

1 March 2019

Property | Real Estate

## APAC Realty (APAC SP)

**BUY** (Maintained)

### Volumes To Remain Resilient; Keep BUY

Target Price (Return)	SGD0.72 (+26%)
Price:	SGD0.57
Market Cap:	USD150m
Avg Daily Turnover (SGD/USD)	1.4m/1.0m

- Keep BUY and SGD0.72 TP, 26% upside plus 7% FY19F yield.** APAC Realty's 4Q18 and FY18 results are in line. It remains a good proxy to the demand for residential property in Singapore, which is expected to remain resilient on a strong pipeline of new launches (~20,000 units) in 2019. The recent move to strengthen its overseas presence should help in earnings diversification and bring benefits in the long term. While the stock has rebounded from lows since the start of the year (+28%), valuations are still attractive, at 9x FY19F P/E. We are one of two brokers covering this stock.
- Dividends bettered our expectation.** For FY18, APAC declared total DPS of SGD0.045 vs our estimate of SGD0.04. This translates into 7% yield and payout ratio of 66%. Management intends to maintain its dividend policy of paying out at least 50% of net profits, with room for upside.
- Resilient residential volumes.** Despite slower take-up rates in recent launches, we expect new launch volumes to stay similar to that of 2018. This is mainly due to a strong pipeline of ~50 residential projects (>20,000 units) that are expected to be launched in 2019, ie >2x that of last year. APAC has secured agent roles for 46 projects (~20,000 units).
- On the private resale market,** we expect volumes to stabilise as more resale units should be made available in the market, with the *en bloc* market coming to a standstill. The Housing & Development Board resale & rental market segment should see a pick-up in activity this year, as ~30,000 units are nearing their minimum occupation period of five years, after which they become eligible for sale.
- Healthy market share position still intact.** APAC's *ERA* brand had an overall market share of 36.4% (FY17:37.9%) of total residential transaction value, based on its internal estimate. In new launches, it still commands a healthy market share of 40.7% in transaction value (FY17:39.4%), while the private resale market share stood at 37.2% (FY17: 38.8%).
- Strong increase in agent count from acquisitions.** *ERA*'s current agent count increased to 6,600, 12% higher vs the beginning of last year. This came after management acquired residential agents from CBRE Realty Associates (150 agents) and HSR International Realtors (300). Management noted that it will continue to focus its efforts to beef up agent numbers and increase productivity this year, amid stiff market conditions.
- Deepening overseas presence.** APAC also strengthened its overseas presence by making a direct foray into Indonesia, Thailand, and China last year by acquisition of franchises. The contributions are likely to be small to begin with (guidance: ~SGD0.5m in net profit), but are likely to see an exponential growth ahead. Currently, we have not factored overseas earnings contributions into our estimates, as we await further details.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.1	16.3	18.8	0.0	(52.5)
Relative	23.2	15.4	15.5	(0.1)	(44.0)
52-wk Price low/high (SGD)	0.44 - 1.28				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	401	424	408	401	406
Recurring net profit (SGDm)	25.9	24.3	23.1	22.2	22.1
Recurring net profit growth	63.1	(6.4)	(4.6)	(4.1)	(0.2)
Recurring EPS (SGD)	0.1	0.1	0.1	0.1	0.1
Recurring P/E (x)	7.8	8.4	8.8	9.1	9.1
P/BV (x)	1.5	1.4	1.3	1.3	1.2
DPS (SGD)	0.02	0.05	0.04	0.04	0.04
Dividend Yield (%)	3.5	7.9	6.9	6.6	6.6
ROAE (%)	24.4	17.6	15.7	14.2	13.4
Net debt to equity (%)	net cash	10.1	net cash	net cash	net cash
Interest coverage (x)	111.6	66.8	23.0	20.4	18.8

Source: Company data, RHB

## Results And Operations Update

**4Q18 net profit declined 48%YoY due to cooling measures; results are in line.** Gross revenue decreased 37% YoY, due to a 50% drop in brokerage income from new home sales and a 31% decline in commissions from resale and rental properties. For FY18, gross margins for resale and rental segment stood at 6.3% (FY17: 7.1%), while that of new home sales were at 20.7% (FY18: 22.4%), bringing overall margins to 10.7% (FY17:11.9%). Overall, FY18 net profit is in line, and accounts for 102% of our full-year estimates.

**Better cost management.** Personnel costs for 4Q18 decreased 9.6%YoY. Marketing and promotion expenses decreased 23.8% due to lower marketing activities. There was a writeback of doubtful debts of ~SGD0.4m during the quarter due to over-provision in the previous quarter. Overall, debt collection also improved in FY18, which resulted in provisions for doubtful debts decreasing to SGD1.6m (full year: SGD 2.6m).

APAC Realty moved into a net gearing position of 0.1x on the back of higher borrowings for its acquisition of investment property last year.

