

6 August 2019

Property | Real Estate

## APAC Realty (APAC SP)

**Buy** (Maintained)

### Volumes Stabilising Post Measures

Target Price (Return)	SGD0.65 (+24%)
Price:	SGD0.525
Market Cap:	USD135m
Avg Daily Turnover (SGD/USD)	0.8m/0.6m

- Maintain BUY with new DCF-derived SGD0.65 TP from SGD0.67, 24% upside plus 6% yield.** 1H19 net profit missed, dragged by slower private resale volumes and higher marketing expenses. Still, transactions are showing signs of a pick-up in 2Q, with new launches and resale activity improving QoQ. The take-up rates for several recent launches were encouraging, and should result in a better 2H. In the medium term, APAC Realty's overseas market contribution should help buffer some of the local market's volatility.
- New launch pipeline remains healthy for 2H19-2020...**For 2H19, ERA secured a project marketing role for 26 projects (c.10,520 units), slightly higher than 1H19. While the take-up rate (opening weekend) at new launches slowed to 10-30% (from >30%), the strong new launch pipeline has helped in maintaining overall transaction volumes, which we expect to be similar to last year's (c.9,000 units). Private resale market volume also improved (+27% QoQ), but were down 50% YoY in 1H19 due to exceptionally strong resale activity prior to the cooling measures last year. We expect new sales and private resale volumes to improve slightly (5-10% higher) in 2H19. HDB resale and rental market transaction volumes rose 7% YoY in 1H19, and are expected to remain steady for the rest of the year.
- ..but new launches' market share weakened from competition.** ERA's market share for new launches dipped to 26.4% (of total transaction value) in 2Q (1Q: 33.7%). Management explained that it was due to the appointment of a higher number of agencies by developers amidst challenging market conditions. Private resale market share, however, improved to 35.4% (1Q: 31.9%) offsetting some of the weakness.
- Increase in agent count and strengthening digital capabilities.** Agent count increased to 6,897 as at 1 Aug (+6% YTD), as management continued to increase headcount via organic and inorganic means. It also announced a strategic collaboration with UrbanZoom (Jun 2019) that will allow its agents and customers to benefit from accurate residential price prediction technology. ERA will also enter into a partnership with UrbanZoom's premier agent referral service that will generate business leads for its agents.
- Efforts to penetrate into new launches segment in Indonesia and Thailand.** With the acquisition of regional franchises, management has been focusing on penetrating the lucrative new launches segment in these two markets. ERA Thailand has so far secured marketing rights for 18 projects (c.10,697 units), and ERA Indonesia has been appointed as the coordinator for six residential projects. Its overseas contribution is still insignificant at present, but is expected to increase to c.5% in 2-3 years.
- Earnings revisions.** We lower our FY19F-21F net profit by 11%, 5% and 3% to reflect lower market share and margin assumptions.

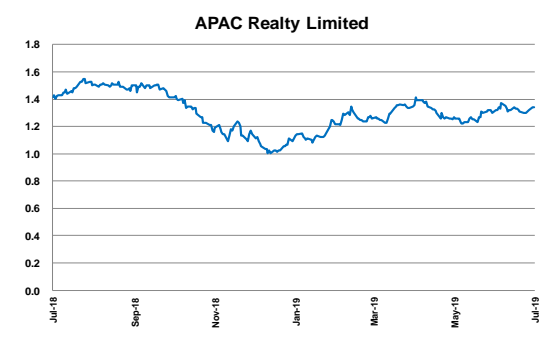
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.0	(4.5)	(8.7)	6.1	(13.9)
Relative	13.9	0.6	(2.9)	5.7	(11.8)
52-wk Price low/high (SGD)	0.44 - 1.00				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	401	424	368	373	380
Recurring net profit (SGDm)	25.9	24.3	17.7	19.5	20.0
Recurring net profit growth (%)	63.1	(6.4)	(27.0)	10.5	2.4
Recurring EPS (SGD)	0.07	0.07	0.05	0.06	0.06
Recurring P/E (x)	7.2	7.7	10.5	9.5	9.3
P/BV (x)	1.4	1.3	1.2	1.2	1.1
DPS (SGD)	0.02	0.05	0.03	0.03	0.03
Dividend Yield (%)	3.8	8.6	5.7	6.3	6.4
ROAE (%)	24.4	17.6	12.1	12.7	12.4
Net debt to equity (%)	net cash	10.1	net cash	net cash	net cash
Interest coverage (x)	111.8	66.8	17.8	18.1	17.1

