

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

17 Jan 2023

HOLD

Last Traded Price (16 Jan 2023): S\$0.595 (STI: 3,283.60)
Price Target 12-mth: S\$0.59 (0% downside)

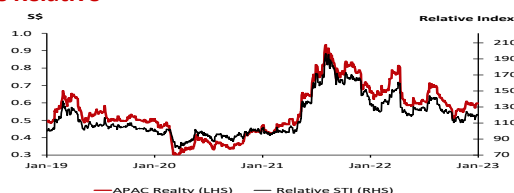
Analyst

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What's New

- Increasing stake in ERA Vietnam. Long-term positive; near-term affected by global tightening of liquidity
- Acquisition fairly valued assuming achievement of maximum upside incentives
- Target to have four mega offices to cover Vietnam; double agent strength by 2026
- No change in forecasts; current contribution from proposed acquisitions still small. Maintain HOLD with S\$0.59 TP

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Revenue	740	594	568	634
EBITDA	48.1	36.8	33.8	38.4
Pre-tax Profit	42.6	31.3	28.3	32.9
Net Profit	35.4	25.9	23.4	27.2
Net Pft (Pre Ex.)	35.4	25.9	23.4	27.2
Net Pft Gth (Pre-ex) (%)	115.3	(26.8)	(9.7)	16.3
EPS (S cts)	9.96	7.30	6.59	7.66
EPS Pre Ex. (S cts)	9.96	7.30	6.59	7.66
EPS Gth Pre Ex (%)	115	(27)	(10)	16
Diluted EPS (S cts)	9.96	7.30	6.59	7.66
Net DPS (S cts)	7.50	4.01	3.62	4.21
BV Per Share (S cts)	45.3	48.6	51.6	55.0
PE (X)	6.0	8.2	9.0	7.8
PE Pre Ex. (X)	6.0	8.2	9.0	7.8
P/Cash Flow (X)	3.9	12.6	7.9	6.1
EV/EBITDA (X)	4.3	5.6	5.7	4.5
Net Div Yield (%)	12.6	6.7	6.1	7.1
P/Book Value (X)	1.3	1.2	1.2	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.4	15.5	13.2	14.4
Earnings Rev (%):		0	0	0
Consensus EPS (S cts):		7.1	6.9	7.6
Other Broker Recs:		B: 1	S: 1	H: 2

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

Expanding footprint in Vietnam

Investment Thesis

Increasing stake in ERA Vietnam. Long term positive; to fill the gap for muted growth in key Singapore market. APAC Realty proposed to increase its stake in ERA Vietnam to 60% from the current 38%. This acquisition is positive in the longer term. Near-term, the real estate industry could be affected by globally tightening liquidity on the back of the rising interest rate environment and global economic slowdown. The Vietnam market is still at its nascent growth stage compared to Singapore. Though the Singapore market remains resilient – supported by the strong pipeline of new launches, stable prices and demand – growth could be muted given its land scarcity.

Acquisition fairly valued. Including the previous acquisitions in 2020, the blended valuations work out to S\$10.7m, or price-to-sales of 0.9x. Blended valuations would increase to S\$28.2m if the maximum earned out incentive is achieved by 2025. Price-to-sales ratio would then be reduced to 0.4x, assuming a target revenue of S\$70m. This would imply a PE ratio of 8.1x, if we factor in a net margin of 5%. APAC Realty currently trades at 8.2x and 9.1x PE for FY22F and FY23F respectively. Hence, we view this acquisition as fairly valued.

Valuation:

Maintain HOLD with TP of S\$0.59. Our TP of S\$0.59 is pegged to a 8x PE on FY23F earnings, near its average four-year PE.

Where we differ:

We are more cautious on the outlook on the back of the macro headwinds.

Key Risks to Our View:

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)	211 / 160
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)	0.05
GIC Industry : Real Estate / Real Estate Management & Development	



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WHAT'S NEW

Increasing stake in ERA Vietnam; long term positive

Acquisition of additional 22% stake. APAC Realty last week proposed the acquisition of another 22% stake in ERA Vietnam (ERA VN) and Eurocapital, holders of the ERA franchise in Vietnam, increasing its stake in both companies to 60% from the current 38%. The first investment was made in February 2020, where APAC acquired a 38% stake in both companies for S\$1.5m. With the increased stake, this will also allow the group to consolidate both ERA Vietnam and Eurocapital in its financial statements.

The total purchase consideration would be S\$4.9m on completion, with further upside of up to S\$10.5m, subject to satisfaction of certain earn-out conditions.

Upside incentives are given if ERA Vietnam can achieve a profit margin of 5% and S\$35m revenue (by Jun-24) and S\$70m revenue (by Dec-25).