Figure 1: Results review

FYE Dec (SGDm)	4Q18	4Q17	YoY	FY18	YoY	Comments
<b>Gross Revenue</b>	<b>81.9</b>	<b>129.7</b>	<b>-36.9%</b>	<b>424.0</b>	<b>5.8%</b>	Impacted by property cooling measures imposed in Jul 2018
Gross Profit	11.2	16.0	-30.0%	52.8	-3.8%	
Gross Margin (%)	13.7%	12.3%	1.4ppt	12.5%	-1.2ppt	Due to changes in revenue mix
<b>Profit Before Tax</b>	<b>4.8</b>	<b>8.4</b>	<b>-43.5%</b>	<b>29.2</b>	<b>-0.6%</b>	
Profit After Tax	4.1	7.9	-48.1%	24.2	-6.4%	One-off tax write-backs in FY17 led to higher tax expenses YoY
<b>Net margin (%)</b>	<b>5.0%</b>	<b>6.1%</b>	<b>-1.1ppt</b>	<b>5.7%</b>	<b>-0.8ppt</b>	

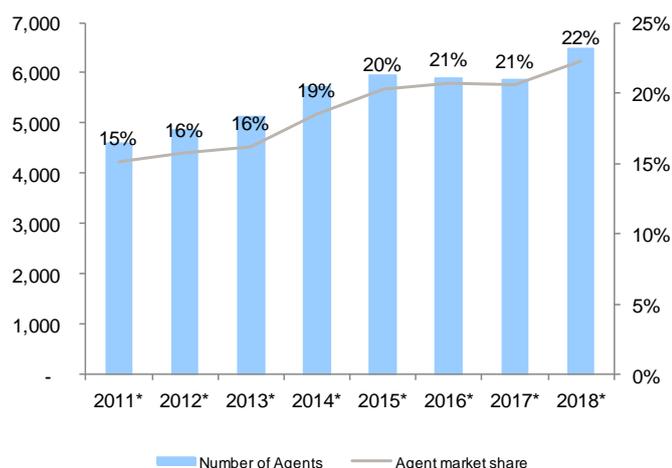
Source: RHB, Company data

Figure 2: DCF valuation

(SGD m)	FY19F	FY20F	FY21F	FY22F	Terminal Value
EBIT * (1- Tax rate)	24.2	23.3	23.4	23.6	
Add: Depreciation and Amortisation	1.4	1.4	1.4	1.4	
Less : Working capital changes	11.2	-0.3	-0.6	-0.6	
Less : Capex	0.6	1.0	2.0	2.0	
Total Free Cash Flow	13.8	24.0	23.4	23.6	262.8
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	13.2	21.1	18.9	23.6	194.4
Sum of PV of FCF	76.9				
PV of Terminal Value	194.4				
Enterprise Value	271.2				
Add: Net Cash/(Debt)	(14.5)				
Total Equity Value (SGD m)	256.7				
No. of shares (m)	355.2				
Value per share (SGD)	<b>0.72</b>				
<b>Assumptions</b>					
Risk-free rate	3.00%				
Market return	9.0%				
Beta	1.0				
Equity risk premium	6.0%				
WACC	9.0%				
Terminal Growth	0%				

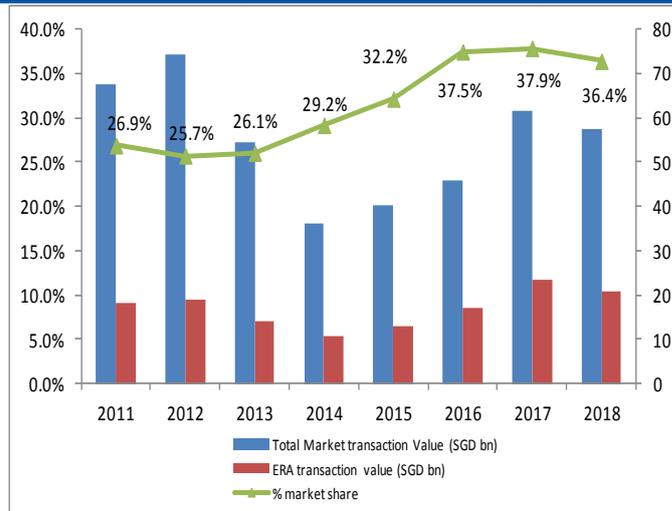
Source: RHB

Figure 3: Agents and market share of agents



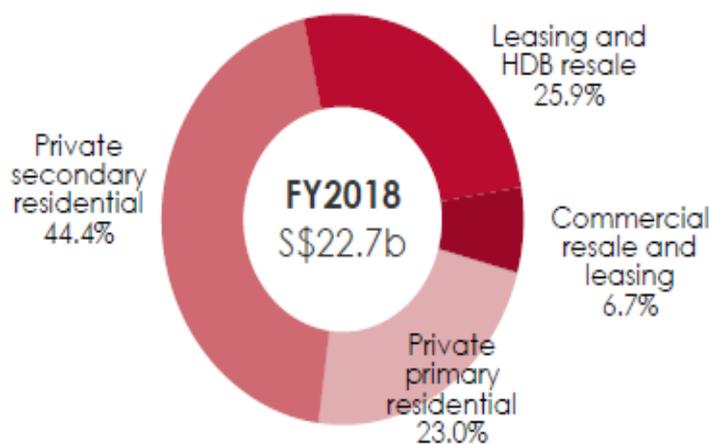
Note: \*Data as at 1 Jan of the following year  
Source: Company data