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Singapore	Recurring EPS (SGD)	0.07	0.07	0.05	0.06	0.06
Property	EPS (SGD)	0.07	0.07	0.05	0.06	0.06
APAC Realty	DPS (SGD)	0.02	0.05	0.03	0.03	0.03
Bloomberg APAC SP	BVPS (SGD)	0.37	0.40	0.42	0.45	0.47
	Weighted avg adjusted shares (m)	355	355	355	355	355
Valuation basis	Valuation metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
DCF methodology	Recurring P/E (x)	7.2	7.7	10.4	9.5	9.3
	P/E (x)	7.2	7.7	10.4	9.5	9.3
	P/B (x)	1.4	1.3	1.2	1.2	1.1
	FCF Yield (%)	18.3	(33.2)	15.2	11.8	11.8
	Dividend Yield (%)	3.8	8.6	5.8	6.3	6.4
	EV/EBITDA (x)	6.0	6.0	7.6	7.1	6.9
	EV/EBIT (x)	6.1	6.1	7.8	7.2	7.0
Key drivers						
i. Pick-up in Singapore real estate sales volumes;						
ii. Growth in market share and agents;						
iii. Expanding the franchise network and training services.						
Key risks						
i. Disruption from technological advances;						
ii. Retaining key management and agents;						
iii. Loss of market share.						
Company Profile						
APAC Realty is a leading real estate services provider, holding the exclusive ERA regional master franchise rights for 17 countries in Asia Pacific. Through its ERA franchisee network, the group has one of the largest brand footprints in Asia with more than 18,200 salespersons across 641 offices, and is one of the largest ERA Member Brokers globally by transaction value.						
Income statement (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Total turnover	401	424	368	373	380	
Gross profit	55	53	47	49	50	
EBITDA	31	31	24	26	27	
Depreciation and amortisation	1	1	1	1	1	
Operating profit	29	29	22	24	24	
Net interest	(0)	(0)	(1)	(1)	(1)	
Income from associates & JVs	(0)	(0)	0	0	0	
Exceptional income - net	0	0	0	0	0	
Pre-tax profit	29	29	22	24	24	
Taxation	(4)	(5)	(4)	(4)	(4)	
Minority interests	0	(0)	0	0	0	
Recurring net profit (adj)	26	24	18	20	20	
Cash flow (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Change in working capital	4	(16)	8	0	(0)	
Cash flow from operations	35	11	30	24	24	
Capex	(0)	(73)	(2)	(2)	(2)	
Cash flow from investing activities	(1)	(74)	(2)	(2)	(2)	
Dividends paid	0	(14)	(11)	(12)	(12)	
Cash flow from financing activities	10	43	(11)	(13)	(14)	
Cash at beginning of period	18	62	43	60	69	
Net change in cash	44	(19)	17	9	8	
Ending balance cash	62	43	60	69	77	
Balance sheet (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Total cash and equivalents	62	43	60	69	77	
Tangible fixed assets	1	74	75	76	77	
Intangible assets	100	99	99	98	97	
Total investments	102	173	173	173	173	
Total other assets	72	67	70	71	73	
Total assets	236	283	304	313	323	
Short-term debt	0	3	3	3	3	
Total long-term debt	0	55	55	55	55	
Other liabilities	103	83	96	98	99	
Total liabilities	103	140	153	155	157	
Shareholders' equity	99	99	99	99	99	
Minority interests	0	0	0	0	0	
Total equity	133	143	150	158	166	
Net debt	(62)	14	(3)	(11)	(20)	
Total liabilities & equity	236	283	304	313	323	
Key metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Revenue growth (%)	39.2	5.8	(13.1)	1.2	1.9	
Recurrent EPS growth (%)	63.1	(6.4)	(25.8)	8.7	2.4	
Gross margin (%)	13.7	12.5	12.9	13.1	13.2	
Operating EBITDA margin (%)	7.8	7.3	6.6	7.1	7.1	
Net profit margin (%)	6.5	5.7	4.9	5.2	5.3	
Dividend payout ratio (%)	27.4	58.6	60.0	60.0	60.0	
Capex/sales (%)	0.1	17.3	0.4	0.4	0.4	
Interest cover (x)	115.3	68.9	18.9	18.7	17.8	