Fairly valued, assuming maximum upside incentives achieved. Including the previous acquisitions in 2020, the blended valuations work out to S\$10.7m, or price-to-sales of 0.9x, assuming revenue of S\$11.8m for ERA VN (revenue for nine-month to September was S\$7m). Blended valuations would increase to S\$28.2m if the maximum earned out incentive is achieved by 2025. Price-to-sales ratio would then be reduced to 0.4x, assuming a target revenue of S\$70m. This would imply a PE ratio of 8.1x, if we factor in a net margin of 5%. APAC Realty currently trades at 8.2x and 9.1x PE for FY22F and FY23F respectively.

Hence, we view this acquisition as fairly valued. This acquisition is positive in the longer term. Near term, the real estate industry could be affected by the tightening liquidity globally on the back of the rising interest rate environment and global economic slowdown.

Rationale for the acquisitions

1) **Filling the gap for the less robust growth in key Singapore market.** The proposed acquisitions are expected to drive growth in the Group's business in Vietnam, strengthen the "ERA" brand regionally, and promote multi-country collaboration across the Group's different subsidiaries and associated companies in Southeast Asia. Furthermore, the

acquisition is also timely, given the expected muted growth for its key Singapore market. The Vietnam market is still at its nascent growth stage as compared to Singapore. Though the Singapore market remains resilient supported by the strong pipeline of new launches, stable prices and demand, growth could be muted given its land scarcity.

- 2) **Long term growth potential in Vietnam - young population with growing middle class.** Vietnam has a young population, with about half of the 100m population below the age of 30. The growing middle-class population, which is expected to reach 75m by 2030, would help support the robust demand for Vietnam's residential real estate market. This would also be furthered by (1) the government's plan to elevate Vietnam to developing (by year 2030) and developed economy (by year 2045), and (2) improving connectivity as major infrastructure comes online over the years.
- 3) **Healthy GDP growth.** GDP growth reached 8.0% in 2022. Our economist expects healthy growth of 6.0% in 2023 despite the cyclical global headwinds.

Vietnam real estate industry

ERA VN among top 10 agencies in Vietnam; to double agent force by year 2026. ERA VN was ranked as one of the top 10 real estate agencies in Vietnam. ERA VN has been rapidly growing in terms of both revenue and its agent headcount since its first investment in 2020. Revenue has surged to S\$7m for the nine-month period to September 2022 from S\$4.4m in 2020 while its agent force increased to more than 3,900 as of 31 December 2022 (from about 1,500 as at December 2020 and 2914 agents as of end-2021). Agent force is targeted to reach 6,000 in year 2024, with about half being licensed agents, and to reach 8,000 licensed agents by year 2026.

Management believes that there are currently c.300k agents in Vietnam, of which 90% are unlicensed. Amongst the 30k licensed agents, 70% or 21,000 are in HCMC. Licensing was rolled out by the government only in 2022, and ERA Vietnam (and the industry) are getting their agents licensed.

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Robust new launch pipeline. Management estimates c.US\$30 bn of new launches for the whole of Vietnam in 2023, implying about 100,000 to 120,000 units, with an average selling price of ~US\$250,000 to 300,000 per unit. For 1H22, the average price for condominium in HCMC is about US\$2,455 per sqm (range from US\$14,966 for the ultra-luxury to US\$1,662 per sqm for the mid-end). In terms of rental yield, it ranges from about 3% to 7%, depending on the location.

How new launches works in Vietnam. For new launches, about five or six real estate agencies are appointed for a new launch, with only one or two agencies reserved as lead agencies. Agencies typically need to pay a “deposit” to secure allocations to launches, which is seen as a bottleneck. The lease is typically 50 years.

Vietnam business model similar to Singapore - commission-based. The business model for ERA VN is largely like Singapore, i.e., agency model, focus on project marketing. Commission is around 3% of transaction value, with an additional 1% to 2% if targets are met. Agents on average receive 75% of the commission (ranges from 65-90%), with the remainder to agency.

Strategy

Priority for management in 2023. Management expects to bid more aggressively in the upcoming new launches

following this transaction. They would also like to take on more leads/exclusive agency roles. They are also counting on the increased headcount to venture into the resale markets this year.

Venturing into resale market. The group is also looking to venture into the resale markets. They see another 40-50 projects (or around 10,000 units) in the pipeline to market. The resale market is well-connected with new sales, giving ERA VN an advantage to grow quickly and effectively.

