

Singapore Company Guide

APAC Realty

Version 14 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Aug 2020

HOLD

Last Traded Price (13 Aug 2020): S\$0.38 (STI : 2,595.97)

Price Target 12-mth: S\$0.40 (5% upside) (Prev S\$0.41)

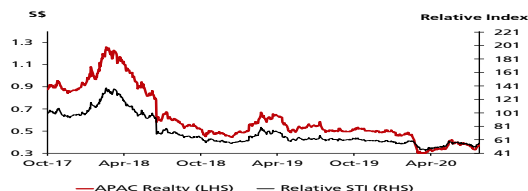
Analyst

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What's New

- Strong surge in 1H20 net profit, above expectations
- 2H20, especially 3Q20, to bear bulk of impact from COVID-19
- Supply still healthy despite fewer project launches
- Maintain HOLD with lower TP of S\$0.40

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2018A	2019A	2020F	2021F
Revenue	424	370	327	341
EBITDA	31.1	20.4	16.2	17.4
Pre-tax Profit	29.2	17.2	13.8	15.0
Net Profit	24.2	14.0	11.5	12.5
Net Pft (Pre Ex.)	24.2	14.0	11.5	12.5
Net Pft Gth (Pre-ex) (%)	(6.4)	(42.2)	(18.1)	8.7
EPS (S cts)	6.83	3.94	3.23	3.51
EPS Pre Ex. (S cts)	6.83	3.94	3.23	3.51
EPS Gth Pre Ex (%)	(6)	(42)	(18)	9
Diluted EPS (S cts)	6.83	3.94	3.23	3.51
Net DPS (S cts)	4.50	2.00	1.64	1.78
BV Per Share (S cts)	40.3	41.0	42.6	44.3
PE (X)	5.6	9.6	11.8	10.8
PE Pre Ex. (X)	5.6	9.6	11.8	10.8
P/Cash Flow (X)	12.0	8.0	8.6	10.0
EV/EBITDA (X)	4.8	7.7	9.2	8.2
Net Div Yield (%)	11.8	5.3	4.3	4.7
P/Book Value (X)	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	0.1	0.2	0.1	0.0
ROAE (%)	17.6	9.7	7.7	8.1
Earnings Rev (%)		0	136	63
Consensus EPS (S cts)		N/A	3.20	3.90
Other Broker Recs:		B: 3	S: 0	H: 1

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

Expect a weak 2H20

Adverse financial impact to be felt in 2H20, especially 3Q20.

1H20 net profit surged 52.8% y-o-y to S\$7.7m on the back of a 6% increase in revenue and margin improvement. However, the sky is not clear as 2H20, especially 3Q20, is expected to bear the bulk of the negative impact from COVID-19. This is mainly due to the time required for completion of real estate transactions and time lag in revenue recognition. In terms of market segment, the private primary market was not as badly hit as the secondary market during the lockdown period. About 20% of primary sales were conducted via virtual viewing. Hence, we have raised our sales assumption for the primary market segment. We are now projecting a 21.6% y-o-y drop (vs -33.5% previously) in transaction value in FY20F.

Supply still healthy despite fewer project launches.

As at 13 August 2020, ERA has launched 15 projects YTD, vs 43 projects launched in the year 2019. There are 27 more projects slated to be launched during the rest of this year and 1H 2021.

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\$0.40. We have raised FY20F and FY21F earnings on the back of the strong 1H20 results. However, TP is lowered slightly to S\$0.40 (prev S\$0.41) as we lowered our valuation peg to 11.4x PE on FY21F earnings, which is -1SD of its 5-year average PE, given a weak global economy and expectations of a weak 2H20. 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)	135 / 98.4
Major Shareholders (%)	
Tan Choon Hong	71.8
Free Float (%)	28.2
3m Avg. Daily Val (US\$m)	0.05

GIC Industry : Real Estate / Real Estate Management & Development



Live more, Bank less

WHAT'S NEW

Strong surged in 1H20 net profit, above expectations

Results Highlights

6% y-o-y increase in total revenue. 1H20 group revenue increased 6% y-o-y to S\$172.8m, despite prevailing property cooling measures and the impact from the suspension of real estate business from 7 April to 1 June 2020 during the "Circuit Breaker Period". This was primarily due to higher brokerage income contribution from new home sales, and to a lesser extent, resale and rental of properties.

