APAC Realty Ltd

Will be better in 2020

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SINGAPORE | REAL ESTATE (AGENCIES) | 3Q19 RESULTS

18 November 2019

- 3Q19 net profit was below our estimates.
- Apart from the weaker transaction volumes, net profit in FY19 has been hit negatively by agent license subsidy fee and losses at the newly acquired property. The combined financial impact is negative S$2mn.
- **We lower our recommendation from BUY to ACCUMULATE. Our target price is reduced to S$0.55 (previously S$0.68).** We cut our FY19e and FY20e net profit forecast by 15% and 13% respectively. We expect a recovery in 2020 as property transactions build up momentum, there is also a robust pipeline of new projects.

Results at a glance

(SGD 000)/Dec Yr End	3Q19	3Q18	YoY (%)	Comments
Revenue	98,617	114,839	-14%	
- resale and rental	*67,300*	*76,500*	-12%	
a) resale	*46,600*	*57,700*	-19%	
b) rental	*20,700*	*18,800*	10%	*The bright spot in the results.*
- new home sales	*28,600*	*36,000*	-21%	*Likely lost some market share.*
Gross profit	11,222	14,761	-24%	
Operating expenses	7,151	6,663	7%	*Marketing and promotionrose 3-fold*
Operating Profit	4,071	8,098	-50%	
PATMI	3,452	6,543	-47%	

Source: Company, PSR

The Positives

+ Commission from rental has been resilient. Revenue from rental transactions has been resilient.

+ Agency force still expanding steadily. The agency force is now 7,034, an 8% rise for this year and almost 20% improvement from January 2018. Smaller agencies do not get access to new project launches. The almost 40% collapse in secondary transaction will encourage agents to shift to larger agencies.

The Negatives

- Operating expenses higher than expected. Expenses were hurt by two major items – annual agency renewal fee (S$250 per agent) to be borne by the company and losses from the newly acquired ERA APAC Centre property. Both items cost the company almost S$2mn. The APAC Centre should turnaround as the property is now fully occupied and is making better rental rates.

- New homes sales weaker than expected. Revenue from new home sales has been weaker than some peers. The extension of options may modestly overstate actual number of property transactions. Some investors may be willing to risk 1.25% (or 25% of 5% booking fee) of property value to buy time if the property market recovers.

Outlook

It will be a better year in 2020. Transaction volumes are recovering post cooling measures and there is a large pipeline of new projects. In 1H20, there will be at least 15 new projects or 5,181 units to be marketed.

Downgrade to ACCUMULATE with a lower target price of S$0.55 (prev. S$0.58)

Our lower target price is in-line with the cut in our earnings estimate in FY19e/FY20e.

ACCUMULATE (Downgraded)

LAST DONE PRICE	SGD 0.500
FORECAST DIV	SGD 0.021
TARGET PRICE	SGD 0.55
TOTAL RETURN	13.7%

COMPANY DATA

BLOOMBERG CODE:	APAC SP Equity
O/S SHARES (MN) :	355
MARKET CAP (USD mn / SGD mn) :	130 / 179
52 - WK HI/LO (SGD) :	0.95 / 0.44
3M Average Daily T/O (mn) :	1.74

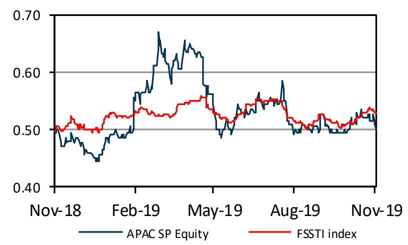
MAJOR SHAREHOLDERS (%)

TAN CHOON HONG	718%
FIL INVESTMENT MANAGEMENT	4.3%
QILIN ASSET MANAGEMENT	3.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(14.0)	(5.8)	(38.9)
STI RETURN	(5.8)	0.4	(6.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY17	FY18	FY19e	FY20e
Revenue	400.6	424.0	370.7	414.6
Gross Profit	54.9	52.8	44.5	49.8
Operating Profit	29.4	29.2	17.4	22.5
PAT	25.9	24.2	14.8	19.1
P/E (x)	6.2	7.3	12.0	9.3
P/B (x)	1.2	1.1	1.7	2.0
EPS, SGD cents	8.0	6.8	4.2	5.4
Dividend yield, %	4.0	9.0	4.2	5.4
ROE	19.5%	16.9%	13.7%	21.4%
ROA	11.0%	8.6%	5.8%	7.4%

Source: Company Data, PSR

Valuation Method
DCF (Cost of equity 8.0%, Terminal growth 0%)

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Financials

Income Statement

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
Revenue	287.7	400.6	424.0	370.7	414.6
Cost of services	247.9	345.8	371.2	326.2	364.9
Gross profit	39.9	54.9	52.8	44.5	49.8
Personnel cost	10.8	13.8	13.0	13.0	13.0
Other costs and expenses	11.0	11.7	10.5	14.1	14.2
Operating profit	18.1	29.4	29.2	17.4	22.5
Share of results in joint venture	-	(0.0)	(0.0)	-	-
Profit before tax	18.1	29.4	29.2	17.4	22.5
Tax	(2.2)	(3.5)	(5.0)	(2.6)	(3.4)
Profit after tax	15.9	25.9	24.2	14.8	19.1

Per share data

SGD cents, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS	22.5	8.0	6.8	4.2	5.4
DPS	-	2.0	4.5	2.1	2.7
NAV per share	29.8	41.9	45.1	30.3	25.1

