

Singapore Company Guide

APAC Realty

Version 13 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Jun 2020

HOLD

Last Traded Price (10 Jun 2020): S\$0.42 (STI : 2,800.57)
Price Target 12-mth: S\$0.41 (-3% downside) (Prev S\$0.52)

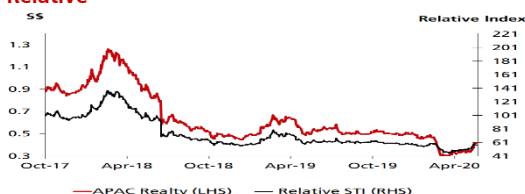
Analyst

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What's New

- Slight improvement in market share in 1Q20; ample supply ahead
- Adverse financial impact to be felt in 3Q20 from weak 2Q sales
- Cut FY20F/FY21F earnings by 69/53% from pre COVID-19 projections
- Maintain HOLD with lower TP of S\$0.41

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019A	2020F	2021F
Revenue	424	370	281	289
EBITDA	31.1	20.4	8.31	11.7
Pre-tax Profit	29.2	17.2	5.92	9.30
Net Profit	24.2	14.0	4.85	7.63
Net Pft (Pre Ex.)	24.2	14.0	4.85	7.63
Net Pft Gth (Pre-ex) (%)	(6.4)	(42.2)	(65.4)	57.3
EPS (S cts)	6.83	3.94	1.37	2.15
EPS Pre Ex. (S cts)	6.83	3.94	1.37	2.15
EPS Gth Pre Ex (%)	(6)	(42)	(65)	57
Diluted EPS (S cts)	6.83	3.94	1.37	2.15
Net DPS (S cts)	4.50	2.00	0.69	1.09
BV Per Share (S cts)	40.3	41.0	41.6	42.7
PE (X)	6.2	10.6	30.8	19.6
PE Pre Ex. (X)	6.2	10.6	30.8	19.6
P/Cash Flow (X)	13.2	8.8	21.3	17.7
EV/EBITDA (X)	5.3	8.4	20.2	14.1
Net Div Yield (%)	10.7	4.8	1.6	2.6
P/Book Value (X)	1.0	1.0	1.0	1.0
Net Debt/Equity (X)	0.1	0.2	0.1	0.1
ROAE (%)	17.6	9.7	3.3	5.1
Earnings Rev (%)			(69)	(53)
Consensus EPS (S cts):			4.20	4.50
Other Broker Recs:		B: 3	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

3Q to be dragged by weak 2Q sales

Adverse financial impact in 3Q20 from weak 2Q20 sales. ERA's market share in the residential property market has improved to 39.8% in 1Q20. However, weak property sales during the lockdown period in April to May, and June as real estate activity remains suspended in Phase One, would adversely affect the financial performance in 3Q20, given the time lag in revenue recognition. Hence, we anticipate 3Q20 to be loss-making.

We have lowered our sales assumptions for all segments for FY20F from our pre COVID-19 projections. We are now projecting a 34% y-o-y drop in transaction value for the private primary and secondary segments in FY20F, followed by a slight rebound of 3% in FY21F. The HDB resale market is also expected to be weak, -5% y-o-y in FY20F and +3% in FY21F.

Ample supply. To date, ERA has been appointed the marketing agent for 38 residential projects with approximately 12,300 new home units to be launched in FY20-1H21, of which 13 projects with close to 3,600 units were launched for sale in 1Q20.

Where we differ: We are less optimistic in the take up rate of new launches as well as transaction activities in the resale market.

Potential catalyst: 1) Strong pick up in private property transaction activities; 2) Easing of property cooling measures.

Valuation:

Maintain HOLD with lower TP of S\$0.41. We have cut FY20F/FY21F earnings by 69%/53% from our pre COVID-19 estimates. Our TP of S\$0.41 (prev S\$0.52) is based on its average forward PE of 19x on FY21F earnings. Maintain HOLD.

Key Risks to Our View:

Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (S\$m/US\$m)	149 / 108
Major Shareholders (%)	
Tan Choon Hong	71.8
Free Float (%)	28.2
3m Avg. Daily Val (US\$m)	0.06
GIC Industry : Real Estate / Real Estate Management & Development	



DBS
Live more, Bank less

WHAT'S NEW

Adverse financial impact from COVID-19 to be felt in 3Q20

Slight improvement in market share in 1Q20. ERA achieved a healthy 39.8% share of the residential property market in 1Q20, up from 37.9% in 1Q19 and 38.0% in FY19.