Improvement in net margins. Net margins improved to 4.5% from 3.1% in 1H19. This was mainly due to (a) lower finance costs as a result of loan repayments and lower bank interest rates; (b) lower marketing and recruitment expenses in the light of the Circuit Breaker Period; and (c) unrealized exchange gain on other receivables.

Strong surge in net profit, above expectations. On the back of the higher revenue and improved net margins, 1H20 net profit surged 52.8% y-o-y to S\$7.7m

0.75cts DPS declared. A 0.75cts DPS was declared, representing an annualized dividend yield of c.4%.

Private Residential Property Sector

	1H19	1H20	% chg
Private Residential Market			
Transaction Volume (units)	4,188	3,862	-7.8%
Transaction Value (S\$bn)	6.2	5.6	-9.7%
Secondary Residential Market			
Transaction Volume (units)	4,321	3,071	-28.9%
Transaction Value (S\$bn)	8.7	6.3	-27.6%
Private Residential Leasing			
Transaction Volume (units)	44,521	40,697	-8.6%
Transaction Value (S\$bn)	4	3.6	-10.0%
HDB Resale Market			
Transaction Volume (units)	11,111	9,319	-16.1%
Transaction Value (S\$bn)	4.5	3.8	-15.6%

Source: Company, DBS Bank

Agent strength: As at 30 June 2020, APAC has about 7,221 agents, +3.6% YTD, with market share of c.23%.

Market share: For the private residential segment, ERA's share was 27.7% in 1H20, similar to 27.2% in 1H19. ERA's market share in the private and HDB resale market was 42.2% in 1H20, an improvement from the 40.3% in 1H19. Overall, ERA has maintained a healthy 38.3% share of Singapore's residential property market in 1H20, compared to 37.5% in 1H19.

Supply still healthy despite fewer project launches: As at 13 August 2020, ERA has launched 15 projects YTD, vs 43 projects launched in year 2019. There are 27 more projects slated to be launched during the rest of 2020 and 1H 2021.

So far, about 20% of project sales were conducted via virtual sale. However, it is more difficult to conduct virtual sale for the resale segment as buyers would prefer to physically view the property before making any purchase.

Outlook

2H20, especially 3Q20, to bear bulk of impact from COVID-19. Most of the impact from the contraction of market volume during the "circuit breaker" period will be reflected in the group's financial performance in the second half year. Third quarter is expected to be the worst hit, given the time required for completion of real estate transactions and time lag in revenue recognition.

For the private rental housing market, leasing demand, and consequently rents, may remain under pressure on the back of the weak economy and fewer expatriates coming to Singapore as border restrictions remain in place. Furthermore, some expatriates may opt for cheaper housing options as some may be facing pay cuts or given smaller housing packages in the current macroeconomic uncertainties.

Overseas expansion gaining traction, though contribution still small. The Indonesian government has proposed a new law under the Omnibus Bill that will enable foreign investors to purchase and own property in the country with fewer restrictions. At present, foreigners are unable to buy the land under which properties have been built and can only lease Indonesian properties. However, the proposed law would make it possible for foreigners to own strata-titled apartments and condominiums. ERA has two projects in Indonesia, to be launched soon.

Earnings & Recommendation

Raised sales assumption mainly for the primary market segment; HDB resale flat. We have raised FY20F and FY21F earnings on the back of the strong 1H20 results. We have upped our sales assumptions mainly for the primary market segment in FY20F. We are now projecting a smaller 21.6% y-o-y drop (vs -33.5% previously) in transaction value for the private primary market in FY20F, followed by a slight rebound of 3% in FY21F. The HDB resale market is expected to remain flat in FY21F, vs a 5% y-o-y decline in FY20F. We have also

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assumed ERA's market share to revert to c.35% in FY20F and FY21F, from c.33% last year.

