

APAC Realty Ltd

Toning down our expectations



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SINGAPORE | REAL ESTATE (AGENCIES) | 2Q19 RESULTS

8 August 2019

- 2Q19 results was a significant miss. We are lowering FY19e earnings by 37%.
- Transaction volumes collapsed, especially in the resale market where volumes fell a massive 49% in 2Q19. This quarter was challenging compared to the record earnings in 2018.
- We maintain our BUY recommendation. Our target price is lowered to S\$0.58 (previously S\$0.65).** We cut our FY19e and FY20e net profit forecast by 37% and 28% respectively. Our transaction volume assumptions were too aggressive. We still favour real estate agencies for their impressive market shares and attractive business economics.

Results at a glance

(SGD 000)/Dec Yr End	2Q19	2Q18	YoY (%)	Comments
Revenue	85,656	122,034	-30%	
- resale and rental	60,500	85,500	-29%	Resale revenues fell 40% but rental grew 6%.
- new home sales	23,100	34,400	-33%	Industry volume contracted 0.7% YoY
Gross profit	10,516	13,962	-25%	
Operating expenses	6,483	4,709	38%	Personnel cost rose 7% YoY due to additional headcount in Thailand
Operating Profit	4,033	9,253	-56%	
PATMI	3,327	7,693	-57%	
Dividend Per Share (S\$ cts)	0.75	2.00	-63%	Consistent pay-out ratio of 53%

Source: Company, PSR

The Positive

+ Making headway overseas. APAC is gaining momentum in securing marketing rights for more projects in Indonesia and Thailand. The contribution is still minimal as the company is investing in headcount and expanding the number of franchise agents.

The Negatives

- Transaction volumes collapsed. Revenues in new homes plunged 33% YoY due to lower volumes in the past two quarters. Resale revenues plummeted even more, by 40% YoY this quarter. Secondary market transaction industry-wide plunged 49% YoY in 2Q19. A huge gap exists between bid and offer prices in the resale market. For new projects, buyers for mass-market projects are the HDB upgraders. There is limited activity from the enbloc beneficiaries.

- New project also hurt by a marginal drop in market share plus slower recognition of revenue. Market share for new projects is 30%. A marginal dip of 31-32% in 2017/18. New project commission revenues are only recognized when billed to the developer. When sell-through rates of development projects are 20% and below, there is typically slower payments to the agencies. Another delay is the re-issuance of options to buyers.

Outlook

Sentiment in the property market is still weak. However, new project sales are beginning to recover, albeit at a gradual pace. APAC has secured marketing agents roles in 51 property projects this year or 19,145 units. There have been several successful project sales in June and July where revenues are typically recorded two quarters later.

Maintain BUY with a lower target price of S\$0.58 (prev. S\$0.65)

We slashed our FY19e and FY20e net profit forecast by 37% and 28% respectively. It will be a challenging year in 2019 but we expect revenues to recover in the latter part of the year.

APAC REALTY BUY (Maintained)

LAST DONE PRICE	SGD 0.515
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.58
TOTAL RETURN	17.8%

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

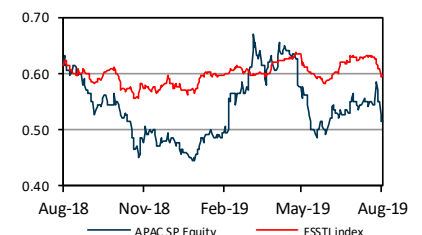
MAJOR SHAREHOLDERS (%)

TAN CHOON HONG	71.8%
FIL INVESTMENT MANAGEMENT	4.3%
QILIN ASSET MANAGEMENT	3.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(14.0)	(5.8)	(38.9)
STIRETURN	(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	20.6	25.8
PAT	25.9	24.2	17.5	21.9
P/E (x)	6.4	7.5	10.4	8.4
P/B (x)	1.2	1.1	1.6	1.8
EPS, SGD cents	8.0	6.8	4.9	6.2
Dividend yield, %	3.9	8.7	4.8	6.0
ROE	19.5%	16.9%	14.9%	21.7%
ROA	11.0%	8.6%	6.6%	8.1%

Source: Company Data, PSR

Valuation Method

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

Paul Chew (+65 6212 1851)

Head of Research

paulchewkl@phillip.com.sg

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	10.8	11.0
Operating profit	18.1	29.4	29.2	20.6	25.8
Share of results in joint venture	-	(0.0)	(0.0)	-	-
Profit before tax	18.1	29.4	29.2	20.6	25.8
Tax	(2.2)	(3.5)	(5.0)	(3.1)	(3.9)
Profit after tax	15.9	25.9	24.2	17.5	21.9

Per share data

SGD cents, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS	22.5	8.0	6.8	4.9	6.2
DPS	-	2.0	4.5	2.5	3.1
NAV per share	29.8	41.9	45.1	33.1	28.4

