

Singapore Company Guide

APAC Realty

Version 6 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Aug 2018

HOLD (Upgrade from Fully Valued)

Last Traded Price (7 Aug 2018): S\$0.63 (STI : 3,340.00)

Price Target 12-mth: S\$0.62 (-2% downside) (Prev S\$0.66)

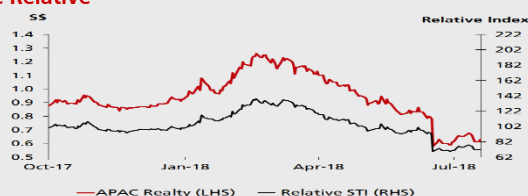
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What's New

- 1H18 net profit gained 8.7% - in line; interim 2cts DPS declared
- Stable market share of 37.5%
- Healthy project pipeline but take-up rate remains to be seen
- Upgrade to Hold; impact from property cooling measures priced in

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2016A	2017A	2018F	2019F
Revenue	288	401	389	390
EBITDA	20.8	31.2	28.8	28.0
Pre-tax Profit	18.1	29.4	26.5	24.8
Net Profit	15.9	25.9	23.3	21.8
Net Pft (Pre Ex.)	15.9	25.9	23.3	21.8
Net Pft Gth (Pre-ex) (%)	87.2	63.1	(10.0)	(6.4)
EPS (S cts)	4.47	7.29	6.56	6.14
EPS Pre Ex. (S cts)	4.47	7.29	6.56	6.14
EPS Gth Pre Ex (%)	87	63	(10)	(6)
Diluted EPS (S cts)	4.47	7.29	6.56	6.14
Net DPS (S cts)	0.0	2.00	3.94	3.68
BV Per Share (S cts)	22.2	37.5	40.1	42.5
PE (X)	14.1	8.6	9.6	10.3
PE Pre Ex. (X)	14.1	8.6	9.6	10.3
P/Cash Flow (X)	9.9	6.5	11.4	9.8
EV/EBITDA (X)	10.8	5.2	5.9	5.8
Net Div Yield (%)	0.0	3.2	6.2	5.8
P/Book Value (X)	2.8	1.7	1.6	1.5
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.4	24.4	16.9	14.9
Earnings Rev (%):			-	-
Consensus EPS (S cts):			6.8	6.1
Other Broker Recs:		B: 1	S: 1	H: 0

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

Negatives priced in

Upgrade to Hold; impact from property cooling measures priced in. We believe APAC's current share price has already priced in the impact from the recent property cooling measures. We have already assumed market transaction activities to be lower this year as compared to last year, and to stay flat in 2019 while the healthy project pipeline in 2H18 and 2019 should provide some support. Upgrade to Hold.

1H18 net profit gained 8.7%, in line. 1H18 revenue surged 37.4% y-o-y to S\$227.3m. A higher payout of commission to agents for new home sales led to a lower 8.7% growth in net profit to S\$13.6m. 1H18 net profit accounted for 58% of our FY18F earnings, roughly in line as we expect a weaker 2H18. An interim DPS of 2cts was declared.

Where we differ: Sales momentum hurt; en bloc activity to wane. The uncertainty and expected slowdown in sales velocity in 2H18 and potentially 2019 might lead to developers re-thinking their land-banking strategy or even put a halt to this altogether. The en bloc market could also potentially come to a standstill.

Stronger-than-projected volumes could surprise on the upside. We maintain our FY18F and FY19F private transaction value assumptions of a 5% drop in FY18F and flat for FY19F. For the HDB segment, we have maintained our flat growth assumption.

Valuation:

Upgrade to HOLD; TP of S\$0.62 as we shift our earnings base. TP is tweaked down to S\$0.62 (prev S\$0.66), pegged to 10x FY19F earnings, as we rolled forward our earnings base from FY18F. Upgrade to Hold as we believe current share price has already priced in the impact from the recent property cooling measures.