However, our TP is lowered slightly to S\$0.40 (prev S\$0.41) as we lowered our valuation peg to 11.4x PE on FY21F earnings,

which is at -1SD (previous at average level) of its 5-year average PE, given a weak global economy and expectations of a weak 2H20. Maintain HOLD.

Interim Income Statement (\$m)

FY Dec	1H2019	2H2019	1H2020	% chg yoy	% chg hoh
Revenue	163	206	173	6.0	(16.3)
Cost of Goods Sold	(143)	(180)	(151)	5.6	(16.1)
Gross Profit	20	26	22	8.5	(17.7)
Other Oper. (Exp)/Inc	(13)	(13)	(12)	(7.0)	(11.4)
Operating Profit	7	13	10	36.2	(24.4)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	(1)	(1)	25.5	24.2
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	6	12	9	45.0	(24.4)
Tax	(1)	(2)	(1)	12.7	(35.9)
Minority Interest	0	0	0	-	-
Net Profit	5	9	8	53.9	(12.9)
Net profit bef Except.	5	9	8	53.9	(12.9)
EBITDA	9	14	11	30.7	(21.6)
Margins (%)					
Gross Margins	12.3	12.8	12.5		
Opg Profit Margins	4.4	6.2	5.6		
Net Profit Margins	3.1	4.3	4.5		

Source of all data: Company, DBS Bank

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CRITICAL DATA POINTS TO WATCH

Critical Factors

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

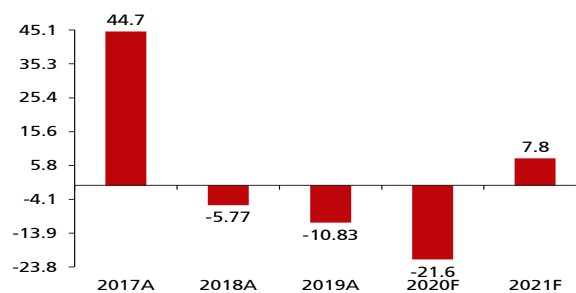
About 80% of APAC's revenue is generated from the brokerage segment. About one-third each of total revenue is from the private primary residential market, the private secondary residential market and the HDB resale & leasing market. We expect the private residential primary and secondary markets to be weak in FY20F, with a 21.6% and 31.1% y-o-y drop in transaction value respectively due to the COVID-19 impact. We project a slight recovery of 8% y-o-y in FY21F for the primary segment and 3% for the secondary market. The HDB resale market is less volatile, we expect a flat 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. In 1H20, ERA, however, managed to improve its market share to 38.4%. Market share for the HDB segment is expected to remain stable at just over 40%.

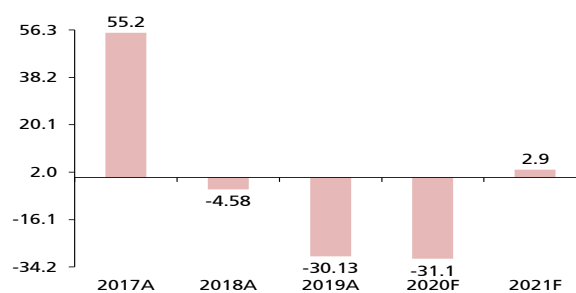
Project pipeline. As at 13 August 2020, ERA has launched 15 projects YTD, vs 43 projects launched in year 2019. There are 27 more projects slated to be launched during the balance of this year and 1H 2021. The total number of unsold private residential units stood at 29,876 as at end June 2020. The vacancy rate of completed private residential units continues to trend downwards and reached 5.4% as at 30 June 2020, coming down from a high of 8.9% as at 30 June 2016. Apart from the 29,876 unsold units (including ECs) with planning approval as at 30 June 2020, there is a potential supply of 5,400 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 30 June 2020, APAC has about 7,221 agents, +3.6% YTD, 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.

