

Singapore Company Guide

APAC Realty

Version 2 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Feb 2018

BUY

Last Traded Price (23 Feb 2018): S\$1.10 (STI : 3,533.22)

Price Target 12-mth: S\$1.25 (14% upside) (Prev S\$1.12)

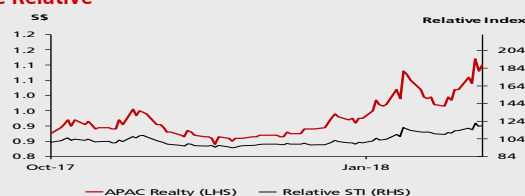
Analyst

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What's New

- Impressive FY17 results, net profit surged 63% y-o-y; above expectations; DPS of 2cts declared
- ERA outperformed residential property market
- Robust project pipeline; projects secured to date is double that in the whole of 2017
- Raised earnings by 12% for FY18F and 8% for FY19F; maintain BUY with higher \$1.25 TP

Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2016A	2017A	2018F	2019F
Revenue	288	401	441	464
EBITDA	20.8	31.2	34.9	37.1
Pre-tax Profit	18.1	29.5	33.6	35.8
Net Profit	15.9	25.9	29.6	31.5
Net Pft (Pre Ex.)	15.9	25.9	29.6	31.5
Net Pft Gth (Pre-ex) (%)	87.2	63.1	14.3	6.5
EPS (S cts)	4.47	7.29	8.33	8.88
EPS Pre Ex. (S cts)	4.47	7.29	8.33	8.88
EPS Gth Pre Ex (%)	87	63	14	7
Diluted EPS (S cts)	4.47	7.29	8.33	8.88
Net DPS (S cts)	0.0	2.00	5.00	5.33
BV Per Share (S cts)	22.2	37.5	40.8	44.3
PE (X)	24.6	15.1	13.2	12.4
PE Pre Ex. (X)	24.6	15.1	13.2	12.4
P/Cash Flow (X)	17.2	11.3	14.2	11.9
EV/EBITDA (X)	18.8	10.6	9.2	8.3
Net Div Yield (%)	0.0	*1.8	4.5	4.8
P/Book Value (X)	5.0	2.9	2.7	2.5
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.4	24.4	21.3	20.9
Earnings Rev (%):			12	8
Consensus EPS (S cts):		6.90	7.80	8.10
Other Broker Recs:		B: 2	S: 0	H: 0

*From listing till end of FY17F

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

Riding on property sector uptrend

Purest proxy to Singapore residential volumes. ERA Realty, a wholly-owned subsidiary of APAC Realty, is one of Singapore's largest real estate agencies with approximately 5,882 registered agents, as at January 2018. We believe that APAC Realty remains poised to deliver a robust 10% 2-year CAGR in EPS on the back of a turn in the Singapore residential market, which is at the cusp of a multi-year recovery. The projected FY18F dividend yield of 4.5% based on 60% payout is attractive.

Where we differ: Industry-leading TP and estimates; sizeable scale and leading market share a winning formula in our view. Having a strong track record and a sizeable agent base is a key winning formula for ERA as it allows the agency to reach out to a diverse base of potential property buyers. In 2017, ERA's market share grew to c.38% in terms of transaction value in the Singapore residential market, up from approximately 32% in 2015 and 29% in 2014. ERA has a pipeline of more than c.11,000 units across 20 new project launches till 3Q18, which is significantly higher than the units secured in the whole of 2017. Successful sell-through rates for the various projects will set the stage for another record year in FY18F.

Stronger-than-projected volumes could surprise on the upside. We revised our industry transaction value upwards to S\$50bn, representing 10% y-o-y growth for FY18F, vs our previous assumption of 5% growth, while keeping our FY19 growth projection at 5%. Coupled with the assumption of a slight improvement in margins, we are expecting earnings growth of 14% for FY18F and 7% for FY19F. Given the upturn in buyer sentiment driving demand for homes, we believe that the opportunity to surprise on the upside is high. Every S\$1bn in transaction value adds 2% to our EPS and TP estimates.

