

Singapore Company Update

APAC Realty

Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Aug 2023

HOLD

Last Traded Price (15 Aug 2023): S\$0.570 (STI: 3,232.74)
Price Target 12-mth: S\$0.54 (6% downside) (Prev S\$0.57)

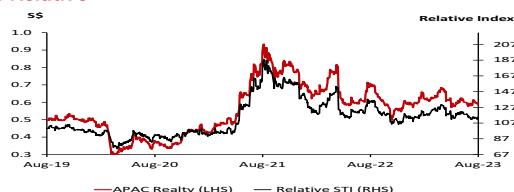
Analyst

Lee Keng LING +65 6682 3703 leekeng@dbs.com

What's New

- 1H23 results weak, steep drop in margins; below expectations
- Market share stable; robust new launch pipeline more than double that of 2022
- Cut margin assumptions despite no change in property transaction projections, resulting in a 31-33% earnings cut
- Maintain HOLD with lower TP of S\$ 0.54

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	740	705	578	710
EBITDA	48.1	38.8	20.6	27.0
Pre-tax Profit	42.6	32.9	14.7	21.1
Net Profit	35.4	26.6	12.0	17.3
Net Pft (Pre Ex.)	35.4	26.6	12.0	17.3
Net Pft Gth (Pre-ex) (%)	115.3	(25.0)	(54.7)	43.8
EPS (S cts)	9.96	7.48	3.39	4.87
EPS Pre Ex. (S cts)	9.96	7.48	3.39	4.87
EPS Gth Pre Ex (%)	115	(25)	(55)	44
Diluted EPS (S cts)	9.96	7.48	3.39	4.87
Net DPS (S cts)	7.50	6.25	2.37	3.41
BV Per Share (S cts)	45.3	45.1	46.1	47.6
PE (X)	5.7	7.6	16.8	11.7
PE Pre Ex. (X)	5.7	7.6	16.8	11.7
P/Cash Flow (X)	3.7	5.7	12.1	7.8
EV/EBITDA (X)	4.1	5.1	9.6	6.8
Net Div Yield (%)	13.2	11.0	4.2	6.0
P/Book Value (X)	1.3	1.3	1.2	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.4	16.5	7.4	10.4
Earnings Rev (%):			(33)	(31)
Consensus EPS (S cts):			6.10	7.10
Other Broker Recs:		B: 1	S: 0	H: 2

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

Margins remain under pressure

Investment Thesis

Leading real estate agency with one of the largest brand footprints in Asia. APAC Realty is one of the leading players in the real estate brokerage industry, with presence in 17 Asia Pacific countries. Through its ERA franchise network, the group has one of the largest brand footprints in Asia. The franchise model also provides APAC with the ability to build its regional presence and network in a capital-efficient manner.

Sentiment could be affected, with three cooling measures in less than a year, though prices could remain stable. With three cooling measures (30 Sep 2022, 15 Feb 2023, & 27 Apr 2023) in less than a year, concerns remain that more measures could be in the pipeline. Coupled with the high interest rate environment, this could affect overall sentiment. Impact could be partially offset by the robust pipeline of new launches and the relatively resilient demand from both locals and foreigners. Prices, on the other hand, could remain stable. Margins remain under pressure as the group continues to invest for future growth.

Venturing overseas to fill the gap from less robust growth in key Singapore market; contribution remains small. Despite the relatively resilient property market in Singapore, growth could be muted given its land scarcity. Hence, APAC is exploring overseas opportunities to fill the gap. One investment is the increase in stake in its Vietnam venture. However, we can only expect a more meaningful contribution from 2025 onwards.

Maintain HOLD with lower TP of S\$0.54. No change in our property transaction volume assumption for the various segments. However, we cut margin assumptions, resulting in a 31%-33% earnings cut for FY23F and FY24F. Target price is lowered to S\$0.54 (previously S\$0.57), pegged to an 11x PE, slightly above its four-year average PE, as we roll forward to FY24F earnings. Maintain HOLD.

Key Risks

Additional property cooling measures. 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)	202 / 149
Major Shareholders (%)	
Morgan Stanley	64.8
Tan Choon Hong	11.1
Chua Khee Hak	8.4
Free Float (%)	15.7
3m Avg. Daily Val (US\$m)	0.05
GIC Industry : Real Estate / Real Estate Management & Development	



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WHAT'S NEW

1H23 results weak, steep drop in margins; below expectations

1H23 results weak, below expectations. 1H23 net profit plunged 70% y-o-y to S\$5.0m on the back of a 24% drop in revenue to S\$259.6m. Revenue from resale and rental properties declined 8.2% y-o-y to S\$182.7m while revenue from new home sales plunged 47.4% to S\$73.3m. The weak results were mainly due to property cooling measures and a high interest rate environment. 1H23 revenue and net profit accounted for 45%/28% of our forecasts; below expectations.

