

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Feb 2019

## APAC Realty (APAC SP) : HOLD

Mkt. Cap: US\$130m | 3m Avg. Daily Val: US\$0.15m

Last Traded Price ( 8 Feb 2019): S\$0.495

Price Target 12-mth: S\$0.56 (13% upside)

### Analyst

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### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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## Regional expansion plans in Indonesia and Thailand

- Acquiring master franchise operation in Indonesia; co-operation agreement in Thailand
- Diversification from Singapore market a positive move
- Maintain HOLD; TP: S\$0.56

### What's New

**Deepens presence in Southeast Asia – acquiring master franchise operation in Indonesia; co-operation agreement in Thailand**

APAC intends to deepen its presence in Southeast Asia with strategic moves in Indonesia and Thailand. For Indonesia, it is acquiring the Indonesia country master franchise operations from its current shareholders. In Thailand, it is entering into a strategic cooperation agreement with the current CEO and Managing Director of Thailand master franchise operations, Mr. Voradet Sivatachanon, to collaborate on the growth and development of the real estate brokerage and franchise in Thailand.

To recap, APAC owns the exclusive ERA regional master franchise rights for 17 countries in the Asia-Pacific region.

### ERA Indonesia

**One of the largest brokerage agencies with about 10% market share.** ERA Indonesia has been in operation since 1992 with more than 6,900 agents across its 103 offices. It is one of the largest brokerage agencies in Indonesia with a market share of about 10% of the secondary property market.

APAC sees strong business growth and value creation opportunities in Indonesia. Currently, APAC only books in royalty fees from Indonesia. Net profit for FY Dec17 was about S\$0.44m while book value was about S\$0.85m. ERA Indonesia has since entered into project marketing, working with leading developers, including Intiland in Indonesia. ERA Indonesia has also been appointed by Intiland as one of its lead agencies for its future projects.

### Forecasts and Valuation

FY Dec (\$m)	2017A	2018F	2019F	2020F
Revenue	401	389	371	385
EBITDA	31.2	30.3	26.2	27.2
Pre-tax Profit	29.4	26.7	22.6	23.6
Net Profit	25.9	23.5	19.9	20.8
Net Pft (Pre Ex.)	25.9	23.5	19.9	20.8
Net Pft Gth (Pre-ex) (%)	63.1	(9.3)	(15.2)	4.3
EPS (S cts)	7.29	6.62	5.61	5.85
EPS Pre Ex. (S cts)	7.29	6.62	5.61	5.85
EPS Gth Pre Ex (%)	63	(9)	(15)	4
Diluted EPS (S cts)	7.29	6.62	5.61	5.85
Net DPS (S cts)	2.00	3.97	3.37	3.51
BV Per Share (S cts)	37.5	40.1	42.3	44.7
PE (X)	6.8	7.5	8.8	8.5
PE Pre Ex. (X)	6.8	7.5	8.8	8.5
P/Cash Flow (X)	5.1	8.8	8.7	7.8
EV/EBITDA (X)	3.7	6.0	6.7	6.1
Net Div Yield (%)	4.0	8.0	6.8	7.1
P/Book Value (X)	1.3	1.2	1.2	1.1
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE (%)	24.4	17.1	13.6	13.4

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



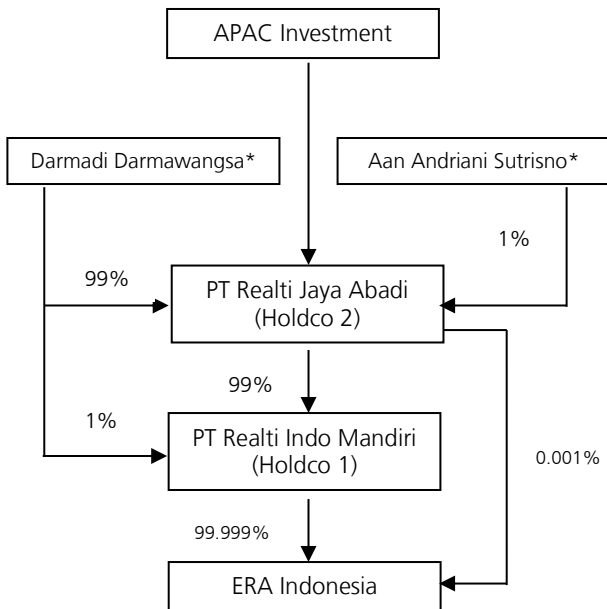
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**Flash Note**