Valuation:

Blended DCF and PE valuation methodology. Our TP of S\$1.25 is based on the average of discounted cash flow (DCF) valuation (assuming 8.5% weighted average cost of capital, 0% terminal growth), and PE valuation that is pegged to peers' historical average of 15x FY18F earnings.

Key Risks to Our View:

It 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)	391 / 296
Major Shareholders (%)	
Choon Hong Tan	72.0
Free Float (%)	28.0
3m Avg. Daily Val (US\$m)	0.63

ICB Industry : Industrials / Support Services



WHAT'S NEW

FY17 results outperformed residential property market

Results highlight

Impressive first full-year results post IPO, with FY17 net profit surging by 63% y-o-y to S\$25.9m - above expectations: The strong improvement in net profit was achieved on the back of a 39.2% y-o-y increase in revenue for FY17. The increase in revenue is largely due to the improvement in brokerage income. APAC benefited from a recovery in the Singapore residential market where there was a substantial increase in transaction volume in the private primary and secondary market. The private residential price index also registered its first increase of 1.1% for the whole of 2017, after 3 years of declines.

A final dividend of 2 cents per share was declared for FY17. This works out to c. 90% of 4Q17 net profit. APAC has guided that it is committed to pay at least 50% of FY18F profit as dividend. Assuming a payout ratio of 60% for FY18F, dividend yield is attractive at 4.5%.

ERA outperformed the residential property market. The overall property transaction value for the whole market hit S\$45.4 bn (+53% y-o-y) in FY17 and ERA outperformed the industry with a 63% jump in net profit in FY17. In terms of market share, ERA accounts for 37.9% of the total market transaction value, slightly higher than the 37.5% market share in FY16. The market share for ERA in terms of number

of agents remains the same at 21% with 5,882 agents as at January 2018.

Robust project pipeline; projects secured to date with c.11,000 units, which is double that of 2017: To date, ERA has already secured more than 20 projects to be launched in 2018 with about 11,000 residential units available for sale. This is double the 4,800 units (from 8 projects) launched by ERA in 2017.

Earnings and Recommendation

Raised earnings by 12%/8% for FY18F/FY19F. Our initial estimates were conservative as transaction value continues to power on. FY17 data were 13% higher than our forecast. We revised our industry transaction value upwards to S\$50bn, representing 10% y-o-y growth for FY18F, vs our previous assumption of 5% growth, while keeping our FY19 growth estimate at 5%. Coupled with the assumption of a slight improvement in margins, we raised FY18F net profit by 12% and 8% for FY19F. Maintain BUY with a higher TP of S\$1.25 (prev S\$1.12), based on blended DCF and PE valuation that is pegged to the peers' historical average of 15x FY18F earnings.

Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	79.9	106	130	62.5	22.9
Cost of Goods Sold	(68.5)	(91.9)	(114)	66.1	23.8
Gross Profit	11.4	13.7	16.0	40.4	17.0
Other Oper. (Exp)/Inc	(6.0)	(7.1)	(7.6)	27.4	6.9
Operating Profit	5.45	6.59	8.43	54.6	27.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.2)	0.0	0.0	nm	-
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	5.27	6.55	8.43	59.9	28.7
Tax	(0.3)	(1.0)	(0.6)	63.8	(47.4)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	4.94	5.51	7.88	59.7	43.0
Net profit bef Except.	4.94	5.51	7.88	59.7	43.0
EBITDA	5.84	6.95	8.79	50.5	26.5
Margins (%)					
Gross Margins	14.3	13.0	12.3		
Opg Profit Margins	6.8	6.2	6.5		
Net Profit Margins	6.2	5.2	6.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

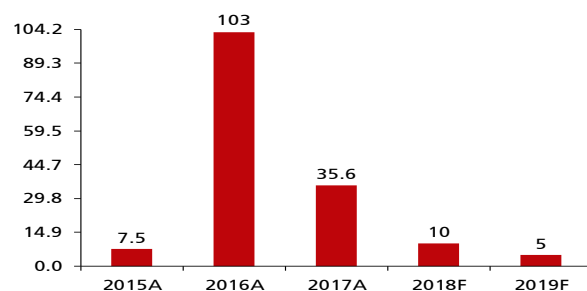
Transaction value expected to continue growing. We are expecting transaction value to hit S\$50bn for FY2018F (+10% y-o-y) and S\$52.5bn for FY2019F (+5% y-o-y) for the total private residential market, including both primary and secondary markets. We see multiple catalysts for residential prices to head higher in the next two years. Prices in the residential market could rise by 6-10% by 2019. Overall, for the whole residential market, including HDB segment, we expect transaction value to grow 10% in FY18F and 5% in FY19F.

