

16 November 2021

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

Good Quarter, But Earnings Has Likely Peaked

- **Stay NEUTRAL, with new SGD0.90 TP from SGD0.88, 7% upside.** APAC Realty posted another solid quarter of earnings, buoyed by the resilient Singapore property market and slight increase in market share. Key risks ahead to earnings are depleting inventory and lower new launches next year as well as regulatory risk. Key catalysts are a strong resurgence of the enbloc market, and reduced risk of cooling measures.
- **Raising FY21F-23F net profit by 8-12%** on the back of resilient market fundamentals and market share gains. 3Q21 PATMI came in at SGD9.1m, nearly 3x of last year and 4% lower than 2Q21. The earnings surge was driven by strong residential momentum in primary and resale market volumes where 9M21 transactions have exceeded that of the entire 2020.
- **Slight increase in primary market share likely to be sustained.** Based on its internal estimates, APAC secured a primary market share of 32.6% for 9M21, up from 28.6% during the same period last year. This is positive as margins in primary sales are more than double that of the resale margins. Although there has been pressure of late on primary sales margins, management expects it to stabilise around the current levels of 13-14%. Market share for private resale (42.6% share), HDB resale (42.1%) and rental market (23.5%) remains stable. Gross margins for the resale segment remained steady at 6-7%.
- **Momentum gathering in the enbloc market.** One of our key concerns on APAC has been the limited new supply in pipeline. Inventory levels have fallen steadily to 17,140 units as of 3Q21, and are inching closer to historic lows. Falling inventory levels and limited supply via Government land sales have forced developers to look at replenishing land ie the enbloc market with more projects being sold and launched in recent months. ERA itself has been appointed as the marketing agent for c.SGD4bn worth of sites in the pipeline. If momentum in the enbloc market continues, it would provide a positive boost in terms of more launches likely for 2023 as well as an added commission stream if ERA is the appointed agent for sale.
- **Key risks.** While sales across new launches and resale remain buoyant, risks are emerging with interest rate increase on cards that could put the brakes on volume and prices as well as risk of stringent cooling measures.
- **ESG score of 2.9 out of 4.0** based on our proprietary in-house methodology. As this score is one notch below our median score, we apply a 2% discount to our intrinsic value based on our DCF methodology.

Target Price (Return): SGD0.90 (+7%)
 Price (Market Cap): SGD0.84 (USD219m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.12m/0.83m

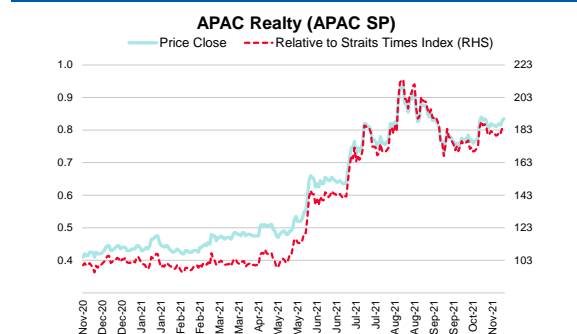
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	87.6	7.7	2.5	70.4	119.7
Relative	74.1	4.0	1.1	67.0	100.7
52-wk Price low/high (SGD)	0.38 – 0.94				



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: Good

For FY20 there has been zero incidents of environmental non-compliance. The group has moved its HQ to ERA APAC Centre and installed energy efficient lights and appliances – it further plans to reduce its energy footprint in coming years.

S: Good

APAC increased its agent head count by c.10% in FY20. Close to 7,600 agents fulfilled their Continuing Professional Development or CPD hours. Three instances of disciplinary action were taken against its sales persons – relatively lower than its peers. It targets zero of such instances in the future, through education. Good dental and insurance coverage policies for its employees. ERA is a long-time Platinum Award contributor to the Community Chest, since 1999, and set up a Care for Children initiative to assist children from financially disadvantaged families