**Acquisition PE multiple to be much lower based on FY18 earnings.** The total purchase consideration for ERA Indonesia, (including 4,664 sqft of office space in Central Jakarta) of up to S\$13.85m comprises a convertible loan of S\$4.42m and loan of S\$9.43m. This works out to a PE multiple of about 31x, which is relatively high. However, if we exclude the convertible loan of S\$4.42m that is mainly for working capital purposes, and also the office space, PE works out to about 20x FY17 earnings. FY18 multiple is expected to be much lower with contribution from project sales.

With this acquisition, APAC can directly access the Indonesian residential real estate market, which is expected to recover and pick up pace in the next two years. Furthermore, APAC is also exploring the eventual listing of ERA Indonesia on the local stock exchange, while retaining the major ownership post listing.

**ERA Indonesia – Corporate Structure**



\*Current shareholders

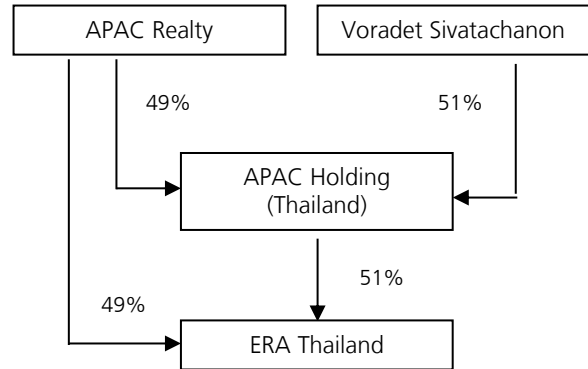
Source: Company

**ERA Thailand**

**Owns one of the largest home sales networks in Thailand.** ERA Thailand has been in operation since June 1993 with more than 400 agents. It has one of the largest home sales networks in Thailand, with about 1,000 transactions per annum. APAC would extend a loan of US\$1m (S\$1.38m) to ERA Thailand.

Under the agreement, APAC and Mr. Voradet Sivatachanon would incorporate two new companies, APAC Holding (Thailand) and ERA Thailand, to hold the ERA master franchise rights for Thailand. The direct ownership of the Thailand franchise will enable APAC to be more strategically involved in developing ERA’s business in Thailand.

**ERA Thailand – Corporate Structure**



APAC’s effective interest in ERA Thailand is 73.99% [49% + (49%x51%)]

Voradet Sivatachanon’s effective interest in ERA Thailand is 26.01% (51%x51%)

Source: Company

**Diversification from Singapore market a positive move**

We view the latest diversification positively as currently, more than 90% of APAC’s earnings come from the Singapore market.

In recent years, APAC has been diversifying its operations. In mid-2017, APAC established a new franchise in Vietnam, followed by Cambodia in February 2018. ERA Vietnam, in particular, has grown rapidly since inception with over 1,300 sales agents today. Outside of Southeast Asia, China has also been a key market for APAC’s growth plans. In August 2018, APAC entered into a joint-venture agreement with two Chinese companies – Zhong Zhi Sheng He Real Estate Investment Consulting Co. and Bei Guo Tou (Shanghai) Equity Investment and Fund Management Co. to tap into the robust property market of Hainan province.

**Earnings and Recommendation**

We maintain our earnings forecast as there is no immediate impact on earnings. Furthermore, contributions from ERA Indonesia (net profit of S\$0.44m in FY17; FY18 higher with project sales) and ERA Thailand are still relatively small, as compared to the Singapore operations. Maintain HOLD, TP: S\$0.56. APAC’s FY18 results are expected to be released on 28 February 2019 after market close.

Flash Note

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Lee Keng LING

Derek TAN

**Flash Note**

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 catalysts within this time frame)

*Share price appreciation + dividends*

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