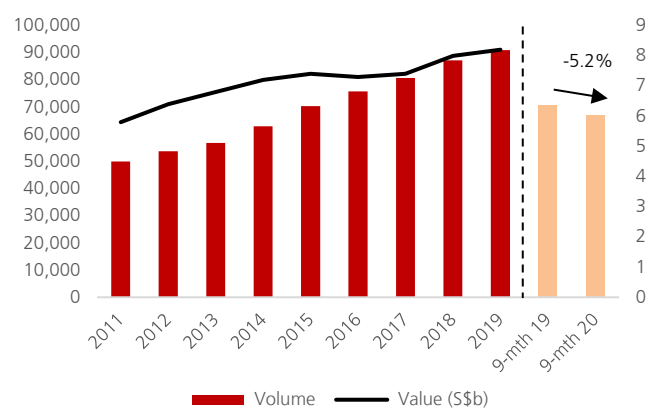
Source: Company: DBS Bank

Market transaction activities – Private resale



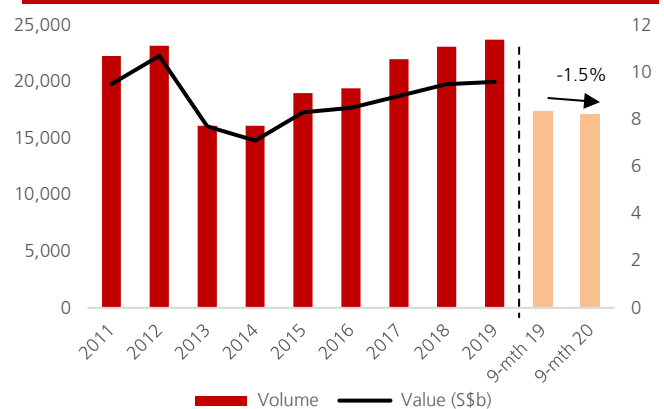
Source: Company: DBS Bank

Market transaction activities – Private leasing



Source: Company: DBS Bank

Market transaction activities – HDB resale



Source: Company: DBS Bank

APAC Realty

Strong rebound in 3Q20. In 3Q20, all segments saw higher y-o-y transaction volumes, with the strongest growth in the resale market. Private resale transactions were up 42.2% in 3Q20 vs a year ago, while the HDB resale segment posted 24.3% y-o-y growth. Private new homes, excluding Executive Condominiums (EC) segment, was up 7.2% y-o-y while the private rental division inched up 0.6%. While 3Q 2020 transaction volume was higher than 2Q 2020, the positive financial impact will mostly be realised in 4Q 2020 due to the time lag in revenue recognition.

All segments registered growth in 3Q20

	3Q 20	3Q 19	Change (%)
Transaction volume (units)			
Private new homes (ex ECs)	3,517	3,281	+7.2
Private resale	3,530	2,484	+42.2
HDB resale	7,787	6,264	+24.3
Private rental	26,462	26,296	+0.6
ERA market share (estimated)			
New homes – Private and ECs	29.7%	29.5%	
Resale – Private and HDB	42.1%	40.2%	

Source: Company: DBS Bank

Market share for ERA – Slight increase during the 9-month period

Market share for new home sales stable at 29.7% in 3Q20. Developers sold 3,517 private residential units in 3Q 2020, an increase of 7.2% y-o-y. ERA's market share in the new homes (Private + ECs) segment was relatively stable, at 29.7% vs 29.5% in 3Q19. On a 9M20 basis, ERA's market share was 28.9% compared to 28.3% in the same period last year.

Supply still healthy despite fewer project launches. ERA marketed 21 projects with more than 5,500 units in the first ten months of 2020. ERA has secured marketing agent mandates for 21 residential projects with more than 9,200 new home units to be launched in the last two months of 2020 and FY 2021.

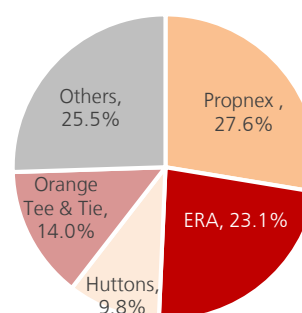
Fared better in resale market; market share improved to 42.1%. In 3Q 2020, the private residential resale market recorded sales of 3,530 units, representing a robust increase of 42.2% from 2,482 units in 3Q 2019. The HDB resale market also reported an increase of 24.3% to 7,787 units in 3Q 2020 from 6,264 units in 3Q 2019. In terms of market share, ERA fared better in the resale segment (Private + HDB). Its market share for 3Q20 improved to 42.1%, from

40.2% in 3Q19. On 9M20, its market share was up 1.9% to 42.2%, from 40.4% a year ago.