Cash Flow

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	18.1	29.4	29.2	20.6	25.8
Adjustments	3.9	4.4	3.3	3.8	4.2
WC changes	3.4	4.2	(16.1)	(0.2)	(3.7)
Interest and Taxes paid, others	(2.7)	(3.4)	(5.1)	(3.7)	(4.6)
Cashflow from operations	22.7	34.6	11.3	20.5	21.6
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)	(8.8)	(11.0)
Others	-	28.2	-	-	-
Cashflow from financing	(19.0)	10.2	43.3	(24.6)	(25.7)
Net change in cash	3.5	44.2	(19.0)	(4.5)	(4.5)
CCE, end	17.7	62.0	43.0	38.5	34.0

Source: Company, Phillip Securities Research (Singapore) Estimates

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	64.10	54.38	65.06
Cash balance	17.75	61.97	43.02	38.51	34.02
Others	0.29	0.25	2.35	0.20	0.20
Total current assets	67.18	133.94	109.46	93.10	99.28
Total Assets	170.34	235.97	283.20	265.81	270.96

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	18.77	2.08
Non-controlling interests	-	-	0.04	-	-
Total Equity	78.88	133.03	143.10	117.71	101.02

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	2.3	6.4	7.5	10.4	8.4
P/B (x)	1.7	1.2	1.1	1.6	1.8
Dividend Yield (%)	-	3.9	8.7	4.8	6.0

Growth & Margins (%)

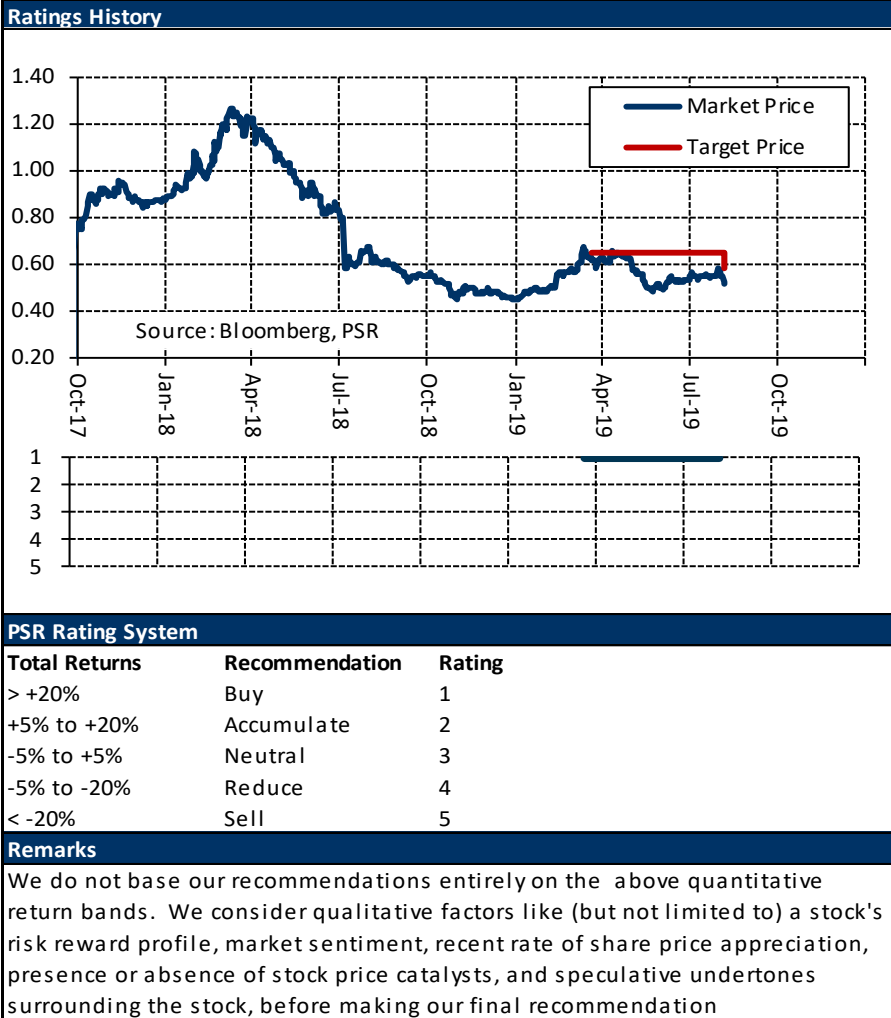
Growth					
Revenue	24%	39%	6%	-13%	12%
Gross profit	28%	38%	-4%	-16%	12%
PBT	75%	63%	-1%	-29%	25%
PAT	87%	63%	-6%	-28%	25%

Margins

GP margin	14%	14%	12%	12%	12%
PBT margin	6%	7%	7%	6%	6%
PAT Margin	6%	6%	6%	5%	5%

Key Ratios

ROE (%)	20%	19%	17%	15%	22%
ROA (%)	9%	11%	9%	7%	8%
Gearing (x)	0.23	-	0.40	0.62	0.87



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Siti Nursyazwina - syazwina@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

REITs

Natalie Ong - natalieongpf@phillip.com.sg

US Equity

Edmund Xue – edmundxueij@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

Credit Analyst

Timothy Ang – timothyang@phillip.com.sg

Technical Analyst

Chua Wei Ren – chuawr@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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