

# 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

15 May 2023

### HOLD

Last Traded Price (12 May 2023): S\$0.625 (STI : 3,208.55)

Price Target 12-mth: S\$0.57 (8% downside) (Prev S\$0.63)

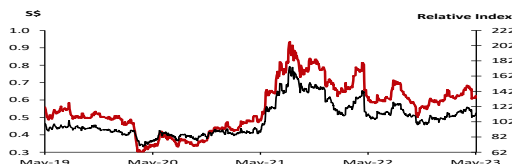
#### Analyst

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#### What's New

- 1Q23 below expectations; net margins affected by higher expenses and lower topline
- Prices higher for private and HDB resale properties in 1Q23 but private segment saw lower volumes while HDB was stable
- Cut FY23F/FY24F earnings by 33%/21% on lower transaction assumption and margins
- Maintain HOLD with lower TP of S\$0.57

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	740	705	578	710
EBITDA	48.1	38.8	27.7	36.4
Pre-tax Profit	42.6	32.9	21.8	30.5
Net Profit	35.4	26.6	17.8	25.0
Net Pft (Pre Ex.)	35.4	26.6	17.8	25.0
Net Pft Gth (Pre-ex) (%)	115.3	(25.0)	(32.8)	40.2
EPS (S cts)	9.96	7.48	5.02	7.04
EPS Pre Ex. (S cts)	9.96	7.48	5.02	7.04
EPS Gth Pre Ex (%)	115	(25)	(33)	40
Diluted EPS (S cts)	9.96	7.48	5.02	7.04
Net DPS (S cts)	7.50	6.25	3.52	4.93
BV Per Share (S cts)	45.3	45.1	46.6	48.7
PE (X)	6.3	8.4	12.4	8.9
PE Pre Ex. (X)	6.3	8.4	12.4	8.9
P/Cash Flow (X)	4.0	6.3	9.3	6.5
EV/EBITDA (X)	4.5	5.6	7.5	5.3
Net Div Yield (%)	12.0	10.0	5.6	7.9
P/Book Value (X)	1.4	1.4	1.3	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.4	16.5	11.0	14.8
Earnings Rev (%):			(33)	(21)
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 lower transaction activities

#### 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.

Sentiment could be affected with three cooling measures in less than a year though prices could remain stable. With three cooling measures (30 Sep 2022, 15 Feb 2023 & 27 Apr 2023) in less than a year, concerns remain that more measures could be in the pipeline. Coupled with the high interest rate environment, overall sentiment could be affected. Impact could be partially offset by the robust pipeline of new launches and the relatively resilient demand from both locals and foreigners. Prices, on the other hand, could remain stable despite higher costs.

Venturing overseas to fill the gap from 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 a more meaningful contribution from 2025 onwards.

Maintain HOLD with lower TP of S\$0.57. We have reduced our property transaction volume assumption for the various segments by 7% to 22% for FY23F and FY24F. Coupled with lower margins assumptions, we have cut earnings for FY23F/FY24F by 33%/21%. Target price is lowered to S\$0.57 (previously S\$0.63), pegged to 9.5x PE, near its four-year average PE, on blended FY23/FY24F earnings. Maintain HOLD. FY23F dividend yield of c.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 (S\$m/US\$m)	222 / 166
Major Shareholders (%)	
Morgan Stanley	61.1
Tan Choon Hong	11.1
Chua Khee Hak	8.4
Free Float (%)	19.4
3m Avg. Daily Val (US\$m)	0.11
GIC Industry : Real Estate / Real Estate Management & Development	

## WHAT'S NEW

**1Q23 below expectations; net margins affected by higher expenses and lower topline**

1Q23 below expectations; net margins affected by higher expenses and lower topline. Total revenue for 1Q23 was down 29% y-o-y to S\$121.4m. Within the segment, new home brokerage revenue declined 49% to S\$39.4m, as new launches over the last six months were limited. Resale and rental brokerage revenue dropped 13% to S\$80.3m. Net earnings plunged 67% y-o-y to S\$3.0m as net margin eased to 2.5% vs 5.3% in 1Q22, affected by higher expenses, in particular marketing and personnel expenses. Overall, revenue/gross profit/net earnings accounted for 18%/19%/11% of our full-year forecasts, below expectations.

**1Q23 results snapshot**

(S\$m)	1Q23	1Q22	Y-o-Y (%)
Revenue	121.4	171.1	-29
Gross profit	13.7	18.3	-25
Gross profit margin	11.3%	10.7%	
Net profit	3.0	9.0	-67
Net profit margin	2.5%	5.3%	

Source: Company; DBS Bank

**Prices higher for both private and HDB resale in 1Q23 but private segment registered lower volume while HDB was stable.** For the overall property market, the private property prices were up 3.3% q-o-q (+11.4% y-o-y) in 1Q23, much faster than whole of 2022 at 8.4%. New home (excl. ECs) sales decreased 31.2% to 1,256 units as compared to 1Q22, mainly due to fewer new launches. Private resale home sales decreased 18.6% y-o-y to 2,865 units but HDB resale was stable, +0.6% y-o-y, despite the cooling measures imposed at the end of September last year, which were more targeted at the HDB segment. The HDB resale price index is showing signs of stabilizing, grew 1.0% q-o-q (+8.8% y-o-y), the lowest in the last 10 quarters.

