

23 November 2020

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Buy (Maintained)

Play On Residential Volume Recovery; Keep BUY

Target Price (Return): SGD0.55 (27.9%)
 Price: SGD0.43
 Market Cap: USD112m
 Avg Daily Turnover (SGD/USD) 0.06m/0.05m

- Maintain BUY with a higher DCF-derived TP of SGD0.55 from SGD 0.50, 28% upside with c.5% yield.** Singapore residential volumes have staged a strong rebound in 3Q, with recovery seen across both primary and resale market. ERA Realty (ERA), APAC's wholly owned subsidiary, which commands c.33% residential market share, is well positioned to ride on this recovery. The stock's current P/E of 10x is not expensive in our view when compared to low-mid teen levels typically seen during market upcycles.
- Strong recovery in residential market volumes likely to sustain.** Private new sales have rebounded sharply since June post gradual easing of restrictions with YTD (October) volumes growth only 5% below that of last year. Similarly, private resale and HDB resale volumes have also bounced back and are down only 3%/2% as of 9M20. The strong volume recovery has well surpassed our and market expectations and has been driven by ultra-low interest rates, HDB upgrader demand and Government support measures. While Urban Redevelopment Authority's (URA) latest move to clamp down on reissue of options has cooled off some frenzy (c.5-10% reduction in demand) we do not expect any significant reduction in transaction volumes in coming months. We have thus revised our overall transaction volumes assumptions and now expect a 5-10% decline for 2020 compared to a previous 25-30% decline. For 2021-2022 we assume a flattish to slight growth in volumes.
- Market share position maintained.** Based on its internal estimates ERA has achieved a 33% market share of overall residential market transaction by value in 9M20 (32.1% in 9M19). In terms of transaction volumes, ERA has a 28.9% market share (28.3% in 9M19) of new homes –private and executive condos and 42.2% of resale market (40.3% in 9M19). Agent count is also up 6% YTD to 7,400 as of Oct 2020.
- Enhancing digital efforts to position for the future.** ERA has established partnerships and invested (SGD2.4m) in proptech companies such as Dots Connected (which owns and operates UrbanZoom), SoReal Prop, Turning-Point and Fang. In July, ERA secured the exclusive listing rights to list Singapore properties on Fang.com, a leading property portal in China to tap into growing Chinese demand. In October, ERA entered into a partnership with Matterport to provide its sales team a fast, convenient and low-cost method to capture 3D virtual tours of client properties. ERA also held a virtual property weekend on Oct 10 and 11, featuring Singapore's largest virtual real estate gallery. The event attracted more than 168,000 online viewers. Following the success, ERA has partnered with PropertyGuru Asia to run the Asia Virtual Property Expo from 11 Nov to 12 Dec 2020.
- Earnings changes.** We revise up our FY20-22F net profits by 41%, 10% and 5% on the back of higher transaction volume assumptions.

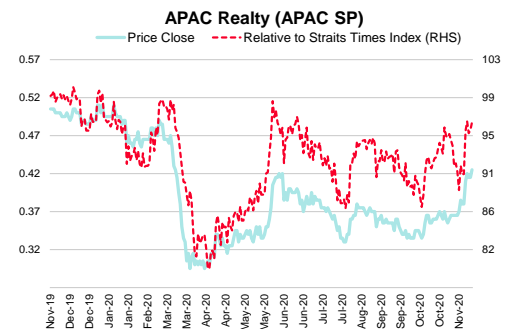
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.3)	18.1	14.9	25.0	(15.9)
Relative	(0.6)	6.9	3.6	15.2	(3.0)
52-wk Price low/high (SGD)				0.30 – 0.51	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	424	370	348	371	383
Recurring net profit (SGDm)	24	14	14	14	15
Recurring net profit growth (%)	(6.4)	(42.3)	2.3	0.8	4.3
Recurring EPS (SGD)	0.07	0.04	0.04	0.04	0.04
DPS (SGD)	0.05	0.02	0.02	0.02	0.02
Recurring P/E (x)	6.22	10.77	10.53	10.44	10.01
P/B (x)	1.06	1.04	0.99	0.94	0.90
Dividend Yield (%)	10.6	4.7	4.7	4.8	5.0
Return on average equity (%)	17.6	9.7	9.5	8.9	8.7
Net debt to equity (%)	10.1	15.5	9.3	3.9	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.07	0.04	0.04	0.04	0.04
Property	EPS	0.07	0.04	0.04	0.04	0.04
APAC Realty	DPS	0.05	0.02	0.02	0.02	0.02
APAC SP	BVPS	0.40	0.41	0.43	0.45	0.47
Buy	Return on average equity (%)	17.6	9.7	9.5	8.9	8.7
	Return on average assets (%)	9.3	4.8	4.6	4.4	4.4
Valuation basis						
DCF methodology	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	6.22	10.77	10.53	10.44	10.01
	P/B (x)	1.1	1.0	1.0	0.9	0.9
	Dividend Yield (%)	10.6	4.7	4.7	4.8	5.0
	EV/EBITDA (x)	5.32	8.45	8.03	7.59	6.94
Key drivers						
i. Resilience in Singapore real estate volumes;						
ii. Growth in market share and agents;						
iii. Expanding Franchise network and training services.						
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Sharp and prolonged slowdown in residential volumes,	Total turnover	424	370	348	371	383
ii. Disruption from technology advances	Gross profit	53	46	44	46	47
iii. Loss of market share	EBITDA	31	21	21	21	21
	Depreciation and amortisation	(1)	(2)	(2)	(2)	(2)
	Operating profit	30	19	19	19	20
	Net interest	(0)	(2)	(2)	(2)	(2)
	Pre-tax profit	29	17	17	17	18
	Taxation	(5)	(3)	(3)	(3)	(3)
	Reported net profit	24	14	14	14	15
	Recurring net profit	24	14	14	14	15
Company Profile						
APAC Realty Pte. Ltd. is one of the largest real estate agencies in Singapore and has regional master franchise rights to 17 countries in the Asia-Pacific region	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(13.3)	(0.4)	(0.4)	0.5	0.4
	Cash flow from operations	14.1	17.0	17.2	18.3	19.0
	Capex	(76.0)	(1.2)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(76.3)	(11.7)	(1.0)	(1.0)	(1.0)
	Dividends paid	(14.2)	(11.5)	(7.2)	(7.2)	(7.5)
	Cash flow from financing activities	97.9	(19.2)	(7.8)	(9.4)	(9.9)
	Cash at beginning of period	62.0	43.0	32.0	48.0	60.1
	Net change in cash	35.7	(13.9)	8.4	8.0	8.0
	Ending balance cash	97.7	29.1	40.4	55.9	68.1
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	43	32	40	48	57
	Tangible fixed assets	74	74	75	75	76
	Intangible assets	99	99	98	97	96
	Total other assets	0	6	5	5	5
	Total assets	283	295	296	308	318
	Short-term debt	3	3	3	3	3
	Total long-term debt	55	52	52	52	52
	Total liabilities	140	150	143	148	151
	Shareholders' equity	143	146	153	160	167
	Minority interests	0	(0)	0	0	0
	Total equity	143	145	153	160	167
	Total liabilities & equity	283	295	296	308	318
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	5.8	(12.8)	(5.9)	6.7	3.3
	Recurring net profit growth (%)	(6.4)	(42.3)	2.3	0.8	4.3
	Recurrent EPS growth (%)	(6.4)	(42.3)	2.3	0.8	4.3
	Gross margin (%)	12.5	12.5	12.5	12.4	12.3
	Recurring net profit margin (%)	5.7	3.8	4.1	3.9	3.9
	Dividend payout ratio (%)	58.6	82.4	50.0	50.0	50.0