Figure 4: Launched projects and pipeline (Singapore)



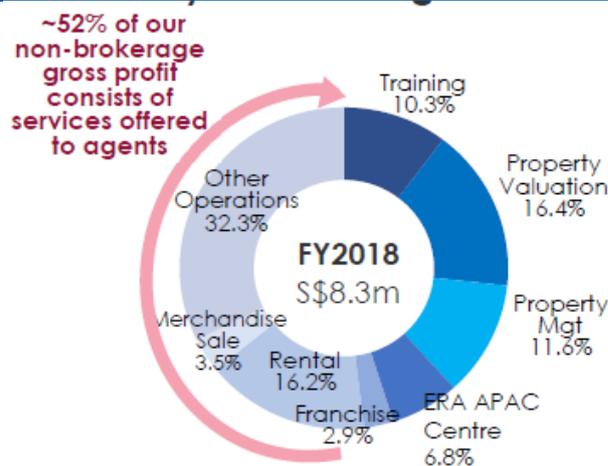
Source: Company data

Figure 5: GP breakdown – brokerage segment



Source: Company data

Figure 6: GP breakdown non-brokerage segment



Source: Company data

Figure 7: Pipeline projects for 2019 – Part 1

Project	Location	Developer	No. of Units
Fourth Avenue Residences	Fourth Avenue	Allgreen	476
RV Altitude	River Valley Road	Roxy Pacific Holdings	140
Fyve Derbyshire	Derbyshire Road	Roxy Pacific Holdings	71
Midtown Suite	Beach Road	GuocoLand	200+
Haus on Handy	Handy Road	CDL	188
Dunearn 386	Dunearn Road	Roxy Pacific Holdings	35
Boulevard 88	Orchard Boulevard	CDL / Hong Leong / Lea Investment	154
The Hyde	Balmoral Road	Aurum Land	100
Juniper Hill	Ewe Boon Road	Allgreen	130
Former Royalville	Bukit Timah Road	Allgreen	323
Wilshire Residences	Farrer Road	Tong Eng Group / Roxy Pacific / Kim Seng	85
19 Nassim	Nassim Hill	Keppel Land	101
Former Dunearn Garden	Dunearn Road	EL Development	348
The Atelier	Makeway Avenue	Bukit Sembawang Estates	154
Former Pacific Mansion	River Valley Close	Hong Leong Investment / GuocoLand	720
Former The Estoril	Holland Road	Far East Consortium	166
Former Hollandia	Holland Road	Far East Consortium	143
Van Holland	Holland Road	Koh Brothers Group	97
Former Tulip Garden	Farrer Road	Yanlord Land Group / MCL Land	670
Riviere	Jiak Kim Street	Frasers Property	455
Avenue South Residence	Silat Avenue	UOL / UIC / Kheng Leong	1,074
Former Normanton Park	Normanton Park	Kingsford Huray Development	1,862

Source: Company data

Figure 8: Pipeline projects for 2019 – Part 2

Project	Location	Developer	No. of Units
1953	Tessensohn Road	Oxley Holdings	72
Uptown @ Farrer	Perumal Road	Low Keng Huat	116
Amber Park	Amber Gardens	CDL / Hong Realty	592
Meyer House	Meyer Road	UOL / Kheng Leong	56
Nyon @ 12 Amber	Amber Road	Aurum Land	92
Mayfair Modern	Rifle Range Road	Oxley Holdings	171
Former Pearl Bank	Pearl Bank	Capitaland	800
The Antares	Mattar Road	FSKH Development	250
Former Katong Park Towers	Arthur Road	Bukit Sembawang Estates	388
Former Kismet View	Upper Bukit Timah Road	Tong Eng Group / Roxy Pacific	168
Former Goodluck Garden	Toh Tuck Road	Qingjian Realty	669
Former Katong Omega Apartments	East Coast Road	Global Dragon	36
Former Changi Gardens	Upper Changi Road North	CEL Developments	320
Treasure At Tamplines	Tampines Lane	Sim Lian Group	2,203
The Florence Residences	Hougang Ave 2	Logan Property (Singapore)	1,410
Parkwood Collection	Lorong 1 Realty Park	Fantasia and co	53
INSPACE	New Industrial Road	SLB Devt Limited	84
Luxus Hills	Luxus Hills	Bukit Sembawang Estates	TBA
Parc Clementis	Jalan Lempeng	SingHaiyi Group	1,766
Sengkang Central	Sengkang Central	CDL / Capitaland	700
Hillview Rise GLS	Hillview Rise	Hong Leong Group	535
Sumang Walk (EC)	Sumang Walk	CDL / TID	820
Canberra Link (EC)	Canberra Link	Hoi Hup / Sunway	450
Anchorvale Crescent (EC)	Anchorvale Crescent	Evia Real Estate and Gamuda	550
<b>TOTAL (46 projects)</b>			<b>19,993+</b>

Source: Company data

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