

# Singapore Company Update

## APAC Realty

Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2024

### HOLD

Last Traded Price (29 Feb 2024): S\$0.445 (STI : 3,141.85)

Price Target 12-mth: S\$0.48 (8% upside) (Prev S\$0.53)

#### Analysts

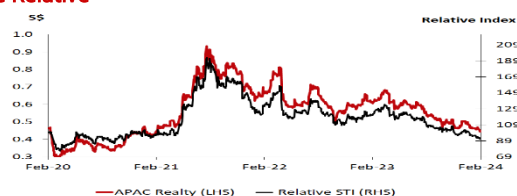
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#### What's New

- FY23 in line with expectations; though revenue from new home sales fell 49% y-o-y and net margin slumped to 2.1%
- Downward pressure on margins to sustain due to less favourable product mix
- Cut FY24F earnings by c.9%, as we lower transaction volume assumptions for both new home sales and resale
- Maintain HOLD with revised TP of S\$0.48

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Revenue	705	557	634	718
EBITDA	38.8	20.3	26.7	30.4
Pre-tax Profit	32.9	13.6	19.9	23.7
Net Profit	26.6	11.8	15.5	18.5
Net Pft (Pre Ex.)	26.6	11.8	15.5	18.5
Net Pft Gth (Pre-ex) (%)	(25.0)	(55.7)	31.9	19.1
EPS (S cts)	7.48	3.32	4.37	5.21
EPS Pre Ex. (S cts)	7.48	3.32	4.37	5.21
EPS Gth Pre Ex (%)	(25)	(56)	32	19
Diluted EPS (S cts)	7.48	3.32	4.37	5.21
Net DPS (S cts)	6.25	2.50	3.06	3.65
BV Per Share (S cts)	45.1	44.6	45.9	47.5
PE (X)	6.0	13.4	10.2	8.5
PE Pre Ex. (X)	6.0	13.4	10.2	8.5
P/Cash Flow (X)	4.5	9.1	11.0	6.2
EV/EBITDA (X)	4.0	7.7	5.8	4.7
Net Div Yield (%)	14.0	5.6	6.9	8.2
P/Book Value (X)	1.0	1.0	1.0	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.5	7.4	9.7	11.2
Earnings Rev (%)			(9)	2
Consensus EPS (S cts):			3.30	4.10
Other Broker Recs:		B: 1	S: 0	H: 2

Source of all data on this page: Company, DBS Bank Ltd, Bloomberg Finance L.P.

### Modest transaction volume growth ahead

#### Investment Thesis:

**Leading real estate agency with one of the largest brand footprints in Asia.** APAC Realty is one of the leading players in the real estate brokerage industry, with a presence in 17 Asia Pacific countries. Through its ERA franchise network, the group has one of the largest brand footprints in Asia. The franchise model also provides APAC with the ability to build its regional presence and network in a capital-efficient manner.

**Headwinds ahead to tame transaction volumes; downward pressure on margins due to product mix.** We anticipate limited growth in transaction volumes in 2024, underpinned by i) lower foreigner and investor participation, as they are deterred by high stamp duties; ii) a wider array of projects being launched this year, which allows potential buyers to assess their options thoroughly before committing; iii) borrowing limits, which could cap affordability as prices continue to rise; and iv) macroeconomic uncertainties. With new sales momentum likely to be slower than we initially expected, we expect the less favourable product mix to continue weighing on APAC's margins.

**Venturing overseas to fill the gap resulting from subdued growth in key Singapore market, though contribution remains small.** Despite the relatively resilient property market in Singapore, growth prospects could be restrained due to land scarcity. Hence, APAC is exploring opportunities abroad to address this gap, including increasing its stake in its Vietnam venture. However, we can only expect a meaningful contribution from FY25 onwards.

**Maintain HOLD with revised TP of S\$0.48** (vs. S\$0.53 previously). We lower our assumption for new home sale and resale transaction volumes for FY24F to 8,000 and 13,500, respectively, as we expect modest growth this year. Consequently, we cut FY24F earnings by c.9% and TP to S\$0.48, pegged to 11x PE (close to the four-year average).

#### Key Risks

**The key risks for APAC** are additional property cooling measures, weaker macroeconomic environment, and a rise in unemployment rates.

