

Singapore Company Guide

APAC Realty

Version 1 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Nov 2017

BUY

Last Traded Price (10 Nov 2017): S\$0.91 (STI : 3,420.10)

Price Target 12-mth: S\$1.12 (24% upside) (Prev S\$1.03)

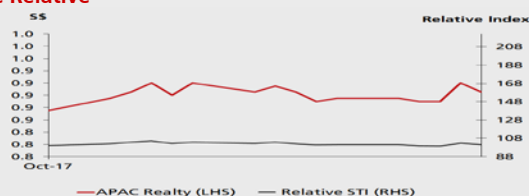
Analyst

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What's New

- 3Q17 net profit ahead of our estimates as property industry volumes continue to power on
- Strong pipeline of ten projects to be marketed through the ERA network in 2018F
- Raising earnings by 9-14%; TP revised to S\$1.12

Price Relative



Forecasts and Valuation

FY Dec (S\$ m)	2016A	2017F	2018F	2019F
Revenue	288	380	404	425
EBITDA	20.8	30.3	33.4	36.5
Pre-tax Profit	18.1	28.9	31.9	35.1
Net Profit	15.9	24.3	26.5	29.1
Net Pft (Pre Ex.)	15.9	24.3	26.5	29.1
Net Pft Gth (Pre-ex) (%)	87.2	52.9	9.1	9.8
EPS (S cts)	4.47	6.84	7.46	8.19
EPS Pre Ex. (S cts)	4.47	6.84	7.46	8.19
EPS Gth Pre Ex (%)	87	53	9	10
Diluted EPS (S cts)	4.47	6.84	7.46	8.19
Net DPS (S cts)	0.0	0.85	3.73	4.09
BV Per Share (S cts)	22.2	36.6	40.4	44.5
PE (X)	20.2	13.2	12.1	11.1
PE Pre Ex. (X)	20.2	13.2	12.1	11.1
P/Cash Flow (X)	14.2	12.3	11.1	10.4
EV/EBITDA (X)	15.5	8.9	7.6	6.5
Net Div Yield (%)	0.0	0.9	4.1	4.5
P/Book Value (X)	4.1	2.5	2.2	2.0
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.4	23.2	19.4	19.3
Earnings Rev (%):		14	9	12
Consensus EPS (S cts):		N/A	N/A	N/A
Other Broker Recs:		B: 0	S: 0	H: 0

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

All guns blazing

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 6,176 registered agents, as at 10 July 2017. We believe that APAC Realty remains poised to deliver a robust 10% 2-year CAGR in EPS on the back of a turn in Singapore residential market.

Where we differ: Only broker covering the stock; sizeable scale and leading market share a winning formula in our view.

Having a sizeable agent base is important for ERA to perform well as it enables the agency to have a strong and wider reach to a diverse base of potential property buyers, renters and allows the group to capture the lion's share of market transactions in Singapore. In 2016, ERA's market share was approximately 38% in terms of transaction value in the Singapore residential market, up from approximately 32% in 2015 and 29% in 2014.

Stronger-than-projected volumes could surprise on the upside.

Our initial estimates were conservative as transaction value continues to power on. We revise our industry transaction value upwards to S\$40bn (40% y-o-y) while keeping our FY18/19 estimates at a further 5% growth. 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 adds 2% to EPS estimates and TP.

Valuation:

Blended DCF and PE valuation methodology. Our TP of S\$1.12 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)	321 / 236
Major Shareholders (%)	
Choon Hong Tan	72.0
Free Float (%)	28.0
3m Avg. Daily Val (US\$m)	1.0
ICB Industry : Financials / Real Estate Investment & Services	

WHAT'S NEW

All guns blazing

What's New

64.6% y-o-y jump in 9-month net profit to S\$18m; above expectations. APAC reported a 64.6% y-o-y jump in net profit to S\$18.0m for 9-month 2017, on the back of a 30.3% increase in revenue to S\$270.9m. The 9-month net profit accounts for 85% of our FY17F numbers, above expectations. Excluding IPO expenses of S\$1.1m (total IPO expenses amounted to S\$1.9m, of which S\$0.9m was capitalised against share capital), net profit would have been S\$19.1m (+74.3% y-o-y). For 3Q17, net profit surged 7.2% y-o-y to S\$5.5m on 30.3% gain in revenue to S\$105.5m.

