

18 October 2022

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

A Muted Outlook Ahead

- **Maintaining NEUTRAL with a lower TP of SGD0.60 from SGD0.75, 6% upside.** The recent imposition of additional cooling measures and a sharp rising interest rates environment have dampened the outlook of the Singapore real estate sector. As a result, transaction volumes are expected to further slowdown, particularly in the resale market. This should impact earnings which we expect to decline 11% in FY23. Company's net cash position and a decent yield of c.8% offer downside support.
- **Revising lower our FY23-24F net profits by c.15%** factoring in a slower volume growth especially in the resale market segment which accounts for c.55% of APAC Realty's total revenue. In the DCF model, factoring in current market conditions, we also raise our cost of equity assumption by 100bps, which results in a lower TP. New home sales for full year are likely to come-in at the lower end of our expectations of 8,000 - 9,000 units. Overall resale transactions for 2022 are expected to decline 15% to 20% with a sharp slowdown of resale transactions under the Housing & Development Board in 4Q. For 2023, we expect flattish new home sales and factored in a 10% decline in resale market transactions.
- **Slowly building its regional presence.** APAC announced the purchase of an additional 79.74% stake in ERA Indonesia (IPAC IJ, NR) from Realti Indo Mandiri for a consideration of IDR92bn (SGD8.5m) raising its total stake in the listed subsidiary to 85%. The purchase price of IDR122 per share is at c.2% discount to the latest closing price of IDR125. As there is a change of control arising from the transaction, APAC has launched a mandatory tender offer at the same price for the remaining 15% shares, which will close on 16 Nov and also stated its intention to keep the entity listed.
- **ERA Indonesia** holds the ERA country master franchise for Indonesia. As at 30 Sep 2022, it had 111 active member broker offices in the major cities of Indonesia with 4,478 agents. In FY21, ERA Indonesia's net profit was IDR3.9bn (SGD0.36m), based on which the transaction implies a P/E of 30x which we believe is justifiable considering the massive untapped future growth potential. The overall earnings contribution, assuming an 85% stake, is still very small at c.1% of total. The transaction will be fully funded from internal cash. Besides Indonesia, APAC has also been building its presence in Vietnam and Thailand markets with a view on long-term growth.
- **APAC's ESG score of 2.9 out of 4.0** (based on our proprietary in-house methodology) is one notch below our country median score, thus we apply a 2% discount to our DCF-derived intrinsic value.
- **Risks:** Loss of market share and margin reduction from rising competition represent downside risks. The opposites are upside risks.

Target Price (Return): SGD0.60 (6.0%)
 Price (Market Cap): SGD0.57 (USD141m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.21m/0.16m

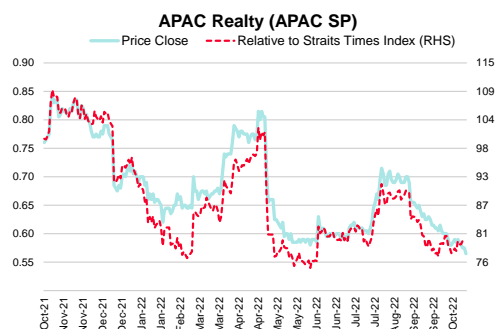
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.5)	(8.1)	(7.4)	(27.1)	(26.6)
Relative	(18.8)	(1.1)	(5.5)	(18.2)	(22.4)
52-wk Price low/high (SGD)	0.57 – 0.84				



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: GOOD

In FY21 there were zero incidents of environmental non-compliance. The group moved its HQ to ERA APAC Centre and installed energy efficient lights and appliances and further plans to reduce its energy footprint in coming years.

S: GOOD

Seven disciplinary actions against sales persons is relatively lower than its peers' (based on total agents). The company set a target of zero such instances in the future through education. 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

