

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

13 Aug 2021

BUY

Last Traded Price (12 Aug 2021): S\$0.815 (STI : 3,182.80)
Price Target 12-mth: S\$1.05 (29% upside) (Prev S\$0.74)

Analyst

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What's New

- Excellent 1H21 results underpinned by strong demand
- Higher interim and one-off special dividend; sets payout ratio at 50-80% vs 54% in FY20
- Improving market share, especially in the new home market
- Maintain BUY with higher TP of S\$1.05

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020A	2021F	2022F
Revenue	370	395	581	618
EBITDA	20.4	21.3	33.6	35.2
Pre-tax Profit	17.2	19.6	32.0	33.6
Net Profit	14.0	16.4	26.6	27.9
Net Pft (Pre Ex.)	14.0	16.4	26.6	27.9
Net Pft Gth (Pre-ex) (%)	(42.2)	17.3	61.7	5.0
EPS (S cts)	3.94	4.63	7.48	7.86
EPS Pre Ex. (S cts)	3.94	4.63	7.48	7.86
EPS Gth Pre Ex (%)	(42)	17	62	5
Diluted EPS (S cts)	3.94	4.63	7.48	7.86
Net DPS (S cts)	2.00	2.50	5.61	4.32
BV Per Share (S cts)	41.0	43.6	45.4	49.0
PE (X)	20.7	17.6	10.9	10.4
PE Pre Ex. (X)	20.7	17.6	10.9	10.4
P/Cash Flow (X)	17.1	14.5	11.0	9.8
EV/EBITDA (X)	15.3	14.4	9.0	8.2
Net Div Yield (%)	2.5	3.1	6.9	5.3
P/Book Value (X)	2.0	1.9	1.8	1.7
Net Debt/Equity (X)	0.2	0.1	0.1	CASH
ROAE (%)	9.7	10.9	16.8	16.6
Earnings Rev (%):			2	3
Consensus EPS (S cts):			7.60	7.30
Other Broker Recs:		B: 3	S: 0	H: 2

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

Tailwind from unfaltering property appetite

Investment Thesis:

Strong demand, tight supply. We project the transaction value for Singapore's overall property market to grow by a strong 48% in FY21F and another 6% in FY22F. This is revised up from our previous assumption of 27% in FY21F and 3% in FY22F, after 24% growth in FY20. The positive market sentiment on the back of a low interest rate environment, healthy supply of projects, expectations of a gradual economic recovery and healthy housing demand is outweighing the COVID-19 impact.

1H21 results is a testament of this trend, with >100% surge in both revenue and net profit as compared to 1H20. The group has also declared a higher interim DPS and a one-off special DPS to reward shareholders, and established a dividend policy to distribute 50% to 80% of its profits. The dividend payout ratio in FY20 was 54%

Attractive valuations. APAC is trading at an attractive 10.9x FY21F PE, which is near its 5-year average PE, and lower than its closest peer, Propnex at c.17x.

Potential catalyst: 1) Strong pick-up in private property transaction activities; 2) Increasing supply of housing units.

Valuation:

Maintain BUY with higher TP of S\$1.05. We have raised our TP to S\$1.05 (Prev: S\$0.74) pegged to +1SD of its 5-year average PE of c.14x on FY21F earnings, vs 5-year average PE of c.10x previously, given the current buoyant property market.

Where we differ:

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

Key Risks to Our View:

Additional property cooling measures; outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (S\$m/US\$m)	289 / 213
Major Shareholders (%)	
Tan Choon Hong	70.9
Free Float (%)	24.8
3m Avg. Daily Val (US\$m)	0.99
GIC Industry : Real Estate / Real Estate Management &	



DBS
Live more, Bank less

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WHAT'S NEW

Excellent 1H21 results underpinned by strong demand

1H21 Results Analysis

Excellent 1H21 results underpinned by strong demand, in line. 1H21 revenue jumped 107% y-o-y to S\$358.4m, due to higher contribution from all market segments. Transaction volumes were relatively healthy across all market segments, buoyed by optimism in the outlook for the Singapore economy and the relatively low interest rate environment. Revenue from new home sales/ resale and rental increased 146%/95% y-o-y in 1H21. Net profit surged 120% to S\$17m, accounting for 65% of our forecasts, roughly in line as 2H21 could be weaker due to the recent tighter measures in place to curb the worsening COVID-19 situation.