Source: Company data, RHB

## Results Review

**1H19 net profit impacted by measures, results missed.** Gross revenue (2Q) decreased 30% YoY, due to a 33% drop in brokerage income from new home sales, and 29% decline in resale and rental properties. The drop in income was mainly driven by lower resale market transactions, and a lower market share in new launches. Brokerage segment's 2Q19 GPM improved to 10.4% (1Q19: 9.7%, 2Q18: 10%) due to the higher proportion of new sales, which commanded higher margins.

Marketing and promotion expenses for the quarter rose sharply by 113% YoY due to the absorption of fees for agents, and higher expenses for commercial properties. There was also SGD0.5m in finance costs for 2Q19 (2Q18: nil) associated with the funding of new properties. Allowance for doubtful debts was higher at SGD0.6m (2Q18: SGD0.3m) due to a specific provision of SGD0.3m relating to the commission of a resale market transaction.

Interim dividend of 7.5 cents, represents a 53% payout ratio.

Figure 1: Results summary

(SGD m)	2Q19	2Q18	YoY (%)	1H19	YoY (%)	Comments
<b>Gross Revenue</b>	<b>85.7</b>	<b>122.0</b>	<b>-29.8</b>	<b>163.1</b>	<b>-28.2</b>	Lower resale and new sale volumes post cooling measures
Gross Profit	10.5	14.0	-24.7	20.0	-25.6	
Gross Margin (%)	12.2%	11.4%	0.8ppts	12.3%	0.5ppts	Due to changes in revenue mix and incentives
Profit Before Tax	<b>4.0</b>	<b>9.3</b>	<b>-56.4</b>	<b>6.3</b>	<b>-61.8</b>	Higher marketing, finance and other expenses
Profit After Tax	3.3	7.7	-57.1	5.0	-63.0	
Net margin (%)	3.8%	6.3%	-2.5ppts	3.1%	-2.9ppts	

