

25 February 2020

Property | Real Estate

APAC Realty (APAC SP)

Buy (Maintained)

Volumes Holding Up Despite COVID-19 Fears

Target Price (Return): SGD0.60 (28%)
 Price: SGD0.47
 Market Cap: USD119m
 Avg Daily Turnover (SGD/USD) 0.08m/0.06m

- **Maintain BUY and TP of SGD 0.60, 28% upside with c.4% yield.** FY19 net profit was slightly below our (93%) but met consensus estimates. Sales at new launches and the secondary market have so far been holding up despite fears of pullback due to the COVID-19 outbreak. Our base case assumption is that impact, if any, from COVID-19 would be short term in nature. We continue to expect recovery in both primary and secondary volumes. Dividend yield of c.4% offers downside support.
- **Good response at recent new launches despite COVID-19 outbreak.** The recent new launches of Parc Canberra (executive condominium) and The M Condo saw strong response, with >300 units sold at both projects. ERA Realty Network was involved in both launches, and sold more than 35% of transacted units. The good take-up rate was driven by, amongst others, attractive pricing, location attributes, underlying strong local demand, and precautionary measures taken by developers. Developers are also seen leveraging on technology to limit the impact of the outbreak.
- **No delay in upcoming launches; resale transactions seen holding up.** Management noted that many developers are still seen proceeding with launch plans as scheduled. For 2020, it has secured the marketing role for 25 new projects (7,466 units), with its agents also actively involved in selling of the balance units from past launches. Volumes in the secondary market have also not seen any sharp slowdown so far based on management's observation. Overall, we maintain our expectations of slight growth (0-5%) in transaction volumes for both primary and resale markets in 2020. The HDB resale and rental market is also expected to fare slightly better.
- **Overseas markets and ERA APAC Centre to turn profitable in 2020.** Management expects positive contributions to the bottomline from ERA Indonesia and ERA Thailand, which it acquired in 2019. In Dec 2019, it also entered into a cooperation agreement to acquire a 49% stake in the ERA master franchisor in Malaysia. Looking ahead, APAC will continue to expand its overseas market presence to diversify its income, with Vietnam and Cambodia likely being the next targets. The revamp of ERA APAC Centre is also complete, with operating profits seen in Nov/Dec 2019. For 2020, it expects c.SGD1m in net income from this asset.
- **Total dividend of 2 cents for FY19,** translating to a 51% payout ratio, below our expectations of a 60% payout. We have lowered our FY20-22F payout ratio to 50% (from 60%), which still results in a decent yield of 4.5%.
- **Earnings and assumption changes.** We have lowered our FY20-21F net profit by 10-12% by adjusting our gross margins. Our WACC assumptions in the DCF model are also adjusted lower to 7.8% from 9.0% on the back of the current low interest rate environment.