Market share is critical. Market share for ERA based on transaction value increased from 26.9% in 2011 to 37.9% in 2017. ERA has established itself as one of the market leaders in project marketing, alongside Huttons whose strength is in mass market projects, and Savills and Knight Frank which are both strong in luxury developments. In terms of project launches, ERA secured 12 projects out of 19 (47%) in 2015; 14 out of 23 (66%) in 2016 and eight projects or 91% for projects launched in 2017. To date, ERA has already secured 20 projects to be launched in 2018 with about 11,000 residential units available for sale. This is double the 4,800 units (from eight projects) launched by ERA in 2017.

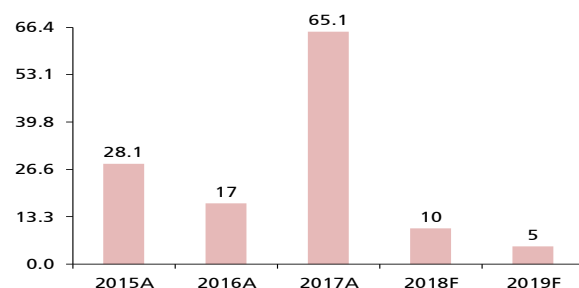
Gross margins expected to improve. Gross margins largely reflect APAC’s revenue, net of agents’ commissions. While gross margins have decreased from 16.0% since FY14, APAC currently offers various tools such as mobile applications for its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities and this should drive efficiencies and lead to better margins. Furthermore, due to economies of scale, operating expense can be shared across a larger agent network. APAC has strong operating leverage as expenses are predominantly fixed in nature. We are expecting net margins to improve slightly to 6.7% to 6.8% over FY18F-19F from 6.5% in FY17.

Number of agents. APAC has one of the largest numbers of registered real estate agents. APAC’s agents are its primary sales force and are not employees of the group, through which units are transacted. APAC has grown its network of agents over the years, and has managed to gain market share. As at January 2018, APAC has 5,882 agents with a market share of 21%, up from 16% in 2014.

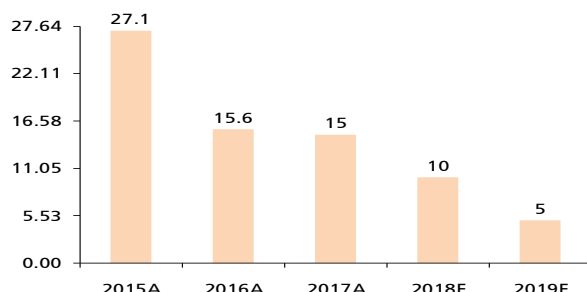
Transaction value growth (%): Private residential - primary



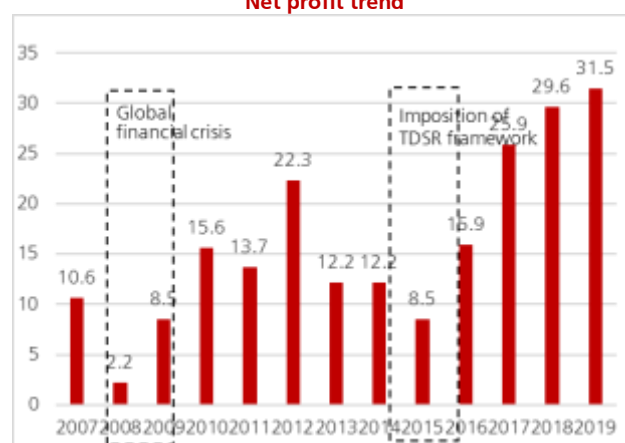
Transaction value growth (%): Private residential - secondary