An interim DPS of 1.1 Scts was declared (vs. 3.5Scts in 1H22), representing a dividend pay-out ratio of 78%, and in line with the group's dividend policy of distributing 50%-80% of profits as dividends on a semi-annual basis.

Steep drop in net margins. Gross margin eased to 10.2% (from 10.3% in 1H22 and 10.5% in 2H22). This caused net margin to tumble to 1.9% in 1H23 (vs. 4.9% in 1H22 and 2.7% in 2H22). The weaker margins were mainly due to lower top line and higher expenses such as marketing and promotions, personnel costs, and overseas expenses from Vietnam and Indonesia as the group continues to invest for future growth.

Property transaction volume in 1H23 declined y-o-y across all segments. Following the cooling measures rolled out by the authorities in April 2023, 1H23 saw a drop in transactions. In 1H23, developers in Singapore sold 3,646 private residential units (including ECs), a decline of 19.8% y-o-y, primarily due to a lower number of new home launches. The private residential resale market recorded sales of 6,126 units, a decline of 22.8% y-o-y. The HDB resale market also recorded a decline of 1.9% y-o-y.

Dip in private home prices; HDB resale saw moderate increase. Private home prices slipped for the first time in three years in 2Q23, affected by the three rounds of cooling measures since December 2021, as well as the high interest rate environment. Meanwhile, HDB resale flat prices continued to rise at a more moderate pace while growth in private home rentals slowed considerably in 2Q23. Additionally, overall private home prices declined by 0.2% q-o-q, reversing 1Q23's 3.3% q-o-q growth, and marking the first quarterly contraction in the URA Property Price Index since 1Q20, where prices fell 1% q-o-q. For the rental segment, the URA Rental Index continued to rise for the 11th consecutive quarter in 2Q23, albeit at a much slower pace. Rentals climbed 2.8% q-o-q, compared to the 7.2% q-o-q growth in the previous quarter. On a y-o-y basis, private home rentals in 2Q23 were up by 28.5%.

Stable market share. ERA's market share as at end 1H23 stood at 39%, vs. 40% in 1H22.

Robust new launch pipeline; more than double that of 2022. As of 14 August 2023, ERA is the marketing agent for 27 new home projects with more than 10,200 units launched and to be launched in 2023, vs. 14 projects with a total of slightly over 4,000 units in 2022.

Growing agent strength. As of 14 August 2023, ERA crossed 8,850 agents. The target is to reach 10,000 agents by the end of 2024. ERA has a 25.1% market share by agents.

Assumptions for private new home and resale market

2023 (units)	ERA estimates	DBS estimates
Private new home	7,000-8,000	7,000
Private resale	10,000 – 11,000	12,000
HDB resale	26,000 – 27,000	26,000

Source: Company; DBS Bank

No change in property transactions assumptions; margin assumptions cut. Maintain HOLD with lower TP of S\$0.54. We maintain our projections for the various property segments but lowered margin projections as the group continues to incur higher expenses to invest for further growth. Net margin for FY23F/FY24F has been reduced to 2.1%/2.4% from 3.1%/3.5% previously. Net earnings for FY23F and FY24F has thus been reduced by 31-33%. Target price is lowered to S\$0.54 (previously S\$0.57), pegged to 11x PE, slightly above its four-year average PE, as we rolled forward to FY24F earnings. Maintain HOLD.

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.

APAC Realty

Interim Income Statement (S\$m)

FY Dec	1H2022	2H2022	1H2023	% chg y-o-y	% chg h-o-h
Revenue	343	362	260	(24.2)	(28.4)
Cost of Goods Sold	(307)	(324)	(233)	(24.2)	(28.2)
Gross Profit	35	38	27	(24.7)	(30.0)
Other Oper. (Exp)/Inc	(15)	(25)	(20)	31.0	(19.8)
Operating Profit	20	13	7	(66.1)	(48.8)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	(1)	(1)	nm	Nm
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	20	13	6	(71.0)	(53.8)
Tax	(4)	(3)	(2)	(58.5)	(45.9)
Minority Interest	0	0	1	nm	nm
Net Profit	17	10	5	(70.0)	(49.3)
Net profit bef Except.	17	10	5	(70.0)	(49.3)
EBITDA	23	16	9	(59.8)	(41.3)
Margins (%)					
Gross Margins	10.3	10.5	10.2		
Opg Profit Margins	5.9	3.7	2.7		
Net Profit Margins	4.9	2.7	1.9		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

