

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

24 Feb 2023

HOLD

Last Traded Price (23 Feb 2023): S\$0.610 (STI : 3,264.93)

Price Target 12-mth: S\$0.63 (4% upside) (Prev S\$0.59)

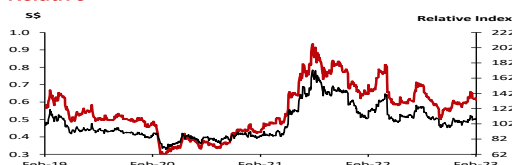
Analyst

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What's New

- Stable FY22 revenue but bottomline hit by one-off fair value loss on convertible loan; broadly in line
- Robust project pipeline, more than double of 2022
- Raised FY23F/FY24F earnings by 13%/17% on higher transaction volume assumptions
- Maintain HOLD with higher TP of S\$0.63. 1H23 could still be weak but expect a better 2H23 on strong project pipeline

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	740	705	685	770
EBITDA	48.1	38.8	38.3	44.7
Pre-tax Profit	42.6	32.9	32.4	38.8
Net Profit	35.4	26.6	26.5	31.8
Net Pft (Pre Ex.)	35.4	26.6	26.5	31.8
Net Pft Gth (Pre-ex) (%)	115.3	(25.0)	(0.1)	20.0
EPS (S cts)	9.96	7.48	7.47	8.97
EPS Pre Ex. (S cts)	9.96	7.48	7.47	8.97
EPS Gth Pre Ex (%)	115	(25)	0	20
Diluted EPS (S cts)	9.96	7.48	7.47	8.97
Net DPS (S cts)	7.50	6.25	5.23	6.28
BV Per Share (S cts)	45.3	45.1	47.3	50.0
PE (X)	6.1	8.2	8.2	6.8
PE Pre Ex. (X)	6.1	8.2	8.2	6.8
P/Cash Flow (X)	3.9	6.1	5.9	5.5
EV/EBITDA (X)	4.4	5.5	5.1	4.0
Net Div Yield (%)	12.3	10.2	8.6	10.3
P/Book Value (X)	1.3	1.4	1.3	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.4	16.5	16.2	18.4
Earnings Rev (%):			13	17
Consensus EPS (S cts):			7.70	8.50
Other Broker Recs:		B: 1	S: 0	H: 2

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

Expect recovery in 2H23

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 presence in 17 countries in Asia Pacific. Through its ERA franchisee 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.

Resilient property market supported by strong pipeline of new launches, stable prices, and demand. The knee-jerk reaction to the latest round of cooling measures introduced on 30 September 2022 could continue to impact 1Q23 financials. Overall, the property market is expected to remain resilient in 2023, supported by the strong pipeline of new launches and resilient demand from both locals and foreigners. The pace of the price increase, however, could be muted given the macro headwinds including rising inflation and slower economic growth.

Venturing overseas to fill the gap for the less robust growth in key Singapore market but contribution still small. Despite the relatively resilient property market in Singapore, growth could be muted given its land scarcity. Hence, APAC is exploring overseas opportunities to fill the gap. The most recent development is the increase in stake in its Vietnam investment. However, we can only expect more meaningful contribution from 2025 onwards.

Maintain HOLD with higher TP of S\$0.63, (previously S\$0.59), pegged to 8.5x PE on FY23F earnings, near its average four-year PE. We have tweaked up our property transaction volume assumption for the various segments by 5% to 8% for FY23F and FY24F. On the back of the higher transaction assumptions, earnings for FY23F and FY24F were raised by 13% and 17% respectively. 1H23 could still be weak on the impact from the cooling measures but expect a better 2H23 on strong project pipeline. FY23F dividend yield of 8.6% is attractive.

Key Risks

Additional property cooling measures. Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (\$m/US\$m)	217 / 161
Major Shareholders (%)	
Morgan Stanley	61.1
Tan Choon Hong	11.1
Chua Khee Hak	8.4
Free Float (%)	74.4
3m Avg. Daily Val (US\$m)	0.05
GIC Industry : Real Estate / Real Estate Management & Development	



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WHAT'S NEW

Resilient FY22 revenue but bottomline affect by one-off fair value loss on convertible loan

FY22 results broadly inline; new home segment fare better vs resale and rental. FY22 revenue eased 4.7% to S\$705.0m. The marginal decline in revenue is attributed to a lower volume of property transactions completed during the year, as a result of the latest round of cooling measures implemented by the government in September 2022, partially offset by the strong demand from both local home buyers and foreign investors. New home segment, which accounts for close to 40% of the total revenue, eased 1.0% to S\$278.3m while revenue for the resale and rental segment was down 7.1%.