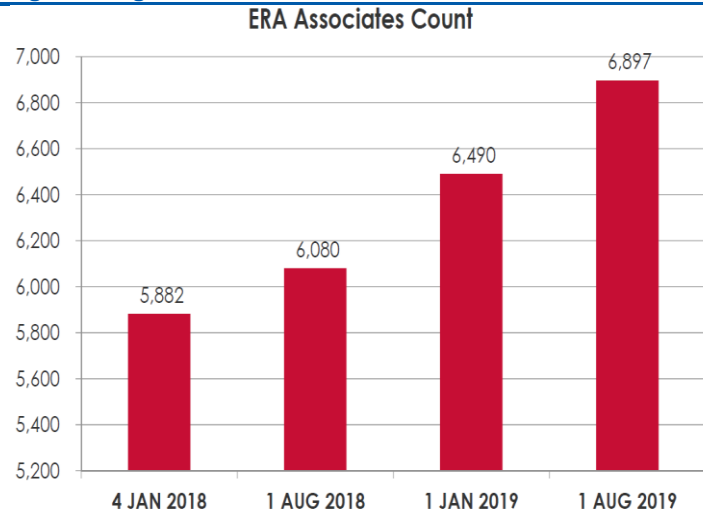
Source: RHB, Company data

Figure 2: DCF valuation

(SGD m)	FY19F	FY20F	FY21F	FY22F	Terminal Value
EBIT * (1- Tax rate)	18.7	20.7	21.3	21.5	
Add: Depreciation and Amortisation	1.4	1.4	1.4	1.4	
Less : Working capital changes	8.2	0.3	-0.2	-0.2	
Less : Capex	1.5	1.5	1.5	1.5	
Total Free Cash Flow	10.4	20.4	21.4	21.6	240.1
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	10.0	17.9	17.2	21.6	177.6
Sum of PV of FCF	66.8				
PV of Terminal Value	177.6				
Enterprise Value	244.3				
Add: Net Cash/(Debt)	(14.5)				
Total Equity Value (SGD m)	229.8				
No. of shares (m)	355.2				
Value per share (SGD)	<b>0.65</b>				
<b>Assumptions</b>					
Risk-free rate	3.0%				
Market return	9.0%				
Beta	1.0				
Equity risk premium	6.0%				
WACC	9.0%				
Terminal Growth	0%				

