

24 February 2022

Property | Real Estate Oper & Svcs

## APAC Realty (APAC SP)

**Neutral** (Maintained)

### Earnings To Normalise After a Record Year

Target Price (Return): SGD0.75 (+7%)  
 Price (Market Cap): SGD0.70 (USD185m)  
 ESG score: 2.90 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.33m/0.23m

- **Maintain NEUTRAL, new SGD0.75 TP from SGD0.90, 7% upside.** APAC Realty's FY21 earnings are slightly above estimates. Overall residential market volumes are expected to decline 20-40% this year on the back of recent cooling measures, limited inventory and rising interest rates – these will have a corresponding impact on APAC's earnings. Our TP corresponds to 11x FY22F P/E, which we believe is a fair mid-cycle level. The stock's healthy dividend yield of 7% (FY22F) offers downside support.
- **FY22 net profits to decline 34% YoY** after it posted a record 116% YoY jump in earnings for FY21 – a slight beat, at 103% of our estimate. APAC also announced a higher final DPS of SGD0.04. Including an interim DPS of SGD0.0035, total dividends point to a higher 76% payout ratio. Its balance sheet remains robust, with it turning into an overall net cash position. We cut FY22-23F earnings by 10-12%, factoring in the recent industry cooling measures and a sharper interest rate hike expected ahead.
- **Expect a quieter 2022.** The recent hike in Additional Buyer Stamp Duties, and property taxes, are expected to have a negative impact on investment demand and high-end property purchases. In addition the anticipated sharp increase in interest rates also poses a threat but are mitigated by strong underlying demand fundamentals such as a strong jobs data and household balance sheet. Overall, we expect new home sales to fall 30-40% YoY, and private and Housing and Development Board resales to decrease by 10-30% YoY.
- **Slight increase in market share a positive.** Based on its internal estimates, APAC's overall residential property market share (ex-rental) improved to 40.3% last year (FY20: 39.6%). This was mainly driven by a 4.8ppt increase in its new home sale market share to 33.7%. This is a positive, as this segment commands two times the margins (13-14%) vs the resale segment. With management investing heavily on training and technology tools to arm its agents, we expect APAC to maintain its market share. Management has also set a target to increase its agent count to 10,840 by 2025, representing a 10% CAGR.
- **Broadening its income stream.** APAC has recently set up a capital market & investment sales division to deal with big-ticket assets of high-net-worth individuals, family offices, developers, REITs and institutional investors. The move is aimed at tapping the strong sales momentum in the shophouse, industrial and commercial segments. APAC will also build on its overseas expansion in Indonesia, Malaysia, Vietnam and Thailand.
- **APAC has an ESG score of 2.9 out of 4**, based on our proprietary in-house methodology. As this score is a notch below our median score of 3, we have applied a 2% discount to our DCF-derived intrinsic value.

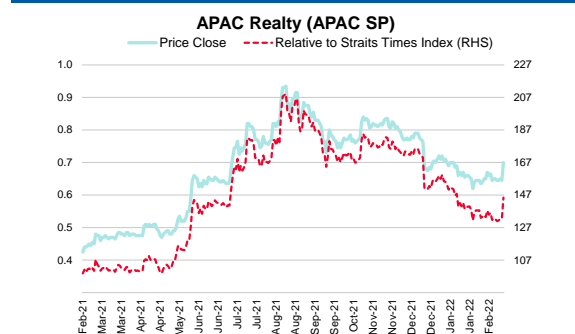
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.8)	6.1	(13.6)	(18.1)	64.7
Relative	(11.4)	3.1	(18.7)	(28.0)	47.3
52-wk Price low/high (SGD)					0.44 – 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 headquarters to ERA APAC Centre, and installed energy-efficient lights and appliances. It has a further plan to reduce its energy footprint in the coming years.

##### S: GOOD

It has initiated three disciplinary actions against a salesperson in relation to this pillar, and set a target of zero such instances in the future through education. APAC also has 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 programme to assist children from financially disadvantaged families

##### G: GOOD

APAC has a high level of transparency in financial announcements and earnings releases. It has a good corporate governance framework and board composition.

