

# 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

15 Nov 2021

**HOLD** (Downgrade from BUY)

Last Traded Price (12 Nov 2021): S\$0.835 (STI : 3,228.45)

Price Target 12-mth: S\$0.88 (5% upside) (Prev S\$1.05)

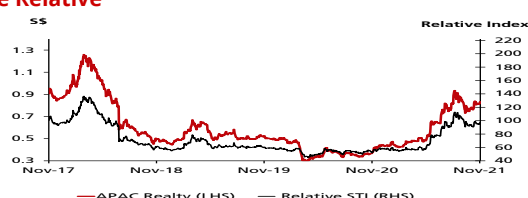
### Analyst

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### What's New

- Downgrade to HOLD, TP reduced to S\$0.88, positives priced in
- 9M21 results beat expectations, driven by the red-hot property market
- Higher market share for most segments; secures marketing roles in 18 projects next year vs 20 this year
- Expecting weaker new home sales to weigh on FY22F earnings; resale and HDB to stay stable

### Price Relative



### Forecasts and Valuation

FY Dec (\$m)	2020A	2021F	2022F	2023F
Revenue	395	684	656	676
EBITDA	21.3	42.6	39.1	40.3
Pre-tax Profit	19.6	41.0	37.5	38.7
Net Profit	16.4	34.1	31.2	32.2
Net Pft (Pre Ex.)	16.4	34.1	31.2	32.2
Net Pft Gth (Pre-ex) (%)	17.3	107.5	(8.6)	3.2
EPS (S cts)	4.63	9.60	8.78	9.06
EPS Pre Ex. (S cts)	4.63	9.60	8.78	9.06
EPS Gth Pre Ex (%)	17	107	(9)	3
Diluted EPS (S cts)	4.63	9.60	8.78	9.06
Net DPS (S cts)	2.50	7.20	4.83	4.98
BV Per Share (S cts)	43.6	46.0	49.9	54.0
PE (X)	18.0	8.7	9.5	9.2
PE Pre Ex. (X)	18.0	8.7	9.5	9.2
P/Cash Flow (X)	14.8	7.9	9.6	8.9
EV/EBITDA (X)	14.7	7.1	7.4	6.8
Net Div Yield (%)	3.0	8.6	5.8	6.0
P/Book Value (X)	1.9	1.8	1.7	1.5
Net Debt/Equity (X)	0.1	0.0	CASH	CASH
ROAE (%)	10.9	21.4	18.3	17.4
Earnings Rev (%)		28	12	-
Consensus EPS (S cts):		8.00	7.90	8.20
Other Broker Recs:		B: 2	S: 0	H: 2

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

## Muted growth outlook

### Investment Thesis:

Downgrade to HOLD, TP reduced to S\$0.88, positives priced in. Given the lacklustre growth outlook, we downgrade our recommendation on APAC to HOLD from BUY. At current level, we believe the positives are priced in. Share price has surged 118% since our upgrade in November last year. Our TP is reduced to S\$0.88, pegged to a lower PE of 10x, its 4-year average, on FY22F earnings. Earnings could taper and move sideways in the next one to two years. Furthermore, the stock is at risk of de-rating if property cooling measures are announced.

### Expecting weaker new home sales; resale and HDB stable.

Going forward, the depleting inventory of unsold new launches as well as construction delays could result in fewer new launches available for sale. Hence, the new homes segment could be weaker after a stellar performance in FY21. The private resale and HDB resale segments could remain stable, barring any cooling measures.

### Valuation:

Cut to HOLD with lower TP of S\$0.88. Our current TP is reduced to S\$0.88 (previously S\$1.05) pegged to a lower PE of 10x, its 4-year average, vs 14x (+1SD of its 4-year average previously) given the muted earnings growth ahead. We have also rolled forward to FY22F earnings.

### Where we differ:

We are more cautious on the outlook as we are expecting fewer new launches while inventory is depleting.

### Key Risks to Our View:

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)	297 / 219
Major Shareholders (%)	
Tan Choon Hong	70.9
Free Float (%)	24.86
3m Avg. Daily Val (US\$m)	0.76
GIC Industry : Real Estate / Real Estate Management &	



Live more, Bank less

## APAC Realty

### WHAT'S NEW

#### 9M21 results beat expectations, driven by the red-hot property market

**9M21 results beat expectations.** APAC reported a 139% y-o-y surge in 9M21 net profit to S\$26.1m on 115% jump in revenue to S\$537m, exceeding our expectations. For 3Q21, net profit of S\$9.1m was up 162% y-o-y (-5.2% q-o-q) while revenue gained 81% y-o-y but declined 13% q-o-q. The strong performance in 9M21 was largely due to an increase in transaction volume of residential properties in the new homes and resale segments, which was driven mainly by local buyers and HDB upgraders amid strong global liquidity and the low interest rate environment.