Bottomline hit by one-off fair value loss on convertible loan. Net profit, however, plunged 25% to S\$26.4m, due to the one-off fair value loss on convertible loan of \$3.1m recognised following the conversion of the convertible loan to equity to its subsidiary in Indonesia. Excluding the one-off loss, net profit would have been S\$29.6m (-16.2% y-o-y). Net margin eased to 3.8% (4.2% ex fair value loss) vs 4.8% in FY21, mainly due to higher operating expenses.

Revenue for 2H22 eased 5% y-o-y but net profit dived 45.9% y-o-y to S\$9.9m (-28.7% ex fair value loss).

A final DPS of 2.75cts was declared. This brings total DPS to 6.25cts, representing a payout ratio of 74.4% (excluding the fair value loss on convertible loan) or dividend yield of c.10%.

Stable market share. ERA's market share in terms of overall transaction volume for the Singapore market stood at 40.6% for 2022, vs 40.3% in 2021.

Singapore Property Market

	2022	Y-o-Y (%)	
Segment (units)			
New homes (incl. ECs)	8,578	-43.4%	
Private resale	14,791	-28.0%	
HDB resale	27,896	-10.1%	
Rental	128,009	-9.9	
Key Indicators	2022	2021	Change (%)
Private Residential			
Price index	188.6	173.6	+8.6
Rental index	148.1	114.2	+29.7
Pipeline supply (excl. ECs)	46,041	46,276	-0.5
Unsold units (excl. ECs)	16,024	14,154	+13.2
HDB Residential			
Price index	171.9	155.7	+10.4

Source: DBS Bank; Company, URA

Robust project pipeline, more than double of 2022. As of 22 February 2023, the group has secured marketing agent mandates for 36 residential projects with close to 12,000 new

home units launched and to be launched in FY2023. In 2022, ERA was appointed sole or joint marketing agent to 14 projects with a total of 4,032 units, or an estimated 30.6% of the market share of the new homes segment.

Target to reach 10,000 agent force over the next two years. As the growth of the business is dependent on the agent strength, the group has set a target of achieving an agent count of approximately 10,000 agents over the next two years. As at 22 February, ERA Singapore had 8,527 trusted agents, an increase of 5% from 8,144 trusted agents on 1 January 2022.

Raised FY23F/FY24F earnings by 13%/17% on higher transaction volume assumptions. On the back of the resilient property market supported by demand from both local home buyers and foreign investors, we have tweaked our property transaction volume assumption for the various segments by 5% to 8% for FY23F and FY24F. On the back of the higher transaction assumptions, earnings for FY23F and FY24F were raised by 13% and 17% respectively.

Transaction volume assumptions

2023F	Curr.	Prev.	% change
New home	9,000	9,000	-
Private Resale	14,000	13,000	+7.7
HDB resale	28,000	26,000	+7.7
2024F	Curr.	Prev.	% change
New home	10,000	9,500	+5.3
Private Resale	16,000	15,000	+6.7
HDB resale	29,000	27,000	+7.4

Source: DBS Bank

Maintain HOLD with higher TP of S\$0.63. With higher earnings forecasts, our TP is raised to S\$0.63 (Previously S\$0.59), pegged to 8.5x PE on FY23F earnings, near its average four-year PE. 1H23 could still be weak from the cooling measures introduced on 30 September 2022 and also the high interest rate environment. 2H23 could be stronger with more new launches expected to be rolled out. FY23F dividend yield of 8.6% based on our projection of 70% payout ratio (vs 74.4% in FY22) is attractive. Maintain HOLD.

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.