APAC Realty

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
ERA transaction value growth (%)	23.7	88.9	(18.0)	(18.4)	23.3
ERA market share (%)	33.3	35.2	37.5	35.0	36.0

Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Brokerage	384	730	695	568	700
Non-brokerage	11.2	9.64	9.54	10.0	10.5
Total	395	740	705	578	710
Gross profit (\$m)					
Brokerage	37.3	67.3	65.5	52.2	64.4
Non-brokerage	10.2	8.14	7.85	8.98	9.43
Total	47.5	75.4	73.4	61.2	73.8
Gross profit Margins (%)					
Brokerage	9.7	9.2	9.4	9.2	9.2
Non-brokerage	90.8	84.5	82.3	89.6	89.6
Total	12.0	10.2	10.4	10.6	10.4

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	395	740	705	578	710
Cost of Goods Sold	(348)	(664)	(632)	(517)	(637)
Gross Profit	47.5	75.4	73.4	61.2	73.8
Other Opng (Exp)/Inc	(26.6)	(31.6)	(39.6)	(45.6)	(51.7)
Operating Profit	20.9	43.8	33.7	15.6	22.1
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	(0.4)	0.12	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(0.8)	(1.0)	(1.0)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.6	42.6	32.9	14.7	21.1
Tax	(3.3)	(7.3)	(6.4)	(2.6)	(3.8)
Minority Interest	0.10	0.10	0.12	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	16.4	35.4	26.6	12.0	17.3
Net Profit before Except.	16.4	35.4	26.6	12.0	17.3
EBITDA	24.0	48.1	38.8	20.6	27.0
Growth					
Revenue Gth (%)	6.9	87.2	(4.7)	(18.0)	22.9
EBITDA Gth (%)	17.3	100.7	(19.4)	(47.0)	31.3
Opg Profit Gth (%)	9.9	109.7	(22.9)	(53.6)	41.1
Net Profit Gth (Pre-ex) (%)	17.3	115.3	(25.0)	(54.7)	43.8
Margins & Ratio					
Gross Margins (%)	12.0	10.2	10.4	10.6	10.4
Opg Profit Margin (%)	5.3	5.9	4.8	2.7	3.1
Net Profit Margin (%)	4.2	4.8	3.8	2.1	2.4
ROAE (%)	10.9	22.4	16.5	7.4	10.4
ROA (%)	5.3	10.0	6.9	3.2	4.4
ROCE (%)	7.3	16.3	12.1	5.2	7.5
Div Payout Ratio (%)	54.0	75.3	83.6	70.0	70.0
Net Interest Cover (x)	19.5	56.6	34.4	15.9	22.5

Source: Company, DBS Bank

APAC Realty

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	358	381	343	362	260
Cost of Goods Sold	(323)	(341)	(307)	(324)	(233)
Gross Profit	35.3	40.2	35.3	38.0	26.6
Other Oper. (Exp)/Inc	(14.2)	(17.4)	(15.0)	(24.6)	(19.7)
Operating Profit	21.1	22.7	20.3	13.5	6.89
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.3)	(0.1)	0.26	(0.1)	0.0
Net Interest (Exp)/Inc	(0.4)	(0.4)	(0.4)	(0.6)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	20.4	22.2	20.2	12.7	5.86
Tax	(3.4)	(4.0)	(3.7)	(2.8)	(1.5)
Minority Interest	0.02	0.07	0.14	0.0	0.66
Net Profit	17.0	18.3	16.7	9.87	5.01
Net profit bef Except.	17.0	18.3	16.7	9.87	5.01
EBITDA	23.1	25.0	23.0	15.8	9.25

Growth

Revenue Gth (%)	61.2	6.4	(10.2)	5.8	(28.4)
EBITDA Gth (%)	83.8	8.1	(7.9)	(31.5)	(41.3)
Op _e Profit Gth (%)	89.2	7.8	(10.7)	(33.7)	(48.8)
Net Profit Gth (%)	96.4	7.6	(9.0)	(40.9)	(49.3)

Margins

Gross Margins (%)	9.8	10.5	10.3	10.5	10.2
Op _e Profit Margins (%)	5.9	6.0	5.9	3.7	2.7
Net Profit Margins (%)	4.8	4.8	4.9	2.7	1.9

