

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

23 Feb 2022

HOLD

Last Traded Price (22 Feb 2022): S\$0.645 (STI : 3,400.58)
Price Target 12-mth: S\$0.67 (3% upside) (Prev S\$0.88)

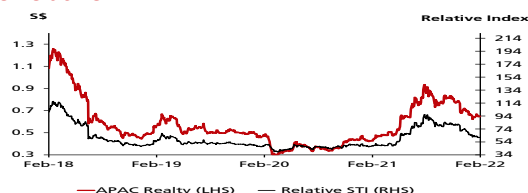
Analyst

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What's New

- In line FY21 results, lifted by the red-hot property market; higher dividend declared
- Slight improvement in overall market share
- Cut FY22F/FY23F earnings by 24%/22% to factor in lower transaction volume assumptions
- Maintain HOLD with lower TP of S\$0.67

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	395	740	546	596
EBITDA	24.0	48.1	34.0	35.6
Pre-tax Profit	19.6	42.6	28.5	30.1
Net Profit	16.4	35.4	23.6	24.9
Net Pft (Pre Ex.)	16.4	35.4	23.6	24.9
Net Pft Gth (Pre-ex) (%)	17.3	115.3	(33.2)	5.6
EPS (S cts)	4.63	9.96	6.65	7.02
EPS Pre Ex. (S cts)	4.63	9.96	6.65	7.02
EPS Gth Pre Ex (%)	17	115	(33)	6
Diluted EPS (S cts)	4.63	9.96	6.65	7.02
Net DPS (S cts)	2.50	7.50	3.66	3.86
BV Per Share (S cts)	43.6	45.3	48.3	51.5
PE (X)	13.9	6.5	9.7	9.2
PE Pre Ex. (X)	13.9	6.5	9.7	9.2
P/Cash Flow (X)	11.4	4.2	17.4	7.3
EV/EBITDA (X)	10.2	4.7	6.6	5.8
Net Div Yield (%)	3.9	11.6	5.7	6.0
P/Book Value (X)	1.5	1.4	1.3	1.3
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE (%)	10.9	22.4	14.2	14.1
Earnings Rev (%):			(24)	(22)
Consensus EPS (S cts):			8.90	9.40
Other Broker Recs:		B: 1	S: 0	H: 2

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

Near term headwinds

Investment Thesis:

Impacted by cooling measures and rising interest rate. The recent property cooling measures and rising interest rate environment are expected to affect property market sentiment in the near term, at least for the next 1-2 years. With fewer new launches in the pipeline for 2022 as compared to 2021 and depleting inventory of unsold as well as construction delays, we have cut our transaction volume projections for the various segments.

Expecting steeper drop in private new home sales vs resale and HDB resale. For the new home sales segment, we cut our projection by 18% to 26% to 9,000/10,000 units for FY22F/23F. For the resale segment, we have penciled in a 6 to 10% cut to 15,000/16,000 and a 11-12% cut for the HDB resale division to 26,500/27,000 units.

Earnings could taper and move sideways in the next one to two years. We expect earnings to drop 33% in FY22F and rise by a modest 6% in FY23F.

Valuation:

Maintain HOLD with lower TP of S\$0.67. We have reduced our TP to S\$0.67 (previously S\$0.88) pegged to c.10x FY22F earnings, equivalent to its average 4-year PE, on the back of the lower earnings as we cut our transaction volume assumptions. Prospective yield is decent at c. 5.7% - HOLD.

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 (\$m/US\$m)	229 / 170
Major Shareholders (%)	
Tan Choon Hong	70.9
Free Float (%)	29.1
3m Avg. Daily Val (US\$m)	0.24
GIC Industry : Real Estate / Real Estate Management & Development	



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WHAT'S NEW

Stellar results, lifted by the strong property market

Strong FY21 results, in line. On the back of the red-hot property market in 2021, APAC reported a 116% y-o-y surge in net profit to S\$35.3m while revenue jumped 87.2% to S\$739.8m. Net margin improved to 4.8% in FY21 from 4.2% in FY20. Revenue from the resale and rental segment increased 68% y-o-y to S\$449.1m while new home sales saw a 141% jump to \$281m. For 1H21, total revenue was up 71.5% to S\$381.3m.

Record dividend. The group declared a final DPS of 4Scts. Together with the interim DPS of 3.5Scts, total dividend for FY21 is 7.5Scts, excluding the special DPS of 3Scts paid in September 2021. This works out to a dividend payout ratio of 75.5%, vs 54% for FY20.