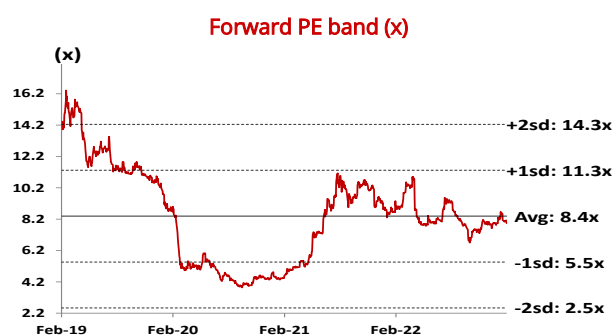
APAC Realty

Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	% chg yoy	% chg hoh
Revenue	381	343	362	(5.0)	5.8
Cost of Goods Sold	(341)	(307)	(324)	(4.9)	5.6
Gross Profit	40	35	38	(5.3)	7.6
Other Oper. (Exp)/Inc	(17)	(15)	(25)	41.0	63.4
Operating Profit	23	20	13	(40.8)	(33.7)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	(1)	nm	nm
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	22	20	13	(43.0)	(37.2)
Tax	(4)	(4)	(3)	(29.6)	(23.4)
Minority Interest	0	0	0	-	-
Net Profit	18	17	10	(46.2)	(40.9)
Net profit bef Except.	18	17	10	(46.2)	(40.9)
EBITDA	25	23	16	(36.9)	(31.5)
Margins (%)					
Gross Margins	10.5	10.3	10.5		
Opg Profit Margins	6.0	5.9	3.7		
Net Profit Margins	4.8	4.9	2.7		

Source of all data: Company, DBS Bank

Historical PE and PB band



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



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

APAC Realty

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
ERA transaction value growth (%)	23.7	88.9	(18.0)	(2.9)	12.5
ERA market share (%)	33.3	35.2	37.5	36.0	36.0

Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Brokerage	384	730	695	675	760
Non-brokerage	11.2	9.64	9.54	10.0	10.5
Total	395	740	705	685	770
Gross profit (\$m)					
Brokerage	37.3	67.3	64.0	61.8	69.9
Non-brokerage	10.2	8.14	8.55	8.98	9.43
Total	47.5	75.4	72.5	70.8	79.3
Gross profit Margins (%)					
Brokerage	9.7	9.2	9.2	9.2	9.2
Non-brokerage	90.8	84.5	89.6	89.6	89.6
Total	12.0	10.2	10.3	10.3	10.3

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	395	740	705	685	770
Cost of Goods Sold	(348)	(664)	(632)	(615)	(691)
Gross Profit	47.5	75.4	73.4	70.8	79.3
Other Opng (Exp)/Inc	(26.6)	(31.6)	(39.6)	(37.4)	(39.5)
Operating Profit	20.9	43.8	33.7	33.3	39.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	(0.4)	0.12	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(0.8)	(1.0)	(1.0)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.6	42.6	32.9	32.4	38.8
Tax	(3.3)	(7.3)	(6.4)	(5.8)	(7.0)
Minority Interest	0.10	0.10	0.12	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	16.4	35.4	26.6	26.5	31.8
Net Profit before Except.	16.4	35.4	26.6	26.5	31.8
EBITDA	24.0	48.1	38.8	38.3	44.7
Growth					
Revenue Gth (%)	6.9	87.2	(4.7)	(2.8)	12.4
EBITDA Gth (%)	17.3	100.7	(19.4)	(1.4)	16.9
Opg Profit Gth (%)	9.9	109.7	(22.9)	(1.2)	19.4
Net Profit Gth (Pre-ex) (%)	17.3	115.3	(25.0)	(0.1)	20.0
Margins & Ratio					
Gross Margins (%)	12.0	10.2	10.4	10.3	10.3
Opg Profit Margin (%)	5.3	5.9	4.8	4.9	5.2
Net Profit Margin (%)	4.2	4.8	3.8	3.9	4.1
ROAE (%)	10.9	22.4	16.5	16.2	18.4
ROA (%)	5.3	10.0	6.9	6.7	7.6
ROCE (%)	7.3	16.3	12.1	11.9	13.8
Div Payout Ratio (%)	54.0	75.3	83.6	70.0	70.0
Net Interest Cover (x)	19.5	56.6	34.4	33.9	40.6

Source: Company, DBS Bank

APAC Realty

Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	222	358	381	343	362
Cost of Goods Sold	(196)	(323)	(341)	(307)	(324)
Gross Profit	25.8	35.3	40.2	35.3	38.0
Other Oper. (Exp)/Inc	(14.7)	(14.2)	(17.4)	(15.0)	(24.6)
Operating Profit	11.1	21.1	22.7	20.3	13.5
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	(0.3)	(0.1)	0.26	(0.1)
Net Interest (Exp)/Inc	(0.4)	(0.4)	(0.4)	(0.4)	(0.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.6	20.4	22.2	20.2	12.7
Tax	(1.9)	(3.4)	(4.0)	(3.7)	(2.8)
Minority Interest	0.04	0.02	0.07	0.14	0.0
Net Profit	8.68	17.0	18.3	16.7	9.87
Net profit bef Except.	8.68	17.0	18.3	16.7	9.87
EBITDA	12.6	23.1	25.0	23.0	15.8