Overall market share healthy at 38.8%, a slight increase y-o-y. ERA achieved a healthy 38.8% share of the residential property market (exclude rental market) in 9M20, compared with 37.3% in the corresponding period last year and 38.0% for FY 2019.

Agent market share has increased steadily. ERA's market share in terms of number of agents has increased to c. 23.1% from 21% in 2018, amid market consolidation over the last few years. Ranked second in the Singapore market, ERA has more than 7,200 agents as at 30 June 2020.

Market share of agents



Source: Company: DBS Bank

Earnings and Recommendation

Raised sales assumption for FY20F and FY21F. The property market has shown resilience amid the COVID-19 pandemic. 9M20 transaction activities for the overall market only saw a slight decrease y-o-y. We are now expecting the overall market transaction value to ease 2.4% in FY20F and rebound 3.4% in FY21F, vs our earlier assumption of a 11.9% drop in FY20F and 4% rebound in FY21F.

Upgrade to BUY with higher TP of S\$0.53. On the back of higher transaction value assumptions, we raised FY20F and FY21F earnings by 25% and 22% respectively. Target price is increased to S\$0.53 (prev S\$0.40) on the back of higher earnings. We have also raised the valuation peg to 12.4x PE on FY21F earnings, which is the average of its 5-year PE, vs 11.4x at -1SD level previously, as we believe the worst is over for APAC. Upgrade to BUY.

APAC Realty

Company Background

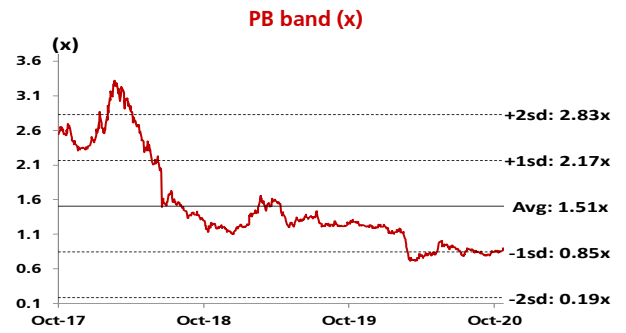
APAC Realty Limited (“APAC”) is one of the leading players in the real estate brokerage industry in Asia. APAC Realty operates three main business segments – the real estate

brokerage services; franchise agreements; and training, valuation and other ancillary services.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

APAC Realty

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Private residential - primary	(5.8)	(10.8)	0.0	(5.0)	7.10
Private residential - secondary	(4.6)	(30.1)	(2.6)	5.00	7.10
HDB resale	5.40	2.07	(5.0)	3.00	5.00

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (\$\$m)					
Brokerage	413	360	352	364	392
Non-brokerage	10.6	9.24	9.70	10.2	10.7
Total	424	370	361	374	403
Gross profit (\$\$m)					
Brokerage	44.5	37.3	35.2	36.4	39.2
Non-brokerage	10.2	10.2	0.0	0.0	0.0
Total	54.7	47.5	35.2	36.4	39.2

Income Statement (\$\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	424	370	361	374	403
Cost of Goods Sold	(371)	(323)	(317)	(327)	(353)
Gross Profit	52.8	46.4	44.8	46.4	49.8
Other Opng (Exp)/Inc	(23.1)	(27.4)	(25.7)	(26.4)	(27.4)
Operating Profit	29.7	19.0	19.0	20.1	22.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(1.8)	(1.8)	(1.8)	(1.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.2	17.2	17.2	18.3	20.7
Tax	(5.0)	(3.3)	(2.9)	(3.1)	(3.5)
Minority Interest	0.0	0.14	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	24.2	14.0	14.3	15.2	17.1
Net Profit before Except.	24.2	14.0	14.3	15.2	17.1
EBITDA	31.1	20.4	19.6	20.6	23.0
Growth					
Revenue Gth (%)	5.8	(12.8)	(2.2)	3.4	7.8
EBITDA Gth (%)	(0.1)	(34.3)	(4.3)	5.3	11.5
Opg Profit Gth (%)	0.0	(36.0)	0.1	5.5	11.8
Net Profit Gth (Pre-ex) (%)	(6.4)	(42.2)	2.1	6.1	12.9
Margins & Ratio					
Gross Margins (%)	12.5	12.5	12.4	12.4	12.4
Opg Profit Margin (%)	7.0	5.1	5.3	5.4	5.6
Net Profit Margin (%)	5.7	3.8	4.0	4.1	4.3
ROAE (%)	17.6	9.7	9.6	9.7	10.4
ROA (%)	9.3	4.8	4.9	5.1	5.6
ROCE (%)	13.9	5.9	5.9	6.1	6.8
Div Payout Ratio (%)	65.9	50.7	50.7	50.7	50.7
Net Interest Cover (x)	66.9	10.7	10.7	11.3	12.6