Buoyant property market with 71% y-o-y surge in property transaction value in 2021. Despite the on-going Covid-19 pandemic, residential home sales and rentals have consistently risen quarter on quarter where market transactions have surpassed 2020. All segments saw a strong surge in transaction volume, with the private resale segment recorded the strongest growth of 87.9% y-o-y.

Overall private residential market

Key indicators	3Q21	4Q21	Change
Private Residential Market			
Price index	165.3	173.6	+5.0%
Rental index	111.3	114.2	+2.6%
Pipeline supply* (units)	47,715	46,276	-3.0%
Unsold units (excl. ECs)	17,140	14,154	-17.4%
Market Transaction Volume			
	2020 (unit s)	2021 (unit s)	Change (%)
New Homes (incl. ECs)	10,940	15,146	+38.4%
Private resale	10,927	20,530	+87.9%
HDB resale	24,748	31,017	+25.3%

*exclude ECs

Source: URA, Company, DBS Bank

ERA's overall market share saw a slight increase. For FY21, ERA's overall market share in terms of transaction value improved to 33.6% from 33.3%. The private new homes segment saw an improvement to 34.1% but the private resale segment eased to 33.6% from 36% in FY20. The HDB resale segment was relatively stable with a 41.4% market share.

Market share based on transaction value

	FY20 (%)	FY21 (%)
Private new homes	31.4	34.1
Private resale	36.0	33.6
Private leasing	17.5	19.1
HDB resale	42.2	41.4
Overall market	33.3	33.6

Source: Company; DBS Bank

In terms of agents, as of 1 January 2022, ERA had 8,144 agents, a 4.8% increase from 7,771 a year ago. The group targets to have >10,000 agents in 3 years' time.

Decent project pipeline. As of 21 February 2022, ERA has secured marketing mandates for 33 projects with a total of close to 7,200 units slated to be launched in 2022, as compared to 23 projects with 8,428 units in 2021.

Implications of cooling measures on the property market

Market getting less sensitive to cooling measures. Based on historical trend, the negative impact on the property market was short-lived, followed by a strong recovery on home price.

PPI	Transaction Volume
2013: Lower LTV, higher ABSD; TDSR introduced	
<ul style="list-style-type: none"> Down 11.7% from 3Q13 to 2Q17 Up 27.1% from 3Q17 to 4Q21 	<ul style="list-style-type: none"> In 2014 down 43.5% y-o-y In 2017 up 94.7% from 2014
2018: Lower LTV, higher ABSD	
<ul style="list-style-type: none"> Down 0.3% from 3Q18 to 1Q19 Up 11.2% from 2Q19 to 4Q21 	<ul style="list-style-type: none"> In 2019 down 13.5% y-o-y As at 3Q21, volume jumped 33.8% from 2019

Source: URA, Company, DBS Bank

APAC Realty

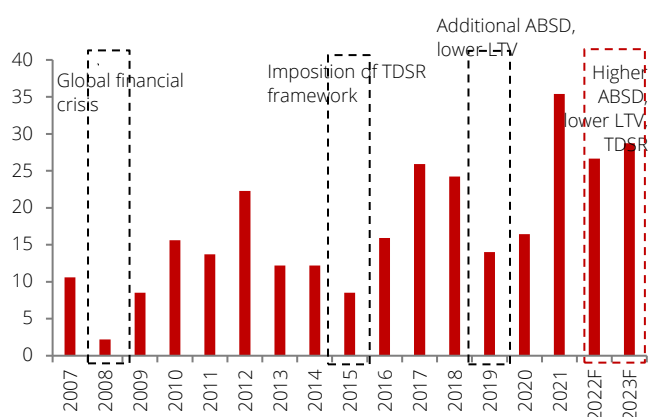
The private residential price index (PPI) declined by 11.7% over 4 years when the TSDR/ABSD cooling measures were announced in 2013. This was followed by rise of 27.1% from 3Q17 to 4Q21. The market was less sensitive to the 2018 colling measures. PPI was down for three quarters (3Q18-1Q19), followed by a strong rebound from 2Q19 to 4Q21.

In terms of transaction volume, post 2013 cooling measures, the private property market saw a 43.5% y-o-y decline in number of units sold in 2014. In 2017, transaction volume surged 94.7% from 2014. Post 2018 cooling measures, transaction volume declined 13.5% in 2019. As at 3Q21, volume jumped 33.8% from 2019. The HDB resale volume remained strong despite the cooling measures. Transaction volume increased 43.5% during the 2013 – 2017 period and was flat from 2018 to 3Q21.

HDB resale prices only rebounded in 2020 but demand remained strong. Meanwhile, HDB resale prices rebounded only in 2Q20, after a 7-year decline (from 2Q13) of 12.5%. But the rebound in 2Q20 was strong, +18.8%. Demand, however, remained strong despite the cooling measures. Sales volume was up 43.5% in 2017, as compared to 2013.

