

6 March 2023

Property | Real Estate Oper & Svcs

## APAC Realty (APAC SP)

## Neutral (Maintained)

### A Quieter Year Ahead

- **Stay NEUTRAL and SGD0.60 TP, 2% downside.** APAC Realty's FY22 net profit exceeded expectations on the back of robust market activity last year, but it is expected to soften in 2023 as rising interest rates and cooling measures take a bite. The group has been diversifying its income stream by expanding overseas and adding more business segments, eyeing for the longer term, which resulted in higher upfront costs. Share price remains supported by c.7% yields and its net cash position.
- **FY23 earnings expected to decline 21% YoY**, as we forecast residential transaction volumes to decline on the back of a more cautious buying sentiment. This comes after a 25% YoY decline in profits in FY22, which was above our expectations (110% of our forecast), as market activity remained robust. FY22 earnings also includes a one-off charge of SGD3.1m, a fair value loss on a convertible loan for its listed Indonesian entity in which it acquired a c.85% stake. The group declared a final dividend of 2.75 cents, taking full-year dividend to 6.25 cents, which translates into a c.75% pay-out ratio and a 10% yield.
- **Primary volumes to remain steady, resale volumes to slow down.** For 2022, new home sales (excluding executive condominiums) fell 43% YoY at 7,384 units, with a slowdown more pronounced in 2H. As there is a lag effect in earnings (typically 3-6 months), this will probably have an impact on APAC's 1Q23 net profit. Overall for 2023, we expect new sales to be slightly higher (8,000-9,000 range), mainly driven by significantly increased new launches. Resale volumes though are expected to take a hit (5-20% lower) on pricing expectation mismatch, and rising interest rates.
- **Increasing agent count and maintaining market share a key priority.** In 2022, ERA Realty Network (ERA) maintained its second-largest position in Singapore's residential market transactions with a market share of 40.6% (FY21: 40.3%). Its Singapore agent count increased 5% last year to 8,527, with a target to reach 10,000 agents over the next two years. We believe the competitive real estate agency landscape could bring some M&A opportunities. ERA has been investing in its digitalisation strategy to better equip its agents and attract young talent in the industry. Another area of growth has been its capital markets & investment sales business unit, which has so far recorded SGD43m in transaction value since inception in early FY22. Its overseas operations have turned the corner in FY22, but meaningful contributions are likely only after 3-5 years.
- **We tweak higher FY23-24F earnings by 2% and 3%** adjusting volume assumptions. Our ESG score of 2.9 out of 4.0 (based on our proprietary in-house methodology) is one notch below our country median score. Hence, we apply a 2% discount to our DCF model to derive the TP.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	740	705	621	627	633
Recurring net profit (SGDm)	36	26	21	21	21
Recurring net profit growth (%)	117.0	(26.4)	(21.1)	0.1	1.1
Recurring EPS (SGD)	0.10	0.07	0.06	0.06	0.06
DPS (SGD)	0.08	0.06	0.04	0.04	0.05
Recurring P/E (x)	6.09	8.27	10.48	10.47	10.35
P/B (x)	1.35	1.35	1.31	1.27	1.23
Dividend Yield (%)	13.5	9.2	7.3	7.3	7.6
Return on average equity (%)	22.6	16.3	12.6	12.0	11.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return):	SGD0.60 (-1.8%)
Price (Market Cap):	SGD0.61 (USD161m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (SGD/USD)	0.07m/0.05m

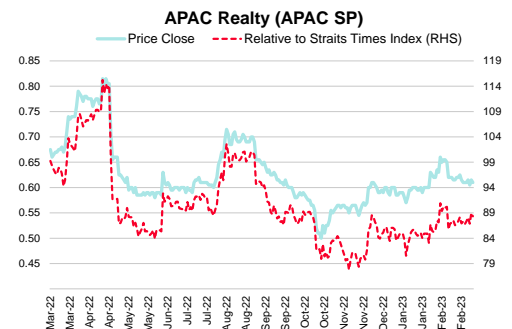
#### Analyst

Vijay Natarajan  
+65 6320 0825  
vijay.natarajan@rhbgroup.com



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	(7.6)	7.0	(6.2)	(9.6)
Relative	4.0	(3.1)	7.8	(7.0)	(8.9)
52-wk Price low/high (SGD)	0.50 – 0.82				



Source: Bloomberg

#### Overall ESG Score: 2.90 (out of 4)

##### E: GOOD

In FY21 there has been zero incidents of environmental non-compliance. The group has moved its headquarters to ERA APAC Centre where it installed energy efficient lights and appliances and further plans to reduce its energy footprint in coming years.