Source: Company data, RHB

Figure 1: APAC Realty's DCF valuation table

(SGD m)	FY20F	FY21F	FY22F	FY23F	Terminal Value
EBIT * (1- Tax rate)	15.8	15.9	16.2	16.4	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	(0.4)	0.5	0.4	(0.2)	
Less : Capex	1.0	1.0	1.0	1.0	
Total Free Cash Flow	16.8	15.9	16.3	17.1	211.1
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	16.1	14.2	13.4	13.0	160.7
Sum of PV of FCF (SGD m)	56.7				
PV of Terminal Value (SGD m)	160.7				
Enterprise Value (SGD m)	217.4				
Add: Net Cash/(Debt)	(22.6)				
Total Equity Value (SGD m)	194.8				
No. of shares (m)	355.2				
Value per share (SGD)	0.55				
Assumptions					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	0.9				
Equity risk premium	5.8%				
WACC	8.1%				
Terminal Growth	0%				

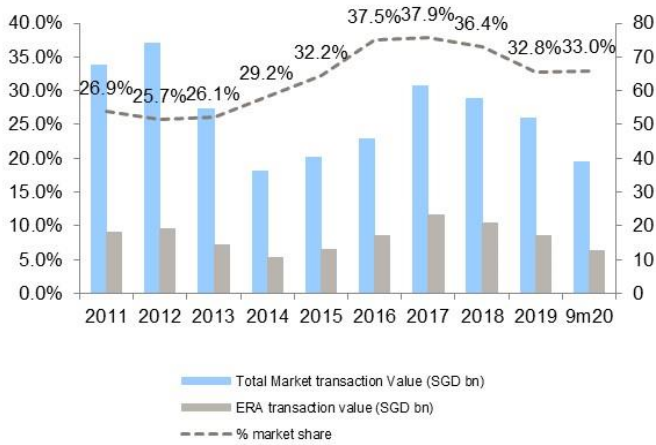
Source: RHB

Figure 2: 3Q and 9M market overview and ERA market share

Market Transaction Volume ¹	3Q 2020 (units)	3Q 2019 (units)	Change (%)	9M 2020 (units)	9M 2019 (units)	Change (%)
New Homes						
Private Residential	3,517	3,281	7.2	7,379	7,469	(1.2)
Executive Condominiums (ECs)	<u>164</u>	<u>426</u>	(61.5)	<u>825</u>	<u>446</u>	85.0
	<u>3,681</u>	<u>3,707</u>	(0.7)	<u>8,204</u>	<u>7,915</u>	3.7
Resale						
Private	3,530	2,482	42.2	6,601	6,803	(3.0)
HDB	<u>7,787</u>	<u>6,264</u>	24.3	<u>17,106</u>	<u>17,375</u>	(1.5)
	<u>11,317</u>	<u>8,746</u>	29.4	<u>23,707</u>	<u>24,178</u>	(1.9)
Rental						
Private	26,462	26,296	0.6	67,159	70,817	(5.2)
HDB	<u>8,196</u>	<u>12,006</u>	(31.7)	<u>30,326</u>	<u>36,116</u>	(16.0)
	<u>34,658</u>	<u>38,302</u>	(9.5)	<u>97,485</u>	<u>106,933</u>	(8.8)
ERA Market Share² (estimated)						
New Homes - Private and ECs	29.7%	29.5%		28.9%	28.3%	
Resale - Private and HDB	42.1%	40.2%		42.2%	40.3%	

Source: Company Data

Figure 3: Market share – based on transaction value



Source: Company data, RHB

Figure 4: Agent count and market share



Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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

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