

# 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

9 Nov 2023

### HOLD

Last Traded Price (7 Nov 2023): S\$0.495 (STI : 3,129.72)

Price Target 12-mth: S\$0.53 (7% upside) (Prev S\$0.54)

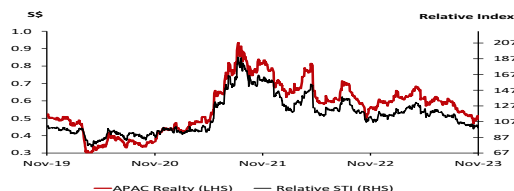
#### Analyst

Lee Keng LING +65 6682 3703 leekeng@db.com

#### What's New

- 9M23 below expectations; margins still weak
- Transaction volume declined for all segments; smaller gain in 3Q23 price index for both private and HDB
- Revised down earnings for FY23F by 16% on lower assumption for new home sale transactions in 2023
- Maintain HOLD with TP of S\$0.53

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2022A	2023F	2024F	2025F
Revenue	705	550	705	770
EBITDA	38.8	18.2	26.7	28.1
Pre-tax Profit	32.9	12.3	20.8	22.2
Net Profit	26.6	10.1	17.1	18.2
Net Pft (Pre Ex.)	26.6	10.1	17.1	18.2
Net Pft Gth (Pre-ex) (%)	(25.0)	(61.9)	68.8	6.6
EPS (S cts)	7.48	2.85	4.81	5.13
EPS Pre Ex. (S cts)	7.48	2.85	4.81	5.13
EPS Gth Pre Ex (%)	(25)	(62)	69	7
Diluted EPS (S cts)	7.48	2.85	4.81	5.13
Net DPS (S cts)	6.25	1.99	3.37	3.59
BV Per Share (S cts)	45.1	45.9	47.4	48.9
PE (X)	6.6	17.4	10.3	9.7
PE Pre Ex. (X)	6.6	17.4	10.3	9.7
P/Cash Flow (X)	5.0	12.6	6.7	7.2
EV/EBITDA (X)	4.4	9.4	5.9	5.2
Net Div Yield (%)	12.6	4.0	6.8	7.3
P/Book Value (X)	1.1	1.1	1.0	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.5	6.3	10.3	10.7
Earnings Rev (%):		(16)	(1)	-
Consensus EPS (S cts):		3.80	4.40	4.90
Other Broker Recs:		B: 1	S: 0	H: 2

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

### Still adjusting to cooling measures

#### 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.

#### Sentiment could be affected, with three cooling measures in Singapore in less than a year, though prices could remain stable.

With three property cooling measures (30 Sep 2022, 15 Feb 2023, & 27 Apr 2023) in Singapore in less than a year, concerns remain that more measures could be in the pipeline. Coupled with the high interest rate environment, this could affect overall sentiment. The 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. Margins remain under pressure as the group continues to invest in future growth.

Venturing overseas to fill the gap from less robust growth in key Singapore market; contribution remains 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. One investment it is making is increasing its stake in its Vietnam venture. However, we can only expect a more meaningful contribution from 2025 onwards.

Maintain HOLD with slightly lower TP of S\$0.53. We have lowered our assumption for new home sale transactions for 2023 to 6,000 units from 7,000 units previously. Earnings for FY23F are reduced by 16%. TP is reduced slightly to S\$0.53 (previously: S\$0.54), still pegged to 11x PE, which is near the four-year average, on FY24F earnings. Maintain HOLD.

#### Key Risks

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

Issued Capital (m shrs)	355
Mkt. Cap (\$m/US\$m)	176 / 130
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)	0.01

GIC Industry : Real Estate / Real Estate Management &



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## WHAT'S NEW

**9M23 below expectations; margins still weak**

**9M23 below expectations; margins still weak.** 9M23 revenue dropped 23% y-o-y to S\$405.5m while net profit plunged 68% to S\$7.6m. Net margin of 1.9% pales in comparison to the 4.6% in 9M22. For 3Q23, the group registered net profit of S\$2.6m (-65% y-o-y, +29% q-o-q) on the back of the 20% y-o-y (+5.5% q-o-q) decline in revenue to S\$145.9m. 3Q23 net margin of 1.8% is slightly better than the 1.5% in 2Q23 but much weaker than the 4.1% registered in 3Q22. Overall, 3Q23/9M23 earnings account for 22%/63% of our forecasts, below expectations.

