

8 March 2024

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

Transaction Volumes To Remain Soft

- **NEUTRAL, new TP of SGD0.44 from SGD0.46, 7% upside with c.7% FY24F yield.** APAC Realty had a challenging FY23, with earnings declining sharply as Singapore residential market volumes eased. While residential market transactions should rebound slightly this year on higher supply, demand remains selective amid high interest rates. Meanwhile, the group has been investing in technology and overseas markets, which have been a near-term drag on earnings, but will likely bring benefits in the longer run. Key catalyst: Market share gains. Policy headwinds and recession are key risks.
- **FY24 transaction volumes expected to pick up slightly,** mainly driven by a larger estimated project pipeline of 34 new launches (2023: 21), yielding c.12,000 units (2023: 8,158 units). For 2024, we expect new private home sales (excluding executive condominiums) to grow 10-15% YoY, to 7,000-7,500 units. Resale volumes, meanwhile, are expected to be similarly increase by 10-15% YoY amid more bargain-hunting and spill over demand from new launches. Note: GPMs are higher for new launches (i.e. in the low teens) compared to high-single digits for secondary property projects. APAC's FY23 PATMI plunged by 56% YoY, driven by lower volumes across all segments and losses at its overseas entities. Its total FY23 DPS of 2.5 SG cents reflects a 78% dividend payout ratio and c.6% yield, higher than the market average yield of c.5.7%, which we believe should support its share price.
- **Focus on improving primary market share and agent count.** Its subsidiary ERA Singapore's (ERA) primary residential segment estimated market share dipped slightly in FY23 to 29.3% of total transaction value (FY22: 31.7%), while its market share in the resale segment improved slightly. APAC's overall agent headcount rose 6.6% YoY last year to 8,891 (industry: +2.4% YoY), with a target to increase this to 10,000 agents by end-2024. ERA also plans to increase productivity with help of technology tools, by integrating the latest artificial intelligence tools in its SALES+ super app, which has received a favourable response and helps in attracting young talent.
- **Overseas ventures have been disappointing so far** with net losses of SGD1.5m last year, mainly due to the lack of project launches in ERA Vietnam. A turnaround is likely to be slow for overseas markets, with a breakeven expected only by FY25, in our view.
- **We tweak FY24-25F net profit by +4% and -3%** by adjusting our forecasted sales volumes. We also introduce our FY26 forecasts in this report. We raise our ESG score to 3.1 (out of 4.0) on the back of a higher score in its "S" pillar. As its ESG score is in line with the country median, we applied a 0% ESG discount/premium to its intrinsic value to derive our TP.

Target Price (Return): SGD0.44 (+7%)
 Price (Market Cap): SGD0.41 (USD108m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.03m/0.02m

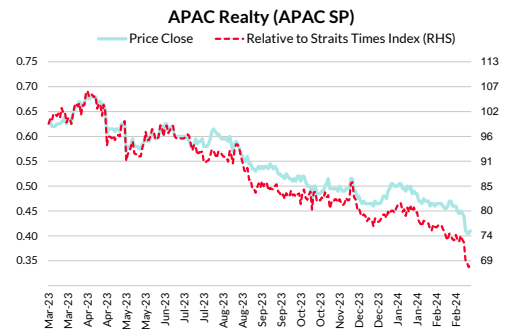
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.8)	(11.8)	(11.8)	(23.4)	(34.4)
Relative	(15.5)	(11.1)	(13.7)	(20.5)	(31.0)
52-wk Price low/high (SGD)				0.41	-0.69



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

APAC Realty has implemented energy-saving initiatives by harvesting solar power at its headquarters. It currently does not calculate Scope 1 direct CO2 emissions, as it does not own/control company vehicles. It has also invested in solar panels to reduce CO2 emissions from purchased electricity, and prevented Scope 2 purchased electricity emissions per month by 4,368kg of CO2.