The increase in revenue is largely attributable to the increase in brokerage income from resale and rental of properties, and new home sales. APAC benefitted from a recovery in the Singapore residential market where there is a substantial increase in transaction volume for the private primary and secondary market.

Segmental revenue breakdown

Segment	9-mth 17	9-mth 16	% chg	3Q17	3Q16	% chg
Resale & Rental	186.9	153.9	+21.5	72.3	58.7	+23.2
New home sales	76.9	47.7	+61.3	30.8	20.0	+54.0
Other revenue	7.1	6.3	+12.3	2.4	2.2	+6.9
TOTAL	270.9	207.9	+30.3	105.5	81.0	+30.3

Source: Company

Margins in line. Net margins for the 9-month period was 6.7%, roughly in line with our expectation of 6.2% for FY17F. 3Q17 net margin was 5.2% (impacted by IPO expense).

Project pipeline. To date, ERA has already secured more than ten projects to be launched in 2018 with close to 10,000 residential units available for sale. This is double the 4,800 units (from eight projects) launched by ERA in the first nine months of 2017.

Outlook

Singapore's property market recovery is expected to be gradual in the next 12 months with more transactions across all segments of the real estate market. The 3Q17 private residential price index also registered its first increase after 15 consecutive

quarters of decline. APAC is expecting property transaction to reach 21,000-23,000 (excluding EC transactions) units for 2017 or an approximate 28% increase over 2016's 16,378 units. Prices are expected to increase by up to 1% for 2017, a reversal of the 3.1% decline in 2016.

A recovery in the **private rental market** may happen in the next 12 months in the form of lower vacancy rates, as the expected number of completed units in 2018 is only half, or approximately 8,000 of the 16,000 expected completions in 2017. APAC is expecting an overall 2-3% decrease in rental prices for 2017.

HDB resale prices are expected to remain more or less stable, with transactions for the whole year projected to be in the range of 21,000-22,000 units. For **HDB rental**, APAC expects rental transactions for 2017 to range from 41,000-43,000; a decline from the 44,530 units that were rented out in 2016, as some of the demand is shifted to the private property market.

Declining stockpile but vacancy rate still high. The total number of unsold private residential units has been declining for the past two years and reached 17,178 (including ECs) as at 30 September 2017. However, the vacancy rate of completed private residential units remained high at 8.4% as at 30 September 2017.

More supply from en-bloc sites. As en-bloc sales have been very active over the past 1-2 years, the redevelopment of these en-bloc sites will add a significant number of housing units to the existing supply pipeline. The potential units from redevelopments of en-bloc sales (9,300) and available parcels on government land sales (7,400) could add up to 16,700. According to URA, a large part of this potential supply could be put up for sale in the next 1-2 years.

Revised Estimates.

BUY with TP of S\$1.12 based on 15x FY18F PE. YTD industry transaction value is estimated to be close to S\$38bn (as of October 2017); ahead of our initial estimates of S\$36bn for the full year. As such, we raise our industry transaction estimates to S\$40bn; implying a c.40% growth y-o-y. We maintain our 5% y-o-y growth for FY19F. As such, our estimates are raised by 7-14%. TP is raised to S\$1.12, based on 15x PE multiple on FY18F earnings.

Quarterly / Interim Income Statement (S\$m)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	81.0	91.2	106	30.3	15.8
Cost of Goods Sold	(69.6)	(83.2)	(91.9)	32.1	10.4
Gross Profit	11.4	7.94	13.7	19.7	72.2
Other Oper. (Exp)/Inc	(5.2)	1.83	(7.1)	37.8	(486.7)
Operating Profit	6.28	9.78	6.59	4.8	(32.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.3)	(0.1)	0.0	83.7	52.9
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	6.04	9.69	6.55	8.4	(32.4)
Tax	(0.9)	(1.2)	(1.0)	15.7	(13.8)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	5.14	8.49	5.51	7.2	(35.1)
Net profit bef Except.	5.14	8.49	5.51	7.2	(35.1)
EBITDA	6.70	10.1	6.95	3.6	(31.5)
Margins (%)					
Gross Margins	14.1	8.7	13.0		
Opg Profit Margins	7.8	10.7	6.2		
Net Profit Margins	6.3	9.3	5.2		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