Higher Interim and one-off special dividend declared; sets 50% to 80% payout ratio. The group has declared an interim DPS of 3.5Scts (vs 0.75Scts in 1H20) and a one-off special DPS of 3Scts. The interim DPS represents a dividend payout ratio of 73% based on 1H21 earnings, which works out to an annualized dividend yield of c.8.5%. The group has also established a dividend policy to distribute 50% to 80% of its profits as dividends on a semi-annual basis. In FY20, dividend payout ratio was 54%.

Higher market share. ERA's market share in the new home market improved to 32.1% from 27.9% a year ago. ERA maintained a healthy 41.1% market share in the overall residential property market in 1H21, compared to 38.4% in 1H20, in terms of transaction volume for new homes, private residential and HDB, but excludes leasing transactions.

Overall Market Transaction

Overall private residential market

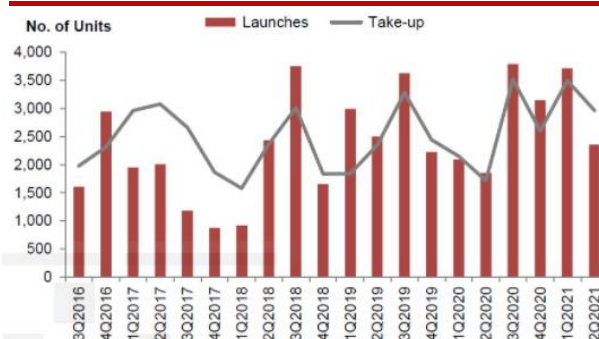
Key indicators	Change	1Q21	2Q21
Price index	+0.8%	162.2	163.5
Rental index	+2.9%	106.2	109.3
Take-up* (units)	-15.1%	3,493	2,966
Pipeline supply* (units)	-2.2%	48,139	47,097
Vacancy rate*	-0.1% pt	6.4%	6.3%
Resale (units)	+18.0%	4,519	5,333

*exclude ECs

Source: URA, DBS Bank

- Property price index for the private residential segment increased by a smaller 0.8% q-o-q, vs the 3.3% increase in the previous quarter, partly affected by the Heightened Alert in June. The HDB resale price index gained 3% q-o-q in 2Q21, similar to the gain in 1Q21.
- Prices of non-landed units in Outside Central Region (OCR) saw the biggest q-o-q increase of 1.9% in 2Q21, followed by Rest of Central Region (RCR) with a 0.1% gain and Core Central Region (CCR) at 1.1%. In 1Q21, OCR/RCR/CCR saw increases of 1.1%/6.1%/0.5% respectively.
- Lower launches of 2,356 units in 2Q21, vs 3,716 in 1Q21. Take-up rate was also 15.1% lower.

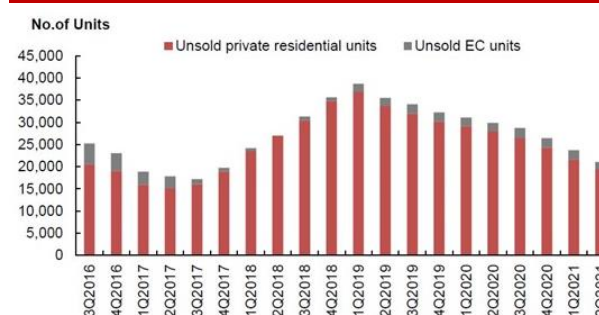
Number of private residential units launched and sold (ex. EC)



Source: URA, DBS Bank

- Dwindling stockpile. Of the supply of 47,097 units in the pipeline, 19,384 remained unsold as at end 2Q21, lower than 21,602 units in the previous quarter.