In the primary market segment, we estimated that ERA's market share improved to 34.8% from 29.6% in 1Q19. Singapore's private residential resale market recorded sales of 2,120 units in 1Q20, representing an increase of 11.3% y-o-y. The HDB resale market saw a higher increase of 21.9% y-o-y to 5,893 transactions. ERA's estimated market share in this segment improved slightly from 40.2% in 1Q19 to 41.4% in 1Q20.

Transaction volume for 1Q 2020

	1Q 2020 (units)	1Q 2019 (units)	y-o-y (%)
New home sales	2149	1838	+16.9
Private resale	2120	1905	+11.3
HDB resale	5893	4835	+18.9
ERA's market share			
New home	34.8%	29.6%	
Resale and HDB	41.4%	40.2%	

Source: Company, DBS Bank

Secured marketing mandate for 38 projects. ERA has secured marketing agent mandates for 38 residential projects with approximately 12,300 new home units to be launched in FY20 and 1H21, of which 13 projects with close to 3,600 units were launched for sale in 1Q20.

Weak sales in 2Q20. Market transactions plunged in the months of April and May 2020. With the implementation of circuit breaker measures from 7 April 2020, house viewings were suspended and showflats were closed to the public. As a result, marketing and sales activity of new homes can only continue on virtual platforms. June is also expected to be weak as real estate activity remains suspended in Phase One, although the circuit breaker period ended on 1 June 2020.

Transaction volume for April and May 2020

	New home sales	Private resale	HDB resale
April 2020	277	309	423
m-o-m (%)	-58	-57	-79.8
May 2020	n.a.	171	364
m-o-m (%)	n.a.	-43	-13.9

Source: Company, DBS Bank

Adverse financial impact to be felt in 3Q20. As a result of the suspension of real estate business during the circuit breaker, and the time required for completion of real estate transactions, coupled with the time lag in revenue recognition, the adverse financial impact from the circuit breaker period will be felt only in 3Q20. Hence, 3Q20 is expected to be loss-making.

Cut FY20F/FY21F earnings by 69%/53% from pre COVID-19 projections.

On the back of the disruption to business activities due to the pandemic and a weaker global economy, with many regions including Singapore expected to be in a recession this year, we have lowered our sales assumption for all segments for FY20F versus our pre COVID-19 estimates. We are now projecting a 34% y-o-y drop in transaction value for the private primary and secondary segment in FY20F, followed by a slight rebound of 3% in FY21F. The HDB resale market is also expected to be weak, -5% y-o-y in FY20F and +3% in FY21F. As such, we have cut our earnings projection for FY20F/FY21F earnings by 69%/53%. Our TP of S\$0.41 (prev S\$0.52, pegged to peers' average of 12x on FY20F earnings) is based on the average forward PE of 19x on FY21F earnings. Maintain HOLD.