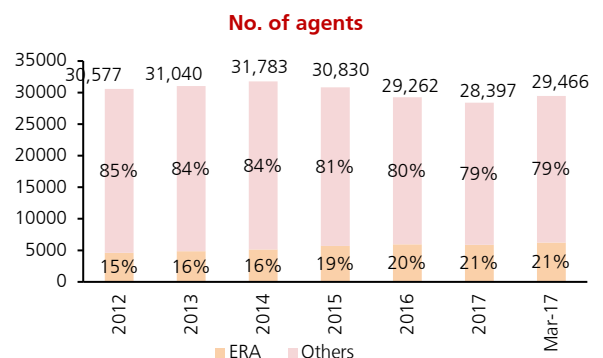
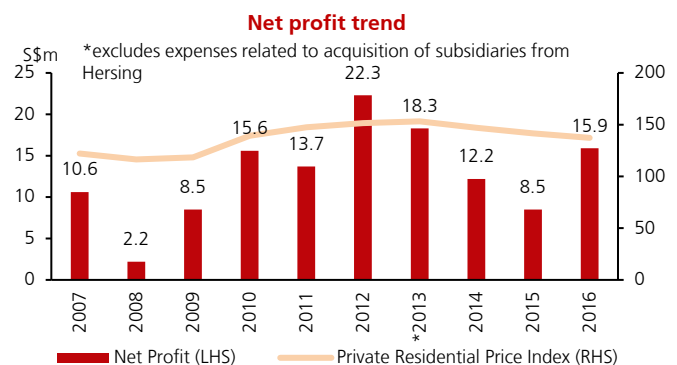
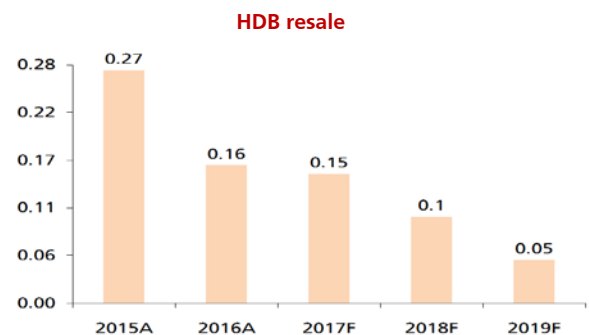
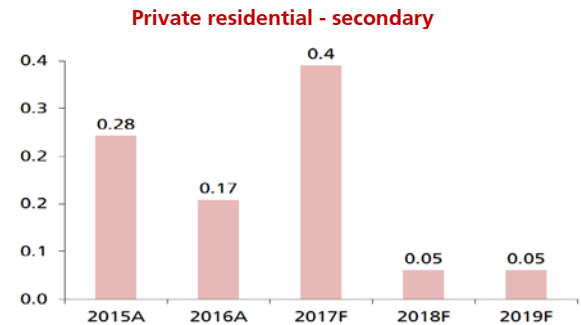
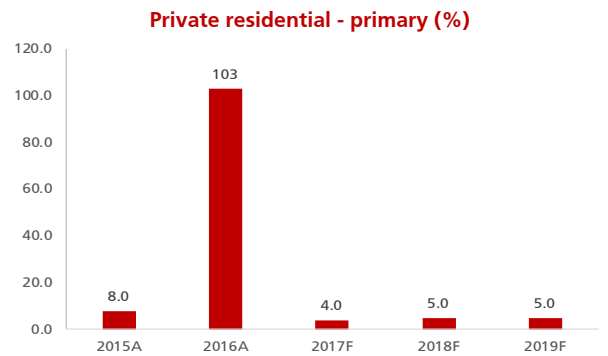
Critical Factors

Transaction value expected to continue growing. We are expecting transaction value to hit S\$40.0bn for FY2017F (+40% y-o-y), S\$42.2bn for FY2018F (+5% y-o-y) and S\$44.3bn 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. The rise in prices in the HDB resale segment is lower, at 10% and 4% for FY17F and FY18F respectively. Overall, for the whole residential market, including HDB segment, we expect transaction value to grow 20% in FY17F, 10% in FY18F, and 5% in FY19F.