High 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 capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	395	740	558	521	526
Recurring net profit (SGDm)	17	36	23	21	21
Recurring net profit growth (%)	18.5	115.6	(34.5)	(11.3)	0.7
Recurring EPS (SGD)	0.05	0.10	0.07	0.06	0.06
DPS (SGD)	0.02	0.08	0.05	0.04	0.04
Recurring P/E (x)	12.09	5.61	8.56	9.65	9.59
P/B (x)	1.30	1.25	1.21	1.17	1.13
Dividend Yield (%)	3.5	14.6	8.8	7.8	7.8
Return on average equity (%)	11.1	22.7	14.2	12.0	11.6
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	0.06	0.06
Property	EPS	0.05	0.10	0.07	0.06	0.06
APAC Realty	DPS	0.02	0.08	0.05	0.04	0.04
APAC SP	BVPS	0.44	0.45	0.47	0.48	0.50
Neutral	Return on average equity (%)	11.1	22.7	14.2	12.0	11.6
	Return on average assets (%)	5.4	10.1	6.0	5.2	5.2
Valuation basis						
DCF methodology	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	12.09	5.61	8.56	9.65	9.59
	P/B (x)	1.3	1.2	1.2	1.2	1.1
	Dividend Yield (%)	3.5	14.6	8.8	7.8	7.8
	EV/EBITDA (x)	9.68	4.18	6.00	6.43	6.12
Key drivers						
i. Continued strong uptrend in Singapore real estate volumes,						
ii. Growth in market share and agents, and						
iii. Expanding Franchise network and training services.						
Key risks						
i. Regulatory and policy risks,						
ii. Disruption from technology advances, and						
iii. Loss of market share and margin reduction from rising competition.						
Company Profile						
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						
	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	395	740	558	521	526
	Gross profit	48	75	58	55	56
	EBITDA	22	47	32	29	29
	Depreciation and amortisation	(2)	(3)	(3)	(3)	(3)
	Operating profit	21	44	29	26	26
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	43	28	25	25
	Taxation	(3)	(7)	(5)	(4)	(4)
	Reported net profit	17	36	23	21	21
	Recurring net profit	17	36	23	21	21
	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(4.3)	6.4	(3.8)	(0.3)	0.2
	Cash flow from operations	20.2	55.3	28.5	29.1	29.9
	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)	(17.6)	(15.6)	(15.7)
	Cash flow from financing activities	(14.9)	(37.1)	(20.0)	(18.0)	(18.1)
	Cash at beginning of period	32.0	35.1	53.7	64.5	73.3
	Net change in cash	0.4	16.0	6.5	9.2	9.8
	Ending balance cash	32.4	51.2	60.2	73.7	83.1
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	35	54	56	63	70
	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	357	354	361
	Short-term debt	3	3	3	3	3
	Total long-term debt	49	46	46	46	46
	Total liabilities	167	225	191	183	184
	Shareholders' equity	155	161	167	172	177
	Minority interests	(0)	(0)	0	0	0
	Total equity	155	161	167	172	177
	Total liabilities & equity	321	386	357	354	361
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	6.9	87.2	(24.6)	(6.7)	1.0
	Recurring net profit growth (%)	18.5	115.6	(34.5)	(11.3)	0.7
	Recurrent EPS growth (%)	18.5	115.6	(34.5)	(11.3)	0.7
	Gross margin (%)	12.0	10.2	10.4	10.6	10.6
	Recurring net profit margin (%)	4.2	4.8	4.2	4.0	4.0
	Dividend payout ratio (%)	42.8	81.9	75.0	75.0	75.0

Source: Company data, RHB

Figure 1: APAC Realty's DCF valuation table

(SGD m)	FY22F	FY23F	FY24F	FY25F	Terminal Value
EBIT * (1- Tax rate)	24.3	21.6	21.8	22.0	
Add: Depreciation and Amortization	3.0	3.0	3.0	3.0	
Less : Working capital changes	(3.8)	(0.3)	0.2	(0.3)	
Less : Capex	2.0	2.0	2.0	2.0	
Total Free Cash Flow	29.1	23.0	22.5	23.2	188.3
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	27.5	19.3	16.8	23.2	125.3
Sum of PV of FCF (SGD m)	86.8				
PV of Terminal Value (SGD m)	125.3				
Enterprise Value (SGD m)	212.2				
Add: Net Cash/(Debt)	4.8				
Total Equity Value (SGD m)	217.0				
No. of shares (m)	355.2				
Intrinsic Value per share (SGD)	0.61				
ESG Premium/(discount)	-0.01				
Target Price (SGD)	0.60				
Assumptions					
Risk-free rate	2.8%				
Market return	10.0%				
Beta	1.2				
Equity risk premium	8.3%				
WACC	12.3%				
Terminal Growth	0%				

Source: RHB

Recommendation Chart

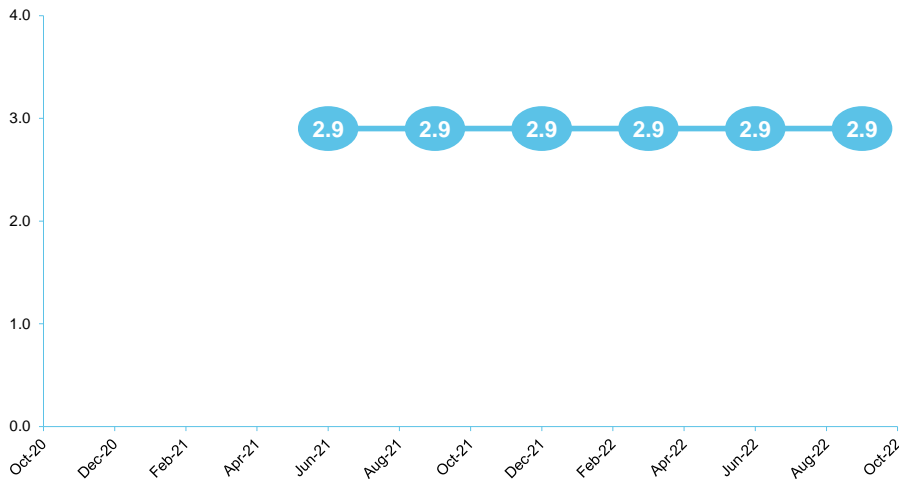


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-14	Buy	0.50	0.40
2020-02-25	Buy	0.60	0.49
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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