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	395	740	560	564	568
Recurring net profit (SGDm)	17	36	24	24	25
Recurring net profit growth (%)	18.5	115.6	(34.1)	2.6	3.2
Recurring EPS (SGD)	0.05	0.10	0.07	0.07	0.07
DPS (SGD)	0.02	0.08	0.05	0.05	0.05
Recurring P/E (x)	14.98	6.95	10.54	10.28	9.96
P/B (x)	1.61	1.55	1.49	1.44	1.39
Dividend Yield (%)	2.9	11.8	7.1	7.3	7.5
Return on average equity (%)	11.1	22.7	14.3	13.9	13.6
Net debt to equity (%)	10.7	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.05	0.10	0.07	0.07	0.07
Property	EPS	0.05	0.10	0.07	0.07	0.07
<b>APAC Realty</b>	DPS	0.02	0.08	0.05	0.05	0.05
APAC SP	BVPS	0.44	0.45	0.47	0.49	0.50
Neutral	Return on average equity (%)	11.1	22.7	14.3	13.9	13.6
	Return on average assets (%)	5.4	10.1	6.0	6.0	6.0
<b>Valuation basis</b>						
DCF methodology	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	14.98	6.95	10.54	10.28	9.96
	P/B (x)	1.6	1.5	1.5	1.4	1.4
	Dividend Yield (%)	2.9	11.8	7.1	7.3	7.5
	EV/EBITDA (x)	11.82	5.20	7.44	7.01	6.56
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Continued strong uptrend in Singapore real estate volumes;	Total turnover	395	740	560	564	568
ii. Growth in market share and agents;	Gross profit	48	75	58	59	61
iii. Expanding its franchise network and training services.	EBITDA	22	47	32	33	34
	Depreciation and amortisation	(2)	(3)	(3)	(3)	(3)
	Operating profit	21	44	29	30	31
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	43	28	29	30
	Taxation	(3)	(7)	(5)	(5)	(5)
	Reported net profit	17	36	24	24	25
	Recurring net profit	17	36	24	24	25
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Regulatory and policy risks;	Change in working capital	(4.3)	6.4	(3.8)	0.2	0.1
ii. Disruption from technological advances;	Cash flow from operations	20.2	55.3	28.7	33.3	34.0
iii. Loss of market share and margin reduction from rising competition.	Capex	(0.4)	(1.3)	(2.0)	(2.0)	(2.0)
	Cash flow from investing activities	(4.9)	(2.1)	(2.0)	(2.0)	(2.0)
	Dividends paid	(7.1)	(29.3)	(17.7)	(18.1)	(18.7)
	Cash flow from financing activities	(14.9)	(37.1)	(20.1)	(20.5)	(21.1)
	Cash at beginning of period	32.0	35.1	53.7	64.6	76.2
	Net change in cash	0.4	16.0	6.6	10.7	10.9
	Ending balance cash	32.4	51.2	60.3	75.3	87.1
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
APAC Realty is one of the largest real estate agencies in Singapore. It has regional master franchise rights in 17 countries in the Asia-Pacific.	Total cash and equivalents	35	54	56	65	74
	Tangible fixed assets	74	73	71	70	69
	Intangible assets	98	97	96	95	94
	Total other assets	8	6	6	6	6
	Total assets	321	386	358	365	373
	Short-term debt	3	3	3	3	3
	Total long-term debt	49	46	46	46	46
	Total liabilities	167	225	191	193	194
	Shareholders' equity	155	161	167	173	179
	Minority interests	(0)	(0)	0	0	0
	Total equity	155	161	167	173	179
	Total liabilities & equity	321	386	358	365	373
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	6.9	87.2	(24.3)	0.7	0.7
	Recurring net profit growth (%)	18.5	115.6	(34.1)	2.6	3.2
	Recurrent EPS growth (%)	18.5	115.6	(34.1)	2.6	3.2
	Gross margin (%)	12.0	10.2	10.4	10.5	10.7
	Recurring net profit margin (%)	4.2	4.8	4.2	4.3	4.4
	Dividend payout ratio (%)	42.8	81.9	75.0	75.0	75.0

