

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

30 Sep 2022

FULLY VALUED (Downgrade from HOLD)

Last Traded Price (29 Sep 2022): S\$0.600 (STI : 3,115.08)

Price Target 12-mth: S\$0.41 (32% downside) (Prev S\$0.67)

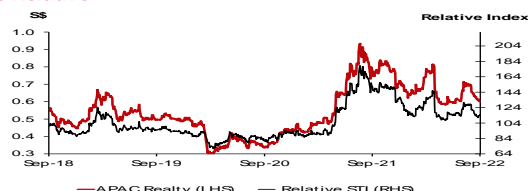
Analyst

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What's New

- Impacted by another round of cooling measures; cut FY22/23F transaction assumptions by 4% to 30%
- Impact on APAC's profitability was short-lived in the past but expect a prolonged impact this time round
- Expect only slight recovery in earnings in 2024
- Cut FY22/23F earnings by 9% and 42%, downgrade to FULLY VALUED with lower TP of S\$0.41

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Revenue	740	517	446	495
EBITDA	48.1	31.6	23.0	24.8
Pre-tax Profit	42.6	26.1	17.5	19.3
Net Profit	35.4	21.6	14.5	16.0
Net Pft (Pre Ex.)	35.4	21.6	14.5	16.0
Net Pft Gth (Pre-ex) (%)	115.3	(39.0)	(32.8)	10.1
EPS (S cts)	9.96	6.08	4.09	4.50
EPS Pre Ex. (S cts)	9.96	6.08	4.09	4.50
EPS Gth Pre Ex (%)	115	(39)	(33)	10
Diluted EPS (S cts)	9.96	6.08	4.09	4.50
Net DPS (S cts)	7.50	3.34	2.25	2.47
BV Per Share (S cts)	45.3	48.0	49.9	51.9
PE (X)	6.0	9.9	14.7	13.3
PE Pre Ex. (X)	6.0	9.9	14.7	13.3
P/Cash Flow (X)	3.9	21.6	13.5	9.5
EV/EBITDA (X)	4.3	6.7	8.9	7.7
Net Div Yield (%)	12.5	5.6	3.7	4.1
P/Book Value (X)	1.3	1.2	1.2	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.4	13.0	8.3	8.8
Earnings Rev (%)		(9)	(42)	NEW
Consensus EPS (S cts):		7.10	7.80	8.30
Other Broker Recs:		B: 1	S: 0	H: 2

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

Hit by fresh cooling measures

Investment Thesis:

Impacted by another round of cooling measures. Barely a year after the last round of cooling measures announced in December 2021, the government has introduced several fresh measures to cool the property market, including new restrictions to curb loan quantum and taper demand. This time round, the measures are more targeted at the HDB segment while the reduction in the total debt servicing ratio (TDSR) would reduce affordability and also affect the private property market.

Cut transaction assumptions by 4% to 30%. We have cut our transaction volume projections for the private new launch and resale segments by 6% to 30% for FY22F and FY23F. We have also lowered our projection for HDB resale transactions by 4-15% to 25,500/23,000 units for FY22F/23F.

Earnings may only see a slight recovery in 2024. We expect earnings for APAC to drop 39% in FY22F and another 33% in FY23F before a gradual recovery in FY24F.

Valuation:

Downgrade to FULLY VALUED with lower TP of S\$0.41. We have reduced our TP to S\$0.41 (previously S\$0.67) pegged to c.10x FY23F earnings, equivalent to its average 4-year PE, on the back of the lower earnings as we cut our transaction volume assumptions.

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)	213 / 149
Major Shareholders (%)	
Morgan Stanley	61.1
Tan Choon Hong	11.1
Chua Khee Hak	8.4
Free Float (%)	19.4
3m Avg. Daily Val (US\$m)	0.16
GIC Industry: Real Estate / Real Estate Management & Development	



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WHAT'S NEW

Hit by fresh round of cooling measures

Impacted by another round of cooling measures. Barely a year after the last round of cooling measures announced in December 2021, the government has introduced several fresh measures to cool the property market, including new restrictions to curb quantum and taper demand. (Please refer to table on page 3 for a summary of the measures)

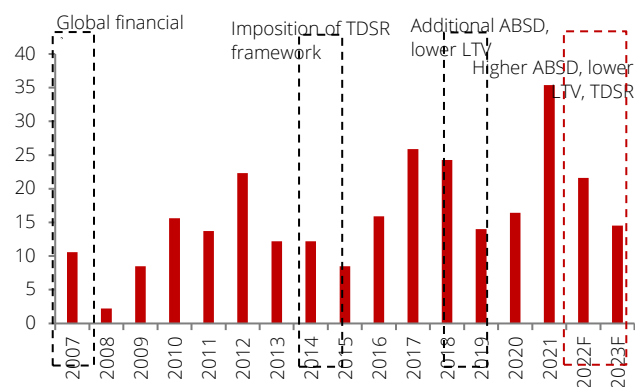
More targeted at HDB segment this time round. This time round, the measures are more targeted at the HDB segment while the reduction in the total debt servicing ratio (TDSR) would reduce affordability and also affect the private property market. The HDB resale index has gained 5.2% since December 2021, vs a 4.2% gain for the overall private residential index.