S: EXCELLENT

Its two disciplinary actions against salespersons in 2022 was lower than the seven recorded the year before, and that of peers. The company targets to have zero instances of such in the future, through education. APAC Realty has good dental and insurance coverage policy for employees. ERA Singapore 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 good level of transparency in financial announcements and earnings releases. It also has a good corporate governance framework and Board composition.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	705	557	591	600	613
Recurring net profit (SGDm)	26	12	12	12	14
Recurring net profit growth (%)	(25.2)	(55.2)	1.5	2.1	17.1
Recurring EPS (SGD)	0.07	0.03	0.03	0.03	0.04
DPS (SGD)	0.06	0.03	0.03	0.03	0.03
Recurring P/E (x)	5.53	12.37	12.18	11.93	10.19
P/B (x)	0.91	0.92	0.90	0.89	0.87
Dividend Yield (%)	15.2	6.1	6.5	6.6	7.0
Return on average equity (%)	16.4	7.4	7.5	7.5	8.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.07	0.03	0.03	0.03	0.04
Property	EPS	0.07	0.03	0.03	0.03	0.04
APAC Realty	DPS	0.06	0.03	0.03	0.03	0.03
APAC SP	BVPS	0.45	0.45	0.45	0.46	0.47
Neutral	Return on average equity (%)	16.4	7.4	7.5	7.5	8.6
	Return on average assets (%)	6.8	3.2	3.4	3.4	3.9
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DCF	Recurring P/E (x)	5.53	12.37	12.18	11.93	10.19
	P/B (x)	0.9	0.9	0.9	0.9	0.9
	Dividend Yield (%)	15.2	6.1	6.5	6.6	7.0
	EV/EBITDA (x)	3.85	7.45	6.93	6.81	6.29
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Resurgence in Singapore real estate transaction volumes;	Total turnover	705	557	591	600	613
ii. Growth in market share and agent network;	Gross profit	73	55	59	60	62
iii. Growth from other market segments and its overseas business.	EBITDA	37	19	21	20	21
	Depreciation and amortisation	(3)	(4)	(4)	(4)	(4)
	Operating profit	34	16	17	17	18
	Net interest	(1)	(2)	(2)	(2)	(1)
	Pre-tax profit	33	14	15	15	17
	Taxation	(6)	(3)	(3)	(3)	(3)
	Reported net profit	26	12	12	12	14
	Recurring net profit	26	12	12	12	14
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Regulatory and policy risks;	Change in working capital	(1.4)	3.6	(1.5)	(0.3)	(0.2)
ii. Disruption from advancement in technology;	Cash flow from operations	35.0	17.2	18.4	19.4	20.4
iii. Loss of market share and margin reductions from rising competition.	Capex	(9.0)	(5.5)	(2.5)	(2.5)	(2.5)
	Cash flow from investing activities	(8.5)	(5.5)	(2.5)	(2.5)	(2.5)
	Dividends paid	(26.6)	(13.7)	(9.4)	(9.6)	(10.1)
	Cash flow from financing activities	(31.3)	(17.0)	(13.7)	(13.7)	(13.8)
	Cash at beginning of period	53.7	49.3	44.1	47.5	51.8
	Net change in cash	(4.8)	(5.3)	2.2	3.3	4.1
	Ending balance cash	48.9	44.0	46.3	50.8	55.9
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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	49	44	46	50	55
	Tangible fixed assets	74	72	72	72	72
	Intangible assets	104	111	110	109	108
	Total other assets	3	1	1	1	1
	Total assets	388	342	353	358	364
	Short-term debt	46	3	3	3	3
	Total long-term debt	0	40	40	40	40
	Total liabilities	228	184	191	193	196
	Shareholders' equity	160	158	161	164	168
	Minority interests	0	0	0	0	0
	Total equity	160	159	161	164	168
	Total liabilities & equity	388	342	353	358	364
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(4.7)	(21.0)	6.1	1.5	2.2
	Recurring net profit growth (%)	(25.2)	(55.2)	1.5	2.1	17.1
	Recurrent EPS growth (%)	(25.2)	(55.2)	1.5	2.1	17.1
	Gross margin (%)	10.4	9.9	10.0	10.0	10.1
	Recurring net profit margin (%)	3.7	2.1	2.0	2.0	2.3
	Dividend payout ratio (%)	84.4	75.4	78.8	78.7	70.8