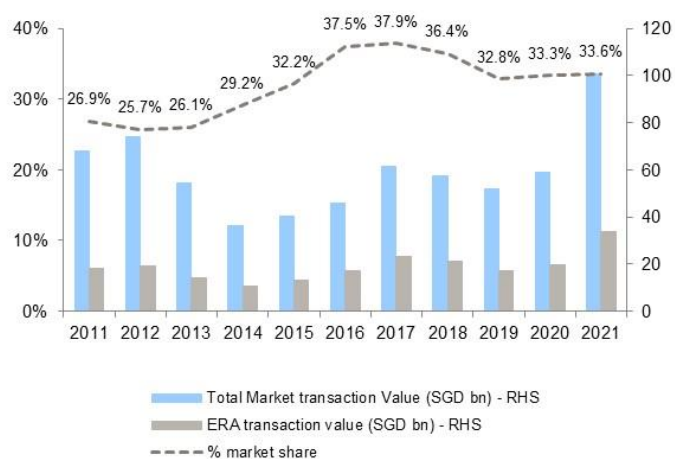
Source: Company data, RHB

Figure 1: DCF valuation

(SGDm)	FY22F	FY23F	FY24F	FY25F	Terminal Value
EBIT * (1- Tax rate)	24.4	25.0	25.8	25.2	
Add: Depreciation and Amortisation	3.0	3.0	3.0	3.0	
Less : Working capital changes	(3.8)	0.2	0.1	(0.1)	
Less : Capex	2.0	2.0	2.0	2.0	
Total Free Cash Flow	29.2	25.9	26.7	26.3	243.1
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	27.7	22.2	20.7	26.3	169.7
Sum of PV of FCF (SGDm)	96.9				
PV of Terminal Value (SGDm)	169.7				
Enterprise Value (SGDm)	266.6				
Add: Net Cash/(Debt)	4.8				
Total Equity Value (SGDm)	271.5				
No. of shares (m)	355.2				
Intrinsic Value per share (SGD)	0.76				
ESG Premium/(discount)	-0.02				
<b>Target Price (SGD)</b>	<b>0.75</b>				
<b>Assumptions</b>					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.1				
Equity risk premium	7.1%				
WACC	10.8%				
Terminal Growth	0%				

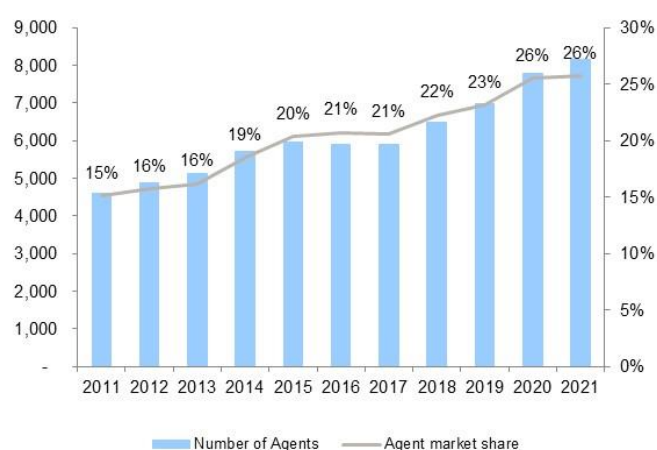
Source: RHB

Figure 2: Market share based on transaction value



Source: Company data, RHB

Figure 3: Agent count and market share\*



Note \*Based on 1 Jan following year

Source: Company data, RHB

## Recommendation Chart

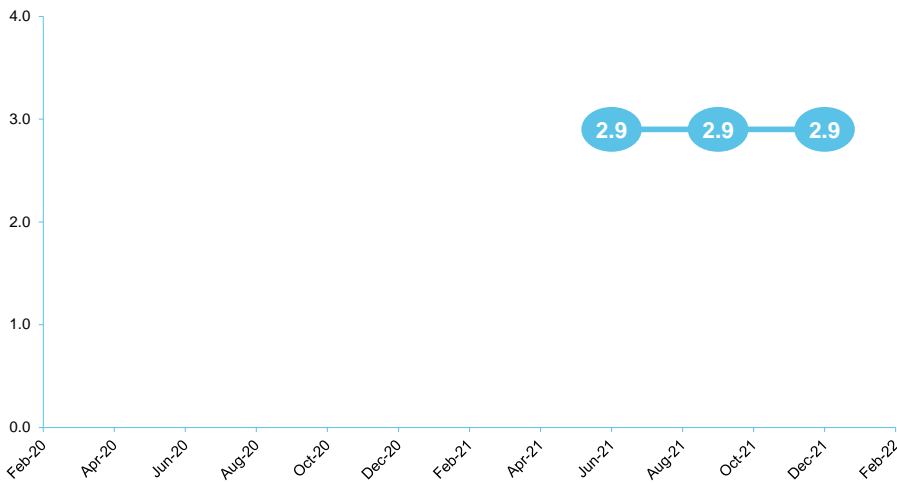


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-15	Neutral	0.90	0.84
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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