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	73.9	72.8	73.9	70.9	67.9
Invts in Associates & JVs	2.43	2.36	2.18	7.18	7.18
Other LT Assets	103	100	104	103	102
Cash & ST Invts	35.1	53.7	49.3	51.6	64.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	79.6	121	151	130	160
Other Current Assets	27.4	36.1	7.36	7.36	7.36
Total Assets	321	386	388	370	409
ST Debt	2.90	2.90	45.9	45.9	45.9
Creditor	90.9	148	156	139	171
Other Current Liab	18.2	24.5	21.5	17.4	18.5
LT Debt	48.8	45.9	0.0	0.0	0.0
Other LT Liabilities	5.94	4.13	4.37	4.37	4.37
Shareholder's Equity	155	161	160	164	169
Minority Interests	(0.2)	(0.3)	0.05	0.05	0.05
Total Cap. & Liab.	321	386	388	370	409
Non-Cash Wkg. Capital	(2.1)	(15.3)	(19.0)	(18.9)	(22.5)
Net Cash/(Debt)	(16.6)	4.85	3.36	5.73	18.4
Debtors Turn (avg days)	68.3	49.4	70.4	88.7	74.3
Creditors Turn (avg days)	86.3	66.0	88.4	105.1	89.5
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	2.1	1.8	1.5	1.8
Current Ratio (x)	1.3	1.2	0.9	0.9	1.0
Quick Ratio (x)	1.0	1.0	0.9	0.9	1.0
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.3	2.2	5.0	2.2	2.2
Z-Score (X)	2.4	2.5	2.5	2.5	2.5

Source: Company, DBS Bank

APAC Realty

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	19.6	42.6	32.9	14.7	21.1
Dep. & Amort.	3.27	4.74	4.92	4.92	4.92
Tax Paid	(2.5)	(4.1)	(7.5)	(6.8)	(2.6)
Assoc. & JV Inc/(loss)	0.16	0.40	(0.1)	0.0	0.0
Chg in Wkg.Cap.	(4.3)	6.45	(1.1)	3.96	2.43
Other Operating CF	3.73	4.77	6.25	0.0	0.0
Net Operating CF	20.0	54.9	35.4	16.8	25.8
Capital Exp.(net)	(0.2)	(1.1)	(2.3)	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(2.2)	(0.2)	(6.7)	(5.0)	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(2.6)	(0.8)	0.54	0.0	0.0
Net Investing CF	(4.9)	(2.1)	(8.5)	(6.0)	(1.0)
Div Paid	(7.1)	(29.3)	(26.6)	(8.4)	(12.1)
Chg in Gross Debt	(4.9)	(4.9)	(4.6)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(12.0)	(34.2)	(31.3)	(8.4)	(12.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.10	18.5	(4.4)	2.37	12.7
Opg CFPS (S cts)	6.85	13.6	10.3	3.61	6.58
Free CFPS (S cts)	5.59	15.1	9.31	4.45	6.98

Source: Company, DBS Bank

Target Price & Ratings 12-mth History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Sep 22	0.59	0.41	FULLYVALUED
2:	08 Oct 22	0.59	0.41	FULLYVALUED
3:	11 Nov 22	0.57	0.59	HOLD
4:	17 Jan 23	0.60	0.59	HOLD
5:	24 Feb 23	0.61	0.63	HOLD
6:	15 May 23	0.57	0.57	HOLD

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

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

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DBS Regional Research Offices
HONG KONG
DBS (Hong Kong) Ltd

Contact: Dennis Lam
 13th Floor One Island East,
 18 Westlands Road,
 Quarry Bay, Hong Kong
 Tel: 852 3668 4181
 Fax: 852 2521 1812
 e-mail: dbsvhk@dbs.com

SINGAPORE
DBS Bank Ltd

Contact: Paul Yong
 12 Marina Boulevard,
 Marina Bay Financial Centre Tower 3
 Singapore 018982
 Tel: 65 6878 8888
 e-mail: groupresearch@dbs.com
 Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
 DBS Bank Tower
 Ciputra World 1, 32/F
 Jl. Prof. Dr. Satrio Kav. 3-5
 Jakarta 12940, Indonesia
 Tel: 62 21 3003 4900
 Fax: 6221 3003 4943
 e-mail: indonesiaresearch@dbs.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
 989 Siam Piwat Tower Building,
 9th, 14th-15th Floor
 Rama 1 Road, Pathumwan,
 Bangkok Thailand 10330
 Tel. 66 2 857 7831
 Fax: 66 2 658 1269
 e-mail: research@th.dbs.com
 Company Regn. No 0105539127012
 Securities and Exchange Commission, Thailand