

21 May 2021

Property | Real Estate Oper & Svcs

## APAC Realty (APAC SP)

**Buy** (Maintained)

### Riding On Resilient Residential Volumes; BUY

Target Price (Return): SGD0.70 (34.6%)  
 Price: SGD0.52  
 Market Cap: USD139m  
 Avg Daily Turnover (SGD/USD) 0.25m/0.19m

- **Keep BUY with higher TP of SGD0.70 from SGD0.55, 35% upside and c.7% yield.** 1Q numbers comfortably beat our/market expectations on robust residential market volumes. Despite recent stringent safe-distancing measures impacting the near-term outlook, we expect transaction volumes to remain resilient and exceed those of last year. The asset-light cash generating business model, coupled with high ROE, make APAC Realty a potential acquisition candidate. Valuation is relatively cheap: It is trading at 8x FY21 P/E vs peer PropNex's 10.8x based on Bloomberg consensus.

- **1Q net profit up 114% YoY to SGD7.5m**, as revenue rose 70% YoY on a more than doubling of new homes brokerage revenue. New home sales (1Q) rose 51% YoY and resale transactions (private and public) jumped 52% YoY pointing to a stronger 2Q, as there is typically a lag of 1-6 months for revenue booking. Sales momentum has continued, with April new private home sales reaching a 4-year high for the month, but are expected to see a temporary slowdown in May and June.

- **Stringent safe-distancing measures reduce the risk of cooling measures.** Singapore moved to Phase 2 (heightened alert) from 16 May to 13 Jun due to a resurgence of COVID-19 cases, resulting in a tightening of safe-management measures. Under the revised guidelines, show flat capacity will be reduced drastically and buyers are limited to groups of two. This will have a negative impact on near-term transaction volumes (May and June), especially in the resale market, where buyers like to inspect the properties before purchase. However – barring a prolonged lockdown and consequent economic impact – we expect transaction volumes to bounce back in 2H21. Additionally, the tightening measures have reduced the near-term risk of additional stringent cooling measures, in our view, as buyers are likely to retreat and be more prudent in their property purchases.

- **Market share maintained; agent count rising.** ERA's market share (1Q) in new home sales rose to 33.7% in 1Q21 (FY20: 31.3%), but slid slightly in the resale market. It has to be noted that gross margins for new home sales are higher at 15-17% vs resale's 6-7%. ERA agent count here stands at 8,104, a 4% increase from the start of the year. Across its overseas markets – Thailand, Indonesia, Vietnam, and Malaysia – no significant near-term contributions are expected, as it is still ramping up operations.

- **Dividend yield of c.7%.** With net profit expected to jump 39% YoY, we expect a similar increase in dividends to 3.5 cents from 2.5 cents last year, resulting in an attractive dividend yield of 7% (based on a 54% payout).

- **We have revised up our FY21-23F earnings by 20-43%** after revising up our transaction volumes and market share assumptions.

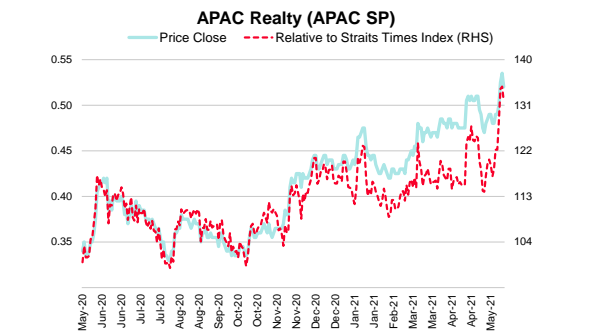
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.9	2.0	20.9	25.3	48.6
Relative	7.7	5.3	13.1	13.5	28.3
52-wk Price low/high (SGD)				0.33	0.54



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (SGDm)	370	395	487	466	471
Recurring net profit (SGDm)	14	17	23	21	21
Recurring net profit growth (%)	(42.3)	18.5	39.3	(9.6)	2.1
Recurring EPS (SGD)	0.04	0.05	0.07	0.06	0.06
DPS (SGD)	0.03	0.02	0.04	0.03	0.03
Recurring P/E (x)	13.18	11.13	7.99	8.84	8.65
P/B (x)	1.27	1.19	1.12	1.04	0.99
Dividend Yield (%)	6.3	3.8	6.8	6.2	6.4
Return on average equity (%)	9.7	11.1	14.2	11.7	11.0
Net debt to equity (%)	15.5	10.7	3.1	net cash	net cash

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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## Financial Exhibits