Dwindling stockpile



Source: URA, DBS Bank

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- **Resale market was strong.** There were 18% more units transacted in the private residential market compared to 1Q21. The resale market has been robust in the last few quarters, accounting for >50% of total sales in the private residential market.

For the HDB segment, the resale price index was up 3% vs 1Q21. With construction activities curtailed by safe-distancing measures and border curbs contributing to a labour crunch, completion timelines for both build-to-order (BTO) HDB flats and private developments have been disrupted. Hence, more buyers are turning to the resale market. The brisk demand for HDB resale has also helped buyers to upgrade to private homes.

Earnings & Recommendation

Maintain BUY, raised TP to S\$1.05. We have raised our TP to S\$1.05 (Prev, S\$0.74) pegged to +1SD of its 5-year average PE of c.14x on FY21F earnings, vs our previous basis of 5-year average PE of c.10x, given the current

buoyant property market. This is on the back of the improvements in both the Covid19 situation as more people are inoculated, and the economy. Though share price has gained c.90% YTD, it still lags peer's Propnex performance of c.150% gain during the same period.

Risks: property cooling measures. With the property price index maintaining its uptrend, coupled with the recent record prices for new launches and land, we read such strong momentum with caution given possible actions to cool the strong demand for property. Furthermore, MAS Chief has also highlighted the potential of levying a property gain tax in recent media comments.

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.

Interim Income Statement (S\$m)

FY Dec	1H2020	2H2020	1H2021	% chg yoy	% chg hoh
Revenue	173	222	358	107.4	61.2
Cost of Goods Sold	(151)	(196)	(323)	113.8	64.5
Gross Profit	22	26	35	62.7	36.4
Other Oper. (Exp)/Inc	(12)	(15)	(14)	18.8	(3.6)
Operating Profit	10	11	21	116.4	89.2
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	0	0	-	-
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	9	11	20	124.7	92.6
Tax	(1)	(2)	(3)	145.4	72.9
Minority Interest	0	0	0	(58.9)	(42.5)
Net Profit	8	9	17	119.7	96.4
Net profit bef Except.	8	9	17	119.7	96.4
EBITDA	11	13	23	103.9	83.8
Margins (%)					
Gross Margins	12.5	11.6	9.8		
Opg Profit Margins	5.6	5.0	5.9		
Net Profit Margins	4.5	3.9	4.8		

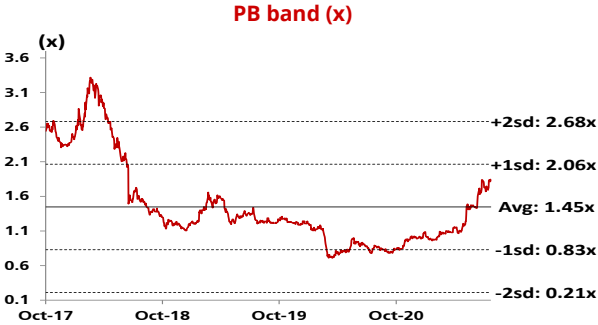
Source of all data: Company, DBS Bank

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Historical PE and PB band



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



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

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Key Assumptions

FY Dec	2018A	2019A	2020A	2021F	2022F
ERA transaction value growth (%)	(16.1)	(18.7)	23.7	48.3	6.47
ERA market share (%)	34.0	32.9	33.3	34.0	34.0

Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (\$m)					
Brokerage	413	359	384	569	606
Non-brokerage	10.6	10.2	11.2	11.8	12.4
Total	424	370	395	581	618
Gross profit (\$m)					
Brokerage	44.5	37.3	37.3	50.1	52.1
Non-brokerage	10.2	10.2	10.2	10.6	11.1
Total	54.7	47.5	47.5	60.7	63.2