Market share is critical. Market share in terms of volume expanded from 16% in 2011 to 41% in 2016, led by network expansion over the past six years. Market share based on value increased from 15% in 2011 to 43% in 2016. 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 the first nine months this year. To date, ERA has already secured more than ten projects to be launched in 2018 with close to 10,000 residential units available for sale. This is double the 4,800 units (from eight projects) launched by ERA in the first nine months of 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. We are expecting gross margins to remain in the range of 14.1-14.3% over FY17F-19F.

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. Market share in terms of volume expanded from 16% in 2011 to 41% in 2016, led by network expansion over the past six years. Market share based on value increased from 15% in 2011 to 43% in 2016.



Source: Company, DBS Bank

Balance Sheet:

Cash-generative business expected to turn net cash. Baring 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. We expect APAC to turn net cash in FY17F.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to S\$75.6m as at December 2016, 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:

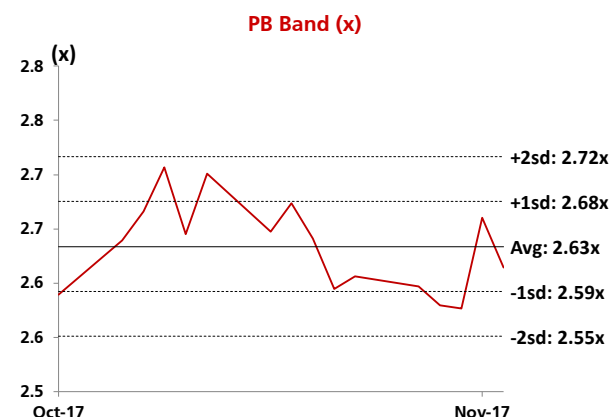
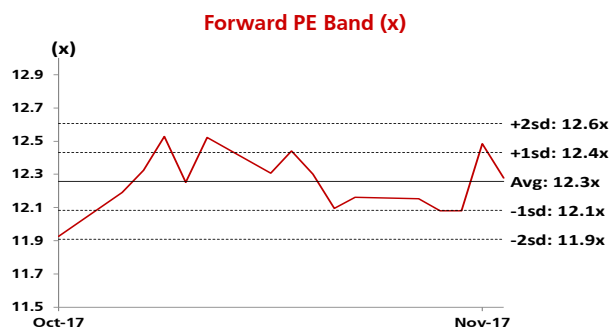
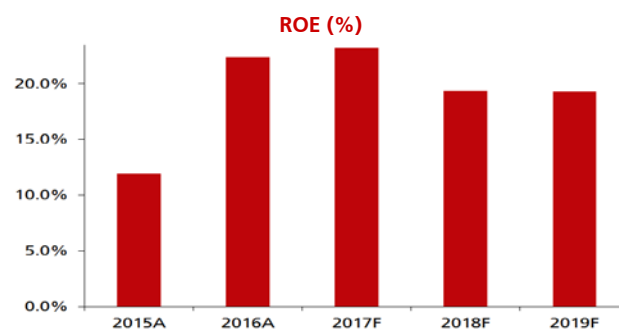
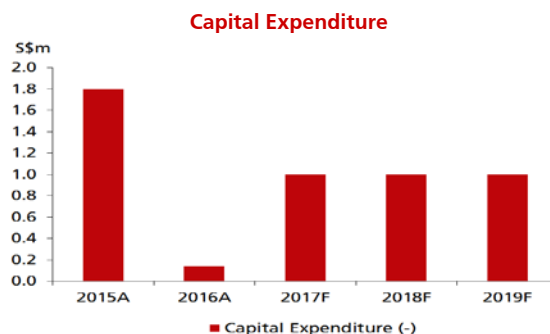
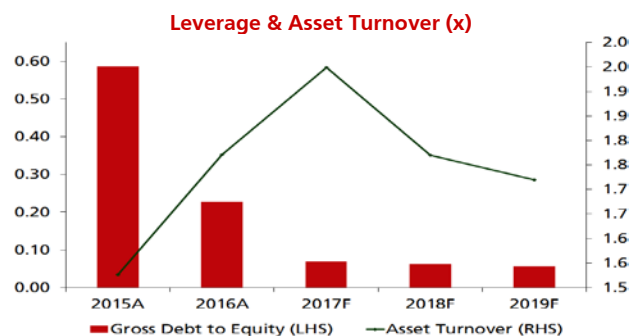
We believe that APAC is largely viewed by the market as a developer-agnostic proxy to Singapore's private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market should drive APAC's share price.

