

18 September 2024

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Buy (from Neutral)

Turnaround In Sight; Upgrade To BUY

Target Price (Return): SGD0.42 (9.9%)
 Price (Market Cap): SGD0.38 (USD106m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.03m/0.03m

- **U/G to BUY from Neutral with unchanged SGD0.42 TP (10% upside).** APAC Realty's share price has severely underperformed YTD (-26%) amid a significant slowdown in primary transaction volume, which is a key earnings driver. While 2024 earnings are expected to remain weak, we see a healthy pick-up in 2025 primary transaction volumes driving an earnings turnaround. Valuation is reasonably cheap at 10x FY25F P/E with a healthy 7% forward dividend yield and net cash position presenting limited downside risks.
- **Three factors supporting primary volume recovery in 2025.** We expect primary transaction volumes in 2025 to recover by c.50% or more (9,000-9,500 units) on the back of: i) An increase in new launch supply (>10,000 units likely to be launched in 2025) which was pushed back in 2024 due to soft market conditions and delays in planning and approvals, ii) developers pricing projects attractively amid increased competition from new launches and also to avoid incurring punitive Additional Buyer's Stamp Duty (ABSD), which kicks in if developers do not sell all the units within five years from land acquisition, and iii) a fall in interest rates making housing loans more affordable, leading to higher demand. The new home sales segment typically accounts for 40-60% of APAC's gross profit. Private new home sales have been tepid in 2024 with August sales (excluding executive condominiums) of 208 units (-64% MoM, -47% YoY) representing a record low. YTD (August) volumes are down 49% YoY at 2,886 units, and full-year volumes are likely to fall short of our expectations of 6,000-6,500 units.
- **Resale and rental markets to remain resilient.** The slack in primary transaction volumes have been to some extent offset by private resale volumes which rose 18% YoY in 1H24. Housing and Development Board (HDB) resale volumes (1H24) also rose 7% YoY. It is worth noting that margins from this segment are low at 6-10%, typically half that of the primary market segment. We expect resale and rental market transactions to remain resilient in 2H24 and 2025. Its overall market share in primary and secondary market transactions have remained relatively stable at c.40%
- **Overseas market contributions to see turnaround by 2025.** The overseas segment has been loss-making so far due to start-up costs and weak market conditions particularly in ERA Vietnam. However, transaction activity and its scale is expected to pick up, and APAC expects overseas markets to start contributing positively to its bottom line from FY25 onwards.
- **We tweaked our FY24-25F net profit by -2% and +3%.** 1H24 net profit fell 19% YoY and we expect 2H24 earnings to be at a similar level. FY25 net profit is expected to rebound by c.50%, driven by higher-margin new home sales. Our TP includes a 0% ESG premium/discount.

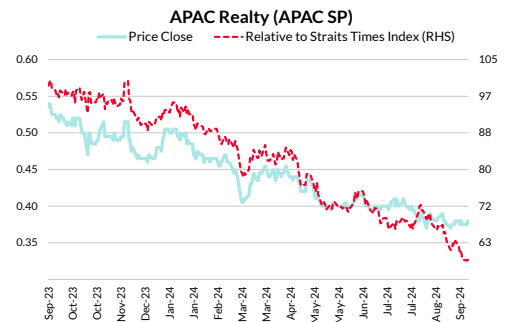
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.8)	(1.3)	(8.4)	(14.6)	(30.3)
Relative	(35.7)	(8.5)	(17.4)	(27.9)	(39.8)
52-wk Price low/high (SGD)				0.37	-0.54



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

APAC Realty has put in place energy-saving initiatives by harvesting solar power at its HQ. It has also invested in solar panels to reduce carbon emissions from purchased electricity, and prevented Scope 2 purchased electricity emissions by 54,670 Kg CO₂.

S: EXCELLENT

Females make up 57% of its total workforce and the firm was recognised as one of Singapore's best employers last year. Good dental and insurance coverage policy for employees. ERA is a long-time Platinum Award contributor to the Community Chest since 1999 and has set up a Care for Children to assist children from financially disadvantaged families.