G: Good

High level of transparency in financial announcements and earnings releases. Good corporate governance framework and board composition.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (SGDm)	370	395	672	571	575
Recurring net profit (SGDm)	14	17	34	27	28
Recurring net profit growth (%)	(42.3)	18.5	104.7	(20.0)	1.8
Recurring EPS (SGD)	0.04	0.05	0.10	0.08	0.08
DPS (SGD)	0.03	0.02	0.11	0.06	0.06
Recurring P/E (x)	21.17	17.87	8.73	10.91	10.72
P/B (x)	2.04	1.92	2.00	1.83	1.76
Dividend Yield (%)	3.9	2.4	13.8	6.9	7.0
Return on average equity (%)	9.7	11.1	22.7	17.6	16.4
Net debt to equity (%)	15.5	10.7	12.3	3.7	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.04	0.05	0.10	0.08	0.08
Property	EPS	0.04	0.05	0.10	0.08	0.08
APAC Realty	DPS	0.03	0.02	0.11	0.06	0.06
APAC SP	BVPS	0.41	0.44	0.42	0.46	0.47
Neutral	Return on average equity (%)	9.7	11.1	22.7	17.6	16.4
	Return on average assets (%)	4.8	5.4	9.4	6.9	7.0
Valuation basis						
DCF methodology	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	21.17	17.87	8.73	10.91	10.72
	P/B (x)	2.0	1.9	2.0	1.8	1.8
	Dividend Yield (%)	3.9	2.4	13.8	6.9	7.0
	EV/EBITDA (x)	15.55	13.96	7.31	8.56	8.24
Key drivers	Income statement (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Continued strong uptrend in Singapore real estate volumes,	Total turnover	370	395	672	571	575
ii. Growth in market share and agents, and	Gross profit	46	48	72	63	64
iii. Expanding franchise network and training services.	EBITDA	21	22	43	35	36
	Depreciation and amortisation	(2)	(2)	(2)	(2)	(2)
	Operating profit	19	21	42	34	34
	Net interest	(2)	(1)	(1)	(1)	(1)
	Pre-tax profit	17	20	40	33	33
	Taxation	(3)	(3)	(6)	(6)	(6)
	Reported net profit	14	17	34	27	28
	Recurring net profit	14	17	34	27	28
Key risks	Cash flow (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Regulatory and policy risks,	Change in working capital	(0.4)	(4.3)	1.4	(0.2)	(0.2)
ii. Disruption from technology advances, and	Cash flow from operations	17.0	20.2	42.0	33.1	33.6
iii. Loss of market share and margin reduction from rising competition.	Capex	(1.2)	(0.4)	(1.5)	(1.5)	(1.5)
	Cash flow from investing activities	(11.7)	(4.9)	(1.5)	(1.5)	(1.5)
	Dividends paid	(11.5)	(7.1)	(40.8)	(20.4)	(20.7)
	Cash flow from financing activities	(19.2)	(14.9)	(42.2)	(22.8)	(23.1)
	Cash at beginning of period	43.0	32.0	35.1	35.9	53.2
	Net change in cash	(13.9)	0.4	(1.6)	8.8	9.0
	Ending balance cash	29.1	32.4	33.5	44.8	62.2
Company Profile	Balance sheet (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
APAC Realty. is one of the largest real estate agencies in Singapore and has regional master franchise rights to 17 countries in the Asia-Pacific region	Total cash and equivalents	32	35	33	46	52
	Tangible fixed assets	74	74	75	76	77
	Intangible assets	99	98	97	96	95
	Total other assets	6	8	8	8	8
	Total assets	295	321	358	350	358
	Short-term debt	3	3	3	3	3
	Total long-term debt	52	49	49	49	49
	Total liabilities	150	167	210	189	190
	Shareholders' equity	146	155	148	162	168
	Minority interests	(0)	(0)	0	0	0
	Total equity	145	155	148	162	168
	Total liabilities & equity	295	321	358	350	358
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(12.8)	6.9	70.0	(14.9)	0.7
	Recurring net profit growth (%)	(42.3)	18.5	104.7	(20.0)	1.8
	Recurrent EPS growth (%)	(42.3)	18.5	104.7	(20.0)	1.8
	Gross margin (%)	12.5	12.0	10.7	11.0	11.1
	Recurring net profit margin (%)	3.8	4.2	5.1	4.8	4.8
	Dividend payout ratio (%)	82.4	42.8	120.0	75.0	75.0

Source: Company data, RHB

Figure 1: APAC's DCF valuation table

SGDm	FY21F	FY22F	FY23F	FY24F	Terminal Value
EBIT * (1- Tax rate)	34.5	28.1	28.6	29.1	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	1.4	(0.2)	(0.2)	(0.3)	
Less : Capex	1.5	1.5	1.5	1.5	
Total Free Cash Flow	33.0	28.2	28.8	29.5	328.0
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	31.6	24.8	23.2	21.8	242.6
Sum of PV of FCF (SGD m)	101.5				
PV of Terminal Value (SGD m)	242.6				
Enterprise Value (SGD m)	344.1				
Add: Net Cash/(Debt)	(18.2)				
Total Equity Value (SGD m)	325.9				
No. of shares (m)	355.2				
Intrinsic Value per share (SGD)	0.92				
ESG Premium/(discount)	-0.02				
Target Price (SGD)	0.90				
Assumptions					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.0				
Equity risk premium	6.3%				
WACC	9.0%				
Terminal Growth	0%				

Source: RHB

Figure 2: Singapore residential market transaction overview

Market Transaction Volume	9M 2021 (units)	9M 2020 (units)	Change (%)
New Homes			
Private	10,009	7,379	35.6
ECs	<u>1,859</u>	<u>825</u>	125.3
	11,868	8,204	44.7
Resale			
Private	15,623	6,601	136.7
HDB	<u>23,077</u>	<u>17,106</u>	34.9
	38,700	23,707	63.2
Rental			
Private	75,177	67,159	11.9
HDB	<u>32,072</u>	<u>30,326</u>	5.8
	107,249	97,485	10.0
Total residential transactions	157,817	129,396	22.0

Source: URA, HDB and APAC Realty

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-08-17	Neutral	0.88	0.93
2021-05-21	Buy	0.70	0.52
2020-11-22	Buy	0.55	0.43
2020-06-14	Buy	0.50	0.40
2019-11-14	Buy	0.60	0.51
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53
2018-11-13	Buy	0.72	0.50
2018-08-31	Buy	0.77	0.57
2018-08-08	Buy	na	0.62
2018-07-12	Buy	0.77	0.61

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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