Transaction value growth (%): HDB resale

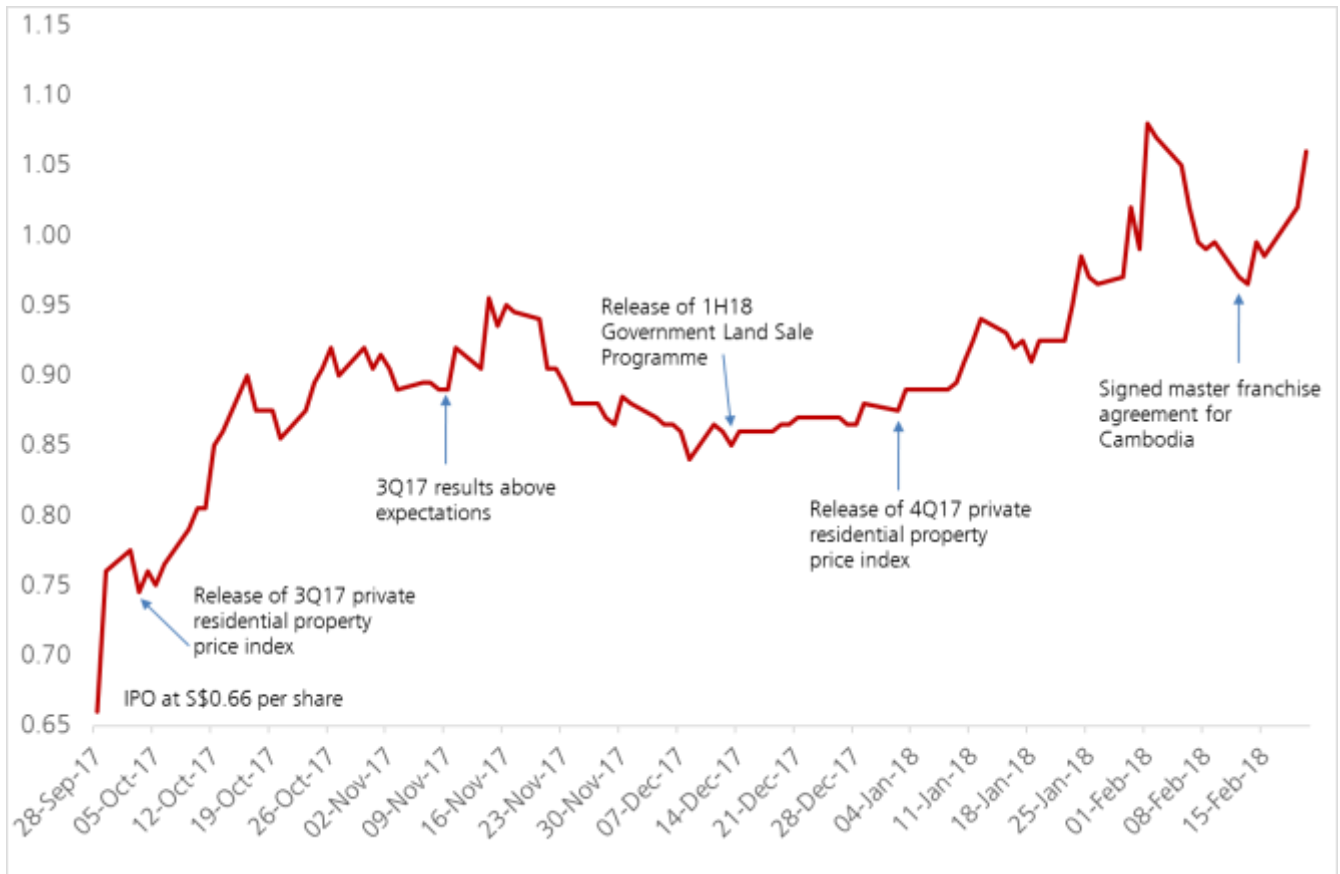


Net profit trend



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



Source: DBS Bank, Bloomberg Finance L.P.