Source: Company, DBS Bank

APAC Realty

Interim Income Statement (\$m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	227	197	163	206	173
Cost of Goods Sold	(200)	(171)	(143)	(180)	(151)
Gross Profit	26.8	26.0	20.0	26.3	21.7
Other Oper. (Exp)/Inc	(10.5)	(12.7)	(12.8)	(13.5)	(11.9)
Operating Profit	16.4	13.3	7.15	12.9	9.74
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	(0.4)	(0.9)	(0.9)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	16.4	12.8	6.25	12.0	9.07
Tax	(2.8)	(2.2)	(1.2)	(2.1)	(1.4)
Minority Interest	0.0	0.0	0.0	0.07	0.06
Net Profit	13.6	10.6	5.04	8.91	7.76
Net profit bef Except.	13.6	10.6	5.04	8.91	7.76
EBITDA	17.1	14.0	8.68	14.5	11.3

Growth

Revenue Gth (%)	nm	(13.4)	(17.1)	26.6	(16.3)
EBITDA Gth (%)	nm	(18.1)	(38.1)	66.7	(21.6)
Opg Profit Gth (%)	nm	(18.9)	(46.2)	80.1	(24.4)
Net Profit Gth (%)	nm	(21.9)	(52.6)	76.8	(12.9)

Margins

Gross Margins (%)	11.8	13.2	12.3	12.8	12.5
Opg Profit Margins (%)	7.2	6.8	4.4	6.2	5.6
Net Profit Margins (%)	6.0	5.4	3.1	4.3	4.5

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	72.8	72.8	73.3	73.8	74.3
Invt in Associates & JVs	0.35	0.44	0.53	0.53	0.53
Other LT Assets	101	106	106	106	106
Cash & ST Invt	43.0	32.0	43.8	51.3	60.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	59.7	68.2	51.1	52.9	57.0
Other Current Assets	6.79	15.4	15.4	15.4	15.4
Total Assets	283	295	290	300	314
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	63.5	71.9	60.4	62.5	67.4
Other Current Liab	14.8	15.6	15.2	15.4	15.8
LT Debt	54.6	51.7	51.7	51.7	51.7
Other LT Liabilities	4.29	7.55	7.55	7.55	7.55
Shareholder's Equity	143	146	153	160	169
Minority Interests	0.04	(0.1)	(0.1)	(0.1)	(0.1)
Total Cap. & Liab.	283	295	290	300	314
Non-Cash Wkg. Capital	(11.8)	(3.9)	(9.1)	(9.6)	(10.8)
Net Cash/(Debt)	(14.5)	(22.6)	(10.8)	(3.3)	5.87
Debtors Turn (avg days)	55.8	63.2	60.3	50.8	49.8
Creditors Turn (avg days)	71.8	76.8	76.4	68.6	67.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.6	1.3	1.2	1.3	1.3
Current Ratio (x)	1.3	1.3	1.4	1.5	1.5
Quick Ratio (x)	1.3	1.1	1.2	1.3	1.4
Net Debt/Equity (X)	0.1	0.2	0.1	0.0	CASH
Net Debt/Equity ex MI (X)	0.1	0.2	0.1	0.0	CASH
Capex to Debt (%)	127.2	2.3	1.8	1.8	1.8
Z-Score (X)	2.8	2.4	2.4	2.5	2.5

Source: Company, DBS Bank

APAC Realty

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	29.2	17.2	17.2	18.3	20.7
Dep. & Amort.	1.44	1.44	0.55	0.55	0.55
Tax Paid	(5.0)	(5.3)	(3.3)	(2.9)	(3.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(16.1)	(0.4)	5.64	0.29	0.80
Other Operating CF	1.69	3.98	0.0	0.0	0.0
Net Operating CF	11.3	17.0	20.1	16.2	18.9
Capital Exp.(net)	(73.2)	(1.2)	(1.0)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(0.4)	(0.1)	(0.1)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(10.3)	0.0	0.0	0.0
Net Investing CF	(73.5)	(11.7)	(1.1)	(1.0)	(1.0)
Div Paid	(14.2)	(11.5)	(7.3)	(7.7)	(8.7)
Chg in Gross Debt	57.5	(4.8)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	43.3	(16.3)	(7.3)	(7.7)	(8.7)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(19.0)	(11.0)	11.8	7.50	9.20
Opg CFPS (S cts)	7.71	4.88	4.07	4.48	5.09
Free CFPS (S cts)	(17.4)	4.43	5.38	4.28	5.04

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 20	0.49	0.52	HOLD
2:	11 Jun 20	0.39	0.41	HOLD
3:	13 Aug 20	0.38	0.41	HOLD
4:	14 Aug 20	0.38	0.40	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 16 Nov 2020 07:58:19 (SGT)

Dissemination Date: 16 Nov 2020 08:00:40 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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