APAC Realty

CRITICAL DATA POINTS TO WATCH

Critical Factors

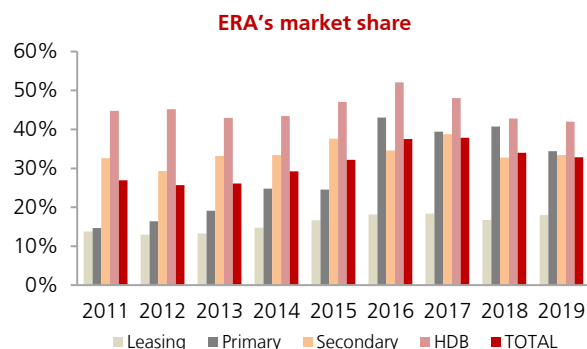
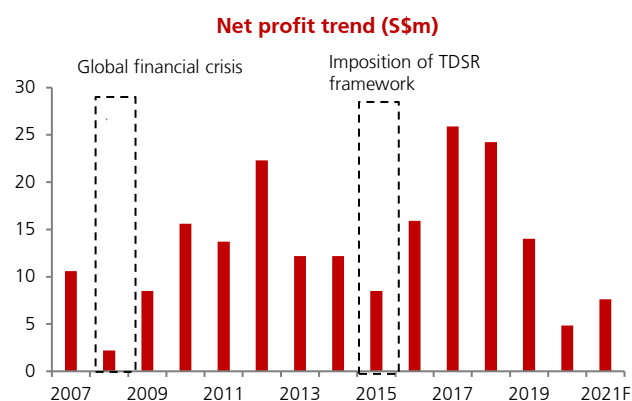
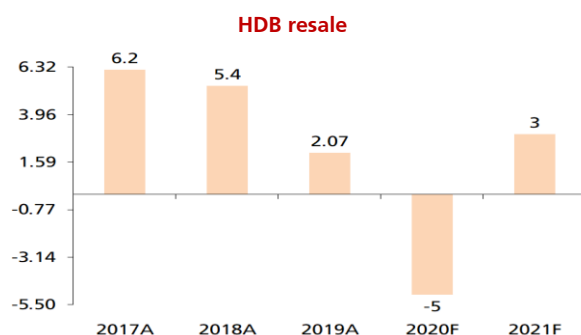
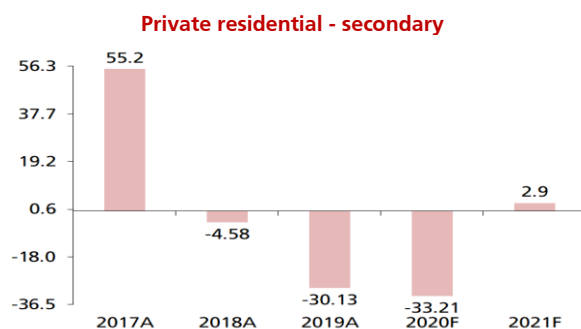
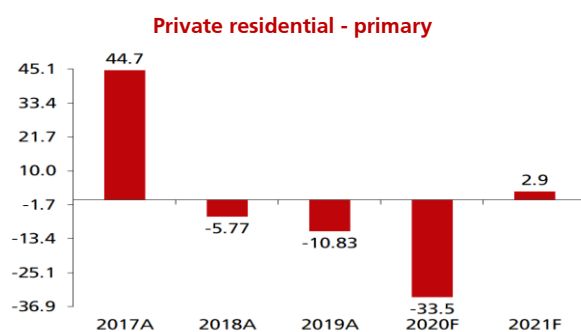
Property sales – expect a weak FY20F due to the pandemic.

About 80% of APAC's revenue is generated from the brokerage segment. About one-third each of total revenue is from the private primary residential market, the private secondary residential market and the HDB resale & leasing market. We expect the private residential primary and secondary markets to be weak in FY20F, with a 34% y-o-y drop in transaction value due to the COVID-19 impact. We expect a slight recovery of 3% y-o-y in FY21F for both segments. The HDB resale market is less volatile, we project a negative 5% y-o-y growth in FY20F and to rebound 3% in FY21F.

Market share is critical. In FY19, ERA's market share for the resale segment was stable at 30%+. However, its market share in the primary market was weaker at c.30%+, from c.40% previously as the group does not encourage the extension of sale and purchase agreements, which is gaining popularity of late. Even though ERA's market share improved to 34.8% in 1Q20, we continue to expect that ERA's market share in this segment will remain weak, at slightly over 30%. Market share for the HDB segment is expected to remain stable at just over 40%.

Project pipeline. To date, ERA has secured marketing agent appointments for 38 residential projects with approximately 12,300 new home units to be launched in FY20 and 1H21, of which 13 projects with close to 3,600 units were launched for sale in 1Q20. The total number of unsold private residential units stood at 32,272 as at end 2019. The vacancy rate of completed private residential units continues to trend downwards and reached 5.5% as at 31 December 2019, coming down from a high of 8.9% as at 30 June 2016. Apart from the 32,272 unsold units (including ECs) with planning approval as at 31 December 2019, there is a potential supply of 6,050 units (including ECs) from Government Land Sales (GLS) sites and awarded en-bloc sale sites that have not been granted planning approval yet.

Agent strength. APAC has grown its network of agents over the years and has managed to gain market share. As at 1 January 2020, APAC has about 7,048 agents, +8.5% y-o-y, with market share of c.23%, from 15% in 2012. A larger agent force should help to generate more sales for APAC, which would in turn boost the performance of the group.



Source: Company, DBS Bank

APAC Realty

Balance Sheet:

Cash-generative business. Barring any major capital expenditure, APAC is a cash-generating business with good cash conversion cycle as APAC only pays out to its agents after receiving payments from its debtors.