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)	224 / 164
Major Shareholders (%)	
Choon Hong Tan	71.8
Free Float (%)	28.2
3m Avg. Daily Val (US\$m)	1.2

ICB Industry : Industrials / Support Services

WHAT'S NEW

1H18 net profit in line; interim 2cts DPS declared

Results Highlight

1H18 net profit gained 8.7%, in line. Interim 2cts DPS declared. 1H18 revenue surged 37.4% y-o-y to S\$227.3m. A higher payout of commission to agents for new home sales led to a lower 8.7% growth in net profit of S\$13.6m. 1H18 net profit accounted for 58% of our FY18F forecasts, roughly in line as we are expecting a weaker 2H18 on the back of the recent property cooling measures. For 2Q18, APAC reported net profit of S\$7.7m (-9.3% y-o-y, +30% q-o-q). An interim dividend of 2cts per share was declared for 1H18. This represents a 52% payout ratio of 1H18 net profit and translates to an annualised dividend yield of c.6.4%.

Stable market share of 37.5%. 1H18 transaction volume for the primary residential market was down 34.6% y-o-y, mainly due to fewer new projects while volume for the secondary residential market surged 41.2%. In terms of market share, ERA's overall market share in terms of transaction value for 1H18 was 37.5%, vs 38% for 1Q18 and 37.9% for FY17. Within the different segments, primary private residential sale accounted for 24% (FY17: 28%); secondary residential market 59% (FY17: 53%) and HDB resale 18% (FY17: 19%).

More launches in 2H18. To date, ERA has launched 15 projects in the first 7 months of 2018, or a total of 8,625 units. Another 10 projects, or 4,383 units, are due to launch

in the next 5 months which signifies growth potential for the group.

Healthy project pipeline but take-up rate remains to be seen.

As at 30 June 2018, there were 26,961 unsold units with planning approval. In addition, there is a potential supply of 19,500 units (including ECs) from Government Land Sales (GLS) sites and awarded en bloc sale sites that have not been granted planning approval yet. A large part of this new supply of 19,500 units could be made available for sale later this year or next year, and will be completed from 2021 onwards. However, the higher Additional Buyer's Stamp Duty rate and the reduction in loan-to-value limit could affect the underlying demand for residential properties in Singapore.

Earnings and Recommendation

Upgrade to Hold; impact from property cooling measures

priced in. No change in earnings forecasts, still based on 5% y-o-y drop in overall market transaction value in FY18F and flat for FY19F. TP is tweaked down to S\$0.62 (prev S\$0.66), pegged to 10x FY19F earnings, as we rolled forward our earnings base from FY18F. Upgrade to Hold as we believe current share price has already priced in the impact from the recent property cooling measures.

Quarterly / Interim Income Statement (S\$m)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	91.1	105	122	33.9	16.0
Cost of Goods Sold	(83.2)	(92.3)	(108)	29.9	17.0
Gross Profit	7.94	12.9	14.0	75.8	8.4
Other Oper. (Exp)/Inc	1.83	(5.8)	(4.7)	(356.9)	(18.1)
Operating Profit	9.78	7.13	9.25	(5.3)	29.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.1)	0.0	0.0	nm	-
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	9.69	7.13	9.25	(4.5)	29.8
Tax	(1.2)	(1.2)	(1.6)	29.4	28.7
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	8.49	5.92	7.69	(9.3)	30.0
Net profit bef Except.	8.49	5.92	7.69	(9.3)	30.0
EBITDA	10.1	7.49	9.61	(5.2)	28.2
Margins (%)					
Gross Margins	8.7	12.2	11.4		
Opg Profit Margins	10.7	6.8	7.6		
Net Profit Margins	9.3	5.6	6.3		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