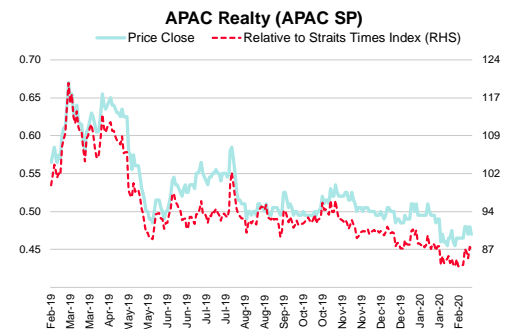
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.1)	(4.1)	(6.9)	(7.9)	(16.8)
Relative	(1.6)	(1.2)	(4.3)	(8.9)	(12.9)
52-wk Price low/high (SGD)	0.46 – 0.67				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	424	370	376	383	393
Recurring net profit (SGDm)	24	14	15	15	16
Recurring net profit growth (%)	(6.4)	(42.3)	63.8	1.7	(0.3)
Recurring EPS (SGD)	0.07	0.04	0.04	0.04	0.05
DPS (SGD)	0.05	0.02	0.02	0.02	0.02
Recurring P/E (x)	6.88	11.91	11.15	10.93	10.43
P/B (x)	1.17	1.15	1.09	1.04	0.99
Dividend Yield (%)	9.6	4.3	4.5	4.6	4.8
Return on average equity (%)	17.6	9.7	9.9	9.4	9.2
Net debt to equity (%)	10.1	15.5	8.6	3.2	(2.0)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.07	0.04	0.04	0.04	0.05
Property	EPS	0.07	0.04	0.04	0.04	0.05
APAC Realty	DPS	0.05	0.02	0.02	0.02	0.02
APAC SP	BVPS	0.40	0.41	0.43	0.45	0.47
Buy	Return on average equity (%)	17.6	9.7	9.9	9.4	9.2
	Return on average assets (%)	9.3	4.8	4.8	4.5	4.6
Valuation basis						
DCF methodology	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	6.88	11.91	11.15	10.93	10.43
	P/B (x)	1.2	1.1	1.1	1.0	1.0
	Dividend Yield (%)	9.6	4.3	4.5	4.6	4.8
	EV/EBITDA (x)	5.83	9.23	8.44	7.93	7.25
Key drivers						
1) Pick-up in Singapore real estate volumes,						
2) Growth in market share and agents, and						
3) Expanding franchise network and training services						
Key risks						
1) Sharp drop in residential volumes,						
2) Disruption from technology advances, and						
3) Loss of market share						
Company Profile						
APAC Realty Pte. Ltd. is one of the largest real estate agencies in Singapore and has regional master franchise rights to 17 countries in the Asia-Pacific region.						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	424	370	376	383	393
	Gross profit	53	46	47	47	49
	EBITDA	31	21	21	22	23
	Depreciation and amortisation	(1)	(2)	(2)	(2)	(2)
	Operating profit	30	19	20	20	21
	Net interest	(0)	(2)	(2)	(2)	(2)
	Pre-tax profit	29	17	18	18	19
	Taxation	(5)	(3)	(3)	(3)	(3)
	Reported net profit	24	14	15	15	16
	Recurring net profit	24	14	15	15	16
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(13.3)	(0.4)	0.0	0.2	0.3
	Cash flow from operations	14.1	17.0	18.4	18.9	19.8
	Capex	(76.0)	(1.2)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(76.3)	(11.7)	(1.0)	(1.0)	(1.0)
	Dividends paid	(14.2)	(11.5)	(7.5)	(7.6)	(8.0)
	Cash flow from financing activities	97.9	(19.2)	(8.0)	(9.9)	(10.4)
	Cash at beginning of period	62.0	43.0	32.0	49.3	61.5
	Net change in cash	35.7	(13.9)	9.4	8.1	8.4
	Ending balance cash	97.7	29.1	41.4	57.4	69.9
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	43	32	41	49	58
	Tangible fixed assets	74	74	75	75	76
	Intangible assets	99	99	98	97	96
	Total other assets	0	6	5	5	5
	Total assets	283	295	302	311	321
	Short-term debt	3	3	3	3	3
	Total long-term debt	55	52	52	52	52
	Total liabilities	140	150	149	151	153
	Shareholders' equity	143	146	153	161	168
	Minority interests	0	(0)	0	0	0
	Total equity	143	145	153	161	168
	Total liabilities & equity	283	295	302	311	321
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	5.8	(12.8)	31.3	1.7	2.3
	Recurring net profit growth (%)	(6.4)	(42.3)	63.8	1.7	(0.3)
	Recurrent EPS growth (%)	(6.4)	(42.3)	63.8	1.7	(0.3)
	Gross margin (%)	12.5	12.5	12.4	12.4	12.4
	Recurring net profit margin (%)	5.7	3.8	4.0	4.0	4.1
	Dividend payout ratio (%)	58.6	82.4	50.0	50.0	50.0

Source: Company data, RHB

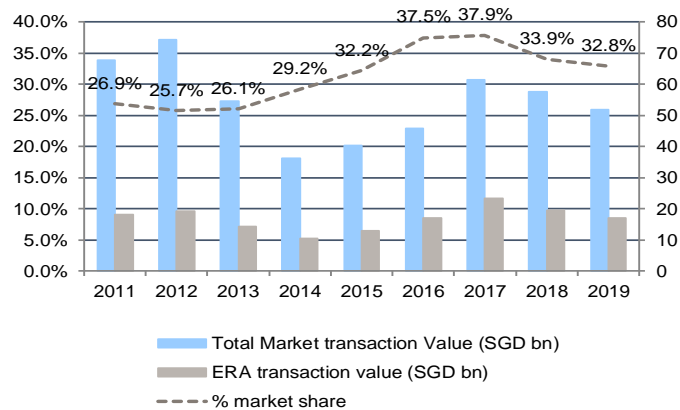
Figure 1: APAC Realty's DCF valuation table