**Transaction volume declined for all segments except EC; rental market mixed.** For the 9M23 period, both new homes (except EC) and resales saw a decline in transaction volume, on the back of the macro uncertainties, cooling measures, and higher interest rate environment. For the rental market, the HDB segment recorded a 6% increase, but the private segment saw a 8.7% dip as compared to 9M22.

**Overall market transaction volume**

	3Q23 (units)	y-o-y (%)	9M23 (units)	y-o-y (%)
<b>New Homes</b>				
Private	1,946	-11.0	5,329	-16.9
ECs	420	1400	683	94.0
	<b>2,366</b>	<b>6.8</b>	<b>6,012</b>	<b>-11.1</b>
<b>Resale</b>				
Private	3,255	-17.8	9,381	-21.1
HDB	6,695	-11.3	20,188	-5.2
	<b>9,950</b>	<b>-13.5</b>	<b>29,569</b>	<b>-10.9</b>
<b>Rental</b>				
Private	23,974	-8.3	64,369	-8.7
HDB	9,852	20.3	29,351	6.0
	<b>33,826</b>	<b>-1.5</b>	<b>93,720</b>	<b>-4.5</b>
<b>Total residential transactions</b>	<b>46,142</b>	<b>-4.0</b>	<b>129,301</b>	<b>-6.4</b>

Source: URA, HDB, Company; DBS Bank

**Singapore property market**

Key Indicators	3Q23	2Q23	Q-o-Q (%)
<b>Private Residential</b>			
Price index	196.0	194.4	+0.8
Rental index	164.5	163.2	+0.8
Pipeline supply (excl. ECs)	36,949	44,157	-16.3
Unsold units (excl. ECs)	16,747	17,484	-4.2
<b>HDB Residential</b>			
Price index	178.5	176.2	+1.3

Source: Company; DBS Bank

**Smaller gain in 3Q23 price index for both private and HDB.** For 3Q23, the price index for private residential gained only 0.8% q-o-q, lower than the average quarterly increase of 2.1% in 2022, partly due to the Hungry Ghost Festival in mid-August to mid-September. In 9M23, prices increased by 3.9%. October was also a quiet month, but we can look forward to another three projects – Hillock Green (474 units), J'Den (368 units), and Watten House (a80 units) – that are to be launched in 4Q23. The 1.3% increase in the HDB price index is also lower than the average quarterly increase of 2.5% in 2022. Prices have increased by 3.8% for the 9M23 period.

**More new home supply in the pipeline for 2024.** About 25 projects with more than 8,000 units are expected to be launched in 2024. For 2023, 18 projects were launched to date, with a total of 7,138 units. Three more projects with 1,022 units are expected to be launched in 4Q23.

**Growing agent strength.** As of end-October 2023, ERA has 9,069 agents, up from 8,144 as at end-2022. The target is to reach 10,000 agents by the end of 2024. ERA has a 25% market share by agents, similar to the past two years. Based on the volume of sales transactions for 9M23, ERA has a 38.6% market share.

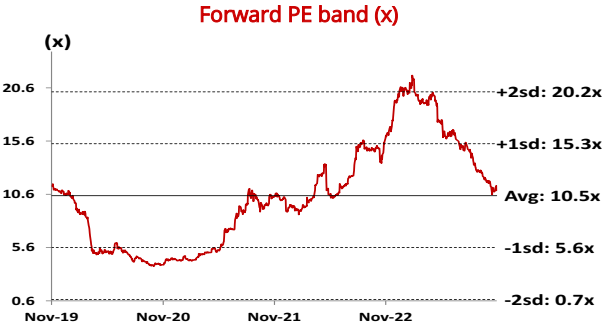
**Revised down earnings for FY23F by 16% on lower assumption for new home sale transactions.** We have lowered the assumption for new home sale transactions for 2023 to 6,000 units from 7,000 units previously. Earnings for FY23F are reduced by 16%. TP is reduced slightly to S\$0.53 (previously: S\$0.54), still pegged to 11x PE, which is near the four-year average, on FY24F earnings. Maintain HOLD.

**Company Background**

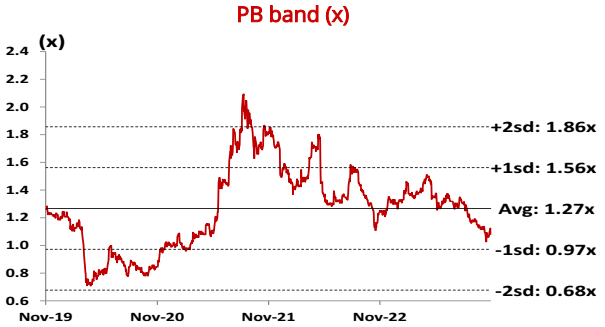
APAC Realty Limited (APAC) is one of the leading players in the real estate brokerage industry in Asia. APAC Realty operates three main business segments – the real estate brokerage services; franchise agreements; and training, valuation, and other ancillary services.