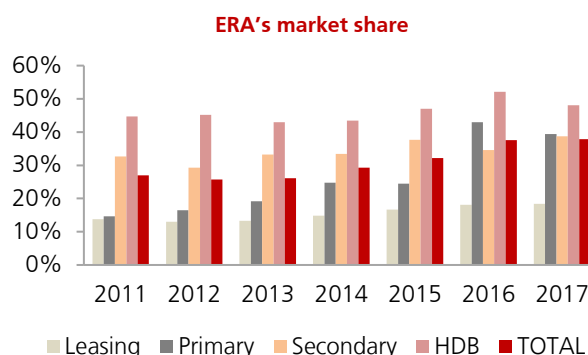
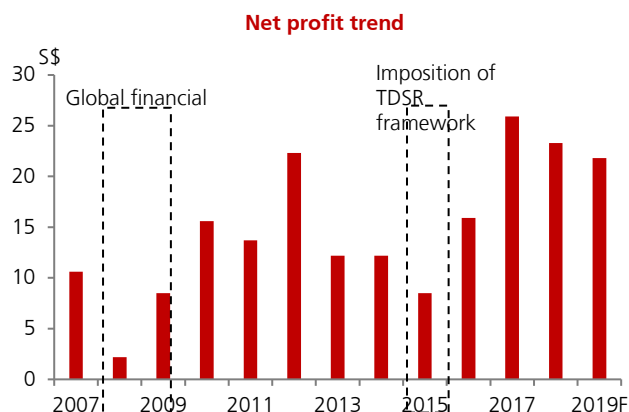
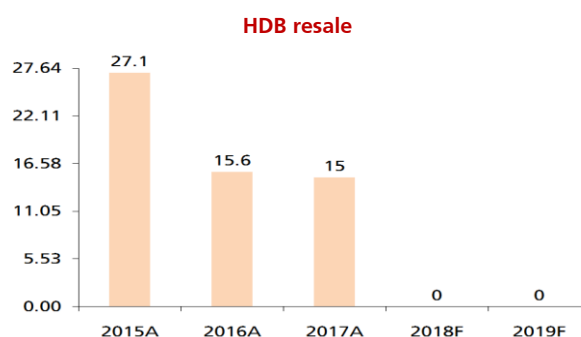
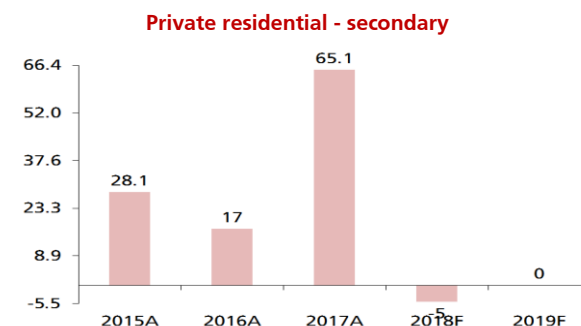
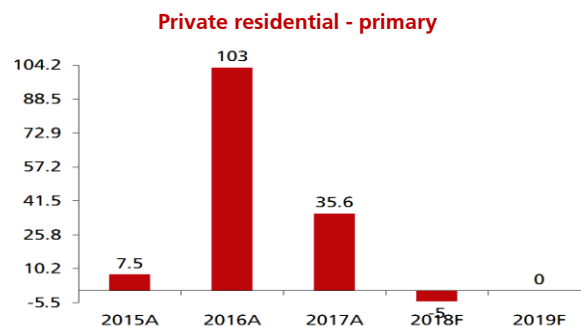
Sales momentum to slow. We are expecting transaction values to hit S\$43.1bn in FY18F (-5% y-o-y) and FY19F (flat y-o-y) for the total private residential market, including both primary and secondary markets. We expect the new property cooling measures to affect market transactions. For the HDB segment, we expect flat growth in FY18-19F, down from +10% and +5%.

Market share is critical. ERA's market share based on transaction value for the private property segment increased from 26.9% in 2011 to about 37.5% in 1H18. 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.

Project pipeline. 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% of projects launched in 2017. To date, ERA has already secured 40 projects to be launched in 2018/2019. There were 15 projects with about 8,625 units already launched in the first seven months of 2018. Another 25 projects with about 12,229 units are expected to be launched in 2H18 and 2019.

