

11 August 2022

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (from Buy)

Expect a Weaker 2H; D/G To NEUTRAL

Target Price (Return): SGD0.75 (5.6%)
 Price (Market Cap): SGD0.71 (USD182m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.31m/0.22m

- **Downgrade to NEUTRAL from Buy, with an unchanged TP of SGD0.75, 6% upside.** APAC Realty posted a strong set of 1H results but we expect 2H net profits to drop 50% on the back of lower transaction volumes. While we anticipate Singapore property prices to remain resilient, transaction volumes are expected to fall from limited new launch inventory and rising interest rates. Share price rebounded 15% over the past month and we expect it be more range bound in near-term from lack of strong catalysts.
- **Expecting a 50% decline in 2H.** In 1H net profits were down 3% YoY to SGD16.6m as APAC managed to ride on relatively resilient market conditions at the end of last year and 1Q this year. Key to note: There is a typical time lag of 2-6 months for income recognition of new launches which is one of its key profit drivers. As we expect overall new sales transaction volume to decline 30-40% this year from limited new launches and interest rate increase, this should have a more prominent impact on its profits for 2H. Transaction volume in secondary market is also expected to decline 10-15%. The company announced an interim dividend of 3.5 cents (75% payout ratio) which was a positive surprise.
- **Slight decline in the overall market share.** Real estate agency ERA's estimated market share in new sale segment dipped slightly to 30.6% (vs 32.3% in 1H21) and private resale market stood at 41.9% (vs 43.8%). This was due to an increase in industry competition as well of recruitment of more new agents which management noted will take time to bear fruit. The company is implementing a host of new strategies, including providing more training and beefing up its tech tools to help raise productivity of its agents as well as to retain and attract agents. Another focus area has been its recently setup Capital Markets & Investment Sales division which raked in SGD26m of transactions in four months. The group was also the marketing agent for biggest en-bloc so far this year Chuan Park which was sold for SGD890m. APAC's commission from such transactions is typically 0.8-1%
- **Overseas market contributions still lukewarm.** Overseas contributions remain small with associate contributions of SGD0.3m in 1H. These came mainly from Vietnam and Indonesia while Thailand is yet to turn profitable. The company has fully refurbished ERA APAC centre (formerly Hersing centre) which will be mostly used by the agents for their operations. Post consolidation of operations (and exit of Mountbatten Road premises by Feb 2023) should result in cost savings of c.SGD1.0m pa.
- **We raise FY22-23F net profit 1-2%** by tweaking our volumes assumptions. APAC's ESG Score of 2.9 out of 4.0 (based on our proprietary in-house methodology) is one notch below our country median score, thus we applied a 2% discount to our DCF derived intrinsic value. Our key risks and drivers are mentioned on the next page.

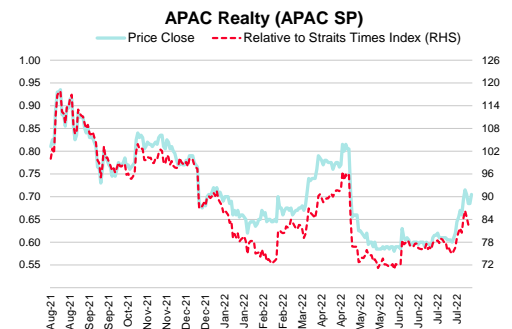
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.1)	14.6	15.6	6.8	(13.0)
Relative	(6.8)	10.1	14.5	11.4	(15.0)
52-wk Price low/high (SGD)	0.58 – 0.94				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	395	740	574	578	582
Recurring net profit (SGDm)	17	36	24	25	26
Recurring net profit growth (%)	18.5	115.6	(31.6)	2.6	3.2
Recurring EPS (SGD)	0.05	0.10	0.07	0.07	0.07
DPS (SGD)	0.02	0.08	0.05	0.05	0.05
Recurring P/E (x)	15.09	7.00	10.22	9.97	9.66
P/B (x)	1.62	1.56	1.50	1.45	1.39
Dividend Yield (%)	2.8	11.7	7.3	7.5	7.8
Return on average equity (%)	11.1	22.7	14.8	14.4	14.1
Net debt to equity (%)	10.7	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.90 (out of 4)

E: GOOD

In 2021 there were no incidents of environmental non-compliance. The group moved its HQ to ERA APAC Centre, installed energy efficient lights and appliances, and further plans to reduce its energy footprint in coming years.