##### S: GOOD

With seven disciplinary actions against sales persons – relatively lower than its peers' (based on total agents) – the group has set a target of zero such instances in future through education. There is good dental and insurance coverage policies for employees. ERA is a long-time Platinum Award contributor to the Community Chest since 1999 and has set up a care for children to assist children from financially disadvantaged families

##### G: GOOD

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

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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## Financial Exhibits

Asia	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.10	0.07	0.06	0.06	0.06
Property	EPS	0.10	0.07	0.06	0.06	0.06
APAC Realty	DPS	0.08	0.06	0.04	0.04	0.05
APAC SP	BVPS	0.45	0.45	0.47	0.48	0.50
Neutral	Return on average equity (%)	22.6	16.3	12.6	12.0	11.6
	Return on average assets (%)	10.1	6.8	5.2	5.0	4.9
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
DCF	Recurring P/E (x)	6.09	8.27	10.48	10.47	10.35
	P/B (x)	1.3	1.4	1.3	1.3	1.2
	Dividend Yield (%)	13.5	9.2	7.3	7.3	7.6
	EV/EBITDA (x)	4.52	5.75	7.25	6.97	6.62
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Continued strong uptrend in Singapore real estate volumes;	Total turnover	740	705	621	627	633
ii. Growth in market share and agents;	Gross profit	75	73	63	64	65
iii. Growth from other market segments and overseas business.	EBITDA	47	37	29	29	30
	Depreciation and amortisation	(3)	(3)	(3)	(3)	(3)
	Operating profit	44	34	26	26	26
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	43	33	25	25	25
	Taxation	(7)	(6)	(4)	(4)	(4)
	Reported net profit	36	26	21	21	21
	Recurring net profit	36	26	21	21	21
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Regulatory and policy risks;	Change in working capital	6.4	(1.1)	(4.8)	1.9	1.8
ii. Disruption from technology advances;	Cash flow from operations	55.3	35.2	24.5	31.3	31.5
iii. Loss of market share and margin reduction from rising competition.	Capex	(1.3)	(9.0)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(2.1)	(8.5)	(3.0)	(3.0)	(3.0)
	Dividends paid	(29.3)	(19.8)	(15.7)	(15.9)	(16.4)
	Cash flow from financing activities	(37.1)	(70.4)	(21.0)	(21.1)	(21.6)
	Cash at beginning of period	35.1	53.7	49.3	58.4	69.0
	Net change in cash	16.0	(43.6)	0.5	7.2	6.9
	Ending balance cash	51.2	10.1	49.8	65.6	75.9
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
APAC Realty is one of the largest real estate agencies in Singapore and has regional master franchise rights in 17 countries in the Asia-Pacific region	Total cash and equivalents	54	49	50	58	66
	Tangible fixed assets	73	74	74	75	76
	Intangible assets	97	104	103	102	101
	Total other assets	6	3	3	3	3
	Total assets	386	388	366	374	380
	Short-term debt	3	46	46	46	46
	Total long-term debt	46	0	0	0	0
	Total liabilities	225	228	201	203	204
	Shareholders' equity	161	160	166	171	176
	Minority interests	(0)	0	0	0	0
	Total equity	161	160	166	171	176
	Total liabilities & equity	386	388	366	374	380
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	87.2	(4.7)	(12.0)	1.1	0.9
	Recurring net profit growth (%)	117.0	(26.4)	(21.1)	0.1	1.1
	Recurrent EPS growth (%)	117.0	(26.4)	(21.1)	0.1	1.1
	Gross margin (%)	10.2	10.4	10.2	10.2	10.3
	Recurring net profit margin (%)	4.8	3.7	3.3	3.3	3.3
	Dividend payout ratio (%)	82.3	75.7	76.1	76.8	78.6

Source: Company data, RHB

Figure 1: APAC's DCF valuation table

(SGDm)	FY23F	FY24F	FY25F	FY26F	Terminal value
EBIT * (1- tax rate)	21.8	21.8	22.0	22.7	
Add: Depreciation and amortisation	3.4	3.4	3.4	3.4	
Less : Working capital changes	(4.8)	1.9	1.8	2.0	
Less : Capex	3.0	3.0	3.0	2.0	
Total free cash flow	26.9	20.5	21.3	22.6	201.3
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of free cash flow	25.5	17.5	16.3	15.6	138.8
Sum of PV of FCF (SGDm)	74.9				
PV of Terminal value (SGDm)	138.8				
Enterprise value (SGDm)	213.7				
Add: Net cash/(debt)	3.4				
Total equity value (SGDm)	217.0				
No. of shares (m)	355.2				
Intrinsic value per share (SGD)	0.61				
ESG premium/(discount)	-0.01				
<b>TP (SGD)</b>	<b>0.60</b>				
<b>Assumptions</b>					
Risk-free rate	2.8%				
Market return	10.0%				
Beta	1.1				
Equity risk premium	7.8%				
WACC	11.2%				
Terminal growth	0%				