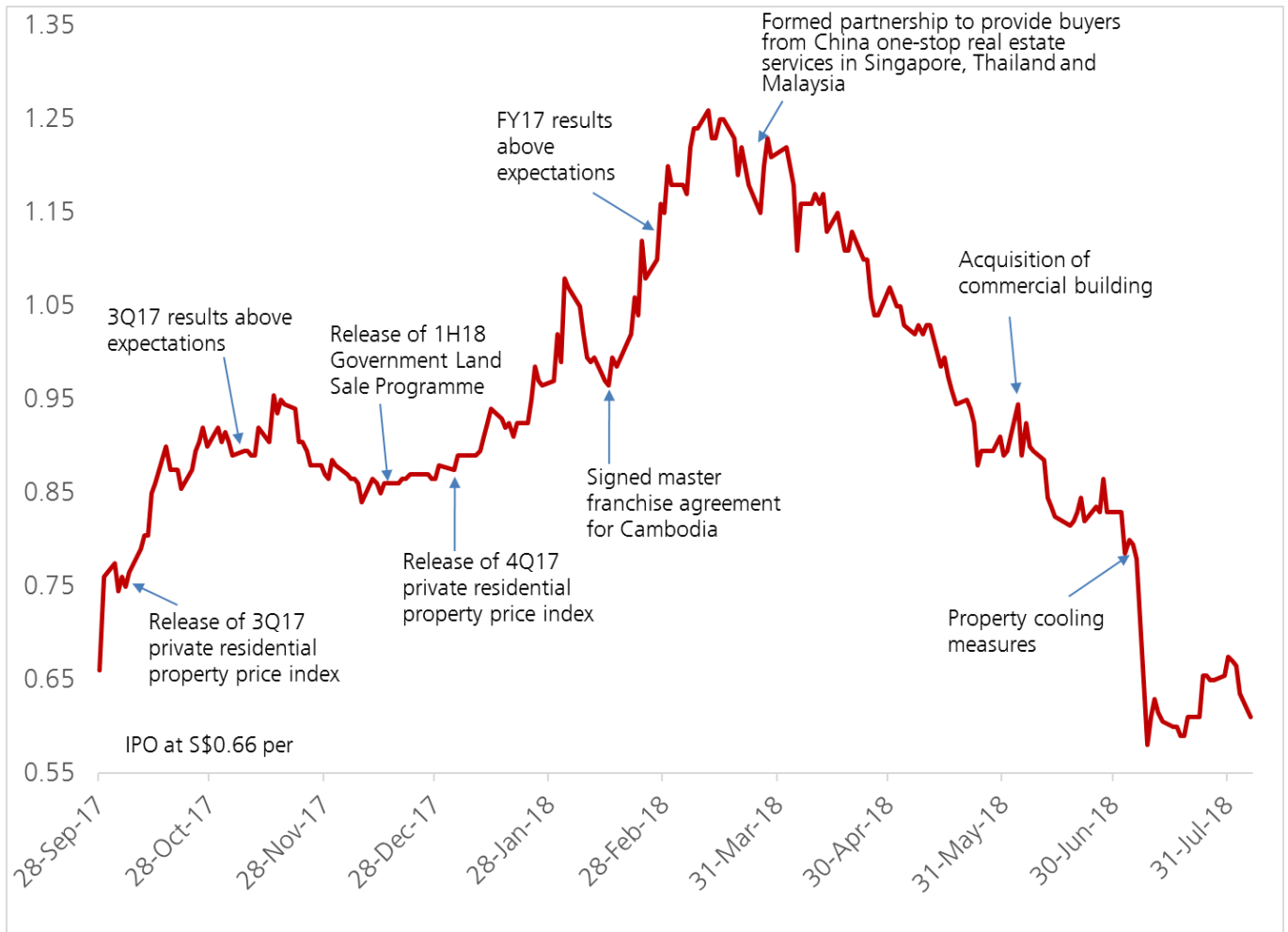
Agents strength. APAC has one of the largest numbers of registered real estate agents. APAC's agents are its primary sales force through which units are transacted and are not employees of the group. APAC has grown its network of agents over the years and has managed to gain market share. As at April 2018, APAC has about 6,100 agents with a market share of around 21%, up from 16% in 2014.

