

23 June 2022

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Buy (from Neutral)

Value Emerging; U/G to BUY

Target Price (Return): SGD0.75 (+25%)
 Price (Market Cap): SGD0.60 (USD154m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.57m/0.41m

- **Upgrade to BUY from Neutral, unchanged SGD0.75 TP implies 25% upside.** APAC Realty's 1Q22 net profit exceeded our expectations. The stock has fallen 17% YTD, which we believe is partly due to concerns over the lowball mandatory offer triggered by Northstar selling its stake in APAC to Morgan Stanley Private Equity (MSPE). Despite an uncertain macroeconomic environment, we expect Singapore's property market to remain resilient. We see value emerging at APAC – the stock is trading at 9x FY22F P/E, with a handsome c.8% yield offering downside support.
- **1Q21 net profit grew 20% YoY to SGD9m**, driven by strong contributions from the new home sales segment, which clocked revenue growth of 42% YoY. This segment's strong numbers were mainly due to the robust transaction activity in 4Q21 before the implementation of cooling measures in mid-Dec 2021 – there is a time lag of 2-6 months in earnings recognition for this segment. New home sales have since plunged since the start of the year (YTD, 40% below last year's numbers) on the back of limited supply. This, in turn, should result in a 30-40% plunge in 2Q22 net profit. In 1Q, APAC maintained its overall 37.9% market share (as a percentage of sales) of total Singapore residential property transactions.
- **MSPE offer closes with a 65% effective stake.** MSPE, in April, announced its acquisition of a c.60% stake of APAC from Northstar, at SGD0.57/share. Northstar has been a major shareholder since 2013. The offer, in our view, was an opportunistic one that came on a market slowdown posed by Dec 2021's cooling measures and limited new home supply. The offer closed on 10 Jun, with MSPE receiving 64.8% acceptance. We remain positive on APAC's mid- to long-term outlook, on the back of its leading agency position in the stable Singapore property market and its master franchise rights for 17 countries in the Asia-Pacific. The entry of MSPE, one of the largest investment managers globally (AUM of USD1.6trn as at end-Dec 2021) is also likely to bring in more M&A opportunities for the company, and will help deepen its Asia-Pacific expansion plans in our view.
- **Higher government land sales and pick-up in en bloc market positive for 2023-2024F transaction outlook.** The Singapore Government is raising the confirmed list of the supply of residential properties for 2H22 by 26% HoH, amid robust demand and sharply declining inventory levels. *En bloc* market transactions are also showing nascent pick-up signs, with the recent sale of Lakeside apartments at a 14% premium over the reserve price, and an increase in the pipeline of collective sales.
- **We lift FY22-23F earnings by 2%** by tweaking our sales volume assumptions. APAC's ESG score of 2.9 out of 4.0 (based on our proprietary in-house methodology) is a notch below our country median, so we have apply a 2% discount to our DCF-based intrinsic value to derive our TP.

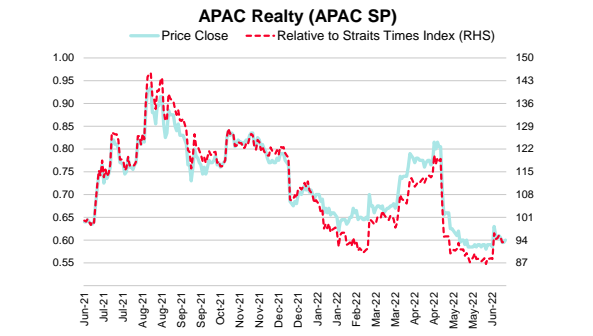
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.7)	2.6	(15.5)	(12.4)	(7.0)
Relative	(16.5)	6.4	(8.4)	(13.5)	(7.0)
52-wk Price low/high (SGD)	0.58 – 0.94				



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: GOOD

In 2021, there were no incidents of environmental non-compliance. The group has moved its headquarters to ERA APAC Centre, and installed energy-efficient lights and appliances. It plans to further reduce its energy footprint in the coming years.

S: GOOD

There were seven disciplinary actions against salespersons, ie relatively lower than its peers (based on total agent numbers). However, the company has set a target of having zero such instances in the future, through education. It provides 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 initiative, to assist children from financially disadvantaged families.

G: GOOD

There is a high level of transparency in financial announcements and earnings releases. There is a good corporate governance framework and composition of the Board is solid.

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	566	570	574
Recurring net profit (SGDm)	17	36	24	25	25
Recurring net profit growth (%)	18.5	115.6	(33.0)	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)	12.84	5.95	8.88	8.66	8.39
P/B (x)	1.38	1.32	1.28	1.23	1.19
Dividend Yield (%)	3.3	13.8	8.4	8.7	8.9
Return on average equity (%)	11.1	22.7	14.5	14.1	13.8
Net debt to equity (%)	10.7	net cash	net cash	net cash	net cash