Impact on APAC's profitability is also short-lived. APAC has a proven resilient business model, allowing the group to maintain profitability during economic downturns and property market cycles. Average net profit for 2010 to 2020 is S\$17m. Net profit in 2014 and 2015 was down about 30% y-o-y but rebounded strongly in 2016. Post the 2018 cooling measures, net profit in 2019 was down 43% y-o-y but recovered in 2020.

Net profit trend (S\$m)



Source: company, DBS Bank

Near term still impacted; cut transaction volume for the various segments. Though the property market is expected to recover over the longer term, there would be an impact in the near term. We have cut our transaction volume projections for the various segments. We are now projecting new home sales of 9,000/10,000 units for FY22F/23F, vs our previous projection of 12,200 for both years. For private resale segment, we project 15,000/16,000 for FY22F/23F, down from our previous expectation of 16,600 and 17,000 units respectively. Projection for HDB resale transaction has also been lowered by 11-12% to 26,500/27,000 units for FY22F/23F.

Coupled with the depleting inventory of unsold units as well as construction delays, overall transaction value is expected to ease c.30% in FY22F, after a strong c.70% surge in FY21.

Earnings & Recommendation

We have revised down FY22F/23F earnings by 24%/22%, on the back of the lower transaction volume assumption as a result of the cooling measures announced in December last year.

Our target price is reduced to S\$0.67 (previously S\$0.88), pegged to c.10x FY22F earnings, equivalent to its average 4-year PE. 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	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	222	358	381	71.5	6.4
Cost of Goods Sold	(196)	(323)	(341)	73.7	5.6
Gross Profit	26	35	40	55.4	13.9
Other Oper. (Exp)/Inc	(15)	(14)	(17)	18.6	22.9
Operating Profit	11	21	23	103.9	7.8
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	0	-	-
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	11	20	22	110.2	9.1
Tax	(2)	(3)	(4)	104.6	18.3
Minority Interest	0	0	0	-	-
Net Profit	9	17	18	111.3	7.6
Net profit bef Except.	9	17	18	111.3	7.6
EBITDA	13	23	25	98.7	8.1
Margins (%)					
Gross Margins	11.6	9.8	10.5		
Opg Profit Margins	5.0	5.9	6.0		
Net Profit Margins	3.9	4.8	4.8		

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

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Brokerage	359	384	730	536	586
Non-brokerage	10.2	11.2	9.64	10.1	10.6
Total	370	395	740	546	596
Gross profit (\$m)					
Brokerage	37.3	37.3	64.3	45.5	49.2
Non-brokerage	10.2	10.2	8.64	9.07	9.52
Total	47.5	47.5	72.9	54.6	58.7

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	370	395	740	546	596
Cost of Goods Sold	(323)	(348)	(664)	(491)	(538)
Gross Profit	46.4	47.5	75.4	54.6	58.7
Other Opng (Exp)/Inc	(27.4)	(26.6)	(31.6)	(25.3)	(27.8)
Operating Profit	19.0	20.9	43.8	29.3	30.9
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.2)	(0.4)	0.0	0.0
Net Interest (Exp)/Inc	(1.8)	(1.1)	(0.8)	(0.8)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	17.2	19.6	42.6	28.5	30.1
Tax	(3.3)	(3.3)	(7.3)	(4.9)	(5.2)
Minority Interest	0.14	0.10	0.10	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	14.0	16.4	35.4	23.6	24.9
Net Profit before Except.	14.0	16.4	35.4	23.6	24.9
EBITDA	20.4	24.0	48.1	34.0	35.6
Growth					
Revenue Gth (%)	(12.8)	6.9	87.2	(26.2)	9.3
EBITDA Gth (%)	(34.3)	17.3	100.7	(29.3)	4.7
Opg Profit Gth (%)	(36.0)	9.9	109.7	(33.1)	5.4
Net Profit Gth (Pre-ex) (%)	(42.2)	17.3	115.3	(33.2)	5.6
Margins & Ratio					
Gross Margins (%)	12.5	12.0	10.2	10.0	9.8
Opg Profit Margin (%)	5.1	5.3	5.9	5.4	5.2
Net Profit Margin (%)	3.8	4.2	4.8	4.3	4.2
ROAE (%)	9.7	10.9	22.4	14.2	14.1
ROA (%)	4.8	5.3	10.0	6.6	7.2
ROCE (%)	5.9	7.3	16.3	10.4	10.5
Div Payout Ratio (%)	50.7	54.0	75.3	55.0	55.0
Net Interest Cover (x)	10.7	19.5	56.6	37.9	39.9