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	2017F	2018F	2019F
Private residential -	7.5%	103.2%	35.0%	5.0%	5.0%
Private residential -	28.1%	17.0%	30.0%	5.0%	4.9%
HDB resale	27.1%	15.6%	15.0%	10.0%	5.0%

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (\$\$m)					
Brokerage	224	279	368	392	411
Training, valuation and	7.67	8.21	11.0	11.0	12.1
Franchise arrangements	0.61	0.41	1.00	1.10	1.21

Growth driven by higher growth assumptions for sales transactions

Total	233	288	380	404	425
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Gross profit (\$\$m)

Brokerage	23.9	32.2	44.1	47.0	49.4
Training, valuation and	7.00	7.50	9.90	9.90	10.9
Franchise arrangements	0.33	0.16	0.40	0.44	0.48

Total	31.3	39.9	54.4	57.4	60.8
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Gross profit Margins (%)

Brokerage	10.7	11.5	12.0	12.0	12.0
Training, valuation and	91.3	91.4	90.0	90.0	90.0
Franchise arrangements	53.5	39.6	40.0	40.0	40.0

Total	13.4	13.9	14.3	14.2	14.3
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Income Statement (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	233	288	380	404	425
Cost of Goods Sold	(201)	(248)	(325)	(347)	(364)
Gross Profit	31.3	39.9	54.4	57.4	60.8
Other Opg (Exp)/Inc	(19.8)	(20.7)	(25.1)	(25.0)	(25.2)
Operating Profit	11.5	19.2	29.3	32.4	35.6
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	(1.2)	(1.1)	(0.4)	(0.5)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.3	18.1	28.9	31.9	35.1
Tax	(1.8)	(2.2)	(4.6)	(5.4)	(6.0)
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	24.3	26.5	29.1
Net Profit before Except.	8.49	15.9	24.3	26.5	29.1
EBITDA	13.0	20.8	30.3	33.4	36.5
Growth					
Revenue Gth (%)	6.6	23.7	31.9	6.5	5.1
EBITDA Gth (%)	(23.7)	59.6	45.3	10.3	9.4
Opg Profit Gth (%)	(27.4)	67.3	52.7	10.6	9.7
Net Profit Gth (Pre-ex) (%)	(30.7)	87.2	52.9	9.1	9.8
Margins & Ratio					
Gross Margins (%)	13.4	13.9	14.3	14.2	14.3
Opg Profit Margin (%)	4.9	6.7	7.7	8.0	8.4
Net Profit Margin (%)	3.6	5.5	6.4	6.6	6.8
ROAE (%)	11.9	22.4	23.2	19.4	19.3
ROA (%)	5.6	9.8	12.5	11.6	11.8
ROCE (%)	6.9	14.3	19.5	17.3	17.4
Div Payout Ratio (%)	0.0	0.0	12.5	50.0	50.0
Net Interest Cover (x)	9.8	17.1	73.3	64.8	71.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	81.0	103	67.2	91.2	106
Cost of Goods Sold	(69.6)	0.0	(57.0)	(83.2)	(91.9)
Gross Profit	11.4	103	10.2	7.94	13.7
Other Oper. (Exp)/Inc	(5.2)	(103)	(5.3)	1.83	(7.1)
Operating Profit	6.28	0.0	4.89	9.78	6.59
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	(0.3)	0.0	(0.1)	(0.1)	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	6.04	0.0	4.75	9.69	6.55
Tax	(0.9)	0.0	(0.7)	(1.2)	(1.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	5.14	0.0	4.03	8.49	5.51
Net profit bef Except.	5.14	0.0	4.03	8.49	5.51
EBITDA	6.70	0.0	5.25	10.1	6.95

Growth

Revenue Gth (%)	25.6	27.4	(34.9)	35.7	15.8
EBITDA Gth (%)	27.3	nm	nm	92.9	(31.5)
Opg Profit Gth (%)	29.2	(100.0)	nm	99.8	(32.6)
Net Profit Gth (Pre-ex) (%)	32.4	(100.0)	nm	110.5	(35.1)