**Singapore Property Market**

	1Q23	Y-o-Y (%)
<b>Segment (units)</b>		
New homes (incl. ECs)	1,462	-25.3%
Private resale	2,865	-18.6%
HDB resale	6,979	+0.6%
Private rental	19,467	-16.0%
HDB rental	9,657	-5.2%

Source: Company; DBS Bank

**Singapore Property Market (continued)**

Key Indicators	1Q23	Y-o-Y (%)
<b>Private Residential</b>		
Price index	194.8	+11.4
Rental index	158.8	+33.4
Pipeline supply (excl. ECs)	44,846	-5.4
Unsold units (excl. ECs)	16,252	+15.4
<b>HDB Residential</b>		
Price index	173.6	+8.8

Source: Company; DBS Bank

**Growing agent strength.** As at 9 May 2023, ERA crossed 8,700 agents. The target is to reach 9,300 agents before the end of 2023, and 10,000 agents by the end of 2024. ERA has 34.8% market share in terms of transaction volume, vs 40.6% for 2022.

**Robust project pipeline, more than double of 2022.** ERA 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 for 14 projects with a total of 4,032 units, or an estimated 30.6% of the market share of the new homes segment.

**Revised down assumptions for property transaction volume by 7% to 22%.** With three cooling measures (30 Sep 2022, 15 Feb 2023 and 27 Apr 2023) in less than a year, concerns remain that more measures could be in the pipeline. Coupled with the high interest rate environment, overall sentiment could be affected. Hence, we have reduced our property transaction volume assumption for the various segments – private new home, private resale and HDB resale - by 7% to 22% for FY23F and FY24F.

**Cut earnings by 33%/21% for FY23F/FY24F on lower transaction assumption and margins. Maintain HOLD with reduced TP of S\$0.57.** On the back of the lower transaction assumptions coupled with lower margins, we have cut earnings for FY23F/FY24F by 33%/21%. Net margin is lowered to 3.1% and 3.5% in FY23F and FY24F respectively, from 3.9% and 4.1% previously, as the group continues to invest in various initiatives to boost sales. Lower transaction activities also affect margins due to the lack of scales. Target price is lowered to S\$0.57 (previously S\$0.63), pegged to 9.5x PE, near its four-year average PE, on blended FY23F/FY24F earnings. Maintain HOLD; FY23F dividend yield of c.6% is attractive.

## APAC Realty

### 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 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)	(18.4)	23.3
ERA market share (%)	33.3	35.2	37.5	35.0	36.0

### Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
<b>Revenues (\$m)</b>					
Brokerage	384	730	695	568	700
Non-brokerage	11.2	9.64	9.54	10.0	10.5
<b>Total</b>	<b>395</b>	<b>740</b>	<b>705</b>	<b>578</b>	<b>710</b>
<b>Gross profit (\$m)</b>					
Brokerage	37.3	67.3	65.5	52.2	64.4
Non-brokerage	10.2	8.14	7.85	8.98	9.43
<b>Total</b>	<b>47.5</b>	<b>75.4</b>	<b>73.4</b>	<b>61.2</b>	<b>73.8</b>
<b>Gross profit Margins</b>					
Brokerage	9.7	9.2	9.4	9.2	9.2
Non-brokerage	90.8	84.5	82.3	89.6	89.6
<b>Total</b>	<b>12.0</b>	<b>10.2</b>	<b>10.4</b>	<b>10.6</b>	<b>10.4</b>

### Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	395	740	705	578	710
Cost of Goods Sold	(348)	(664)	(632)	(517)	(637)
<b>Gross Profit</b>	<b>47.5</b>	<b>75.4</b>	<b>73.4</b>	<b>61.2</b>	<b>73.8</b>
Other Opng (Exp)/Inc	(26.6)	(31.6)	(39.6)	(38.5)	(42.3)
<b>Operating Profit</b>	<b>20.9</b>	<b>43.8</b>	<b>33.7</b>	<b>22.7</b>	<b>31.5</b>
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
<b>Pre-tax Profit</b>	<b>19.6</b>	<b>42.6</b>	<b>32.9</b>	<b>21.8</b>	<b>30.5</b>
Tax	(3.3)	(7.3)	(6.4)	(3.9)	(5.5)
Minority Interest	0.10	0.10	0.12	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>16.4</b>	<b>35.4</b>	<b>26.6</b>	<b>17.8</b>	<b>25.0</b>
Net Profit before Except.	16.4	35.4	26.6	17.8	25.0
EBITDA	24.0	48.1	38.8	27.7	36.4
<b>Growth</b>					
Revenue Gth (%)	6.9	87.2	(4.7)	(18.0)	22.9
EBITDA Gth (%)	17.3	100.7	(19.4)	(28.7)	31.6
Opg Profit Gth (%)	9.9	109.7	(22.9)	(32.6)	38.5
Net Profit Gth (Pre-ex) (%)	17.3	115.3	(25.0)	(32.8)	40.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	12.0	10.2	10.4	10.6	10.4
Opg Profit Margin (%)	5.3	5.9	4.8	3.9	4.4
Net Profit Margin (%)	4.2	4.8	3.8	3.1	3.5
ROAE (%)	10.9	22.4	16.5	11.0	14.8
ROA (%)	5.3	10.0	6.9	4.7	6.4
ROCE (%)	7.3	16.3	12.1	7.9	10.9
Div Payout Ratio (%)	54.0	75.3	83.6	70.0	70.0
Net Interest Cover (x)	19.5	56.6	34.4	23.2	32.1