Growth

Revenue Gth (%)	28.6	61.2	6.4	(10.2)	5.8
EBITDA Gth (%)	11.0	83.8	8.1	(7.9)	(31.5)
Opp Profit Gth (%)	14.4	89.2	7.8	(10.7)	(33.7)
Net Profit Gth (%)	11.9	96.4	7.6	(9.0)	(40.9)

Margins

Gross Margins (%)	11.6	9.8	10.5	10.3	10.5
Opp Profit Margins (%)	5.0	5.9	6.0	5.9	3.7
Net Profit Margins (%)	3.9	4.8	4.8	4.9	2.7

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	73.9	72.8	73.9	70.9	67.9
Invts in Associates & JVs	2.43	2.36	2.18	2.18	2.18
Other LT Assets	103	100	104	103	102
Cash & ST Invts	35.1	53.7	49.3	66.3	82.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	79.6	121	151	154	173
Other Current Assets	27.4	36.1	7.36	7.36	7.36
Total Assets	321	386	388	404	435
ST Debt	2.90	2.90	45.9	45.9	45.9
Creditor	90.9	148	156	165	186
Other Current Liab	18.2	24.5	21.5	20.5	21.7
LT Debt	48.8	45.9	0.0	0.0	0.0
Other LT Liabilities	5.94	4.13	4.37	4.37	4.37
Shareholder's Equity	155	161	160	168	178
Minority Interests	(0.2)	(0.3)	0.05	0.05	0.05
Total Cap. & Liab.	321	386	388	404	435
Non-Cash Wkg. Capital	(2.1)	(15.3)	(19.0)	(24.2)	(26.8)
Net Cash/(Debt)	(16.6)	4.85	3.36	20.4	36.5
Debtors Turn (avg days)	68.3	49.4	70.4	81.2	77.5
Creditors Turn (avg days)	86.3	66.0	88.4	96.1	93.3
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	2.1	1.8	1.7	1.8
Current Ratio (x)	1.3	1.2	0.9	1.0	1.0
Quick Ratio (x)	1.0	1.0	0.9	1.0	1.0
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.3	2.2	5.0	2.2	2.2
Z-Score (X)	2.4	2.5	2.5	2.5	2.5

Source: Company, DBS Bank

APAC Realty

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	19.6	42.6	32.9	32.4	38.8
Dep. & Amort.	3.27	4.74	4.92	4.92	4.92
Tax Paid	(2.5)	(4.1)	(7.5)	(6.8)	(5.8)
Assoc. & JV Inc/(loss)	0.16	0.40	(0.1)	0.0	0.0
Chg in Wkg.Cap.	(4.3)	6.45	(1.1)	6.11	1.43
Other Operating CF	3.73	4.77	6.25	0.0	0.0
Net Operating CF	20.0	54.9	35.4	36.6	39.4
Capital Exp.(net)	(0.2)	(1.1)	(2.3)	(1.0)	(1.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(2.2)	(0.2)	(6.7)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(2.6)	(0.8)	0.54	0.0	0.0
Net Investing CF	(4.9)	(2.1)	(8.5)	(1.0)	(1.0)
Div Paid	(7.1)	(29.3)	(26.6)	(18.6)	(22.3)
Chg in Gross Debt	(4.9)	(4.9)	(4.6)	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
Net Financing CF	(12.0)	(34.2)	(31.3)	(18.6)	(22.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.10	18.5	(4.4)	17.1	16.1
Opg CFPS (S cts)	6.85	13.6	10.3	8.59	10.7
Free CFPS (S cts)	5.59	15.1	9.31	10.0	10.8

Source: Company, DBS Bank

Target Price & 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:	23 Feb 22	0.70	0.67	HOLD
2:	30 Sep 22	0.59	0.41	FULLY VALUED
3:	08 Oct 22	0.59	0.41	FULLY VALUED
4:	11 Nov 22	0.57	0.59	HOLD
5:	17 Jan 23	0.60	0.59	HOLD

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank 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: 24 Feb 2023 13:05:06 (SGT)

Dissemination Date: 24 Feb 2023 13:40:06 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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