Source: Company data, RHB

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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
APAC Realty	DPS	0.02	0.08	0.05	0.05	0.05
APAC SP	BVPS	0.44	0.45	0.47	0.49	0.50
Buy	Return on average equity (%)	11.1	22.7	14.5	14.1	13.8
	Return on average assets (%)	5.4	10.1	6.1	6.0	6.1
Valuation basis						
DCF	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	12.84	5.95	8.88	8.66	8.39
	P/B (x)	1.4	1.3	1.3	1.2	1.2
	Dividend Yield (%)	3.3	13.8	8.4	8.7	8.9
	EV/EBITDA (x)	10.24	4.45	6.24	5.84	5.42
Key drivers	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Continued strong uptrend in Singapore real estate transaction volumes;	Total turnover	395	740	566	570	574
ii. Growth in market share and agent headcount;	Gross profit	48	75	59	60	61
iii. Expanding its franchise network and training services.	EBITDA	22	47	33	34	35
	Depreciation and amortisation	(2)	(3)	(3)	(3)	(3)
	Operating profit	21	44	30	31	32
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	43	29	30	31
	Taxation	(3)	(7)	(5)	(5)	(5)
	Reported net profit	17	36	24	25	25
	Recurring net profit	17	36	24	25	25
Key risks	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Regulatory and policy risks;	Change in working capital	(4.3)	6.4	(3.7)	0.2	0.1
ii. Disruptions from technological advances;	Cash flow from operations	20.2	55.3	29.2	33.7	34.4
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)	(18.0)	(18.5)	(19.0)
	Cash flow from financing activities	(14.9)	(37.1)	(20.4)	(20.9)	(21.4)
	Cash at beginning of period	32.0	35.1	53.7	65.0	76.8
	Net change in cash	0.4	16.0	6.8	10.8	11.0
	Ending balance cash	32.4	51.2	60.5	75.8	87.8
Company Profile	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
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	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	359	367	374
	Short-term debt	3	3	3	3	3
	Total long-term debt	49	46	46	46	46
	Total liabilities	167	225	192	194	195
	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	359	367	374
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	6.9	87.2	(23.4)	0.7	0.7
	Recurring net profit growth (%)	18.5	115.6	(33.0)	2.6	3.2
	Recurrent EPS growth (%)	18.5	115.6	(33.0)	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)	24.8	25.5	26.2	25.6	
Add: Depreciation and Amortisation	3.0	3.0	3.0	3.0	
Less : Working capital changes	(3.7)	0.2	0.1	(0.1)	
Less : Capex	2.0	2.0	2.0	2.0	
Total Free Cash Flow	29.5	26.3	27.1	26.7	242.2
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	28.0	22.5	20.9	26.7	168.0
Sum of PV of FCF (SGDm)	98.1				
PV of Terminal Value (SGDm)	168.0				
Enterprise Value (SGDm)	266.0				
Add: Net Cash/(Debt)	4.8				
Total Equity Value (SGDm)	270.9				
No. of shares (m)	355.2				
Intrinsic Value per share (SGD)	0.76				
ESG Premium/(discount)	-0.02				
Target Price (SGD)	0.75				
Assumptions					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.2				
Equity risk premium	7.2%				
WACC	11.0%				
Terminal Growth	0%				

Source: RHB

Figure 2: Overview of Singapore's residential market transactions in 1Q22

Market Transaction Volume	1Q 2022 (units)	1Q 2021 (units)	Change (%)
New Homes			
Private	1,825	3,493	(47.8)
ECs	131	647	(79.8)
	1,956	4,140	(52.8)
Resale			
Private	3,518	4,607	(23.6)
HDB	6,934	7,581	(8.5)
	10,452	12,188	(14.2)
Rental			
Private	22,188	24,046	(7.7)
HDB	10,189	10,676	(4.6)
	32,377	34,722	(6.8)
Total residential transactions	44,785	51,050	(12.3)

Source: Urban Redevelopment Authority, Housing and Development Board, Company data

Recommendation Chart

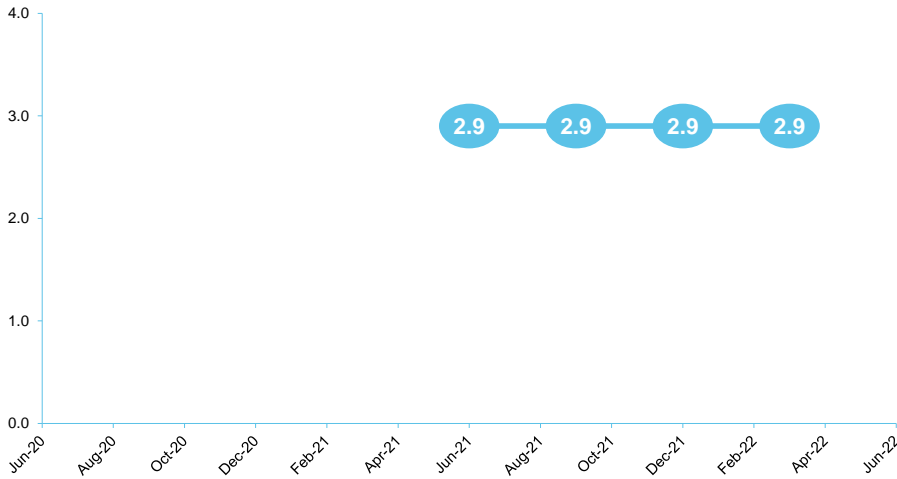


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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