Asia	Financial summary (SGD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.04	0.05	0.07	0.06	0.06
Property	EPS	0.04	0.05	0.07	0.06	0.06
<b>APAC Realty</b>	DPS	0.03	0.02	0.04	0.03	0.03
APAC SP	BVPS	0.41	0.44	0.47	0.50	0.52
Buy	Return on average equity (%)	9.7	11.1	14.2	11.7	11.0
	Return on average assets (%)	4.8	5.4	6.7	5.6	5.5
<b>Valuation basis</b>						
DCF methodology	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Recurring P/E (x)	13.18	11.13	7.99	8.84	8.65
	P/B (x)	1.3	1.2	1.1	1.0	1.0
	Dividend Yield (%)	6.3	3.8	6.8	6.2	6.4
	EV/EBITDA (x)	10.10	8.97	6.30	6.38	5.91
<b>Key drivers</b>						
i. Resilience in Singapore real estate volumes;						
ii. Growth in market share and agents;						
iii. Expanding franchise network and training services.						
<b>Key risks</b>						
i. Risk of additional sever cooling measures;						
ii. Disruption from technology advances;						
iii. Loss of market share.						
<b>Company Profile</b>						
APAC is one of the largest real estate agencies in Singapore and has regional master franchise rights to 17 countries in the Asia-Pacific region.						
	<b>Income statement (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total turnover	370	395	487	466	471
	Gross profit	46	48	57	54	55
	EBITDA	21	22	30	28	28
	Depreciation and amortisation	(2)	(2)	(2)	(2)	(2)
	Operating profit	19	21	29	26	27
	Net interest	(2)	(1)	(1)	(1)	(1)
	Pre-tax profit	17	20	28	25	26
	Taxation	(3)	(3)	(4)	(4)	(4)
	Reported net profit	14	17	23	21	21
	Recurring net profit	14	17	23	21	21
	<b>Cash flow (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	(0.4)	(4.3)	(0.7)	0.8	(0.1)
	Cash flow from operations	17.0	20.2	28.1	27.3	26.8
	Capex	(1.2)	(0.4)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(11.7)	(4.9)	(1.0)	(1.0)	(1.0)
	Dividends paid	(11.5)	(7.1)	(12.5)	(11.5)	(11.7)
	Cash flow from financing activities	(19.2)	(14.9)	(15.7)	(13.9)	(14.1)
	Cash at beginning of period	43.0	32.0	35.1	54.8	72.9
	Net change in cash	(13.9)	0.4	11.4	12.4	11.7
	Ending balance cash	29.1	32.4	46.5	67.2	84.6
	<b>Balance sheet (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	32	35	47	59	69
	Tangible fixed assets	74	74	74	75	75
	Intangible assets	99	98	97	96	95
	Total other assets	6	8	8	8	8
	Total assets	295	321	335	343	353
	Short-term debt	3	3	3	3	3
	Total long-term debt	52	49	49	49	49
	Total liabilities	150	167	170	166	167
	Shareholders' equity	146	155	166	177	186
	Minority interests	(0)	(0)	0	0	0
	Total equity	145	155	166	177	186
	Total liabilities & equity	295	321	335	343	353
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	(12.8)	6.9	23.3	(4.3)	1.0
	Recurring net profit growth (%)	(42.3)	18.5	39.3	(9.6)	2.1
	Recurrent EPS growth (%)	(42.3)	18.5	39.3	(9.6)	2.1
	Gross margin (%)	12.5	12.0	11.7	11.6	11.7
	Recurring net profit margin (%)	3.8	4.2	4.7	4.5	4.5
	Dividend payout ratio (%)	82.4	42.8	54.0	55.0	55.0

Source: Company data, RHB

Figure 1: APAC Realty's valuation table

(SGD m)	FY21F	FY22F	FY23F	FY24F	Terminal Value
EBIT * (1- Tax rate)	23.7	21.8	22.2	22.3	
Add: Depreciation and Amortisation	1.5	1.5	1.5	1.5	
Less : Working capital changes	(0.7)	0.8	(0.1)	(0.2)	
Less : Capex	1.0	1.0	1.0	1.0	
Total Free Cash Flow	25.0	21.5	22.9	23.1	258.2
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	24.0	18.9	18.5	17.1	191.3
Sum of PV of FCF (SGD m)	78.4				
PV of Terminal Value (SGD m)	191.3				
Enterprise Value (SGD m)	269.8				
Add: Net Cash/(Debt)	(22.6)				
Total Equity Value (SGD m)	247.2				
No. of shares (m)	355.2				
Value per share (SGD)	<b>0.70</b>				
<b>Assumptions</b>					
Risk-free rate	2.8%				
Market return	9.0%				
Beta	1.0				
Equity risk premium	6.2%				
WACC	8.9%				
Terminal Growth	0%				

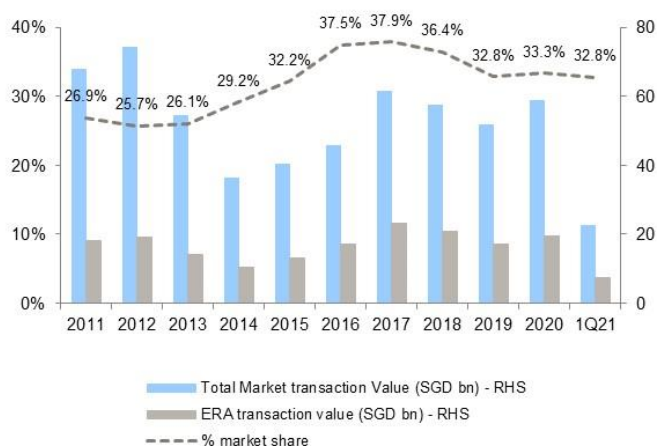
Source: RHB

Figure 2: Residential market transaction overview (1Q)

Market Transaction Volume	1Q 2021 (units)	1Q 2020 (units)	Change (%)
<b>New Homes</b>			
Private	3,493	2,149	62.5
ECs	<u>647</u>	<u>590</u>	9.7
	<b>4,140</b>	<b>2,739</b>	<b>51.2</b>
<b>Resale</b>			
Private	4,607	2,120	117.3
HDB	<u>7,581</u>	<u>5,893</u>	28.6
	<b>12,188</b>	<b>8,013</b>	<b>52.1</b>
<b>Rental</b>			
Private	23,544	21,191	11.1
HDB	<u>10,676</u>	<u>11,591</u>	(7.9)
	<b>34,220</b>	<b>32,782</b>	<b>4.4</b>
<b>Total residential transactions</b>	<b>50,548</b>	<b>43,534</b>	<b>16.1</b>

Source: Urban Redevelopment Authority, Housing &amp; Development Board, Copany

Figure 3: Market share – based on transaction value



Source: Company data, RHB

Figure 4: Agent count and market share



Note: \*As of 1 Jan the following year

Note 2: \*\*As of 20 May

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-07-12	Buy	0.77	0.61

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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