Balance Sheet:

Cash-generative business expected to turn net cash. Barring any major capital expenditure, APAC is a cash generative business with good cash conversion cycle as APAC only pays out to its agents after receiving payments from its debtors. As at Dec FY17, APAC has fully pared down its debt, with cash balance of S\$62m.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to S\$100m as at December 2017, derived from ERA Realty Network Pte Ltd, ERA Singapore Pte Ltd, Realty International Associates Pte Ltd and Coldwell Banker Real Estate (S) Pte Ltd. Franchise rights are held for the exclusive right of use of the brand names “ERA” and “Coldwell Banker”. The group acquired the exclusive ERA Regional master franchise rights for certain countries in the Asia-Pacific region for an initial term of 30 years from 19 November 1999, expiring in 2029, with the option to renew for another 30 years. The group also holds the ERA sub-franchise rights in Singapore for an initial term of 30 years from 28 June 1990, which expires in 2020, also with the option to renew for another 30 years.

Share Price Drivers:

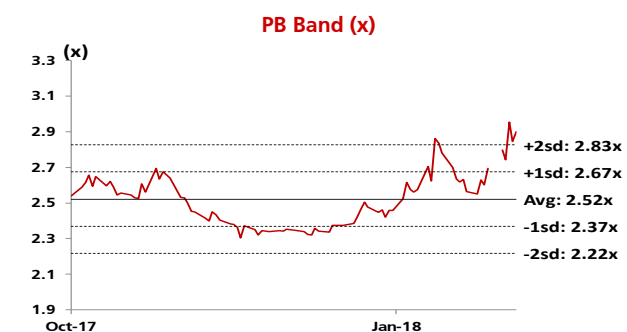
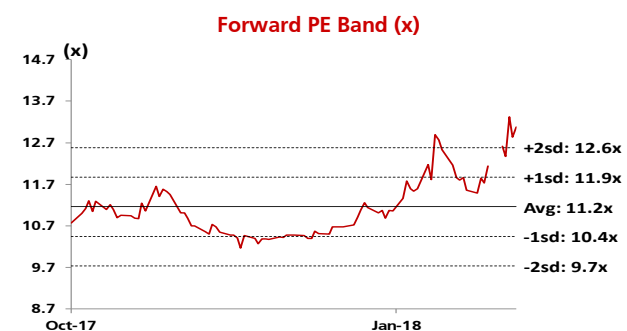
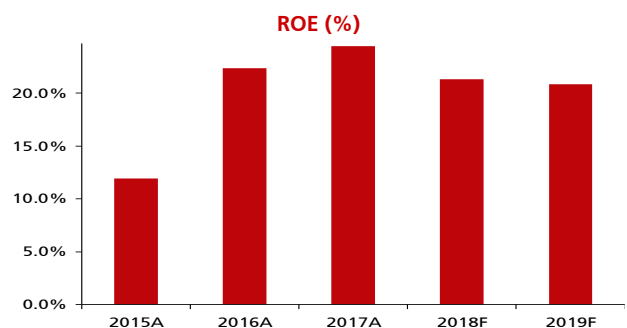
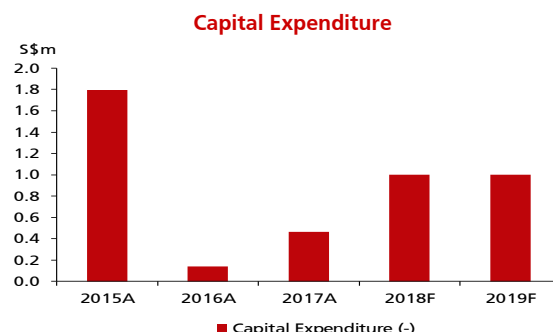
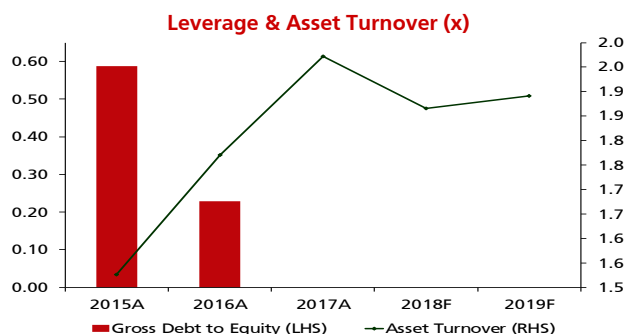
We believe that APAC is largely viewed by the market as a developer-agnostic proxy to Singapore’s private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market should drive APAC’s share price.