ERA has a 41.8% market share as at 1H22 in the HDB resale segment. About one-third of its revenue is generated from this segment. The balance two-thirds is split between private resale and new launches. Contribution from each segment varies, depending very much on the new launch pipeline.

Impact on APAC's profitability has been short-lived in the past but expect a prolonged impact this time round. 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.

However, this time round, with the two rounds of cooling measures announced less than a year apart, the impact could be harder and net profit could take a longer time to rebound.

Net profit trend (\$m)



Source: DBS Bank; Company

The impact on FY22F earnings is more muted, mainly affecting the resale and HDB segments as there is a lag of a few months in the booking of revenue from the transaction date for the new launch segment.

We have cut our transaction volume projections for the various segments. We are now projecting new home sales of 8,500/7,000/8,000 units for FY22F/23F/FY24F, vs our previous projection of 9,000/10,000 for FY22F/23F. For the private resale segment, we project 14,000/11,000/12,000 for FY22F/23F/FY24F, down from our previous expectation of 15,000 and 16,000 units for FY22F and FY23F respectively. Projection for HDB resale transactions has also been lowered by 4-15% to 25,500/23,000 units for FY22F/23F.

Earnings & Recommendation

Cut FY22-23F earnings forecast by 9% and 42%, downgrade to FULLY VALUED. We have revised down FY22F/23F earnings by 9%/42%, on the back of our lower transaction volume assumption as a result of this new set of cooling measures.

Our target price is reduced to S\$0.41 (previously S\$0.67), pegged to c.10x FY23F earnings, equivalent to its average 4-year average PE. Downgrade to FULLY VALUED from HOLD, as we are only expecting a slight recovery in 2024.

APAC Realty

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.

Summary of measures introduced

	Measure	Aimed at:	Potential impact
1.	50 basis point increase in TDSR and MSR from the current 3.5%	Private Properties / HDB flats	Reduction in overall loan eligibility
2.	HDB to introduce an interest rate floor of 3.0% for eligible loan amount	HDB flats	
3.	Reduction in loan-to-value ("LTV") for HDB housing loans to 80% from 85%	HDB flats	
4.	Private property owners ("PPO") to wait out 15 months after disposal of private property before allowed to purchase a resale HDB.	HDB	Reduction in overall demand (seniors aged 55 and above are exempted from this rule).

Source: MND, HDB, MAS, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
ERA transaction value growth (%)	23.7	88.9	(30.6)	(14.0)	11.1
ERA market share (%)	33.3	35.2	34.0	34.0	34.0

Segmental Breakdown

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (\$m)					
Brokerage	384	730	507	436	484
Non-brokerage	11.2	9.64	10.1	10.6	11.2
Total	395	740	517	446	495
Gross profit (\$m)					
Brokerage	37.3	67.3	43.1	36.6	40.7
Non-brokerage	10.2	8.14	9.07	9.53	10.0
Total	47.5	75.4	52.1	46.1	50.7
Gross profit Margins (%)					
Brokerage	9.7	9.2	8.5	8.4	8.4
Non-brokerage	90.8	84.5	89.6	89.6	89.6
Total	12.0	10.2	10.1	10.3	10.2

Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	395	740	517	446	495
Cost of Goods Sold	(348)	(664)	(465)	(400)	(445)
Gross Profit	47.5	75.4	52.1	46.1	50.7
Other Opng (Exp)/Inc	(26.6)	(31.6)	(25.3)	(27.8)	(30.6)
Operating Profit	20.9	43.8	26.8	18.3	20.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	(0.4)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.6	42.6	26.1	17.5	19.3
Tax	(3.3)	(7.3)	(4.5)	(3.0)	(3.3)
Minority Interest	0.10	0.10	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	16.4	35.4	21.6	14.5	16.0
Net Profit before Except.	16.4	35.4	21.6	14.5	16.0
EBITDA	24.0	48.1	31.6	23.0	24.8
Growth					
Revenue Gth (%)	6.9	87.2	(30.1)	(13.6)	11.0
EBITDA Gth (%)	17.3	100.7	(34.4)	(27.1)	7.7
Opg Profit Gth (%)	9.9	109.7	(38.7)	(31.8)	9.6
Net Profit Gth (Pre-ex) (%)	17.3	115.3	(39.0)	(32.8)	10.1
Margins & Ratio					
Gross Margins (%)	12.0	10.2	10.1	10.3	10.2
Opg Profit Margin (%)	5.3	5.9	5.2	4.1	4.1
Net Profit Margin (%)	4.2	4.8	4.2	3.3	3.2
ROAE (%)	10.9	22.4	13.0	8.3	8.8
ROA (%)	5.3	10.0	6.0	4.5	4.8
ROCE (%)	7.3	16.3	9.5	6.1	6.5
Div Payout Ratio (%)	54.0	75.3	55.0	55.0	55.0
Net Interest Cover (x)	19.5	56.6	34.7	23.6	25.9