Income Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	424	370	395	581	618
Cost of Goods Sold	(371)	(323)	(348)	(520)	(555)
Gross Profit	52.8	46.4	47.5	60.7	63.2
Other Opng (Exp)/Inc	(23.1)	(27.4)	(26.6)	(27.6)	(28.6)
Operating Profit	29.7	19.0	20.9	33.0	34.6
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.2)	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(1.8)	(1.1)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.2	17.2	19.6	32.0	33.6
Tax	(5.0)	(3.3)	(3.3)	(5.4)	(5.6)
Minority Interest	0.0	0.14	0.10	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	24.2	14.0	16.4	26.6	27.9
Net Profit before Except.	24.2	14.0	16.4	26.6	27.9
EBITDA	31.1	20.4	21.3	33.6	35.2
Growth					
Revenue Gth (%)	5.8	(12.8)	6.9	47.0	6.4
EBITDA Gth (%)	(0.1)	(34.3)	4.0	57.9	4.8
Opg Profit Gth (%)	0.0	(36.0)	9.9	58.2	4.9
Net Profit Gth (Pre-ex) (%)	(6.4)	(42.2)	17.3	61.7	5.0
Margins & Ratio					
Gross Margins (%)	12.5	12.5	12.0	10.4	10.2
Opg Profit Margin (%)	7.0	5.1	5.3	5.7	5.6
Net Profit Margin (%)	5.7	3.8	4.2	4.6	4.5
ROAE (%)	17.6	9.7	10.9	16.8	16.6
ROA (%)	9.3	4.8	5.3	7.6	7.2
ROCE (%)	13.9	5.9	7.3	11.8	11.9
Div Payout Ratio (%)	65.9	50.7	54.0	75.0	55.0
Net Interest Cover (x)	66.9	10.7	19.5	30.9	32.4

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	163	206	173	222	358
Cost of Goods Sold	(143)	(180)	(151)	(196)	(323)
Gross Profit	20.0	26.3	21.7	25.8	35.3
Other Oper. (Exp)/Inc	(12.8)	(13.5)	(11.9)	(14.7)	(14.2)
Operating Profit	7.15	12.9	9.74	11.1	21.1
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	(0.2)	(0.3)
Net Interest (Exp)/Inc	(0.9)	(0.9)	(0.7)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	6.25	12.0	9.07	10.6	20.4
Tax	(1.2)	(2.1)	(1.4)	(1.9)	(3.4)
Minority Interest	0.0	0.07	0.06	0.04	0.02
Net Profit	5.04	8.91	7.76	8.68	17.0
Net profit bef Except.	5.04	8.91	7.76	8.68	17.0
EBITDA	8.68	14.5	11.3	12.6	23.1
Growth					
Revenue Gth (%)	(17.1)	26.6	(16.3)	28.6	61.2
EBITDA Gth (%)	(38.1)	66.7	(21.6)	11.0	83.8
Op (Profit) Gth (%)	(46.2)	80.1	(24.4)	14.4	89.2
Net Profit Gth (%)	(52.6)	76.8	(12.9)	11.9	96.4
Margins					
Gross Margins (%)	12.3	12.8	12.5	11.6	9.8
Op Profit Margins (%)	4.4	6.2	5.6	5.0	5.9
Net Profit Margins (%)	3.1	4.3	4.5	3.9	4.8