Intangibles, which includes goodwill and franchise rights, accounts for the bulk of total assets. Goodwill amounted to c.S\$100m as at end-December 2019, derived from ERA and Coldwell Banker. Franchise rights are held for the exclusive use of the brand names "ERA" and "Coldwell Banker". The exclusive ERA Regional master franchise rights is for an initial term of 30 years from 19 November 1999 and expires in 2029, with an option to renew for another 30 years. The ERA sub-franchise rights in Singapore is for an initial term of 30 years from 28 June 1990, and expires in 2020, also with an option to renew for another 30 years.

Share Price Drivers:

We believe that APAC is largely viewed by the market as a proxy to Singapore's private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market would have an impact on APAC's share price.

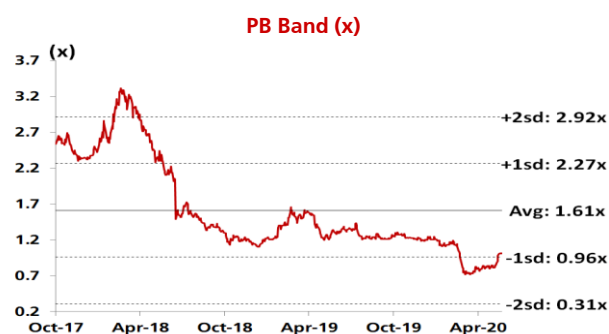
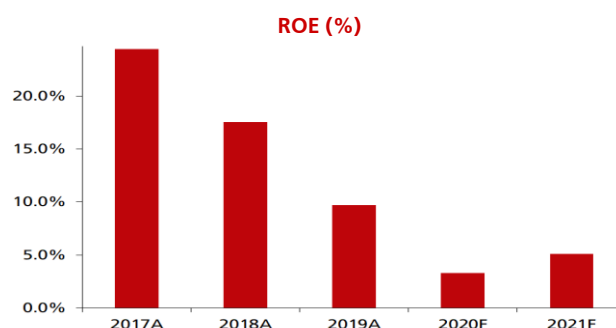
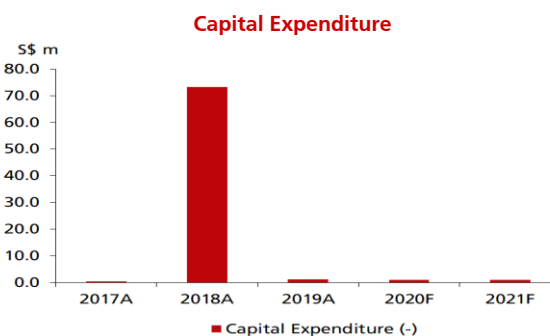
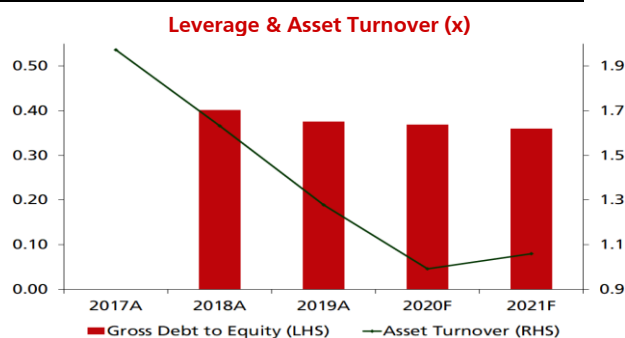
Key Risks:

APAC is highly dependent on Singapore's residential property market and macroeconomic conditions. Any change in government policies might affect the property market, which will in turn affect APAC. For example, residential transaction volumes and values suffered a sharp decline with the 5ppts hike in Additional Buyer's Stamp Duty (ABSD) and tightening of Loan-to-Value (LTV) limits. On the supply side, the government has revised up the average development home sizes. Under the new rules, the maximum number of dwelling units per development will be lesser, which could lead to lower demand for land sites.

In the longer term, the real estate brokerage industry may also be disrupted by technology with increasing adoption of websites that facilitate private sales.

Company Background

APAC Realty Limited ("APAC") is one of the leading players in the real estate brokerage industry in Asia. APAC Realty operates three main business segments – the real estate brokerage services; franchise agreements; and training, valuation and other ancillary services.