Margins

Gross Margins (%)	14.1	100.0	15.1	8.7	13.0
Opg Profit Margins (%)	7.8	0.0	7.3	10.7	6.2
Net Profit Margins (%)	6.3	0.0	6.0	9.3	5.2

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	2.14	1.44	2.44	3.44	4.44
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	103	102	101	99.6	98.5
Cash & ST Invt	14.2	17.8	60.9	75.6	91.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	33.6	47.8	53.7	57.2	60.1
Other Current Assets	2.04	1.63	1.63	1.63	1.63
Total Assets	155	170	219	237	257
ST Debt	6.00	6.00	6.00	6.00	6.00
Creditor	39.0	55.6	62.1	66.2	69.5
Other Current Liab	10.5	13.2	13.3	14.1	14.7
LT Debt	31.0	12.0	3.00	3.00	3.00
Other LT Liabilities	5.14	4.67	4.67	4.67	5.56
Shareholder's Equity	63.0	78.9	130	143	158
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	155	170	219	237	257
Non-Cash Wkg. Capital	(13.9)	(19.4)	(20.1)	(21.5)	(22.4)
Net Cash/(Debt)	(22.8)	(0.3)	51.9	66.6	82.9
Debtors Turn (avg days)	46.6	51.6	48.8	50.1	50.4
Creditors Turn (avg days)	67.6	70.1	66.3	67.7	68.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.5	1.8	1.9	1.8	1.7
Current Ratio (x)	0.9	0.9	1.4	1.6	1.7
Quick Ratio (x)	0.9	0.9	1.4	1.5	1.7
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	11.1	11.1	11.1

Balance sheet remains strong with a net cash position

Source: Company, DBS Bank

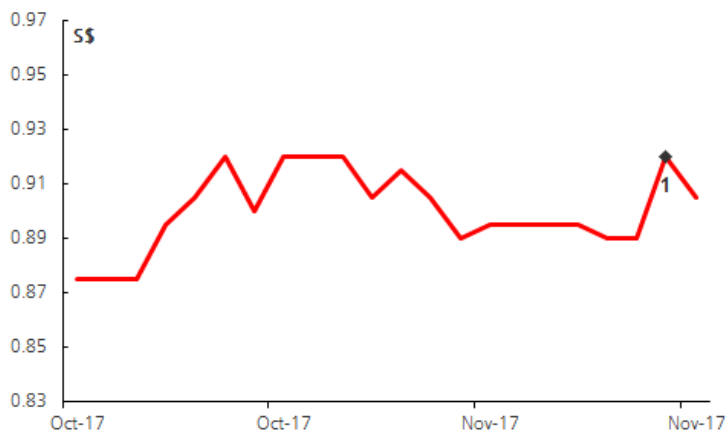
Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	10.3	18.1	28.9	31.9	35.1
Dep. & Amort.	1.56	1.62	0.93	0.93	0.93
Tax Paid	(2.6)	(1.6)	(4.2)	(4.6)	(5.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.8)	3.35	0.54	0.65	0.38
Other Operating CF	1.58	1.22	0.0	0.0	0.0
Net Operating CF	7.12	22.7	26.2	28.9	30.9
Capital Exp.(net)	(1.8)	(0.1)	(1.0)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	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)	(1.0)	(1.0)	(1.0)
Div Paid	0.0	0.0	(3.0)	(13.3)	(14.5)
Chg in Gross Debt	16.0	(19.0)	(9.0)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(25.0)	0.0	30.0	0.0	0.0
Net Financing CF	(9.0)	(19.0)	18.0	(13.3)	(14.5)
Currency Adjustments	0.0	0.0	0.0	0.0	1.00
Chg in Cash	(4.0)	3.53	43.2	14.6	16.4
Opg CFPS (\$ cts)	3.06	5.44	7.23	7.95	8.60
Free CFPS (\$ cts)	1.50	6.34	7.10	7.85	8.43

Minimal capex needs

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

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

Source: DBS Bank

Analyst: Derek TAN

Lee Keng LING

Singapore Research Team

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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

Completed Date: 13 Nov 2017 08:25:00 (SGT)

Dissemination Date: 13 Nov 2017 10:12:21 (SGT)

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