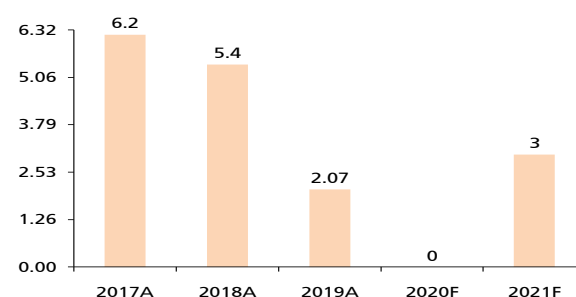
Private residential - primary



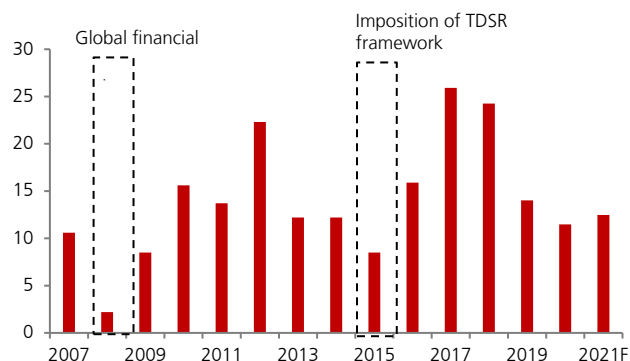
Private residential - secondary



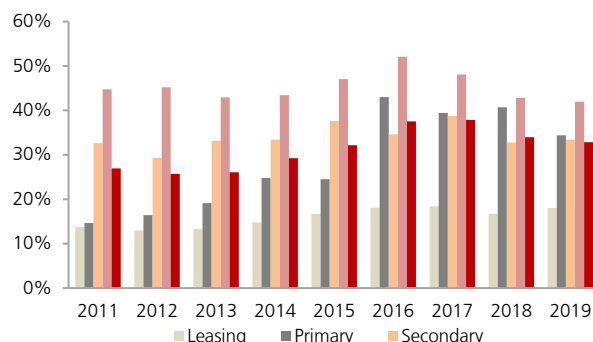
HDB resale



Net profit trend (\$5m)



ERA's market share



Source: Company, DBS Bank

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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-June 2020, 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.

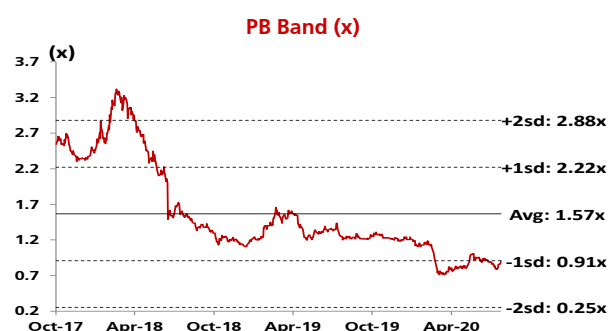
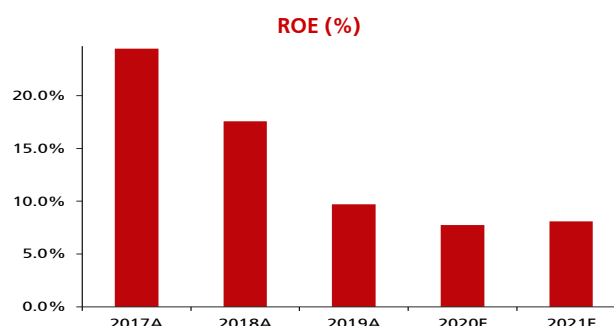
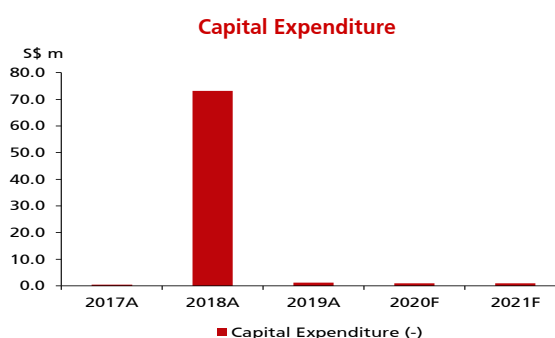
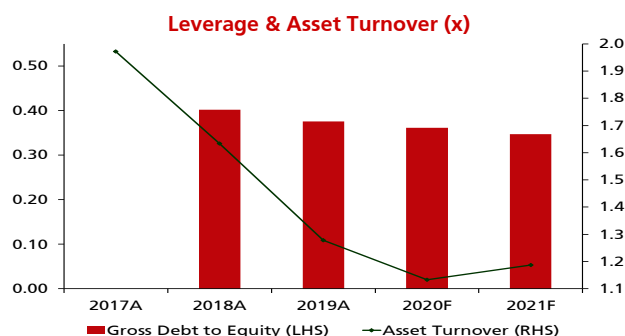
Key Risks:

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

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Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Transaction value growth (%)					
Private residential - primary	44.7	(5.8)	(10.8)	(21.6)	7.80
Private residential - secondary	55.2	(4.6)	(30.1)	(31.1)	2.90
HDB resale	6.20	5.40	2.07	0.0	3.00

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Brokerage	391	413	360	318	330
Non-brokerage	9.38	10.6	9.24	9.70	10.2
Total	401	424	370	327	341
Gross profit (\$\$m)					
Brokerage	46.6	44.5	37.3	31.8	33.0
Non-brokerage	12.3	10.2	0.0	0.0	0.0
Total	58.9	54.7	37.3	31.8	33.0
Gross profit Margins (%)					
Brokerage	11.9	10.8	10.3	10.0	10.0
Non-brokerage	131.2	96.5	0.0	0.0	0.0
Total	14.7	12.9	10.1	9.7	9.7

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	401	424	370	327	341
Cost of Goods Sold	(346)	(371)	(323)	(286)	(297)
Gross Profit	54.9	52.8	46.4	41.3	43.1
Other Opng (Exp)/Inc	(25.2)	(23.1)	(27.4)	(25.7)	(26.3)
Operating Profit	29.7	29.7	19.0	15.6	16.8
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	13.8	15.0
Tax	(3.5)	(5.0)	(3.3)	(2.3)	(2.6)
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	11.5	12.5
Net Profit before Except.	25.9	24.2	14.0	11.5	12.5
EBITDA	31.2	31.1	20.4	16.2	17.4
Growth					
Revenue Gth (%)	39.2	5.8	(12.8)	(11.5)	4.1
EBITDA Gth (%)	49.7	(0.1)	(34.3)	(21.0)	7.5
Opg Profit Gth (%)	54.7	0.0	(36.0)	(17.9)	7.7
Net Profit Gth (Pre-ex) (%)	63.1	(6.4)	(42.2)	(18.1)	8.7
Margins & Ratio					
Gross Margins (%)	13.7	12.5	12.5	12.6	12.7
Opg Profit Margin (%)	7.4	7.0	5.1	4.8	4.9
Net Profit Margin (%)	6.5	5.7	3.8	3.5	3.7
ROAE (%)	24.4	17.6	9.7	7.7	8.1
ROA (%)	12.8	9.3	4.8	4.0	4.3
ROCE (%)	21.5	13.9	5.9	4.6	4.9
Div Payout Ratio (%)	27.4	65.9	50.7	50.7	50.7
Net Interest Cover (x)	111.6	66.9	10.7	8.8	9.4