Source: Company, DBS Bank

APAC Realty

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Transaction value growth (%)					
Private residential - primary	44.7	(5.8)	(10.8)	(33.5)	2.90
Private residential - secondary	55.2	(4.6)	(30.1)	(33.2)	2.90
HDB resale	6.20	5.40	2.07	(5.0)	3.00

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Brokerage	391	413	360	271	279
Non-brokerage	9.38	10.6	9.24	9.70	10.2
Total	401	424	370	281	289
Gross profit (\$\$m)					
Brokerage	46.6	44.5	37.3	23.8	27.9
Non-brokerage	8.3	8.3	9.1	9.6	10.1
Total	58.9	54.7	37.3	23.8	27.9
Gross profit Margins (%)					
Brokerage	11.9	10.8	10.3	8.8	10.0
Non-brokerage	88.4	78.7	98.9	98.9	98.9
Total	13.7	12.5	12.6	11.9	13.1

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	401	424	370	281	289
Cost of Goods Sold	(346)	(371)	(323)	(247)	(251)
Gross Profit	54.9	52.8	46.4	33.4	38.0
Other Opng (Exp)/Inc	(25.2)	(23.1)	(27.4)	(25.7)	(26.9)
Operating Profit	29.7	29.7	19.0	7.70	11.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.01	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.4)	(1.8)	(1.8)	(1.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.4	29.2	17.2	5.92	9.30
Tax	(3.5)	(5.0)	(3.3)	(1.1)	(1.7)
Minority Interest	0.0	0.0	0.14	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	25.9	24.2	14.0	4.85	7.63
Net Profit before Except.	25.9	24.2	14.0	4.85	7.63
EBITDA	31.2	31.1	20.4	8.31	11.7
Growth					
Revenue Gth (%)	39.2	5.8	(12.8)	(24.0)	3.0
EBITDA Gth (%)	49.7	(0.1)	(34.3)	(59.3)	40.8
Opg Profit Gth (%)	54.7	0.0	(36.0)	(59.5)	44.0
Net Profit Gth (Pre-ex) (%)	63.1	(6.4)	(42.2)	(65.4)	57.3
Margins & Ratio					
Gross Margins (%)	13.7	12.5	12.5	11.9	13.1
Opg Profit Margin (%)	7.4	7.0	5.1	2.7	3.8
Net Profit Margin (%)	6.5	5.7	3.8	1.7	2.6
ROAE (%)	24.4	17.6	9.7	3.3	5.1
ROA (%)	12.8	9.3	4.8	1.7	2.8
ROCE (%)	21.5	13.9	5.9	1.5	2.8
Div Payout Ratio (%)	27.4	65.9	50.7	50.7	50.7
Net Interest Cover (x)	111.6	66.9	10.7	4.3	6.2

Source: Company, DBS Bank

APAC Realty

Quarterly / Interim Income Statement (\$\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	81.9	77.4	85.7	98.6	108
Cost of Goods Sold	(70.7)	(67.9)	(75.1)	(87.4)	(92.7)
Gross Profit	11.2	9.46	10.5	11.2	15.1
Other Oper. (Exp)/Inc	(6.1)	(6.8)	(6.0)	(6.7)	(6.8)
Operating Profit	5.11	2.66	4.49	4.52	8.35
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(0.4)	(0.5)	(0.5)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.75	2.22	4.03	4.07	7.92
Tax	(0.7)	(0.5)	(0.7)	(0.7)	(1.5)
Minority Interest	0.0	0.0	0.0	0.03	0.04
Net Profit	4.09	1.74	3.30	3.45	5.46
Net profit bef Except.	4.09	1.74	3.30	3.45	5.46
EBITDA	5.47	3.43	5.25	5.31	9.16

Growth

Revenue Gth (%)	(28.7)	(5.4)	10.7	15.1	9.3
EBITDA Gth (%)	(36.0)	(37.4)	53.3	1.1	72.6
Opg Profit Gth (%)	(37.5)	(47.9)	68.4	0.8	84.7
Net Profit Gth (Pre-ex) (%)	(37.5)	(57.4)	89.3	4.7	58.1

Margins

Gross Margins (%)	13.7	12.2	12.3	11.4	14.0
Opg Profit Margins (%)	6.2	3.4	5.2	4.6	7.7
Net Profit Margins (%)	5.0	2.3	3.8	3.5	5.1