#### 9M21 results snapshot

	9M21	9M20	Chg (%)
<b>Total revenue</b>	<b>537.0</b>	<b>249.3</b>	<b>115.4</b>
- Resale and rental	325.7	172.9	88.4
- New homes	211.3	76.4	176.6
- Other revenue	6.8	8.4	-19.0
<b>Gross profit</b>	<b>54.9</b>	<b>32.0</b>	<b>72</b>
<b>Net profit</b>	<b>26.1</b>	<b>10.9</b>	<b>139</b>

Source: Company, DBS Bank

#### Overall Market Transactions

**Strong surge in sales of new homes and resale, as compared to last year.** For 9M21, new homes sales (excl. ECs) increased 36% y-o-y to 10,009 units as compared to the 0.7% y-o-y increase for the whole of 2020. Including ECs, total units of 11,868 units sold exceeded the 10,940 units for the whole of 2020. Private residential resale market sales increased 137% y-o-y to 15,623 units, vs the 18% y-o-y gain in 2020. HDB resale market also reported an increase of 35% y-o-y to 23,077 units.

#### Overall private residential market

Key indicators	3Q21	2Q21	Change
<b>Private Residential Market</b>			
Price index	165.3	163.5	+1.1%
Rental index	111.3	109.3	+1.8%
Pipeline supply* (units)	47,715	47,097	+1.3%
Unsold units (excl. ECs)	17,140	19,384	-11.6%
<b>HDB Residential Market</b>			
Price Index	150.6	146.4	+2.9%
No. of flats rented out	57,321	57,755	-0.8%

\*exclude ECs

Source: URA, Company, DBS Bank

Market Transaction Volume	9M21 (units)	9M20 (units)	Change (%)
<b>New Homes</b>	<b>11,868</b>	<b>8,204</b>	<b>44.7</b>
Private	10,009	7,379	35.6
ECs	1,859	825	125.3
<b>Resale</b>	<b>38,700</b>	<b>23,707</b>	<b>63.2</b>
Private	15,623	6,601	136.7
HDB	23,077	17,106	34.9
<b>Rental</b>	<b>107,249</b>	<b>97,485</b>	<b>10.0</b>
Private	75,177	67,159	11.9
HDB	32,072	30,326	5.8
<b>Total transactions</b>	<b>157,817</b>	<b>129,396</b>	<b>22.0</b>

Source: URA, Company, DBS Bank

**Higher market share for most segments.** Market share for ERA in 9M21 improved for most segments, except for the private resale segment. Overall market share (excluding rental) improved to 40.1%, from 38.7% in 9M20.

#### ERA's market share

Market share	9M21	9M20
Overall (excl. rental)	40.1%	38.7%
New homes (incl. ECs)	32.6%	28.6%
Private resale	42.6%	43.6%
HDB resale	42.1%	41.7%
Leasing (Private & HDB)	23.5%	22.5%

Source: Company, DBS Bank

**ERA secures marketing agent roles in 18 projects for 2022.** ERA has secured marketing agent roles in 18 projects for 2022, representing close to 6,000 units in total. In 2021, ERA secured 20 projects with 8,237 units in total. Out of this, 16 projects were launched, with four more (Perfect Ten, Canninghill Piers, The Commodore, Mori) expected to be launched soon.

In the en-bloc space, ERA has been appointed the marketing agent for Chuan Park, Choon Kim House in Serangoon, four more condominiums valued at S\$3.1bn and another site in the Chinatown area valued at about S\$1.8bn.

## APAC Realty

### Earnings and Recommendations

**Raised FY21F/FY22F earnings on higher transaction volume assumptions.** We have raised earnings for FY21F/FY22F by 28%/12% as we increase the number of property transactions across all segments. We are now expecting new homes sales to reach 13,500 and 12,200 units in FY21F and FY22F respectively, from 12,000 previously for both years. For the private resale market, we project 18,000 units in FY21F and 16,600 in FY22F, up from 16,000 units.

**Expecting weaker new homes; resale and HDB stable.** The depleting inventory of unsold new launches as well as construction delays could result in fewer new launches available for sale. Hence, the new homes segment could be weaker after a stellar performance in FY21. The private resale market should still remain relatively stable vs the new homes segment, driven by a lack of supply of new launches, delays in BTO completion, and being a cheaper alternative to private new launches. The HDB resale segment is also expected to remain stable, barring any cooling measures.