Technological initiative to enhance competitiveness. APAC currently offers various tools such as mobile applications to its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities to enhance its competitiveness. It has launched a new Property Investment Calculator in its i-ERA mobile app, which will provide salespersons with a one-stop financial analysis tool for any property. They will be able to assist their clients to make more effective buying and selling decisions as all variables are dynamically updated.



Source: Company, DBS Bank

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



Source: Company, DBS Bank

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. As at 30 June 2018, APAC had fully pared down its debt, with cash balance of S\$61.6m. But we are assuming APAC to finance about 80% of the purchase consideration of S\$72.8m for the office headquarters via debt.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to S\$100m as at June 2018, 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 and 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:

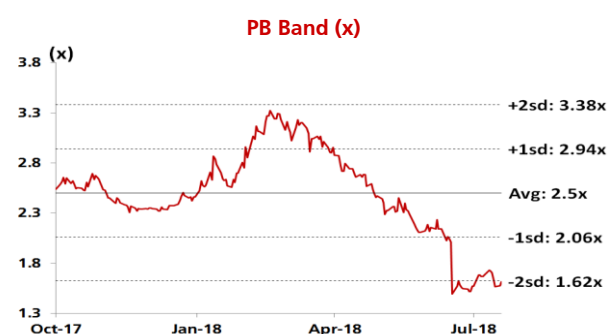
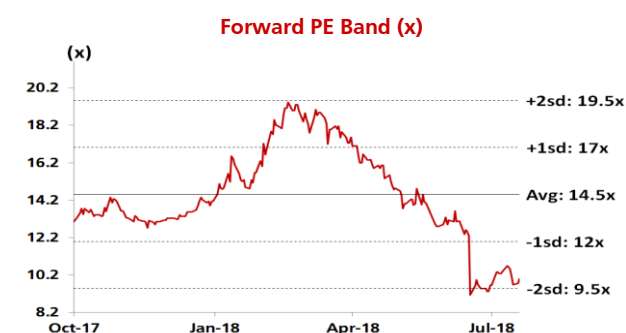
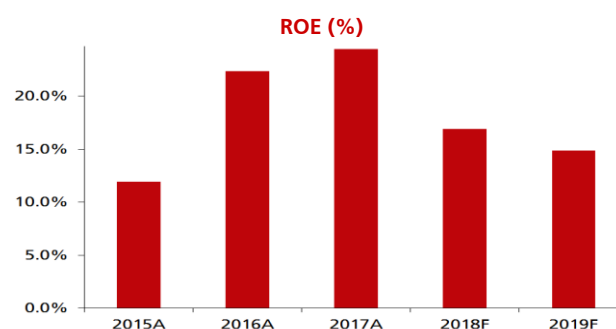
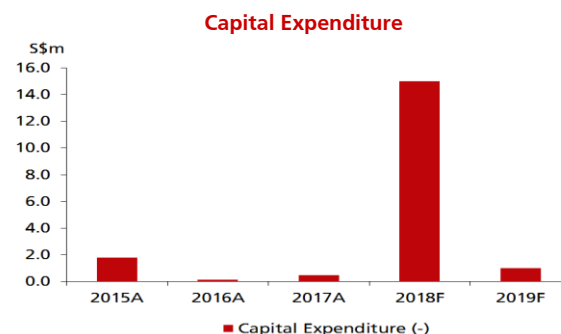
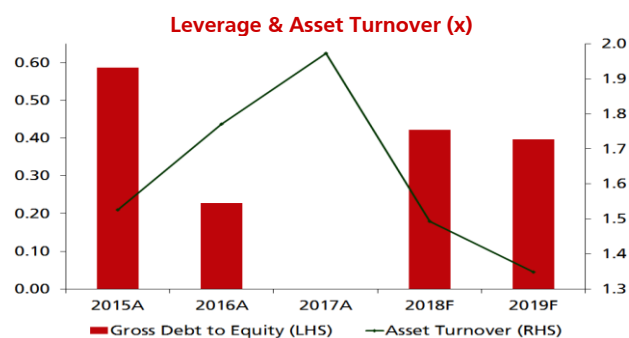
We believe that APAC is largely viewed by the market as a proxy to Singapore's private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market would have an impact on APAC's share price.