G: GOOD

Zero cases of corruption and no incidents of non-compliance with rules or regulations last year. Good 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 USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	705	557	566	609	625
Recurring net profit (SGDm)	26	12	9	13	15
Recurring net profit growth (%)	(25.2)	(55.2)	(26.9)	48.0	14.1
Recurring EPS (SGD)	0.07	0.03	0.02	0.04	0.04
DPS (SGD)	0.06	0.03	0.02	0.03	0.03
Recurring P/E (x)	5.13	11.46	15.69	10.60	9.28
P/B (x)	0.84	0.85	0.84	0.82	0.80
Dividend Yield (%)	16.4	6.6	4.8	7.1	7.5
Return on average equity (%)	16.4	7.4	5.4	7.8	8.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.07	0.03	0.02	0.04	0.04
Property	EPS	0.07	0.03	0.02	0.04	0.04
APAC Realty	DPS	0.06	0.03	0.02	0.03	0.03
APAC SP	BVPS	0.45	0.45	0.45	0.46	0.47
Buy	Return on average equity (%)	16.4	7.4	5.4	7.8	8.7
	Return on average assets (%)	6.8	3.2	2.5	3.5	3.9
Valuation basis						
DCF methodology	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	5.13	11.46	15.69	10.60	9.28
	P/B (x)	0.8	0.9	0.8	0.8	0.8
	Dividend Yield (%)	16.4	6.6	4.8	7.1	7.5
	EV/EBITDA (x)	3.56	6.91	8.46	6.15	5.60
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Resurgence in Singapore real estate transaction volumes;	Total turnover	705	557	566	609	625
ii. Growth in market share and agents;	Gross profit	73	55	54	60	63
iii. Growth from other market segments and overseas business.	EBITDA	37	19	16	21	22
	Depreciation and amortisation	(3)	(4)	(4)	(4)	(4)
	Operating profit	34	16	12	17	18
	Net interest	(1)	(2)	(2)	(2)	(1)
	Pre-tax profit	33	14	10	16	18
	Taxation	(6)	(3)	(2)	(3)	(3)
	Reported net profit	26	12	9	13	15
	Recurring net profit	26	12	9	13	15
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Regulatory and policy risks;	Change in working capital	(1.4)	3.6	(1.0)	(0.5)	(0.2)
ii. Disruption from technology advances;	Cash flow from operations	35.0	17.2	14.8	19.8	21.3
iii. Loss of market share and margin reductions from rising competition.	Capex	(9.0)	(5.5)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(8.5)	(5.5)	(3.0)	(3.0)	(3.0)
	Dividends paid	(26.6)	(13.7)	(6.5)	(9.6)	(10.2)
	Cash flow from financing activities	(31.3)	(17.0)	(10.8)	(13.6)	(13.8)
	Cash at beginning of period	53.7	49.3	44.1	45.6	50.6
	Net change in cash	(4.8)	(5.3)	1.0	3.1	4.4
	Ending balance cash	48.9	44.0	45.1	48.7	55.1
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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	49	44	44	49	54
	Tangible fixed assets	74	72	73	73	73
	Intangible assets	104	111	110	109	108
	Total other assets	3	1	1	1	1
	Total assets	388	342	346	359	367
	Short-term debt	46	3	3	3	3
	Total long-term debt	0	40	40	40	40
	Total liabilities	228	184	186	195	199
	Shareholders' equity	160	158	160	164	168
	Minority interests	0	0	0	0	0
	Total equity	160	159	160	164	168
	Total liabilities & equity	388	342	346	359	367
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(4.7)	(21.0)	1.6	7.5	2.7
	Recurring net profit growth (%)	(25.2)	(55.2)	(26.9)	48.0	14.1
	Recurrent EPS growth (%)	(25.2)	(55.2)	(26.9)	48.0	14.1
	Gross margin (%)	10.4	9.9	9.5	9.9	10.0
	Recurring net profit margin (%)	3.7	2.1	1.5	2.1	2.3
	Dividend payout ratio (%)	84.4	75.4	75.0	75.0	69.8

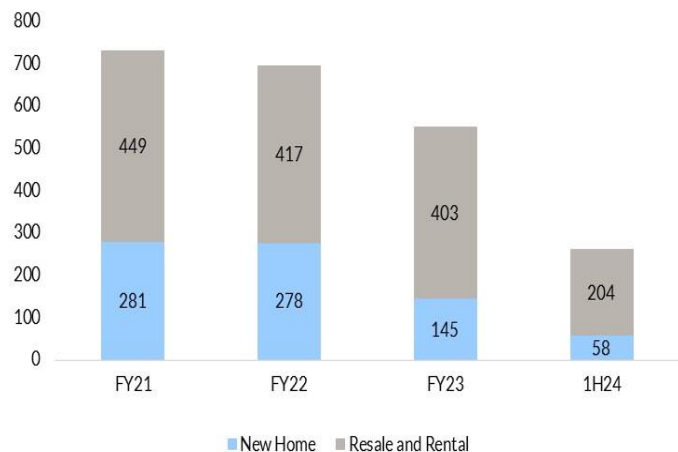
Source: Company data, RHB

Figure 1: APAC's DCF valuation table

(SGD m)	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
EBIT * (1- Tax rate)	10.0	15.1	16.1	16.3	16.8	
Add: Depreciation and amortisation	3.8	3.8	3.8	3.8	3.8	
Less: Working capital changes	(1.0)	(0.5)	(0.2)	(0.1)	(0.2)	
Less: Capex	3.0	3.0	3.0	3.0	3.0	
Total free cash flow	11.8	16.4	17.1	17.2	17.8	154.7
Discount factor (years)	1.0	2.0	3.0	4.0	5.0	5.0
PV of free cash flow	10.6	13.2	12.3	11.1	10.3	89.7
Sum of PV of FCF (SGD m)	57.6					
PV of terminal value (SGD m)	89.7					
Enterprise value (SGD m)	147.3					
Add: Net cash/(Debt)	1.1					
Total equity value (SGD m)	148.4					
No. of shares (m)	355.2					
Intrinsic value per share (SGD)	0.42					
ESG premium/(discount)	0.00					
TP (SGD)	0.42					
Assumptions						
Risk-free rate	2.8%					
Market return	10.0%					
Beta	1.1					
Equity risk premium	8.0%					
WACC	11.5%					
Terminal growth	0%					