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	173	222	358	381	343
Cost of Goods Sold	(151)	(196)	(323)	(341)	(307)
Gross Profit	21.7	25.8	35.3	40.2	35.3
Other Oper. (Exp)/Inc	(11.9)	(14.7)	(14.2)	(17.4)	(15.0)
Operating Profit	9.74	11.1	21.1	22.7	20.3
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.2)	(0.3)	(0.1)	0.26
Net Interest (Exp)/Inc	(0.7)	(0.4)	(0.4)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.07	10.6	20.4	22.2	20.2
Tax	(1.4)	(1.9)	(3.4)	(4.0)	(3.7)
Minority Interest	0.06	0.04	0.02	0.07	0.14
Net Profit	7.76	8.68	17.0	18.3	16.7
Net profit bef Except.	7.76	8.68	17.0	18.3	16.7
EBITDA	11.3	12.6	23.1	25.0	23.0

Growth

Revenue Gth (%)	(16.3)	28.6	61.2	6.4	(10.2)
EBITDA Gth (%)	(21.6)	11.0	83.8	8.1	(7.9)
Opp Profit Gth (%)	(24.4)	14.4	89.2	7.8	(10.7)
Net Profit Gth (%)	(12.9)	11.9	96.4	7.6	(9.0)

Margins

Gross Margins (%)	12.5	11.6	9.8	10.5	10.3
Opp Profit Margins (%)	5.6	5.0	5.9	6.0	5.9
Net Profit Margins (%)	4.5	3.9	4.8	4.8	4.9

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	73.9	72.8	69.1	65.4	61.7
Invts in Associates & JVs	2.43	2.36	2.36	2.36	2.36
Other LT Assets	103	100	100	100	100
Cash & ST Invts	35.1	53.7	50.7	57.4	70.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	79.6	121	70.0	60.4	67.1
Other Current Assets	27.4	36.1	36.1	36.1	36.1
Total Assets	321	386	328	322	337
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	90.9	148	83.4	71.9	79.8
Other Current Liab	18.2	24.5	21.5	20.1	20.4
LT Debt	48.8	45.9	45.9	45.9	45.9
Other LT Liabilities	5.94	4.13	4.13	4.13	4.13
Shareholder's Equity	155	161	171	177	184
Minority Interests	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Total Cap. & Liab.	321	386	328	322	337
Non-Cash Wkg. Capital	(2.1)	(15.3)	1.14	4.65	3.00
Net Cash/(Debt)	(16.6)	4.85	1.84	8.61	21.2
Debtors Turn (avg days)	68.3	49.4	67.4	53.3	47.0
Creditors Turn (avg days)	86.3	66.0	91.7	71.7	62.9
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	2.1	1.4	1.4	1.5
Current Ratio (x)	1.3	1.2	1.5	1.6	1.7
Quick Ratio (x)	1.0	1.0	1.1	1.2	1.3
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.3	2.2	2.0	2.0	2.0
Z-Score (X)	2.4	2.5	2.5	2.5	2.5

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	19.6	42.6	26.1	17.5	19.3
Dep. & Amort.	3.27	4.74	4.74	4.74	4.74
Tax Paid	(2.5)	(4.1)	(7.5)	(4.5)	(3.0)
Assoc. & JV Inc/(loss)	0.16	0.40	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.3)	6.45	(13.5)	(2.0)	1.35
Other Operating CF	3.73	4.77	0.0	0.0	0.0
Net Operating CF	20.0	54.9	9.86	15.8	22.4
Capital Exp.(net)	(0.2)	(1.1)	(1.0)	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(2.2)	(0.2)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(2.6)	(0.8)	0.0	0.0	0.0
Net Investing CF	(4.9)	(2.1)	(1.0)	(1.0)	(1.0)
Div Paid	(7.1)	(29.3)	(11.9)	(8.0)	(8.8)
Chg in Gross Debt	(4.9)	(4.9)	0.0	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	(12.0)	(34.2)	(11.9)	(8.0)	(8.8)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.10	18.5	(3.0)	6.77	12.6
Opg CFPS (S cts)	6.85	13.6	6.57	5.01	5.92
Free CFPS (S cts)	5.59	15.1	2.50	4.15	6.01

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Nov 21	0.84	0.88	HOLD
2:	23 Feb 22	0.70	0.67	HOLD

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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