

24 February 2021

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Buy (Maintained)

Proxy To Strong Residential Volumes; Stay BUY

Target Price (Return): SGD0.55 (27.9%)
 Price: SGD0.43
 Market Cap: USD114m
 Avg Daily Turnover (SGD/USD) 0.14m/0.10m

- **Keep BUY and TP of SGD0.55, 28% upside and c.6% dividend yield.** FY20 net profits comfortably beat consensus aided by a rebound in residential volumes and government grants. Sales momentum continues to remain strong with January new home sales hitting an eight year high. APAC Realty is well positioned to benefit with the group commanding c.33% market share of total residential transactions. APAC's FY21F P/E of 9.7x is 15% lower than the P/E of its closest peer Propnex (based on the FY21 Bloomberg estimate of 11.3x).
- **FY20 net profit up 18% YoY** driven by a strong recovery in residential sales in 2H and a Government grant under the Jobs Support Scheme of SGD1.9 m. FY20 private new home sales (excluding executive condominiums) was up 0.7% YoY to 9,982 units and private resale volume rose 18% YoY to 10,927 units. For FY21 we expect new sales (0-5% higher) and resale volume (0-10% higher) to remain robust, underpinned by ultra-low interest rates and economic recovery. Our FY21F net profit, excluding one-off Government grants (FY20), is expected to grow by 8%. A key risk is the implementation of additional cooling measures and resurgence of COVID-19.
- **Dividend yield of c.6%.** APAC announced a total dividend of 2.5 cents (FY19 2.0 cents) for FY20 translating into a pay-out of 54.3% (in-line with guidance of 50-60%) and we expect similar dividends for FY21.
- **Market share and agent count showing improvement.** Based on its internal estimates, ERA secured an overall residential market share of c.33.3% in FY20 (FY19: 32.9%). While its new sale market share was slightly lower for FY20 at 31.3% (FY19: 34.6%) it gained market share in the buoyant private resale market FY20 of 36% (FY19: 33.3%) while maintaining its leadership position in the HDB resale market. ERA Singapore's agent count has also jumped to 7,771 agents as of end FY20 (FY19: 6,967) with agent market share of c.26% from 23% last year. For FY21F the company has secured marketing agent role for 24 projects (8,802 units) similar to the one in FY20.
- **Minimal overseas contributions so far but looking at long-term potential.** ERA's overseas entities (Indonesia, Thailand, Vietnam and Malaysia) were impacted by a market slowdown due to COVID-19 and were slightly loss making for FY20. Management however remains optimistic on the longer-term prospects of these markets and sees it as a long-term diversification strategy to mitigate the cyclical nature of Singapore market.
- **We have revised up FY21-23F net profits by 10-12%** factoring in strong momentum in residential sales but have also raised our WACC by 40bps to 8.5% to factor in an eventual risk of cooling measures.

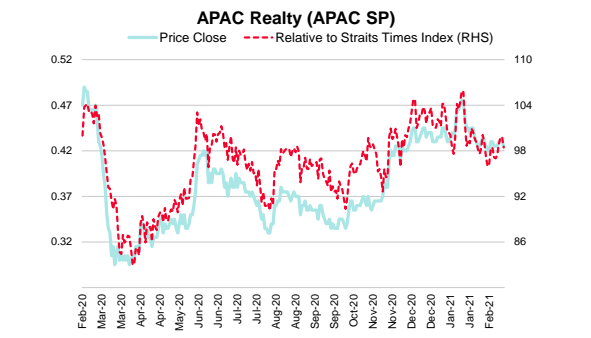
Analyst

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



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.5)	(4.5)	0.0	16.4	(11.5)
Relative	(6.1)	(1.1)	(1.5)	2.1	(2.4)
52-wk Price low/high (SGD)	0.30 – 0.49				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (SGDm)	370	395	397	410	414
Recurring net profit (SGDm)	14	17	16	16	17
Recurring net profit growth (%)	(42.3)	18.5	(6.2)	4.2	2.1
Recurring EPS (SGD)	0.04	0.05	0.04	0.05	0.05
DPS (SGD)	0.02	0.03	0.02	0.03	0.03
Recurring P/E (x)	10.77	9.09	9.70	9.31	9.11
P/B (x)	1.04	0.98	0.93	0.90	0.86
Dividend Yield (%)	4.7	5.9	5.7	5.9	6.0
Return on average equity (%)	9.7	11.1	9.7	9.5	9.1
Net debt to equity (%)	15.5	10.7	4.1	net cash	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-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.04	0.05	0.04	0.05	0.05
Property	EPS	0.04	0.05	0.04	0.05	0.05
APAC Realty	DPS	0.02	0.03	0.02	0.03	0.03
APAC SP	BVPS	0.41	0.44	0.46	0.47	0.49
Buy	Return on average equity (%)	9.7	11.1	9.7	9.5	9.1
	Return on average assets (%)	4.8	5.4	4.7	4.7	4.6
Valuation basis						
DCF methodology	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	10.77	9.09	9.70	9.31	9.11
	P/B (x)	1.0	1.0	0.9	0.9	0.9
	Dividend Yield (%)	4.7	5.9	5.7	5.9	6.0
	EV/EBITDA (x)	8.45	7.46	7.39	6.74	6.28
Key drivers						
i. Resilience in Singapore real estate volumes,						
ii. Growth in market share and agents, and						
iii. Expanding Franchise network and training services						
Key risks	Income statement (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Risk of additional cooling measures,	Total turnover	370	395	397	410	414
ii. Disruption from technology advances, and	Gross profit	46	48	48	49	49
iii. Loss of market share	EBITDA	21	22	21	22	23
	Depreciation and amortisation	(2)	(2)	(2)	(2)	(2)
	Operating profit	19	21	20	21	21
	Net interest	(2)	(1)	(1)	(1)	(1)
	Pre-tax profit	17	20	19	20	20
	Taxation	(3)	(3)	(3)	(3)	(3)
	Reported net profit	14	17	16	16	17
	Recurring net profit	14	17	16	16	17
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-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(0.4)	(4.3)	2.5	1.2	(0.1)
	Cash flow from operations	17.0	20.2	23.3	22.7	21.8
	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)	(8.6)	(8.9)	(9.1)
	Cash flow from financing activities	(19.2)	(14.9)	(12.4)	(11.3)	(11.5)
	Cash at beginning of period	43.0	32.0	35.1	53.1	65.9
	Net change in cash	(13.9)	0.4	9.9	10.4	9.3
	Ending balance cash	29.1	32.4	45.0	63.4	75.1
	Balance sheet (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	32	35	45	54	61
	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	312	322	330
	Short-term debt	3	3	3	3	3
	Total long-term debt	52	49	49	49	49
	Total liabilities	150	167	150	154	155
	Shareholders' equity	146	155	162	169	176
	Minority interests	(0)	(0)	0	0	0
	Total equity	145	155	162	169	176
	Total liabilities & equity	295	321	312	322	330
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(12.8)	6.9	0.5	3.2	1.0
	Recurring net profit growth (%)	(42.3)	18.5	(6.2)	4.2	2.1
	Recurrent EPS growth (%)	(42.3)	18.5	(6.2)	4.2	2.1
	Gross margin (%)	12.5	12.0	12.0	11.9	12.0
	Recurring net profit margin (%)	3.8	4.2	3.9	4.0	4.0
	Dividend payout ratio (%)	82.4	42.8	55.0	55.0	55.0

