

18 August 2021

Property | Real Estate Oper & Svcs

## APAC Realty (APAC SP)

**Neutral** (from Buy)

### Mind The Policy Risk; D/G To NEUTRAL

Target Price (Return): SGD0.88 (-5%)  
 Price: SGD0.93  
 Market Cap: USD244m  
 Avg Daily Turnover (SGD/USD) 1.39m/1.03m

- **Downgrade to NEUTRAL from Buy, with new SGD0.88 TP from SGD0.70, 5% downside.** APAC Realty blew past market expectations with a strong set of 2Q numbers, and a surprise big dividend payout. However, we expect earnings to peak this year, on reducing inventory levels and the release of pent-up demand. More importantly, the risk of policy measures to cool the market will be higher, if the current exuberance persists. Considering the risk-reward profile, its FY22F P/E of 13x is fair, in our view.
- **A blowout quarter and dividends.** 2Q and 1H21 net profit more than doubled to SGD9.5m and SGD17m, on the back of robust primary and secondary market transaction volumes, and a slight improvement in market share. APAC announced an interim dividend of 3.5 SG cents, representing a 73% payout, and a special dividend of 3 SG cents, paying out some of the income retained in recent years. Looking ahead, the group will be setting a dividend policy of paying out 50-80% of net profit, from a c.55% payout previously, based on its strong balance sheet and limited funding requirements. We raise FY21F-22F net profit by 28% and 18%, factoring in the strong residential volume. However, we also see earnings peaking this year, and declining 15% next year on falling inventory levels in the primary market.
- **Recent market frenzy raises policy intervention risk.** Primary market transaction volume stayed robust, with 6,459 units sold in 1H21, at c.65% of last year's total transaction volume. Latest data showed that July developer sales surged 82.2% MoM to 1,589 units, with the release of some pent-up demand from Phase-2 Heightened measures. Notably, the six rounds of price hikes on the opening day of the recent launch at Pasir Ris 8 has raised eyebrows on the market frenzy. Developers have been seen capitalising on this trend, raising prices at some launches in sub-urban areas. Strong primary market sales, along with benchmark prices, have also resulted in robust activity in the private resale market, with 1H transaction volume of 10,090 units – close to last year's total. The recent property market euphoria and price hikes raise policy intervention risk, in our view, with higher possibility of demand-side measures in the near term – a key risk to APAC's share price.
- **Slight increase in market share; gross margins showing some pressure.** Its real estate agency ERA's market share for new home sales rose to 32.1% in 1H21 (1H20: 27.9%) and remained steady for private resales at 43.8% (1H20: 44.4%), with a 33.9% overall market share (1H20: 33.3%). 1H gross margins, however, dipped 2.7ppts to 9.8% due to sales mix and lower margins for new home sales. Management noted that new home sales margins are expected to decline to 14%, in line with market standards, from the 16-17% it enjoyed in the past. Resale transaction margins remain at 6-7%.

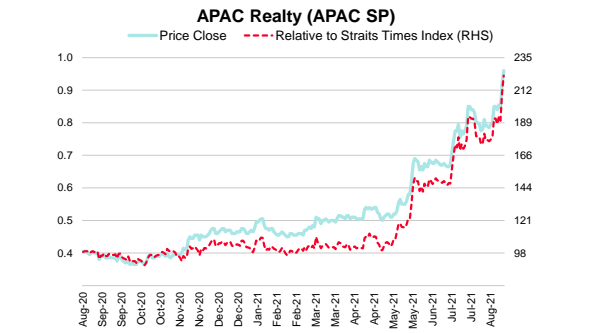
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	109.0	13.4	86.0	118.8	148.0
Relative	98.4	13.6	83.0	111.6	126.1
52-wk Price low/high (SGD)	0.34 – 0.93				



Source: Bloomberg

#### Overall ESG Score: 2.9 (out of 4)

##### E: Good

In FY20, there were zero incidents of environmental non-compliance. The group has moved its HQ to ERA APAC Centre and installed energy efficient lights and appliances, and plans to reduce its energy footprint in coming years.