**Downgrade to HOLD, TP reduced to S\$0.88, positives priced in.** Given the lacklustre growth outlook, we downgrade our recommendation on APAC to HOLD from BUY. At current level, we believe the positives are priced in. Share price has surged 118% since our upgrade in November last year. We upgraded APAC to BUY back then, as the property market was resilient amid the COVID-19 pandemic and valuation was also attractive at -1SD of its 4-year average.

Our current TP is reduced to S\$0.88 (previously S\$1.05) pegged to a lower PE of 10x, its 4-year average, vs 14x (+1SD of its 4-year average). We have also rolled forward to FY22F earnings. Earnings could taper and move sideways in the next one to two years. Furthermore, the stock is at risk of de-rating if property cooling measures are announced.

**Risks: property cooling measures.** With the property price index maintaining its uptrend, coupled with the recent record prices for new launches and land, we read such strong momentum with caution given possible actions to cool the strong demand for property.

### 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.

### 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	2019A	2020A	2021F	2022F	2023F
ERA transaction value growth (%)	(18.7)	23.7	75.1	(4.3)	3.14
ERA market share (%)	32.9	33.3	35.2	34.0	34.0

### Segmental Breakdown

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (\$m)</b>					
Brokerage	359	384	672	643	663
Non-brokerage	10.2	11.2	11.8	12.4	13.0
<b>Total</b>	<b>370</b>	<b>395</b>	<b>684</b>	<b>656</b>	<b>676</b>
<b>Gross profit (\$m)</b>					
Brokerage	37.3	37.3	59.1	55.3	56.7
Non-brokerage	10.2	10.2	10.6	11.1	11.7
<b>Total</b>	<b>47.5</b>	<b>47.5</b>	<b>69.7</b>	<b>66.4</b>	<b>68.4</b>

### Income Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	370	395	684	656	676
Cost of Goods Sold	(323)	(348)	(614)	(589)	(608)
<b>Gross Profit</b>	<b>46.4</b>	<b>47.5</b>	<b>69.7</b>	<b>66.4</b>	<b>68.4</b>
Other Opng (Exp)/Inc	(27.4)	(26.6)	(27.6)	(27.9)	(28.6)
<b>Operating Profit</b>	<b>19.0</b>	<b>20.9</b>	<b>42.1</b>	<b>38.6</b>	<b>39.8</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.2)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.8)	(1.1)	(1.1)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>17.2</b>	<b>19.6</b>	<b>41.0</b>	<b>37.5</b>	<b>38.7</b>
Tax	(3.3)	(3.3)	(6.9)	(6.3)	(6.5)
Minority Interest	0.14	0.10	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>14.0</b>	<b>16.4</b>	<b>34.1</b>	<b>31.2</b>	<b>32.2</b>
Net Profit before Except.	14.0	16.4	34.1	31.2	32.2
EBITDA	20.4	21.3	42.6	39.1	40.3
<b>Growth</b>					
Revenue Gth (%)	(12.8)	6.9	73.1	(4.1)	3.2
EBITDA Gth (%)	(34.3)	4.0	100.5	(8.3)	3.1
Opg Profit Gth (%)	(36.0)	9.9	101.5	(8.4)	3.1
Net Profit Gth (Pre-ex) (%)	(42.2)	17.3	107.5	(8.6)	3.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	12.5	12.0	10.2	10.1	10.1
Opg Profit Margin (%)	5.1	5.3	6.2	5.9	5.9
Net Profit Margin (%)	3.8	4.2	5.0	4.8	4.8
ROAE (%)	9.7	10.9	21.4	18.3	17.4
ROA (%)	4.8	5.3	9.4	7.6	7.6
ROCE (%)	5.9	7.3	15.3	13.2	12.9
Div Payout Ratio (%)	50.7	54.0	75.0	55.0	55.0
Net Interest Cover (x)	10.7	19.5	39.4	36.1	37.2

Source: Company, DBS Bank

## APAC Realty

### Interim Income Statement (\$\$m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	163	206	173	222	358
Cost of Goods Sold	(143)	(180)	(151)	(196)	(323)
<b>Gross Profit</b>	<b>20.0</b>	<b>26.3</b>	<b>21.7</b>	<b>25.8</b>	<b>35.3</b>
Other Oper. (Exp)/Inc	(12.8)	(13.5)	(11.9)	(14.7)	(14.2)
<b>Operating Profit</b>	<b>7.15</b>	<b>12.9</b>	<b>9.74</b>	<b>11.1</b>	<b>21.1</b>
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	(0.2)	(0.3)
Net Interest (Exp)/Inc	(0.9)	(0.9)	(0.7)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>6.25</b>	<b>12.0</b>	<b>9.07</b>	<b>10.6</b>	<b>20.4</b>
Tax	(1.2)	(2.1)	(1.4)	(1.9)	(3.4)
Minority Interest	0.0	0.07	0.06	0.04	0.02
<b>Net Profit</b>	<b>5.04</b>	<b>8.91</b>	<b>7.76</b>	<b>8.68</b>	<b>17.0</b>
Net profit bef Except.	5.04	8.91	7.76	8.68	17.0
EBITDA	8.68	14.5	11.3	12.6	23.1