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 in 2014 due to the cumulative effect of various measures introduced by the government. 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	2015A	2016A	2017A	2018F	2019F
Transaction value growth					
Private residential - primary	7.50	103	35.7	10.0	5.00
Private residential - secondary	28.1	17.0	65.1	10.0	5.00
HDB resale	27.1	15.6	15.0	10.0	5.00

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$\$m)					
Brokerage	224	279	391	430	452
Non-brokerage	8.28	8.62	9.38	11.0	12.1
Total	233	288	401	441	464
Gross profit (\$\$m)					
Brokerage	23.9	32.2	46.6	52.5	56.5
Non-brokerage	7.33	7.66	8.29	9.90	10.9
Total	31.3	39.9	54.9	62.4	67.4
Gross profit Margins (%)					
Brokerage	10.7	11.5	11.9	12.2	12.5
Non-brokerage	88.5	88.9	88.4	90.0	90.0
Total	13.4	13.9	13.7	14.1	14.5

Growth driven by higher growth assumptions for sales transactions

Income Statement (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	233	288	401	441	464
Cost of Goods Sold	(201)	(248)	(346)	(379)	(397)
Gross Profit	31.3	39.9	54.9	62.4	67.4
Other Opng (Exp)/Inc	(19.8)	(20.7)	(25.2)	(28.4)	(31.2)
Operating Profit	11.5	19.2	29.7	34.0	36.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.01	0.0	0.0
Net Interest (Exp)/Inc	(1.2)	(1.1)	(0.3)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.3	18.1	29.5	33.6	35.8
Tax	(1.8)	(2.2)	(3.5)	(4.0)	(4.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	8.49	15.9	25.9	29.6	31.5
Net Profit before Except.	8.49	15.9	25.9	29.6	31.5
EBITDA	13.0	20.8	31.2	34.9	37.1
Growth					
Revenue Gth (%)	6.6	23.7	39.2	10.2	5.1
EBITDA Gth (%)	(23.7)	59.6	49.7	12.1	6.3
Opg Profit Gth (%)	(27.4)	67.3	54.7	14.4	6.4
Net Profit Gth (Pre-ex) (%)	(30.7)	87.2	63.1	14.3	6.5
Margins & Ratio					
Gross Margins (%)	13.4	13.9	13.7	14.1	14.5
Opg Profit Margin (%)	4.9	6.7	7.4	7.7	7.8
Net Profit Margin (%)	3.6	5.5	6.5	6.7	6.8
ROAE (%)	11.9	22.4	24.4	21.3	20.9
ROA (%)	5.6	9.8	12.8	12.5	12.9
ROCE (%)	6.9	14.3	21.5	20.4	20.0
Div Payout Ratio (%)	0.0	0.0	27.4	60.0	60.0
Net Interest Cover (x)	9.8	17.1	111.6	92.8	98.8

Assume 60% payout. APAC paid 2cts DPS in 4QFY17 which translates to 90% payout post IPO and based on 4Q17 earnings

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	79.9	67.2	91.2	106	130
Cost of Goods Sold	(68.5)	(57.0)	(83.2)	(91.9)	(114)
Gross Profit	11.4	10.2	7.94	13.7	16.0
Other Oper. (Exp)/Inc	(6.0)	(5.3)	1.83	(7.1)	(7.6)
Operating Profit	5.45	4.89	9.78	6.59	8.43
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	(0.2)	(0.1)	(0.1)	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	5.27	4.75	9.69	6.55	8.43
Tax	(0.3)	(0.7)	(1.2)	(1.0)	(0.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	4.94	4.03	8.49	5.51	7.88
Net profit bef Except.	4.94	4.03	8.49	5.51	7.88
EBITDA	5.84	5.25	10.1	6.95	8.79