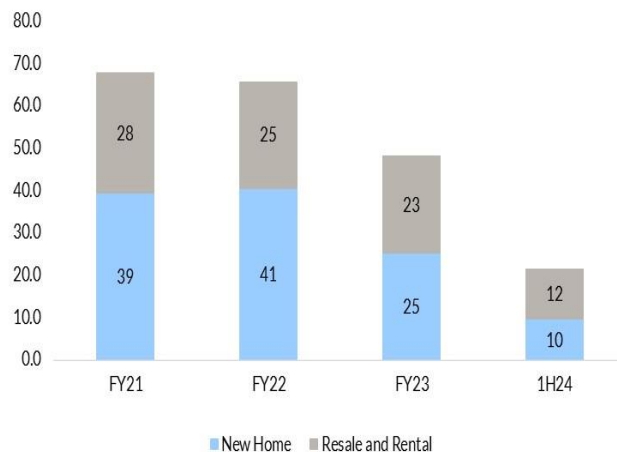
Source: RHB

Figure 2: APAC's revenue breakdown (SGD m)



Source: Company data

Figure 3: Gross profit breakdown (SGDm)



Source: Company data

Emissions And ESG

Trend analysis

APAC Realty's scope 2 emissions arising from Singapore and Thailand saw a 39% YoY decrease in FY23 primarily attributed to the decrease in rented office spaces in Singapore as the company seek to optimise operational efficiency and embrace remote work. Scope 2 emissions encompassing predominantly from business travel too fell significantly.

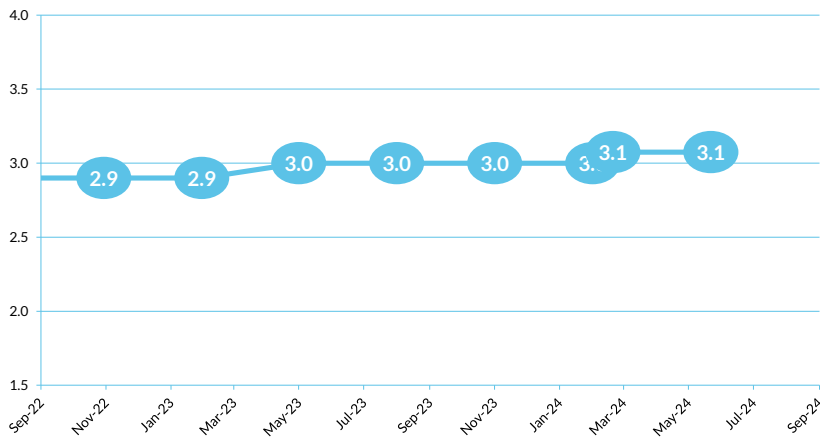
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	33
Scope 2	467	417	332
Scope 3	na	305	7
Total emissions	467	721	372

Source: Company data, RHB

Latest ESG-Related Developments

- To reduce Scope 2 emissions and contribute to Singapore's commitment to transitioning to green energy, APAC Realty has invested in solar panels installed on the roofs of its Singapore offices.
- For FY23, it harvested a total of 133,561 kWh of solar power, of which 131,105 kWh was utilised at Singapore operations, with the remaining amount sold back to Singapore's national grid.
- The adoption of solar power enabled APAC Realty to save 54,671 kgCO2e in Scope 2 emissions. Compared to FY2022, APAC Realty increased its solar power harvest by 35%, resulting in a 38% increase in Scope 2 emissions saved.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-04	Neutral	0.42	0.40
2024-03-08	Neutral	0.44	0.41
2023-11-13	Neutral	0.46	0.50
2023-08-15	Neutral	0.54	0.57
2023-05-17	Neutral	0.57	0.58
2023-03-05	Neutral	0.60	0.61
2022-10-17	Neutral	0.60	0.57
2022-08-10	Neutral	0.75	0.71
2022-06-22	Buy	0.75	0.60
2022-02-23	Neutral	0.75	0.70
2021-11-15	Neutral	0.90	0.84
2021-08-17	Neutral	0.88	0.93
2021-05-21	Buy	0.70	0.52
2021-02-23	Buy	0.55	0.43
2020-11-22	Buy	0.55	0.43

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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