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	1.22	72.8	72.8	73.3	73.8
Invt in Associates & JVs	0.0	0.35	0.44	0.53	0.53
Other LT Assets	101	101	106	106	106
Cash & ST Invt	62.0	43.0	32.0	35.5	39.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	70.1	59.7	68.2	39.7	40.9
Other Current Assets	1.92	6.79	15.4	15.4	15.4
Total Assets	236	283	295	271	276
ST Debt	0.0	2.90	2.90	2.90	2.90
Creditor	82.0	63.5	71.9	47.2	47.9
Other Current Liab	16.4	14.8	15.6	13.3	14.0
LT Debt	0.0	54.6	51.7	51.7	51.7
Other LT Liabilities	4.49	4.29	7.55	7.55	7.55
Shareholder's Equity	133	143	146	148	152
Minority Interests	0.0	0.04	(0.1)	(0.1)	(0.1)
Total Cap. & Liab.	236	283	295	271	276
Non-Cash Wkg. Capital	(26.5)	(11.8)	(3.9)	(5.4)	(5.6)
Net Cash/(Debt)	62.0	(14.5)	(22.6)	(19.1)	(15.6)
Debtors Turn (avg days)	53.7	55.8	63.2	70.2	50.9
Creditors Turn (avg days)	73.0	71.8	76.8	88.1	69.3
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.0	1.6	1.3	1.0	1.1
Current Ratio (x)	1.4	1.3	1.3	1.4	1.5
Quick Ratio (x)	1.3	1.3	1.1	1.2	1.2
Net Debt/Equity (X)	CASH	0.1	0.2	0.1	0.1
Net Debt/Equity ex MI (X)	CASH	0.1	0.2	0.1	0.1
Capex to Debt (%)	N/A	127.2	2.3	1.8	1.8
Z-Score (X)	2.5	2.9	2.5	2.7	2.7

Acquisition of commercial building

Source: Company, DBS Bank

APAC Realty

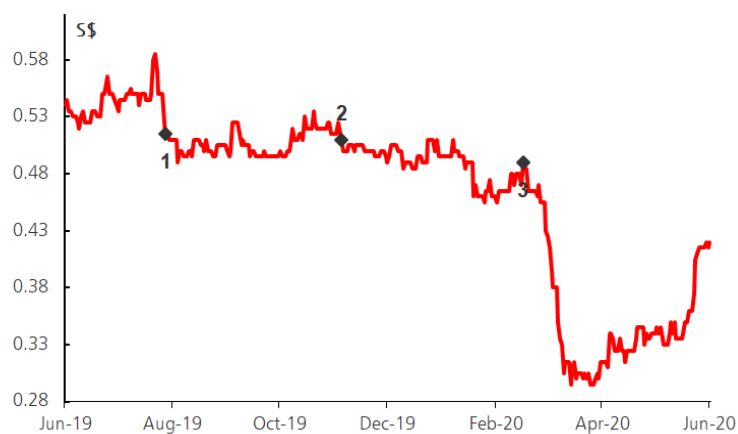
Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	29.4	29.2	17.2	5.92	9.30
Dep. & Amort.	1.44	1.44	1.44	0.62	0.62
Tax Paid	(3.2)	(5.0)	(5.3)	(3.3)	(1.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.16	(16.1)	(0.4)	3.82	(0.4)
Other Operating CF	2.80	1.69	3.98	0.0	0.0
Net Operating CF	34.6	11.3	17.0	7.01	8.41
Capital Exp.(net)	(0.5)	(73.2)	(1.2)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(0.2)	(0.4)	(0.1)	(0.1)	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	(10.3)	0.0	0.0
Net Investing CF	(0.7)	(73.5)	(11.7)	(1.1)	(1.0)
Div Paid	0.0	(14.2)	(11.5)	(2.5)	(3.9)
Chg in Gross Debt	(18.0)	57.5	(4.8)	0.0	0.0
Capital Issues	28.2	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	10.2	43.3	(16.3)	(2.5)	(3.9)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	44.2	(19.0)	(11.0)	3.46	3.54
Opg CFPS (S cts)	8.58	7.71	4.88	0.90	2.49
Free CFPS (S cts)	9.62	(17.4)	4.43	1.69	2.09

Part financing for the acquisition of commercial building

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Aug 19	0.52	0.48	HOLD
2:	14 Nov 19	0.51	0.46	HOLD
3:	25 Feb 20	0.49	0.52	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 11 Jun 2020 07:51:28 (SGT)

Dissemination Date: 11 Jun 2020 08:01:11 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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