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 in 2014 due to the cumulative effect of various measures introduced by the government. The government has also reinstated property curbs through raising Additional Buyer's Stamp Duty (ABSD) rates by 5ppts and tightened Loan-to-Value (LTV) limits by 5ppts in early July 2018. 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	35.6	(5.0)	0.0
Private residential - secondary	28.1	17.0	65.1	(5.0)	0.0
HDB resale	27.1	15.6	15.0	0.0	0.0

Cut transaction value growth assumption on the back of the new property cooling measures

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$\$m)					
Brokerage	224	279	391	378	378
Non-brokerage	8.28	8.62	9.38	11.0	12.1

Total	233	288	401	389	390
Gross profit (\$\$m)					
Brokerage	23.9	32.2	46.6	45.4	45.4
Non-brokerage	7.33	7.66	8.29	9.90	10.9

Total	31.3	39.9	54.9	55.3	56.3
Gross profit Margins (%)					
Brokerage	10.7	11.5	11.9	12.0	12.0
Non-brokerage	88.5	88.9	88.4	90.0	90.0

Total	13.4	13.9	13.7	14.2	14.4
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Income Statement (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	233	288	401	389	390
Cost of Goods Sold	(201)	(248)	(346)	(334)	(334)
Gross Profit	31.3	39.9	54.9	55.3	56.3
Other Opng (Exp)/Inc	(19.8)	(20.7)	(25.2)	(28.4)	(31.2)
Operating Profit	11.5	19.2	29.7	26.9	25.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.50	1.50
Associates & JV Inc	0.0	0.0	0.01	0.0	0.0
Net Interest (Exp)/Inc	(1.2)	(1.1)	(0.3)	(0.9)	(1.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.3	18.1	29.4	26.5	24.8
Tax	(1.8)	(2.2)	(3.5)	(3.2)	(3.0)
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	25.9	23.3	21.8
Net Profit before Except.	8.49	15.9	25.9	23.3	21.8
EBITDA	13.0	20.8	31.2	28.8	28.0

Growth

Revenue Gth (%)	6.6	23.7	39.2	(2.9)	0.3
EBITDA Gth (%)	(23.7)	59.6	49.7	(7.5)	(2.8)
Opg Profit Gth (%)	(27.4)	67.3	54.7	(9.6)	(6.7)
Net Profit Gth (Pre-ex) (%)	(30.7)	87.2	63.1	(10.0)	(6.4)

Margins & Ratio

Gross Margins (%)	13.4	13.9	13.7	14.2	14.4
Opg Profit Margin (%)	4.9	6.7	7.4	6.9	6.4
Net Profit Margin (%)	3.6	5.5	6.5	6.0	5.6
ROAE (%)	11.9	22.4	24.4	16.9	14.9
ROA (%)	5.6	9.8	12.8	8.9	7.5
ROCE (%)	6.9	14.3	21.5	13.0	9.5
Div Payout Ratio (%)	0.0	0.0	27.4	60.0	60.0
Net Interest Cover (x)	9.8	17.1	111.6	29.8	13.9

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

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	91.1	106	130	105	122
Cost of Goods Sold	(83.2)	(91.9)	(114)	(92.3)	(108)
Gross Profit	7.94	13.7	16.0	12.9	14.0
Other Oper. (Exp)/Inc	1.83	(7.1)	(7.6)	(5.8)	(4.7)
Operating Profit	9.78	6.59	8.43	7.13	9.25
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	(0.1)	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.69	6.55	8.43	7.13	9.25
Tax	(1.2)	(1.0)	(0.5)	(1.2)	(1.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	8.49	5.51	7.88	5.92	7.69
Net profit bef Except.	8.49	5.51	7.88	5.92	7.69
EBITDA	10.1	6.95	8.79	7.49	9.61