### Growth

Revenue Gth (%)	(17.1)	26.6	(16.3)	28.6	61.2
EBITDA Gth (%)	(38.1)	66.7	(21.6)	11.0	83.8
Opp Profit Gth (%)	(46.2)	80.1	(24.4)	14.4	89.2
Net Profit Gth (%)	(52.6)	76.8	(12.9)	11.9	96.4

### Margins

Gross Margins (%)	12.3	12.8	12.5	11.6	9.8
Opp Profit Margins (%)	4.4	6.2	5.6	5.0	5.9
Net Profit Margins (%)	3.1	4.3	4.5	3.9	4.8

### Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	72.8	73.9	74.4	74.9	75.4
Invts in Associates & JVs	0.44	2.43	2.43	2.43	2.43
Other LT Assets	106	103	103	103	103
Cash & ST Invts	32.0	35.1	45.9	58.5	73.1
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	68.2	79.6	154	147	152
Other Current Assets	15.4	27.4	27.4	27.4	27.4
<b>Total Assets</b>	<b>295</b>	<b>321</b>	<b>407</b>	<b>413</b>	<b>433</b>
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	71.9	90.9	165	158	163
Other Current Liab	15.6	18.2	20.9	20.3	20.5
LT Debt	51.7	48.8	48.8	48.8	48.8
Other LT Liabilities	7.55	5.94	5.94	5.94	5.94
Shareholder's Equity	146	155	163	177	192
Minority Interests	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
<b>Total Cap. &amp; Liab.</b>	<b>295</b>	<b>321</b>	<b>407</b>	<b>413</b>	<b>433</b>
Non-Cash Wkg. Capital	(3.9)	(2.1)	(4.7)	(3.8)	(4.4)
Net Cash/(Debt)	(22.6)	(16.6)	(5.8)	6.79	21.4
Debtors Turn (avg days)	63.2	68.3	62.2	83.8	80.7
Creditors Turn (avg days)	76.8	85.6	76.1	100.2	96.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	1.3	1.9	1.6	1.6
Current Ratio (x)	1.3	1.3	1.2	1.3	1.4
Quick Ratio (x)	1.1	1.0	1.1	1.1	1.2
Net Debt/Equity (X)	0.2	0.1	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	0.1	0.0	CASH	CASH
Capex to Debt (%)	2.3	0.3	1.9	1.9	1.9
Z-Score (X)	2.4	2.4	2.5	2.5	2.5

Source: Company, DBS Bank

## APAC Realty

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	17.2	19.6	41.0	37.5	38.7
Dep. & Amort.	1.44	0.55	0.55	0.55	0.55
Tax Paid	(5.3)	(2.5)	(4.2)	(6.9)	(6.3)
Assoc. & JV Inc/(loss)	0.0	0.16	0.0	0.0	0.0
Chg in Wkg.Cap.	(0.4)	(4.3)	(0.1)	(0.4)	0.39
Other Operating CF	3.98	6.46	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>17.0</b>	<b>20.0</b>	<b>37.3</b>	<b>30.8</b>	<b>33.3</b>
Capital Exp.(net)	(1.2)	(0.2)	(1.0)	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(0.1)	(2.2)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(10.3)	(2.6)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(11.7)</b>	<b>(4.9)</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Div Paid	(11.5)	(7.1)	(25.6)	(17.1)	(17.7)
Chg in Gross Debt	(4.8)	(4.9)	0.0	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
<b>Net Financing CF</b>	<b>(16.3)</b>	<b>(12.0)</b>	<b>(25.6)</b>	<b>(17.1)</b>	<b>(17.7)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(11.0)	3.10	10.8	12.6	14.6
Opg CFPS (S cts)	4.88	6.85	10.5	8.76	9.27
Free CFPS (S cts)	4.43	5.59	10.2	8.38	9.10

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Nov 20	0.41	0.53	BUY
2:	24 Feb 21	0.44	0.61	BUY
3:	14 May 21	0.50	0.74	BUY
4:	13 Aug 21	0.89	1.05	BUY

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

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

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