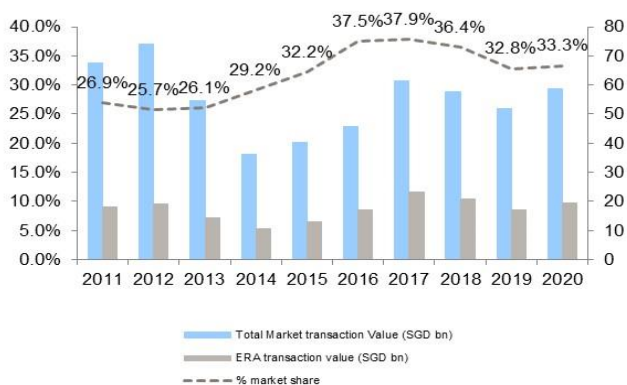
Source: Company data, RHB

Figure 1: APAC Realty's DCF valuation table

(SGD m)	FY21F	FY22F	FY23F	FY24F	Terminal Value
EBIT * (1- Tax rate)	16.4	17.1	17.5	17.5	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	2.5	1.2	(0.1)	(0.2)	
Less : Capex	1.0	1.0	1.0	1.0	
Total Free Cash Flow	14.4	16.4	18.1	18.2	214.3
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	13.9	14.5	14.7	13.7	161.0
Sum of PV of FCF (SGD m)	56.8				
PV of Terminal Value (SGD m)	161.0				
Enterprise Value (SGD m)	217.8				
Add: Net Cash/(Debt)	(22.6)				
Total Equity Value (SGD m)	195.2				
No. of shares (m)	355.2				
Value per share (SGD)	0.55				
Assumptions					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.0				
Equity risk premium	6.0%				
WACC	8.5%				
Terminal Growth	0%				

Source: RHB

Figure 2: Market share – based on transaction value



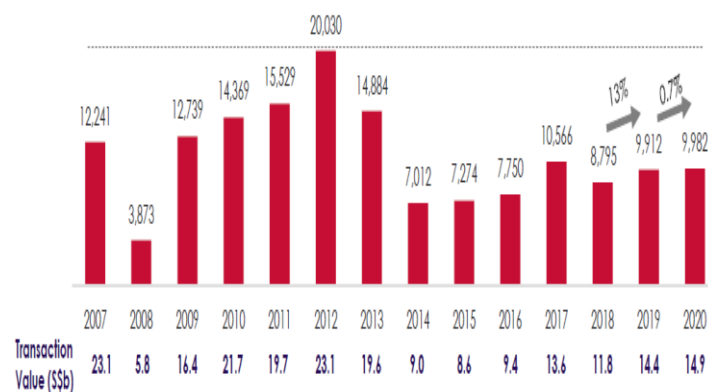
Source: Company data, RHB

Figure 3: Agent count and market share



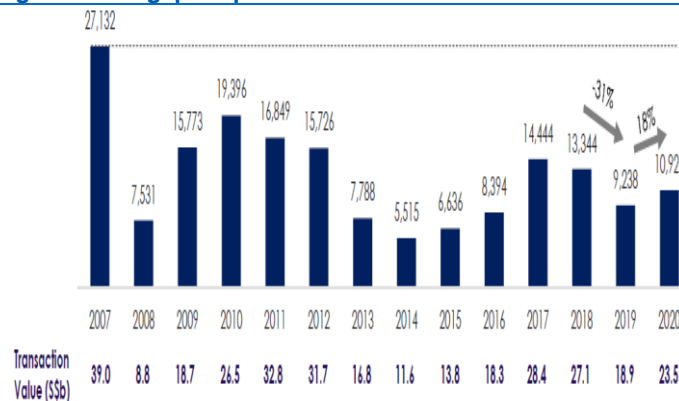
*As of 1st Jan following year
Source: Company data, RHB

Figure 4: Singapore new home sales and value



Source: Company data, RHB

Figure 5: Singapore private resale transaction and value



Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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

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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