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	72.8	72.8	73.9	74.4	74.9
Invs in Associates & JVs	0.35	0.44	2.43	2.43	2.43
Other LT Assets	101	106	103	103	103
Cash & ST Invs	43.0	32.0	35.1	40.4	53.7
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	59.7	68.2	79.6	131	139
Other Current Assets	6.79	15.4	27.4	27.4	27.4
Total Assets	283	295	321	378	400
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	63.5	71.9	90.9	140	149
Other Current Liab	14.8	15.6	18.2	19.4	19.6
LT Debt	54.6	51.7	48.8	48.8	48.8
Other LT Liabilities	4.29	7.55	5.94	5.94	5.94
Shareholder's Equity	143	146	155	161	174
Minority Interests	0.04	(0.1)	(0.2)	(0.2)	(0.2)
Total Cap. & Liab.	283	295	321	378	400
Non-Cash Wkg. Capital	(11.8)	(3.9)	(2.1)	(1.1)	(2.4)
Net Cash/(Debt)	(14.5)	(22.6)	(16.6)	(11.3)	2.00
Debtors Turn (avg days)	55.8	63.2	68.3	66.0	79.5
Creditors Turn (avg days)	71.8	76.8	85.6	81.0	95.0
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.6	1.3	1.3	1.7	1.6
Current Ratio (x)	1.3	1.3	1.3	1.2	1.3
Quick Ratio (x)	1.3	1.1	1.0	1.1	1.1
Net Debt/Equity (X)	0.1	0.2	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.1	0.2	0.1	0.1	CASH
Capex to Debt (%)	127.2	2.3	0.3	1.9	1.9
Z-Score (X)	2.8	2.4	2.4	2.5	2.5

Source: Company, DBS Bank

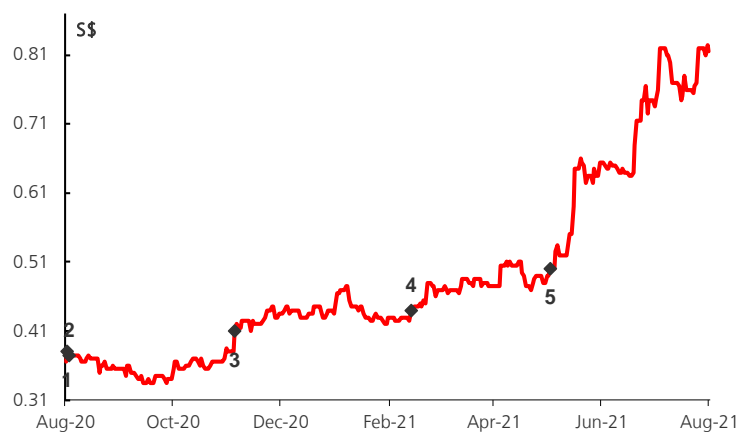
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Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	29.2	17.2	19.6	32.0	33.6
Dep. & Amort.	1.44	1.44	0.55	0.55	0.55
Tax Paid	(5.0)	(5.3)	(2.5)	(4.2)	(5.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.16	0.0	0.0
Chg in Wkg.Cap.	(16.1)	(0.4)	(4.3)	(2.1)	0.95
Other Operating CF	1.69	3.98	6.46	0.0	0.0
Net Operating CF	11.3	17.0	20.0	26.2	29.7
Capital Exp.(net)	(73.2)	(1.2)	(0.2)	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(0.4)	(0.1)	(2.2)	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)	(2.6)	0.0	0.0
Net Investing CF	(73.5)	(11.7)	(4.9)	(1.0)	(1.0)
Div Paid	(14.2)	(11.5)	(7.1)	(19.9)	(15.4)
Chg in Gross Debt	57.5	(4.8)	(4.9)	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)	(12.0)	(19.9)	(15.4)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(19.0)	(11.0)	3.10	5.27	13.3
Opg CFPS (S cts)	7.71	4.88	6.85	7.98	8.09
Free CFPS (S cts)	(17.4)	4.43	5.59	7.09	8.08

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Aug 20	0.38	0.41	HOLD
2:	14 Aug 20	0.38	0.40	HOLD
3:	16 Nov 20	0.41	0.53	BUY
4:	24 Feb 21	0.44	0.61	BUY
5:	14 May 21	0.50	0.74	BUY

Source: DBS Bank

Analyst: Lee Keng LING

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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

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

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Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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