(SGD m)	FY20F	FY21F	FY22F	FY23F	Terminal Value
EBIT * (1- Tax rate)	16.4	15.8	16.4	16.7	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	0.0	0.2	0.3	-0.2	
Less : Capex	1.0	1.0	1.0	1.0	
Total Free Cash Flow	16.9	17.1	17.2	18.0	230.0
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	16.3	15.2	14.3	13.8	176.7
Sum of PV of FCF (SGD m)	59.6				
PV of Terminal Value (SGD m)	176.7				
Enterprise Value (SGD m)	236.3				
Add: Net Cash/(Debt)	(22.6)				
Total Equity Value (SGD m)	213.7				
No. of shares (m)	355.2				
Value per share (SGD)	0.60				

Assumptions	
Risk-free rate	2.8%
Market return	9.0%
Beta	0.9
Equity risk premium	5.6%
WACC	7.8%
Terminal Growth	0%

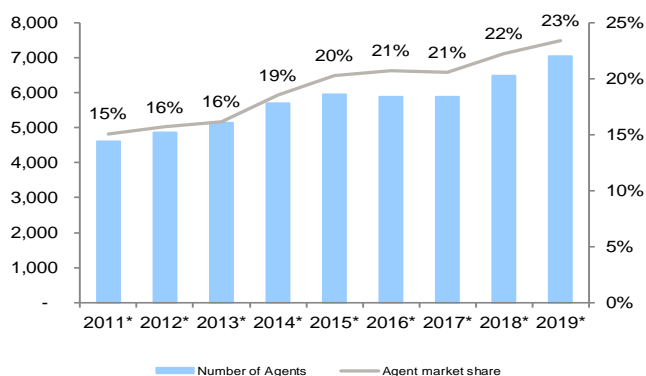
Source: RHB

Figure 2: Overall market share



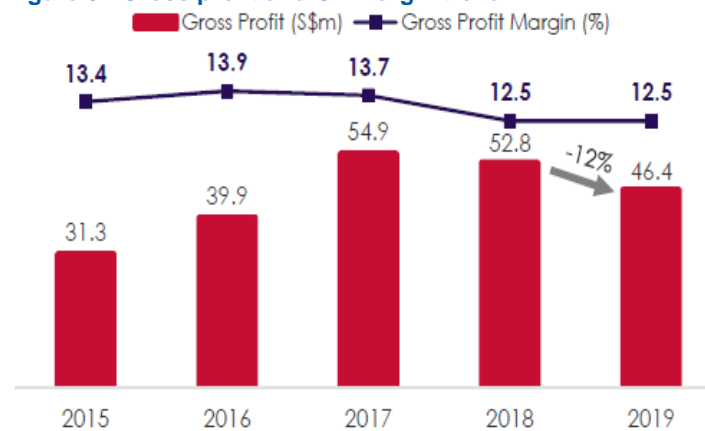
Source: Company data, RHB

Figure 4: Agents and market share



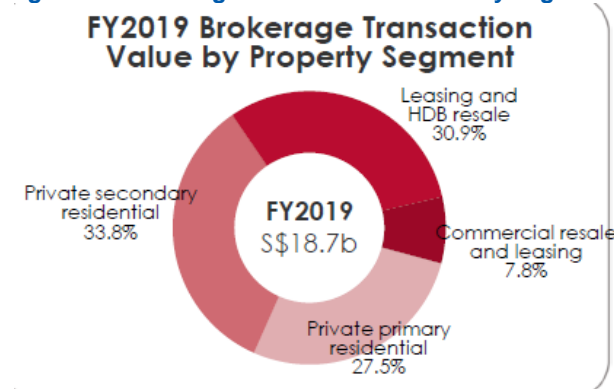
*Data as of 1st Jan next year;
Source: CEA, Company data

Figure 3: Gross profit and GP margin trend



Source: Company data, RHB

Figure 5: Brokerage revenue breakdown by segments



Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-14	Buy	0.60	0.51
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53
2019-03-01	Buy	0.72	0.57
2019-02-12	Buy	0.72	0.56
2018-11-13	Buy	0.72	0.50
2018-08-31	Buy	0.77	0.57
2018-08-08	Buy	na	0.62

Source: RHB, Bloomberg

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