APAC Realty

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	2021A	2022A	2023F	2024F	2025F
ERA transaction value growth (%)	88.9	(18.0)	(22.3)	28.5	9.35
ERA market share (%)	35.2	37.5	34.6	36.0	36.0

### Segmental Breakdown

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (\$m)</b>					
Brokerage	730	695	540	694	759
Non-brokerage	9.64	9.54	10.0	10.5	11.0
<b>Total</b>	<b>740</b>	<b>705</b>	<b>550</b>	<b>705</b>	<b>770</b>
<b>Gross profit (\$m)</b>					
Brokerage	67.3	65.5	49.7	63.9	69.8
Non-brokerage	8.14	7.85	8.98	9.43	9.90
<b>Total</b>	<b>75.4</b>	<b>73.4</b>	<b>58.7</b>	<b>73.3</b>	<b>79.7</b>
<b>Gross profit Margins (%)</b>					
Brokerage	9.2	9.4	9.2	9.2	9.2
Non-brokerage	84.5	82.3	89.6	89.6	89.6
<b>Total</b>	<b>10.2</b>	<b>10.4</b>	<b>10.7</b>	<b>10.4</b>	<b>10.4</b>

### Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	740	705	550	705	770
Cost of Goods Sold	(664)	(632)	(492)	(631)	(690)
<b>Gross Profit</b>	<b>75.4</b>	<b>73.4</b>	<b>58.7</b>	<b>73.3</b>	<b>79.7</b>
Other Opng (Exp)/Inc	(31.6)	(39.6)	(45.4)	(51.5)	(56.5)
<b>Operating Profit</b>	<b>43.8</b>	<b>33.7</b>	<b>13.3</b>	<b>21.8</b>	<b>23.2</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)	(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>42.6</b>	<b>32.9</b>	<b>12.3</b>	<b>20.8</b>	<b>22.2</b>
Tax	(7.3)	(6.4)	(2.2)	(3.8)	(4.0)
Minority Interest	0.10	0.12	0.0	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>10.1</b>	<b>17.1</b>	<b>18.2</b>
Net Profit before Except.	35.4	26.6	10.1	17.1	18.2
EBITDA	48.1	38.8	18.2	26.7	28.1
<b>Growth</b>					
Revenue Gth (%)	87.2	(4.7)	(21.9)	28.1	9.3
EBITDA Gth (%)	100.7	(19.4)	(53.0)	46.5	5.2
Opg Profit Gth (%)	109.7	(22.9)	(60.5)	63.7	6.3
Net Profit Gth (Pre-ex) (%)	115.3	(25.0)	(61.9)	68.8	6.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	10.2	10.4	10.7	10.4	10.4
Opg Profit Margin (%)	5.9	4.8	2.4	3.1	3.0
Net Profit Margin (%)	4.8	3.8	1.8	2.4	2.4
ROAE (%)	22.4	16.5	6.3	10.3	10.7
ROA (%)	10.0	6.9	2.7	4.4	4.4
ROCE (%)	16.3	12.1	4.3	7.5	7.8
Div Payout Ratio (%)	75.3	83.6	70.0	70.0	70.0
Net Interest Cover (x)	56.6	34.4	13.6	22.2	23.6

Source: Company, DBS Bank

## APAC Realty

## Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	358	381	343	362	260
Cost of Goods Sold	(323)	(341)	(307)	(324)	(233)
<b>Gross Profit</b>	<b>35.3</b>	<b>40.2</b>	<b>35.3</b>	<b>38.0</b>	<b>26.6</b>
Other Oper. (Exp)/Inc	(14.2)	(17.4)	(15.0)	(24.6)	(19.7)
<b>Operating Profit</b>	<b>21.1</b>	<b>22.7</b>	<b>20.3</b>	<b>13.5</b>	<b>6.89</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.3)	(0.1)	0.26	(0.1)	0.0
Net Interest (Exp)/Inc	(0.4)	(0.4)	(0.4)	(0.6)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>20.4</b>	<b>22.2</b>	<b>20.2</b>	<b>12.7</b>	<b>5.86</b>
Tax	(3.4)	(4.0)	(3.7)	(2.8)	(1.5)
Minority Interest	0.02	0.07	0.14	0.0	0.66
<b>Net Profit</b>	<b>17.0</b>	<b>18.3</b>	<b>16.7</b>	<b>9.87</b>	<b>5.01</b>
Net profit bef Except.	17.0	18.3	16.7	9.87	5.01
EBITDA	23.1	25.0	23.0	15.8	9.25