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)
<b>Gross Profit</b>	<b>25.8</b>	<b>35.3</b>	<b>40.2</b>	<b>35.3</b>	<b>38.0</b>
Other Oper. (Exp)/Inc	(14.7)	(14.2)	(17.4)	(15.0)	(24.6)
<b>Operating Profit</b>	<b>11.1</b>	<b>21.1</b>	<b>22.7</b>	<b>20.3</b>	<b>13.5</b>
Other Non Opg (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
<b>Pre-tax Profit</b>	<b>10.6</b>	<b>20.4</b>	<b>22.2</b>	<b>20.2</b>	<b>12.7</b>
Tax	(1.9)	(3.4)	(4.0)	(3.7)	(2.8)
Minority Interest	0.04	0.02	0.07	0.14	0.0
<b>Net Profit</b>	<b>8.68</b>	<b>17.0</b>	<b>18.3</b>	<b>16.7</b>	<b>9.87</b>
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)
Opg 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
Opg 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	59.7	75.1
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	79.6	121	151	130	160
Other Current Assets	27.4	36.1	7.36	7.36	7.36
<b>Total Assets</b>	<b>321</b>	<b>386</b>	<b>388</b>	<b>373</b>	<b>414</b>
ST Debt	2.90	2.90	45.9	45.9	45.9
Creditor	90.9	148	156	139	171
Other Current Liab	18.2	24.5	21.5	18.6	20.2
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	165	173
Minority Interests	(0.2)	(0.3)	0.05	0.05	0.05
<b>Total Cap. &amp; Liab.</b>	<b>321</b>	<b>386</b>	<b>388</b>	<b>373</b>	<b>414</b>
Non-Cash Wkg. Capital	(2.1)	(15.3)	(19.0)	(20.2)	(24.2)
Net Cash/(Debt)	(16.6)	4.85	3.36	13.8	29.2
Debtors Turn (avg days)	68.3	49.4	70.4	88.7	74.3
Creditors Turn (avg days)	86.3	66.0	88.4	105.1	89.5
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	2.1	1.8	1.5	1.8
Current Ratio (x)	1.3	1.2	0.9	1.0	1.0
Quick Ratio (x)	1.0	1.0	0.9	0.9	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 (S\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	19.6	42.6	32.9	21.8	30.5
Dep. & Amort.	3.27	4.74	4.92	4.92	4.92
Tax Paid	(2.5)	(4.1)	(7.5)	(6.8)	(3.9)
Assoc. & JV Inc/(loss)	0.16	0.40	(0.1)	0.0	0.0
Chg in Wkg.Cap.	(4.3)	6.45	(1.1)	3.96	2.43
Other Operating CF	3.73	4.77	6.25	0.0	0.0
<b>Net Operating CF</b>	<b>20.0</b>	<b>54.9</b>	<b>35.4</b>	<b>23.9</b>	<b>33.9</b>
Capital Exp.(net)	(0.2)	(1.1)	(2.3)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt 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
<b>Net Investing CF</b>	<b>(4.9)</b>	<b>(2.1)</b>	<b>(8.5)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Div Paid	(7.1)	(29.3)	(26.6)	(12.5)	(17.5)
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
<b>Net Financing CF</b>	<b>(12.0)</b>	<b>(34.2)</b>	<b>(31.3)</b>	<b>(12.5)</b>	<b>(17.5)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.10	18.5	(4.4)	10.4	15.4
Opg CFPS (S cts)	6.85	13.6	10.3	5.61	8.87
Free CFPS (S cts)	5.59	15.1	9.31	6.44	9.27

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:	30 Sep 22	0.59	0.41	FULLY VALUED
2:	08 Oct 22	0.59	0.41	FULLY VALUED
3:	11 Nov 22	0.57	0.59	HOLD
4:	17 Jan 23	0.60	0.59	HOLD
5:	24 Feb 23	0.61	0.63	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

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

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