Source: Company, DBS Bank

APAC Realty

Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	206	173	222	358	381
Cost of Goods Sold	(180)	(151)	(196)	(323)	(341)
Gross Profit	26.3	21.7	25.8	35.3	40.2
Other Oper. (Exp)/Inc	(13.5)	(11.9)	(14.7)	(14.2)	(17.4)
Operating Profit	12.9	9.74	11.1	21.1	22.7
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.2)	(0.3)	(0.1)
Net Interest (Exp)/Inc	(0.9)	(0.7)	(0.4)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	12.0	9.07	10.6	20.4	22.2
Tax	(2.1)	(1.4)	(1.9)	(3.4)	(4.0)
Minority Interest	0.07	0.06	0.04	0.02	0.07
Net Profit	8.91	7.76	8.68	17.0	18.3
Net profit bef Except.	8.91	7.76	8.68	17.0	18.3
EBITDA	14.5	11.3	12.6	23.1	25.0

Growth

Revenue Gth (%)	26.6	(16.3)	28.6	61.2	6.4
EBITDA Gth (%)	66.7	(21.6)	11.0	83.8	8.1
Opp Profit Gth (%)	80.1	(24.4)	14.4	89.2	7.8
Net Profit Gth (%)	76.8	(12.9)	11.9	96.4	7.6

Margins

Gross Margins (%)	12.8	12.5	11.6	9.8	10.5
Opp Profit Margins (%)	6.2	5.6	5.0	5.9	6.0
Net Profit Margins (%)	4.3	4.5	3.9	4.8	4.8

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	72.8	73.9	72.8	69.1	65.4
Invts in Associates & JVs	0.44	2.43	2.36	2.36	2.36
Other LT Assets	106	103	100	100	100
Cash & ST Invts	32.0	35.1	53.7	52.8	69.6
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	68.2	79.6	121	73.9	80.8
Other Current Assets	15.4	27.4	36.1	36.1	36.1
Total Assets	295	321	386	334	354
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	71.9	90.9	148	88.2	96.5
Other Current Liab	15.6	18.2	24.5	21.9	22.2
LT Debt	51.7	48.8	45.9	45.9	45.9
Other LT Liabilities	7.55	5.94	4.13	4.13	4.13
Shareholder's Equity	146	155	161	172	183
Minority Interests	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
Total Cap. & Liab.	295	321	386	334	354
Non-Cash Wkg. Capital	(3.9)	(2.1)	(15.3)	(0.1)	(1.9)
Net Cash/(Debt)	(22.6)	(16.6)	4.85	4.01	20.7
Debtors Turn (avg days)	63.2	68.3	49.4	65.1	47.3
Creditors Turn (avg days)	76.8	86.3	66.0	88.5	63.3
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	1.3	2.1	1.5	1.7
Current Ratio (x)	1.3	1.3	1.2	1.4	1.5
Quick Ratio (x)	1.1	1.0	1.0	1.1	1.2
Net Debt/Equity (X)	0.2	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	0.1	CASH	CASH	CASH
Capex to Debt (%)	2.3	0.3	2.2	2.0	2.0
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	2021A	2022F	2023F
Pre-Tax Profit	17.2	19.6	42.6	28.5	30.1
Dep. & Amort.	1.44	3.27	4.74	4.74	4.74
Tax Paid	(5.3)	(2.5)	(4.1)	(7.5)	(4.9)
Assoc. & JV Inc/(loss)	0.0	0.16	0.40	0.0	0.0
Chg in Wkg.Cap.	(0.4)	(4.3)	6.45	(12.6)	1.49
Other Operating CF	3.98	3.73	4.77	0.0	0.0
Net Operating CF	17.0	20.0	54.9	13.2	31.5
Capital Exp.(net)	(1.2)	(0.2)	(1.1)	(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)	(0.2)	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)	(0.8)	0.0	0.0
Net Investing CF	(11.7)	(4.9)	(2.1)	(1.0)	(1.0)
Div Paid	(11.5)	(7.1)	(29.3)	(13.0)	(13.7)
Chg in Gross Debt	(4.8)	(4.9)	(4.9)	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	(16.3)	(12.0)	(34.2)	(13.0)	(13.7)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(11.0)	3.10	18.5	(0.8)	16.7
Opg CFPS (S cts)	4.88	6.85	13.6	7.26	8.44
Free CFPS (S cts)	4.43	5.59	15.1	3.42	8.57

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Feb 21	0.44	0.61	BUY
2:	14 May 21	0.50	0.74	BUY
3:	13 Aug 21	0.89	1.05	BUY
4:	15 Nov 21	0.84	0.88	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

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