Source: RHB

Figure 2: Market share – based on transaction value

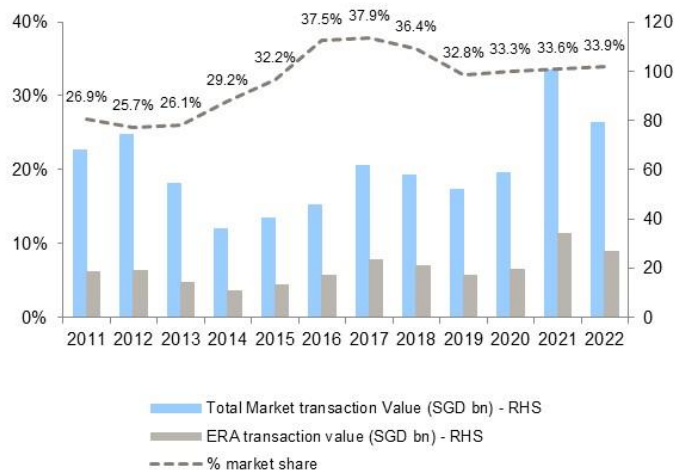
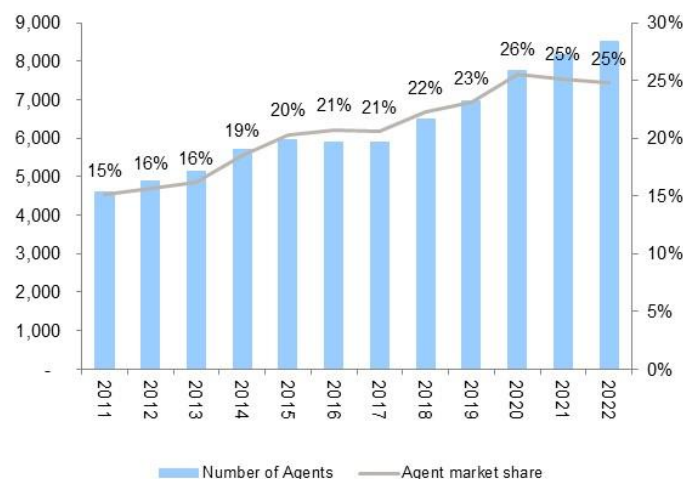


Figure 3: Agent count and market share\*



Source: Company data, RHB

\*Based on 1<sup>st</sup> Jan following year;  
Source: Company data, RHB

## Recommendation Chart

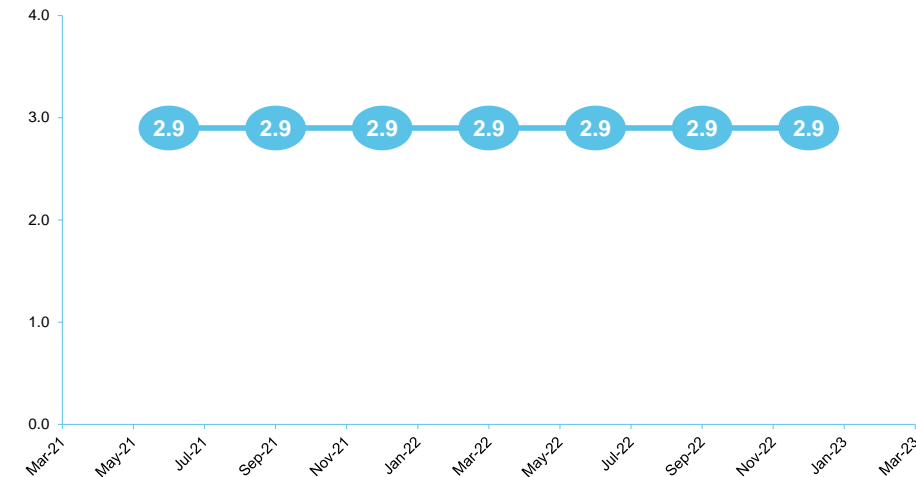


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-10-17	Neutral	0.60	0.57
2022-08-10	Neutral	0.75	0.71
2022-06-22	Buy	0.75	0.60
2022-02-23	Neutral	0.75	0.70
2021-11-15	Neutral	0.90	0.84
2021-08-17	Neutral	0.88	0.93
2021-05-21	Buy	0.70	0.52
2021-02-23	Buy	0.55	0.43
2020-11-22	Buy	0.55	0.43
2020-06-14	Buy	0.50	0.40
2020-02-25	Buy	0.60	0.49
2019-11-14	Buy	0.60	0.51
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53
2019-03-01	Buy	0.72	0.57

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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#### **KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### **JAKARTA**

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### **BANGKOK**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### **SINGAPORE**

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470