S: GOOD

There were seven disciplinary actions against sales persons, relatively lower than its peers' (based on total agents); the company has set a target of zero such instances in the future and aims to accomplish that through education. Good dental and insurance coverage policy 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 capitalization of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.05	0.10	0.07	0.07	0.07
Property	EPS	0.05	0.10	0.07	0.07	0.07
APAC Realty	DPS	0.02	0.08	0.05	0.05	0.05
APAC SP	BVPS	0.44	0.45	0.47	0.49	0.51
Neutral	Return on average equity (%)	11.1	22.7	14.8	14.4	14.1
	Return on average assets (%)	5.4	10.1	6.2	6.1	6.1
Valuation basis						
DCF methodology	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	15.09	7.00	10.22	9.97	9.66
	P/B (x)	1.6	1.6	1.5	1.4	1.4
	Dividend Yield (%)	2.8	11.7	7.3	7.5	7.8
	EV/EBITDA (x)	11.90	5.24	7.23	6.81	6.37
Key drivers						
i. Continued strong uptrend in Singapore real estate volumes,						
ii. Growth in market share and agents, and						
iii. Expanding Franchise network and training services.						
Key risks						
i. Regulatory and policy risks,						
ii. Disruption from technology advances, and						
iii. Loss of market share and margin reduction from rising competition.						
Company profile						
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						
	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	395	740	574	578	582
	Gross profit	48	75	60	61	62
	EBITDA	22	47	34	34	35
	Depreciation and amortisation	(2)	(3)	(3)	(3)	(3)
	Operating profit	21	44	31	31	32
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	43	30	30	31
	Taxation	(3)	(7)	(5)	(5)	(5)
	Reported net profit	17	36	24	25	26
	Recurring net profit	17	36	24	25	26
	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(4.3)	6.4	(3.6)	0.2	0.1
	Cash flow from operations	20.2	55.3	29.9	34.2	35.0
	Capex	(0.4)	(1.3)	(2.0)	(2.0)	(2.0)
	Cash flow from investing activities	(4.9)	(2.1)	(2.0)	(2.0)	(2.0)
	Dividends paid	(7.1)	(29.3)	(18.4)	(18.8)	(19.4)
	Cash flow from financing activities	(14.9)	(37.1)	(20.8)	(21.2)	(21.8)
	Cash at beginning of period	32.0	35.1	53.7	65.5	77.5
	Net change in cash	0.4	16.0	7.1	11.0	11.2
	Ending balance cash	32.4	51.2	60.8	76.5	88.6
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	35	54	57	66	75
	Tangible fixed assets	74	73	71	70	69
	Intangible assets	98	97	96	95	94
	Total other assets	8	6	6	6	6
	Total assets	321	386	361	369	377
	Short-term debt	3	3	3	3	3
	Total long-term debt	49	46	46	46	46
	Total liabilities	167	225	194	196	197
	Shareholders' equity	155	161	167	173	180
	Minority interests	(0)	(0)	0	0	0
	Total equity	155	161	167	173	180
	Total liabilities & equity	321	386	361	369	377
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	6.9	87.2	(22.4)	0.7	0.7
	Recurring net profit growth (%)	18.5	115.6	(31.6)	2.6	3.2
	Recurrent EPS growth (%)	18.5	115.6	(31.6)	2.6	3.2
	Gross margin (%)	12.0	10.2	10.4	10.5	10.6
	Recurring net profit margin (%)	4.2	4.8	4.3	4.3	4.5
	Dividend payout ratio (%)	42.8	81.9	75.0	75.0	75.0

Source: Company data, RHB

Figure 1: APAC Realty's DCF valuation table

(SGDm)	FY22F	FY23F	FY24F	FY25F	Terminal Value
EBIT * (1- Tax rate)	25.3	26.0	26.8	26.2	
Add: Depreciation and Amortization	3.0	3.0	3.0	3.0	
Less : Working capital changes	(3.6)	0.2	0.1	(0.1)	
Less : Capex	2.0	2.0	2.0	2.0	
Total Free Cash Flow	29.9	26.8	27.7	27.2	243.8
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	28.4	22.9	21.2	27.2	168.3
Sum of PV of FCF (SGDm)	99.7				
PV of Terminal Value (SGDm)	168.3				
Enterprise Value (SGDm)	268.0				
Add: Net Cash/(Debt)	4.8				
Total Equity Value (SGDm)	272.9				
No. of shares (m)	355.2				
Intrinsic Value per share (SGD)	0.77				
ESG Premium/(discount)	-0.02				
Target Price (SGD)	0.75				
Assumptions					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.2				
Equity risk premium	7.3%				
WACC	11.2%				
Terminal Growth	0%				

Source: RHB

Figure 2: Singapore residential market transactions overview (1H)

Market Transaction Volume	1H 2022 (units)	1H 2021 (units)	Change (%)
New Homes			
Private	4,222	6,459	(34.6)
ECs	324	1,142	(71.6)
	4,546	7,601	(40.2)
Resale			
Private	7,932	10,090	(21.4)
HDB	13,753	14,644	(6.1)
	21,685	24,734	(12.3)
Rental			
Private	44,310	48,358	(8.4)
HDB	19,498	21,655	(10.0)
	63,808	70,013	(8.9)
Total residential transactions	90,039	102,348	(12.0)

Source: URA, HDB, and APAC Realty

Recommendation Chart

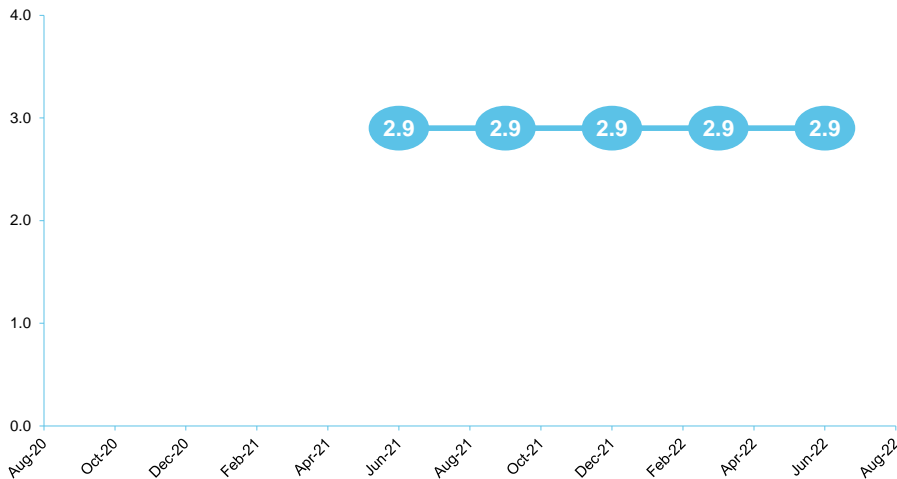


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-02-12	Buy	0.72	0.56
2018-11-13	Buy	0.72	0.50

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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