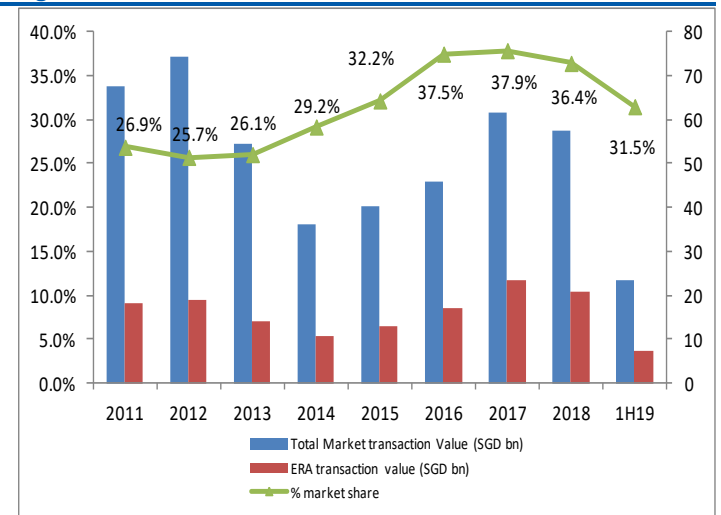
Source: RHB

Figure 3: Agent count



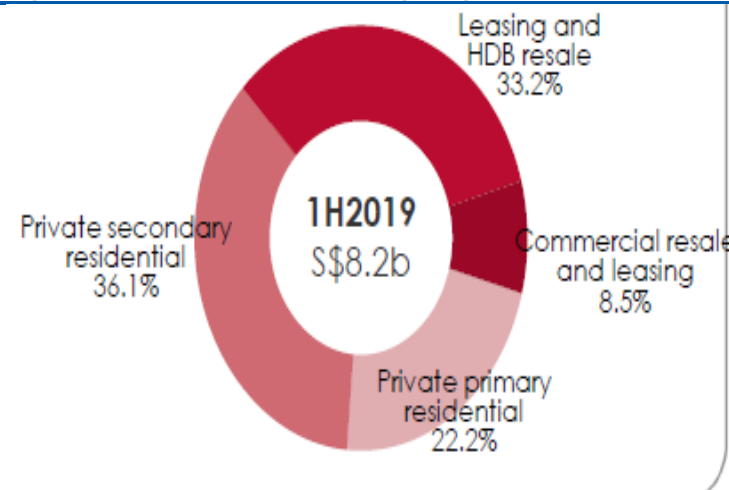
Source: Company data

Figure 4: Overall market share



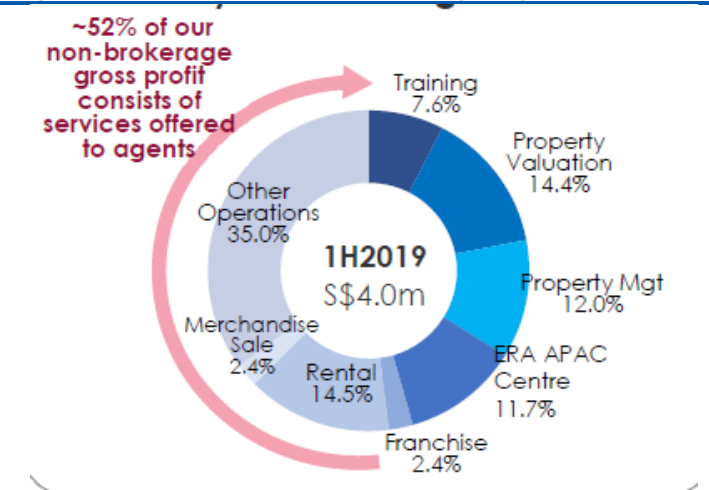
Source: Company data

Figure 5: GP breakdown – brokerage segment



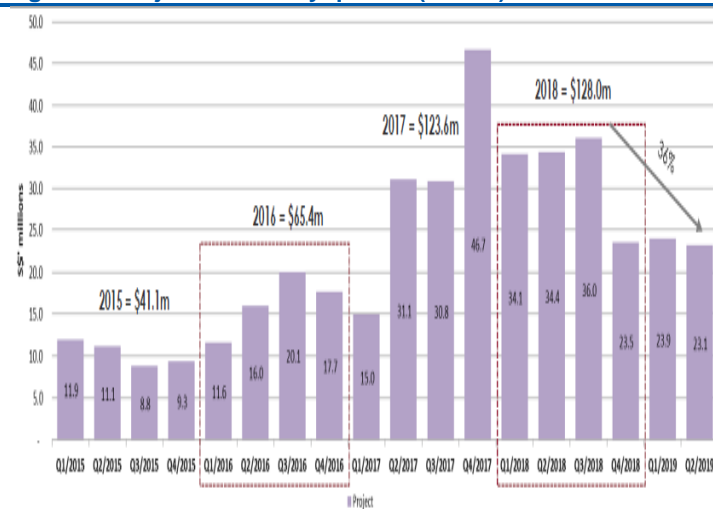
Source: Company data

Figure 6: GP breakdown – non brokerage segment



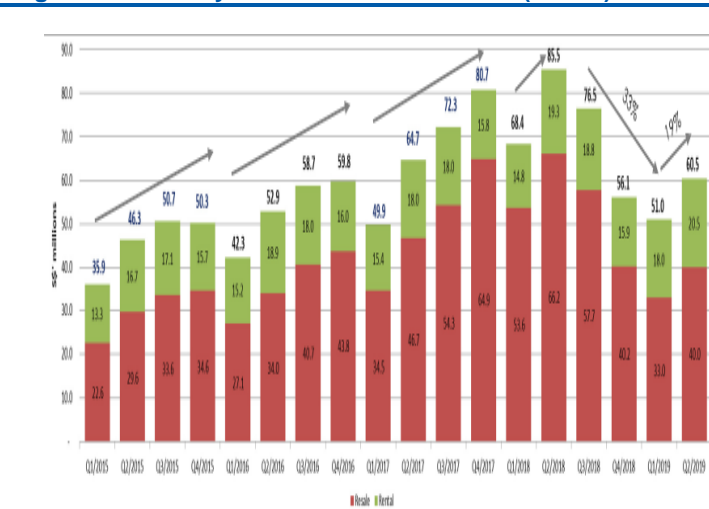
Source: Company data

Figure 7: Project income by quarter (SGDm)



Source: Company data

Figure 8: Quarterly resale and rental income (SGDm)



Source: Company data

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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