Growth

Revenue Gth (%)	(1.4)	(15.9)	35.7	15.8	22.9
EBITDA Gth (%)	(12.9)	(10.0)	92.9	(31.5)	26.5
Opg Profit Gth (%)	(13.3)	(10.2)	99.8	(32.6)	27.9
Net Profit Gth (Pre-ex) (%)	(4.0)	(18.3)	110.5	(35.1)	43.0

Margins

Gross Margins (%)	14.3	15.1	8.7	13.0	12.3
Opg Profit Margins (%)	6.8	7.3	10.7	6.2	6.5
Net Profit Margins (%)	6.2	6.0	9.3	5.2	6.1

Balance Sheet (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	2.14	1.44	1.22	2.22	3.22
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	103	102	101	99.9	98.9
Cash & ST Invts	14.2	17.8	62.0	70.7	83.7
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	33.6	47.8	70.1	62.4	65.6
Other Current Assets	2.04	1.63	1.92	1.92	1.92
Total Assets	155	170	236	237	253
ST Debt	6.00	6.00	0.0	0.0	0.0
Creditor	39.0	55.6	82.0	72.3	75.7
Other Current Liab	10.5	13.2	16.4	15.5	15.8
LT Debt	31.0	12.0	0.0	0.0	0.0
Other LT Liabilities	5.14	4.67	4.49	4.49	4.49
Shareholder's Equity	63.0	78.9	133	145	157
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	155	170	236	237	253
Non-Cash Wkg. Capital	(13.9)	(19.4)	(26.5)	(23.5)	(23.9)
Net Cash/(Debt)	(22.8)	(0.3)	62.0	70.7	83.7
Debtors Turn (avg days)	46.6	51.6	53.7	54.8	50.4
Creditors Turn (avg days)	67.6	70.1	73.0	74.5	68.3
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.5	1.8	2.0	1.9	1.9
Current Ratio (x)	0.9	0.9	1.4	1.5	1.7
Quick Ratio (x)	0.9	0.9	1.3	1.5	1.6
Net Debt/Equity (X)	0.4	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.4	0.0	CASH	CASH	CASH
Capex to Debt (%)	4.9	0.8	N/A	N/A	N/A

Fully pared down debts from IPO proceeds

Balance sheet remains strong with zero debt

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	10.3	18.1	29.4	33.6	35.8
Dep. & Amort.	1.56	1.62	1.44	0.93	0.93
Tax Paid	(2.6)	(1.6)	(3.2)	(5.0)	(4.0)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.8)	3.35	4.16	(2.1)	0.17
Other Operating CF	1.58	1.22	2.80	0.0	0.0
Net Operating CF	7.12	22.7	34.6	27.5	32.9
Capital Exp.(net)	(1.8)	(0.1)	(0.5)	(1.0)	(1.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	(0.2)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.3)	0.0	0.0	0.0	0.0
Net Investing CF	(2.1)	(0.1)	(0.7)	(1.0)	(1.0)
Div Paid	0.0	0.0	0.0	(17.8)	(18.9)
Chg in Gross Debt	16.0	(19.0)	(18.0)	0.0	0.0
Capital Issues	0.0	0.0	28.3	0.0	0.0
Other Financing CF	(25.0)	0.0	0.0	0.0	0.0
Net Financing CF	(9.0)	(19.0)	10.3	(17.8)	(18.9)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(4.0)	3.53	44.2	8.76	13.0
Opg CFPS (S cts)	3.06	5.44	8.58	8.33	9.21
Free CFPS (S cts)	1.50	6.34	9.62	7.47	8.98

Minimal capex needs

IPO proceeds

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Nov 17	0.92	1.03	BUY
2:	13 Nov 17	0.96	1.12	BUY
3:	19 Feb 18	1.06	1.12	BUY

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

Source: DBS Bank

Analyst: Derek TAN

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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 catalysts within this time frame)

Share price appreciation + dividends

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