Balance Sheet

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment property	-	-	72.80	72.80	72.80
PP&E	1.44	1.22	1.08	0.99	0.89
Intangible assets	101.32	100.39	99.46	98.52	97.59
Others	0.40	0.42	0.41	0.40	0.40
Total non-current assets	**103.16**	**102.03**	**173.74**	**172.72**	**171.68**
Trade & other receivables	49.14	71.73	53.36	53.37	63.71
Cash balance	17.75	61.97	43.02	29.43	23.54
Others	0.29	0.25	13.08	0.20	0.20
Total current assets	**67.18**	**133.94**	**109.46**	**83.00**	**87.44**
Total Assets	**170.34**	**235.97**	**283.20**	**255.71**	**259.12**
LIABILITIES					
Trade & other payables	**62.61**	**91.52**	**71.28**	**63.56**	**70.51**
Loans and borrowings	6.00	-	2.90	2.90	2.90
Provision for taxation	4.45	4.97	5.17	4.86	5.00
Others	1.73	1.97	1.84	1.85	1.89
Total current liabilities	**74.79**	**98.46**	**81.19**	**73.17**	**80.30**
Loans and borrowings	12.00	-	54.62	70.44	85.21
Deferred taxation	4.67	4.49	4.29	4.48	4.42
Total non-current liabilities	**16.67**	**4.49**	**58.91**	**74.93**	**89.64**
Total Liabilities	**91.46**	**102.95**	**140.10**	**148.10**	**169.93**
EQUITY					
Share capital	70.70	98.95	98.95	98.95	98.95
Accumulated profits	8.18	34.08	44.12	8.67	(9.76)
Non-controlling interests	-	-	0.04	-	-
Total Equity	**78.88**	**133.03**	**143.10**	**107.61**	**89.19**

Cash Flow

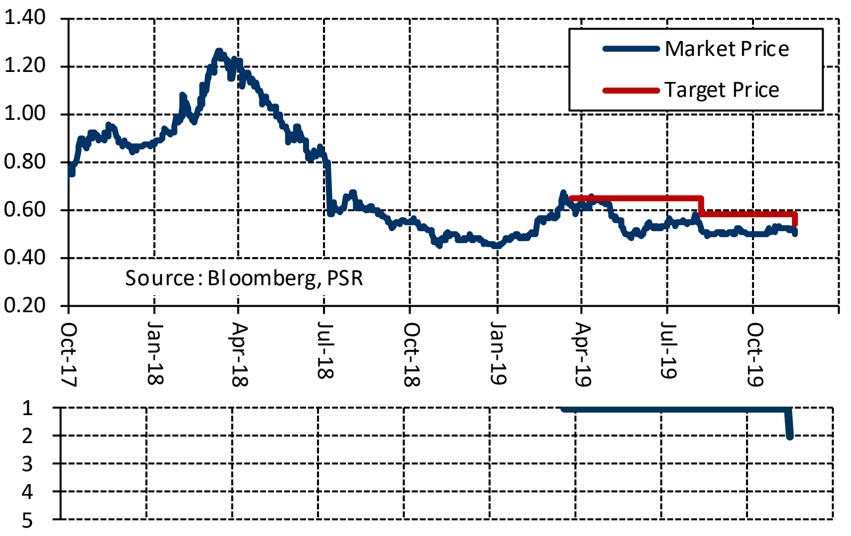
SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	18.1	29.4	29.2	17.4	22.5
Adjustments	3.9	4.4	3.3	3.8	4.2
WC changes	3.4	4.2	(16.1)	(7.9)	(3.7)
Interest and Taxes paid, others	(2.7)	(3.4)	(5.1)	(3.2)	(4.1)
Cashflow from operations	22.7	34.6	11.3	10.0	18.8
CFI					
Acquisition of investment ppty	-	-	(72.8)	-	-
Purchase of PP&E	(0.1)	(0.5)	(0.4)	(0.4)	(0.4)
Others	-	(0.2)	(0.4)	-	-
Cashflow from investments	(0.1)	(0.7)	(73.5)	(0.4)	(0.4)
CFF					
Change in loans and borrowings	(19.0)	(18.0)	57.5	(15.8)	(14.8)
Payment of dividends	-	-	(14.2)	(7.4)	(9.6)
Others	-	28.2	-	-	-
Cashflow from financing	(19.0)	10.2	43.3	(23.2)	(24.3)
Net change in cash	3.5	44.2	(19.0)	(13.6)	(5.9)
CCE, end	17.7	62.0	43.0	29.4	23.5

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	2.2	6.2	7.3	12.0	9.3
P/B (x)	1.7	1.2	1.1	1.7	2.0
Dividend Yield (%)	-	4.0	9.0	4.2	5.4
Growth & Margins (%)					
Growth					
Revenue	24%	39%	6%	-13%	12%
Gross profit	28%	38%	-4%	-16%	12%
PBT	75%	63%	-1%	-41%	30%
PAT	87%	63%	-6%	-39%	30%
Margins					
GP margin	14%	14%	12%	12%	12%
PBT margin	6%	7%	7%	5%	5%
PAT Margin	6%	6%	6%	4%	5%
Key Ratios					
ROE (%)	20%	19%	17%	14%	21%
ROA (%)	9%	11%	9%	6%	7%
Gearing (x)	0.23	-	0.40	0.68	0.99

Source: Company, Phillip Securities Research (Singapore) Estimates

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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