Fewer new launches in 1Q18

Growth

Revenue Gth (%)	35.7	15.8	22.9	(18.9)	16.0
EBITDA Gth (%)	92.9	(31.5)	26.5	(14.8)	28.2
Opg Profit Gth (%)	99.8	(32.6)	27.9	(15.4)	29.8
Net Profit Gth (Pre-ex) (%)	110.5	(35.1)	43.0	(24.9)	30.0

Lower gross margins as more agents move up the commission scale

Margins

Gross Margins (%)	8.7	13.0	12.3	12.2	11.4
Opg Profit Margins (%)	10.7	6.2	6.5	6.8	7.6
Net Profit Margins (%)	9.3	5.2	6.1	5.6	6.3

Balance Sheet (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	2.14	1.44	1.22	15.7	16.2
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	17.7	62.0	113	121
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	33.6	47.8	70.1	55.1	55.2
Other Current Assets	2.04	1.63	1.92	1.92	1.92
Total Assets	155	170	236	285	294
ST Debt	6.00	6.00	0.0	0.0	0.0
Creditor	39.0	55.6	82.0	63.7	63.8
Other Current Liab	10.5	13.1	16.4	14.6	14.4
LT Debt	31.0	12.0	0.0	60.0	60.0
Other LT Liabilities	5.14	4.67	4.49	4.49	4.49
Shareholder's Equity	63.0	78.9	133	142	151
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	155	170	236	285	294
Non-Cash Wkg. Capital	(13.9)	(19.4)	(26.5)	(21.4)	(21.1)
Net Cash/(Debt)	(22.8)	(0.3)	62.0	52.6	61.5
Debtors Turn (avg days)	46.6	51.6	53.7	58.7	51.6
Creditors Turn (avg days)	67.6	70.1	73.0	80.0	70.0
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.5	1.8	2.0	1.5	1.3
Current Ratio (x)	0.9	0.9	1.4	2.2	2.3
Quick Ratio (x)	0.9	0.9	1.3	2.1	2.3
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	25.0	1.7
Z-Score (X)	3.8	4.2	4.3	4.3	3.5

Acquisition of commercial building

Assume bulk of debt financing for the acquisition of commercial building

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	26.5	24.8
Dep. & Amort.	1.56	1.62	1.44	1.44	1.44
Tax Paid	(2.6)	(1.6)	(3.2)	(5.0)	(3.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.8)	3.35	4.16	(3.3)	(0.1)
Other Operating CF	1.58	1.22	2.80	0.0	0.0
Net Operating CF	7.12	22.7	34.6	19.7	22.9
Capital Exp.(net)	(1.8)	(0.1)	(0.5)	(15.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	(0.2)	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)	(15.0)	(1.0)
Div Paid	0.0	0.0	0.0	(14.0)	(13.1)
Chg in Gross Debt	16.0	(19.0)	(18.0)	60.0	0.0
Capital Issues	0.0	0.0	28.2	0.0	0.0
Other Financing CF	(25.0)	0.0	0.0	0.0	0.0
Net Financing CF	(9.0)	(19.0)	10.2	46.0	(13.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(4.0)	3.53	44.2	50.7	8.83
Opg CFPS (S cts)	3.06	5.44	8.58	6.46	6.49
Free CFPS (S cts)	1.50	6.34	9.62	1.31	6.17

Part financing for the acquisition of commercial building

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
4:	26 Feb 18	1.16	1.25	BUY
5:	19 Mar 18	1.19	1.42	BUY
6:	10 May 18	1.03	1.32	BUY
7:	06 Jun 18	0.90	1.32	BUY
8:	14 Jun 18	0.82	1.22	BUY
9:	06 Jul 18	0.58	0.66	FULLY VALUED

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

Source: DBS Bank

Analyst: Lee Keng LING
Derek TAN

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

Completed Date: 8 Aug 2018 08:13:36 (SGT)

Dissemination Date: 8 Aug 2018 08:23:06 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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