Source: Company, DBS Bank

APAC Realty

Interim Income Statement (\$\$m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	227	197	163	206	173
Cost of Goods Sold	(200)	(171)	(143)	(180)	(151)
Gross Profit	26.8	26.0	20.0	26.3	21.7
Other Oper. (Exp)/Inc	(10.5)	(12.7)	(12.8)	(13.5)	(11.9)
Operating Profit	16.4	13.3	7.15	12.9	9.74
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	(0.4)	(0.9)	(0.9)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	16.4	12.8	6.25	12.0	9.07
Tax	(2.8)	(2.2)	(1.2)	(2.1)	(1.4)
Minority Interest	0.0	0.0	0.0	0.07	0.06
Net Profit	13.6	10.6	5.04	8.91	7.76
Net profit bef Except.	13.6	10.6	5.04	8.91	7.76
EBITDA	17.1	14.0	8.68	14.5	11.3

Growth

Revenue Gth (%)	nm	(13.4)	(17.1)	26.6	(16.3)
EBITDA Gth (%)	nm	(18.1)	(38.1)	66.7	(21.6)
Opp Profit Gth (%)	nm	(18.9)	(46.2)	80.1	(24.4)
Net Profit Gth (%)	nm	(21.9)	(52.6)	76.8	(12.9)

Margins

Gross Margins (%)	11.8	13.2	12.3	12.8	12.5
Opp Profit Margins (%)	7.2	6.8	4.4	6.2	5.6
Net Profit Margins (%)	6.0	5.4	3.1	4.3	4.5

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	1.22	72.8	72.8	73.3	73.8
Invts in Associates & JVs	0.0	0.35	0.44	0.53	0.53
Other LT Assets	101	101	106	106	106
Cash & ST Invts	62.0	43.0	32.0	40.8	47.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	70.1	59.7	68.2	46.3	48.2
Other Current Assets	1.92	6.79	15.4	15.4	15.4
Total Assets	236	283	295	282	291
ST Debt	0.0	2.90	2.90	2.90	2.90
Creditor	82.0	63.5	71.9	54.6	56.8
Other Current Liab	16.4	14.8	15.6	14.6	14.8
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	151	157
Minority Interests	0.0	0.04	(0.1)	(0.1)	(0.1)
Total Cap. & Liab.	236	283	295	282	291
Non-Cash Wkg. Capital	(26.5)	(11.8)	(3.9)	(7.5)	(8.0)
Net Cash/(Debt)	62.0	(14.5)	(22.6)	(13.9)	(7.6)
Debtors Turn (avg days)	53.7	55.8	63.2	63.9	50.6
Creditors Turn (avg days)	73.0	71.8	76.8	80.9	68.4
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.0	1.6	1.3	1.1	1.2
Current Ratio (x)	1.4	1.3	1.3	1.4	1.5
Quick Ratio (x)	1.3	1.3	1.1	1.2	1.3
Net Debt/Equity (X)	CASH	0.1	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.2	0.1	0.0
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

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	29.4	29.2	17.2	13.8	15.0
Dep. & Amort.	1.44	1.44	1.44	0.56	0.56
Tax Paid	(3.2)	(5.0)	(5.3)	(3.3)	(2.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.16	(16.1)	(0.4)	4.61	0.32
Other Operating CF	2.80	1.69	3.98	0.0	0.0
Net Operating CF	34.6	11.3	17.0	15.6	13.6
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)	(5.8)	(6.3)
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)	(5.8)	(6.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	44.2	(19.0)	(11.0)	8.74	6.23
Opg CFPS (S cts)	8.58	7.71	4.88	3.11	3.72
Free CFPS (S cts)	9.62	(17.4)	4.43	4.12	3.53

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Nov 19	0.51	0.46	HOLD
2:	25 Feb 20	0.49	0.52	HOLD
3:	11 Jun 20	0.39	0.41	HOLD
4:	13 Aug 20	0.38	0.41	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: 14 Aug 2020 08:18:41 (SGT)

Dissemination Date: 14 Aug 2020 08:41:13 (SGT)

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