#### At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (S\$m/US\$m)	158 / 117
Major Shareholders (%)	
Morgan Stanley	64.8
Tan Choon Hong	11.1
Chua Khee Hak	8.4
Free Float (%)	15.7
3m Avg. Daily Val (US\$m)	0.02
<b>GIC Industry</b> : Real Estate / Real Estate Management & Development	



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## WHAT'S NEW

## Modest transaction volume growth ahead

**FY23 in line with expectations.** FY23 revenue declined 21% y-o-y to S\$557.3m, which was in line with expectations. It was primarily attributable to a 47.8% fall in revenue from new homes (which have much higher margins than resale & rental), while expenses rose 10.8% y-o-y during the year. Finance costs came in higher than expected amid the heightened interest rate environment. FY23 also saw modest non-operating income, compared to a non-operating expense recorded a year ago. Consequently, net profit fell 60% y-o-y to S\$11.8m and net margin dipped significantly to 2.1% for the year compared to 3.8% for FY22.

## HDB rental volumes emerged as the only bright spot.

Transaction volumes for both new homes and resale experienced a y-o-y decline on the back of macroeconomic uncertainties and higher interest rates. For the rental market, transaction volumes for the private segment also dipped. In contrast, HDB rental transaction volumes grew y-o-y, which could be supported by private homeowners who have to observe a 15-month wait-out period before being eligible to acquire a resale HDB as well as a "trade-down" to HDB rentals given the elevated rental prices after the pandemic, though we are starting to see signs of easing.

## Overall market transaction volume

	FY22	FY23	y-o-y chg
<b>New Homes</b>			
Private	7,099	6,421	-9.8%
ECs	1,479	737	-50.2%
	<b>8,578</b>	<b>7,158</b>	
<b>Resale</b>			
Private	14,791	12,623	-14.7%
HDB	27,896	26,735	-4.2%
	<b>42,687</b>	<b>39,358</b>	
<b>Rental</b>			
Private	91,843	83,839	-8.7%
HDB	36,166	39,138	+8.2%
	<b>128,009</b>	<b>122,977</b>	

Source: URA, HDB, Company, DBS Bank Ltd

**Prices saw strong momentum in 4Q23.** There were three project launches in the last quarter of 2023, which saw encouraging sell-through rates and achieved >S\$2,000psf, on average. Hillock

Green achieved c.S\$2,108psf, J'Den achieved S\$2,403psf, and Watten House achieved S\$3,230psf.

## Singapore property market

Key indicators	4Q22	4Q23	y-o-y chg
<b>Private Residential</b>			
Price index	188.6	201.5	+6.8%
Rental index	148.1	161.0	+8.7%
Pipeline supply*	46,041	34,251	-25.6%
Unsold units*	16,024	16,929	+5.6%
<b>HDB Residential</b>			
Price index	171.9	180.4	+4.9%

\*excluding ECs

Source: URA, HDB, Company, DBS Bank Ltd

**Ramp-up in supply for 2024.** We expect to see 34 projects (including estimated 1 EC project) with close to 12,000 units in the pipeline this year, compared to 21 projects (including 1 EC project) that launched 8,158 units last year. There will also be four upcoming mega developments in 2024, with 800 or more units, at the Lor 1 Toa Payoh GLS, Jalan Tembusu GLS, Former Chuan Park, and Tampines Ave 11 GLS.

**Maintain HOLD with revised TP of S\$0.48.** We lower our assumption for new home sale and resale transaction volumes for FY24F to 8,000 and 13,500, respectively, as we expect modest growth this year, underpinned by 1) Lower foreigner and investor participation given higher ABSD rates; 2) potential buyers having a wider array of choices this year and thus being able to assess their options thoroughly before committing; 3) borrowing limits, which could cap affordability as prices continue to rise; and 4) macroeconomic uncertainties. Hence, we cut FY24F earnings by c.9% and TP to S\$0.48, pegged to 11x PE (close to the four-year average).

## Company Background

APAC Realty Limited (APAC) is one of the leading players in the real estate brokerage industry in Asia. APAC Realty operates three main business segments – the real estate brokerage services; franchise agreements; and training, valuation, and other ancillary services.

## Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates

## APAC Realty

### Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
ERA transaction value growth (%)	88.9	(17.0)	(2.5)	13.8	13.5
ERA market share (%)	35.2	37.5	35.5	37.0	37.0

### Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Revenues (S\$m)</b>					
Brokerage	730	695	549	625	709
Non-brokerage	9.64	9.54	8.60	9.03	9.48
<b>Total</b>	<b>740</b>	<b>705</b>	<b>557</b>	<b>634</b>	<b>718</b>
<b>Gross profit (S\$m)</b>					
Brokerage	67.3	65.5	48.3	57.5	65.2
Non-brokerage	8.14	7.85	6.89	8.09	8.49
<b>Total</b>	<b>75.4</b>	<b>73.4</b>	<b>55.2</b>	<b>65.5</b>	<b>73.7</b>
<b>Gross profit Margins (%)</b>					
Brokerage	9.2	9.4	8.8	9.2	9.2
Non-brokerage	84.5	82.3	80.1	89.6	89.6
<b>Total</b>	<b>10.2</b>	<b>10.4</b>	<b>9.9</b>	<b>10.3</b>	<b>10.3</b>