##### S: Good

APAC increased its agent head count by c.10% in FY20. Close to 7,600 agents fulfilled their Continuing Professional Development or CPD hours. Three instances of disciplinary action were against its sales persons – relatively lower than its peers. It targets zero of such instances in the future, through education. Good dental and insurance coverage policies for its employees. ERA is a long-time Platinum Award contributor to the Community Chest, since 1999, and set up a Care for Children initiative to assist children from financially disadvantaged families.

##### G: Good

High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (SGDm)	370	395	576	531	534
Recurring net profit (SGDm)	14	17	30	25	25
Recurring net profit growth (%)	(42.3)	18.5	78.0	(15.2)	1.7
Recurring EPS (SGD)	0.04	0.05	0.08	0.07	0.07
DPS (SGD)	0.03	0.02	0.10	0.05	0.05
Recurring P/E (x)	23.58	19.90	11.18	13.18	12.96
P/B (x)	2.27	2.13	2.22	2.07	1.99
Dividend Yield (%)	3.5	2.2	10.7	5.7	5.8
Return on average equity (%)	9.7	11.1	19.6	16.3	15.4
Net debt to equity (%)	15.5	10.7	13.1	5.1	1.0

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (SGD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.04	0.05	0.08	0.07	0.07
Property	EPS	0.04	0.05	0.08	0.07	0.07
<b>APAC Realty</b>	DPS	0.03	0.02	0.10	0.05	0.05
APAC SP	BVPS	0.41	0.44	0.42	0.45	0.47
Neutral	Return on average equity (%)	9.7	11.1	19.6	16.3	15.4
	Return on average assets (%)	4.8	5.4	8.5	6.7	6.7
<b>Valuation basis</b>						
DCF methodology	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Recurring P/E (x)	23.58	19.90	11.18	13.18	12.96
	P/B (x)	2.3	2.1	2.2	2.1	2.0
	Dividend Yield (%)	3.5	2.2	10.7	5.7	5.8
	EV/EBITDA (x)	17.19	15.46	9.27	10.32	9.97
<b>Key drivers</b>						
i. Resilience in Singapore real estate volumes;						
ii. Growth in market share and agents; and						
iii. Expanding franchise network and training services.						
<b>Key risks</b>						
i. Risk of additional severe cooling measures,						
ii. Disruption from technology advances; and						
iii. Loss of market share.						
<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>Income statement (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total turnover	370	395	576	531	534
	Gross profit	46	48	65	60	61
	EBITDA	21	22	38	33	33
	Depreciation and amortisation	(2)	(2)	(2)	(2)	(2)
	Operating profit	19	21	36	31	32
	Net interest	(2)	(1)	(1)	(1)	(1)
	Pre-tax profit	17	20	35	30	31
	Taxation	(3)	(3)	(6)	(5)	(5)
	Reported net profit	14	17	30	25	25
	Recurring net profit	14	17	30	25	25
	<b>Cash flow (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	(0.4)	(4.3)	(0.0)	0.8	(0.2)
	Cash flow from operations	17.0	20.2	35.7	31.7	31.2
	Capex	(1.2)	(0.4)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(11.7)	(4.9)	(1.0)	(1.0)	(1.0)
	Dividends paid	(11.5)	(7.1)	(35.4)	(18.8)	(19.1)
	Cash flow from financing activities	(19.2)	(14.9)	(37.5)	(21.2)	(21.5)
	Cash at beginning of period	43.0	32.0	35.1	34.1	50.0
	Net change in cash	(13.9)	0.4	(2.9)	9.5	8.7
	Ending balance cash	29.1	32.4	32.2	43.7	58.7
	<b>Balance sheet (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	32	35	32	44	50
	Tangible fixed assets	74	74	74	75	75
	Intangible assets	99	98	97	96	95
	Total other assets	6	8	8	8	8
	Total assets	295	321	338	340	346
	Short-term debt	3	3	3	3	3
	Total long-term debt	52	49	49	49	49
	Total liabilities	150	167	189	180	181
	Shareholders' equity	146	155	149	160	166
	Minority interests	(0)	(0)	0	0	0
	Total equity	145	155	149	160	166
	Total liabilities & equity	295	321	338	340	346
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	(12.8)	6.9	45.7	(7.8)	0.7
	Recurring net profit growth (%)	(42.3)	18.5	78.0	(15.2)	1.7
	Recurrent EPS growth (%)	(42.3)	18.5	78.0	(15.2)	1.7
	Gross margin (%)	12.5	12.0	11.4	11.3	11.4
	Recurring net profit margin (%)	3.8	4.2	5.1	4.7	4.8
	Dividend payout ratio (%)	82.4	42.8	120.0	75.0	75.0