## Growth

Revenue Gth (%)	61.2	6.4	(10.2)	5.8	(28.4)
EBITDA Gth (%)	83.8	8.1	(7.9)	(31.5)	(41.3)
Opg Profit Gth (%)	89.2	7.8	(10.7)	(33.7)	(48.8)
Net Profit Gth (%)	96.4	7.6	(9.0)	(40.9)	(49.3)

## Margins

Gross Margins (%)	9.8	10.5	10.3	10.5	10.2
Opg Profit Margins (%)	5.9	6.0	5.9	3.7	2.7
Net Profit Margins (%)	4.8	4.8	4.9	2.7	1.9

## Balance Sheet (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	72.8	73.9	70.9	67.9	64.9
Invts in Associates & JVs	2.36	2.18	7.18	7.18	7.18
Other LT Assets	100	104	103	102	101
Cash & ST Invts	53.7	49.3	50.1	63.6	74.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	121	151	124	158	173
Other Current Assets	36.1	7.36	7.36	7.36	7.36
<b>Total Assets</b>	<b>386</b>	<b>388</b>	<b>362</b>	<b>407</b>	<b>428</b>
ST Debt	2.90	45.9	45.9	45.9	45.9
Creditor	148	156	132	170	185
Other Current Liab	24.5	21.5	16.9	18.5	18.7
LT Debt	45.9	0.0	0.0	0.0	0.0
Other LT Liabilities	4.13	4.37	4.37	4.37	4.37
Shareholder's Equity	161	160	163	168	174
Minority Interests	(0.3)	0.05	0.05	0.05	0.05
<b>Total Cap. &amp; Liab.</b>	<b>386</b>	<b>388</b>	<b>362</b>	<b>407</b>	<b>428</b>
Non-Cash Wkg. Capital	(15.3)	(19.0)	(17.9)	(22.3)	(23.7)
Net Cash/(Debt)	4.85	3.36	4.21	17.6	28.4
Debtors Turn (avg days)	49.4	70.4	91.1	73.0	78.5
Creditors Turn (avg days)	66.0	88.4	108.0	87.8	94.5
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	2.1	1.8	1.5	1.8	1.8
Current Ratio (x)	1.2	0.9	0.9	1.0	1.0
Quick Ratio (x)	1.0	0.9	0.9	0.9	1.0
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	2.2	2.2	2.2

Source: Company, DBS Bank

## APAC Realty

## Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	42.6	32.9	12.3	20.8	22.2
Dep. & Amort.	4.74	4.92	4.92	4.92	4.92
Tax Paid	(4.1)	(7.5)	(6.8)	(2.2)	(3.8)
Assoc. & JV Inc/(loss)	0.40	(0.1)	0.0	0.0	0.0
Chg in Wkg.Cap.	6.45	(1.1)	3.43	2.85	1.14
Other Operating CF	4.77	6.25	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>54.9</b>	<b>35.4</b>	<b>13.9</b>	<b>26.4</b>	<b>24.5</b>
Capital Exp.(net)	(1.1)	(2.3)	(1.0)	(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)	(5.0)	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	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(2.1)</b>	<b>(8.5)</b>	<b>(6.0)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Div Paid	(29.3)	(26.6)	(7.1)	(12.0)	(12.8)
Chg in Gross Debt	(4.9)	(4.6)	0.0	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>(7.1)</b>	<b>(12.0)</b>	<b>(12.8)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	18.5	(4.4)	0.86	13.4	10.8
Opg CFPS (S cts)	13.6	10.3	2.96	6.63	6.58
Free CFPS (S cts)	15.1	9.31	3.64	7.15	6.62

Source: Company, DBS Bank

## 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:	11 Nov 22	0.57	0.59	HOLD
2:	17 Jan 23	0.60	0.59	HOLD
3:	24 Feb 23	0.61	0.63	HOLD
4:	15 May 23	0.57	0.57	HOLD
5:	16 Aug 23	0.59	0.54	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: 9 Nov 2023 07:02:51 (SGT)

Dissemination Date: 9 Nov 2023 07:09:57 (SGT)

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

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### DBS Regional Research Offices

#### HONG KONG

##### DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

#### SINGAPORE

##### DBS Bank Ltd

Contact: Paul Yong  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E

#### INDONESIA

##### PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaresearch@dbs.com

#### THAILAND

##### DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
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