### Income Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	740	705	557	634	718
Cost of Goods Sold	(664)	(632)	(502)	(568)	(645)
<b>Gross Profit</b>	<b>75.4</b>	<b>73.4</b>	<b>55.0</b>	<b>65.5</b>	<b>73.7</b>
Other Opng (Exp)/Inc	(31.6)	(39.6)	(39.3)	(43.5)	(47.9)
<b>Operating Profit</b>	<b>43.8</b>	<b>33.7</b>	<b>15.7</b>	<b>22.0</b>	<b>25.8</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.4)	0.12	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.8)	(1.0)	(2.1)	(2.1)	(2.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>42.6</b>	<b>32.9</b>	<b>13.6</b>	<b>19.9</b>	<b>23.7</b>
Tax	(7.3)	(6.4)	(3.0)	(4.3)	(5.2)
Minority Interest	0.10	0.12	1.17	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>35.4</b>	<b>26.6</b>	<b>11.8</b>	<b>15.5</b>	<b>18.5</b>
Net Profit before Except.	35.4	26.6	11.8	15.5	18.5
EBITDA	48.1	38.8	20.3	26.7	30.4
<b>Growth</b>					
Revenue Gth (%)	87.2	(4.7)	(21.0)	13.7	13.4
EBITDA Gth (%)	100.7	(19.4)	(47.6)	31.0	14.2
Opg Profit Gth (%)	109.7	(22.9)	(53.5)	40.2	17.2
Net Profit Gth (Pre-ex) (%)	115.3	(25.0)	(55.7)	31.9	19.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	10.2	10.4	9.9	10.3	10.3
Opg Profit Margin (%)	5.9	4.8	2.8	3.5	3.6
Net Profit Margin (%)	4.8	3.8	2.1	2.5	2.6
ROAE (%)	22.4	16.5	7.4	9.7	11.2
ROA (%)	10.0	6.9	3.2	4.3	4.7
ROCE (%)	16.3	12.0	4.6	6.4	7.6
Div Payout Ratio (%)	75.3	83.6	75.4	70.0	70.0
Net Interest Cover (x)	56.6	34.4	7.4	10.3	12.1

Source: Company, DBS Bank Ltd

## APAC Realty

## Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	381	343	362	260	298
Cost of Goods Sold	(341)	(307)	(324)	(233)	(269)
<b>Gross Profit</b>	<b>40.2</b>	<b>35.3</b>	<b>38.0</b>	<b>26.6</b>	<b>28.4</b>
Other Oper. (Exp)/Inc	(17.4)	(15.0)	(24.6)	(19.7)	(19.6)
<b>Operating Profit</b>	<b>22.7</b>	<b>20.3</b>	<b>13.5</b>	<b>6.89</b>	<b>8.80</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.26	(0.1)	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(0.4)	(0.6)	(1.0)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>22.2</b>	<b>20.2</b>	<b>12.7</b>	<b>5.86</b>	<b>7.71</b>
Tax	(4.0)	(3.7)	(2.8)	(1.5)	(1.4)
Minority Interest	0.07	0.14	0.0	0.66	0.51
<b>Net Profit</b>	<b>18.3</b>	<b>16.7</b>	<b>9.87</b>	<b>5.01</b>	<b>6.77</b>
Net profit bef Except.	18.3	16.7	9.87	5.01	6.77
EBITDA	25.0	23.0	15.8	9.25	12.2
<b>Growth</b>					
Revenue Gth (%)	6.4	(10.2)	5.8	(28.4)	14.6
EBITDA Gth (%)	8.1	(7.9)	(31.5)	(41.3)	31.5
Opg Profit Gth (%)	7.8	(10.7)	(33.7)	(48.8)	27.8
Net Profit Gth (%)	7.6	(9.0)	(40.9)	(49.3)	35.3
<b>Margins</b>					
Gross Margins (%)	10.5	10.3	10.5	10.2	9.5
Opg Profit Margins (%)	6.0	5.9	3.7	2.7	3.0
Net Profit Margins (%)	4.8	4.9	2.7	1.9	2.3

## Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	72.8	73.9	72.5	69.9	67.3
Invts in Associates & JVs	2.36	2.18	0.0	0.0	0.0
Other LT Assets	100	105	112	111	110
Cash	53.7	49.3	44.1	46.5	58.1
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	121	151	99.5	142	161
Net Intangibles Assets	96.9	104	111	110	109
Other Current Assets	36.1	7.36	14.2	14.2	14.2
<b>Total Assets</b>	<b>386</b>	<b>388</b>	<b>342</b>	<b>384</b>	<b>411</b>
ST Debt	2.90	45.9	3.09	3.09	3.09
Creditor	148	156	116	153	173
Other Current Liab	24.5	21.5	18.8	19.8	20.6
LT Debt	45.9	0.0	40.1	40.1	40.1
Other LT Liabilities	4.13	4.71	5.28	5.28	5.28
Shareholder's Equity	161	160	158	163	169
Minority Interests	(0.3)	0.16	0.22	0.22	0.22
<b>Total Cap. &amp; Liab.</b>	<b>386</b>	<b>388</b>	<b>342</b>	<b>384</b>	<b>411</b>
Non-Cash Wkg. Capital	(15.3)	(19.0)	(21.6)	(15.8)	(18.1)
Net Cash/(Debt)	4.85	3.36	0.83	3.32	14.9
Debtors Turn (avg days)	49.4	70.4	82.0	69.7	77.2
Creditors Turn (avg days)	66.0	88.4	99.9	87.1	92.8
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.1	1.8	1.5	1.7	1.8
Current Ratio (x)	1.2	0.9	1.1	1.2	1.2
Quick Ratio (x)	1.0	0.9	1.0	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	2.2	5.0	(3.1)	2.3	2.3

Source: Company, DBS Bank Ltd

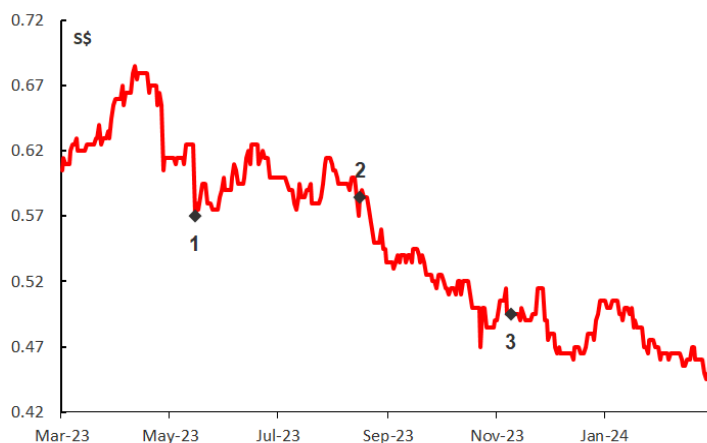
## APAC Realty

## Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	42.6	32.9	13.6	19.9	23.7
Dep. & Amort.	4.74	4.92	4.65	4.65	4.65
Tax Paid	(4.1)	(7.5)	(6.8)	(3.4)	(4.3)
Assoc. & JV Inc/(loss)	0.40	(0.1)	0.0	0.0	0.0
Chg in Wkg.Cap.	6.45	(1.1)	3.63	(6.8)	1.53
Other Operating CF	4.77	6.25	2.28	0.0	0.0
<b>Net Operating CF</b>	<b>54.9</b>	<b>35.4</b>	<b>17.3</b>	<b>14.4</b>	<b>25.5</b>
Capital Exp.(net)	(1.1)	(2.3)	1.35	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(0.2)	(6.7)	(4.2)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.8)	0.54	(2.7)	0.0	0.0
<b>Net Investing CF</b>	<b>(2.1)</b>	<b>(8.5)</b>	<b>(5.5)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Div Paid	(29.3)	(26.6)	(13.7)	(10.9)	(13.0)
Chg in Gross Debt	(4.9)	(4.6)	(3.3)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(34.2)</b>	<b>(31.3)</b>	<b>(17.0)</b>	<b>(10.9)</b>	<b>(13.0)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	18.5	(4.4)	(5.2)	2.50	11.6
Opg CFPS (S cts)	13.6	10.3	3.85	5.95	6.75
Free CFPS (S cts)	15.1	9.31	5.25	3.76	6.90

Source: Company, DBS Bank Ltd

## Target Price &amp; Ratings 12-mth History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 May 23	0.57	0.57	HOLD
2:	16 Aug 23	0.59	0.54	HOLD
3:	09 Nov 23	0.50	0.53	HOLD

Source: DBS Bank Ltd

Analysts: Tabitha FOO

Derek TAN

DBS Group Research recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 1 Mar 2024 13:18:13 (SGT)

Dissemination Date: 1 Mar 2024 13:28:15 (SGT)

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