Source: Company data, RHB

Figure 1: APAC's DCF valuation table

(SGDm)	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
EBIT *(1- Tax rate)	13.9	14.6	15.4	15.5	16.1	
Add: Depreciation and Amortisation	3.8	3.8	3.8	3.8	3.8	
Less : Working capital changes	(1.5)	(0.3)	(0.2)	(0.2)	(0.2)	
Less : Capex	2.5	2.5	2.5	2.5	2.5	
Total Free Cash Flow	16.7	16.2	16.9	17.0	17.6	153.0
Discount factor (years)	1.0	2.0	3.0	4.0	5.0	5.0
PV of Free Cash Flow	15.0	13.1	12.3	11.2	10.4	90.6
Sum of PV of FCF (SGD m)	62.1					
PV of Terminal Value (SGD m)	90.6					
Enterprise Value (SGD m)	152.7					
Add: Net Cash/(Debt)	3.3					
Total Equity Value (SGD m)	155.9					
No. of shares (m)	355.2					
Intrinsic Value per share (SGD)	0.44					
ESG Premium/(discount)	0.00					
Target Price (SGD)	0.44					
Assumptions						
Risk-free rate	2.8%					
Market return	10.0%					
Beta	1.1					
Equity risk premium	7.8%					
WACC	11.1%					
Terminal Growth	0%					

Source: RHB

Emissions And ESG

Trend analysis

APAC Realty does not calculate Scope 1 direct CO2 emissions as the group does not own/control company vehicles. It exceeded its target to reduce energy emissions by 1.2% pa, with a Scope 2 emissions reduction of 12% last year, due to its investment in solar panels which reduced emissions from purchased electricity. The emissions from solar panels totalled 442.23kg of CO2. Including this, its net Scope 2 emissions would decrease to 30,252kg of CO2. APAC Realty sold 2,609 kWh of electricity generated from solar panels to the national grid.

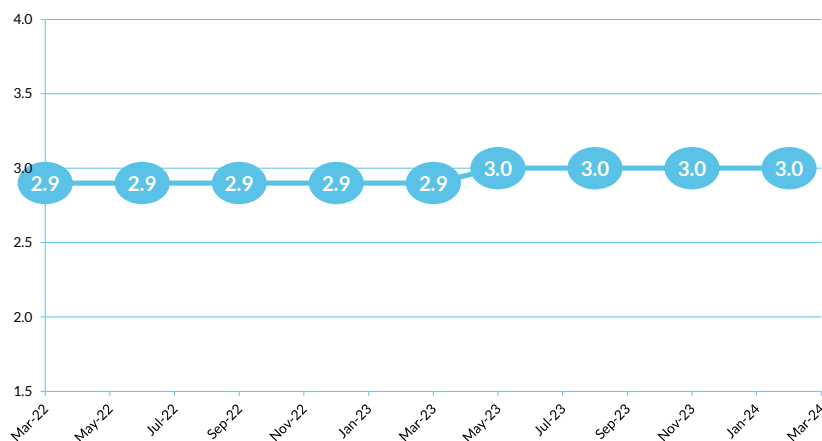
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	467	410	na
Scope 3	na	305	na
Total emissions	467	715	na

Source: Company data, RHB

Latest ESG-Related Developments

- APAC Realty calculated its Scope 3 emissions for the first time based on its air flights taken last year.
- However, as travel restrictions were only gradually relaxed in 2022, the group will be setting 2023 as a baseline for Scope 3 related emission reductions moving forward.
- ERA's APAC Centre, its headquarters in Singapore, garnered BCA Green Mark certification in 2022.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-13	Neutral	0.46	0.50
2023-08-15	Neutral	0.54	0.57
2023-05-17	Neutral	0.57	0.58
2023-03-05	Neutral	0.60	0.61
2022-10-17	Neutral	0.60	0.57
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

Source: RHB, Bloomberg

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