Source: Company data, RHB

Figure 1: APAC's DCF valuation table

(SGDm)	FY21F	FY22F	FY23F	FY24F	Terminal Value
EBIT * (1- Tax rate)	30.1	25.9	26.4	26.5	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	(0.0)	0.8	(0.2)	(0.2)	
Less : Capex	1.0	1.0	1.0	1.0	
Total Free Cash Flow	30.6	25.7	27.1	27.2	315.7
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	29.4	22.7	22.0	20.4	236.3
Sum of PV of FCF (SGD m)	94.5				
PV of Terminal Value (SGD m)	236.3				
Enterprise Value (SGD m)	330.7				
Add: Net Cash/(Debt)	(19.5)				
Total Equity Value (SGD m)	311.3				
No. of shares (m)	355.2				
Value per share (SGD)	<b>0.88</b>				
<b>Assumptions</b>					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.0				
Equity risk premium	6.1%				
WACC	8.6%				
Terminal Growth	0%				

Source: RHB

Figure 2: Singapore residential market transaction overview

	1H21	1H20	Chg (%)
<b>New Homes</b>			
Private	6,459	3,862	67.2
ECs	1,142	661	72.8
<b>Total New Home sales</b>	<b>7,601</b>	<b>4,523</b>	<b>68.1</b>
<b>Resale</b>			
Private	10,090	3,071	228.6
HDB	14,644	9,319	57.1
<b>Total Resale</b>	<b>24,734</b>	<b>12,390</b>	<b>99.6</b>
<b>Rental</b>			
Private	47,966	40,697	17.9
HDB	21,655	22,130	-2.1
<b>Total Rental Transactions</b>	<b>69,621</b>	<b>62,827</b>	<b>10.8</b>
<b>Total residential transactions</b>	<b>101,956</b>	<b>79,740</b>	<b>27.9</b>

Source: URA, HDB, Company data

Figure 3: Market share – based on transaction value

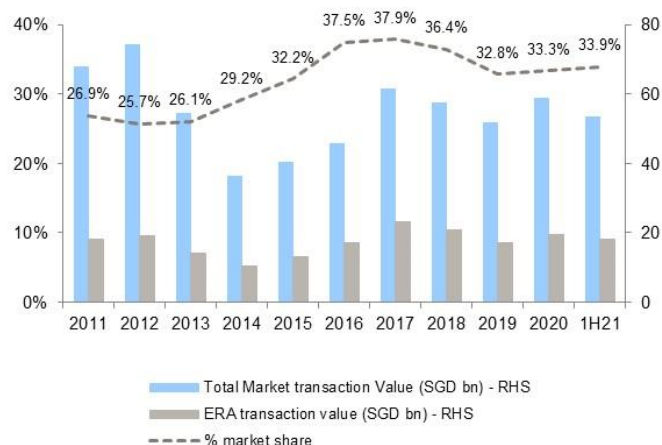


Figure 4: Agent count and market share



Source: Company data, RHB

Note: \*As of 1 Jan following year; \*\* As of 17 Aug  
Source: Company data, RHB

## Recommendation Chart



Date	Recommendation	Target Price	Price
2021-05-21	Buy	0.70	0.52
2020-11-22	Buy	0.55	0.43
2020-06-14	Buy	0.50	0.40
2019-11-14	Buy	0.60	0.51
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53
2018-11-13	Buy	0.72	0.50
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

Source: RHB, Bloomberg

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Analyst	Company
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