Targets for ERA VN. By 2026, management expects ERA VN to have:

- 1) Four mega offices covering the entire Vietnam in Ho Chi Minh City, Da Nang, Ha Noi and Can Tho. ERA's office in HCMC was established in 2017 while the sales office in Da Nang was opened in 2021.
- 2) A headcount of 8,000 licensed agents by recruiting agents as industry downsizes
- 3) More franchisees with small-mid developers, targeting 10 projects from 2022-26
- 4) More exclusive/lead agency appointments. ERA VN secured 30 project appointment in 2022, and 23 in 2023 as of now. Some of the projects in 2022 are listed as follows;

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Projects launched in 2022

<p>Aqua City in Dong Nai Province, HCMC</p>	<p>The Grand Sentosa in HCMC</p>
<p>The Grand Manhattan in HCMC</p>	<p>De La Sol in HCMC</p>
<p>Floor area at De La Sol – two-bedroom</p>	<p>Floor area at De La Sol – three-bedroom</p>

Source: DBS Bank; Company

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Earnings & Recommendation

No change in forecasts; current contribution from proposed acquisitions still small. We have not factored any contribution from the proposed acquisitions as the contributions are still relatively insignificant, with a net profit of about S\$100,000 as at June 2022 on high overhead costs. We expect more meaningful contribution from 2025 onwards. Maintain HOLD with target price of S\$0.59.

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

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Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
ERA transaction value growth (%)	23.7	88.9	(20.0)	(4.5)	11.8
ERA market share (%)	33.3	35.2	37.5	36.0	36.0

Segmental Breakdown

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (\$m)					
Brokerage	384	730	584	558	623
Non-brokerage	11.2	9.64	10.1	10.6	11.2
Total	395	740	594	568	634
Gross profit (\$m)					
Brokerage	37.3	67.3	52.6	50.2	56.1
Non-brokerage	10.2	8.14	9.07	9.53	10.0
Total	47.5	75.4	61.6	59.7	66.1
Gross profit Margins					
Brokerage	9.7	9.2	9.0	9.0	9.0
Non-brokerage	90.8	84.5	89.6	89.6	89.6
Total	12.0	10.2	10.4	10.5	10.4

Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	395	740	594	568	634
Cost of Goods Sold	(348)	(664)	(532)	(509)	(568)
Gross Profit	47.5	75.4	61.6	59.7	66.1
Other Opng (Exp)/Inc	(26.6)	(31.6)	(29.6)	(30.7)	(32.5)
Operating Profit	20.9	43.8	32.1	29.0	33.6
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	(0.4)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.6	42.6	31.3	28.3	32.9
Tax	(3.3)	(7.3)	(5.4)	(4.9)	(5.6)
Minority Interest	0.10	0.10	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	16.4	35.4	25.9	23.4	27.2
Net Profit before Except.	16.4	35.4	25.9	23.4	27.2
EBITDA	24.0	48.1	36.8	33.8	38.4
Growth					
Revenue Gth (%)	6.9	87.2	(19.7)	(4.4)	11.6
EBITDA Gth (%)	17.3	100.7	(23.5)	(8.3)	13.6
Opg Profit Gth (%)	9.9	109.7	(26.8)	(9.5)	15.8
Net Profit Gth (Pre-ex) (%)	17.3	115.3	(26.8)	(9.7)	16.3
Margins & Ratio					
Gross Margins (%)	12.0	10.2	10.4	10.5	10.4
Opg Profit Margin (%)	5.3	5.9	5.4	5.1	5.3
Net Profit Margin (%)	4.2	4.8	4.4	4.1	4.3
ROAE (%)	10.9	22.4	15.5	13.2	14.4
ROA (%)	5.3	10.0	7.1	6.8	7.5
ROCE (%)	7.3	16.3	11.5	9.8	10.9
Div Payout Ratio (%)	54.0	75.3	55.0	55.0	55.0
Net Interest Cover (x)	19.5	56.6	41.4	37.5	43.4

Source: Company, DBS Bank

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Interim Income Statement (\$\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	173	222	358	381	343
Cost of Goods Sold	(151)	(196)	(323)	(341)	(307)
Gross Profit	21.7	25.8	35.3	40.2	35.3
Other Oper. (Exp)/Inc	(11.9)	(14.7)	(14.2)	(17.4)	(15.0)
Operating Profit	9.74	11.1	21.1	22.7	20.3
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.2)	(0.3)	(0.1)	0.26
Net Interest (Exp)/Inc	(0.7)	(0.4)	(0.4)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.07	10.6	20.4	22.2	20.2
Tax	(1.4)	(1.9)	(3.4)	(4.0)	(3.7)
Minority Interest	0.06	0.04	0.02	0.07	0.14
Net Profit	7.76	8.68	17.0	18.3	16.7
Net profit bef Except.	7.76	8.68	17.0	18.3	16.7
EBITDA	11.3	12.6	23.1	25.0	23.0

Growth

Revenue Gth (%)	(16.3)	28.6	61.2	6.4	(10.2)
EBITDA Gth (%)	(21.6)	11.0	83.8	8.1	(7.9)
Opp Profit Gth (%)	(24.4)	14.4	89.2	7.8	(10.7)
Net Profit Gth (%)	(12.9)	11.9	96.4	7.6	(9.0)

Margins

Gross Margins (%)	12.5	11.6	9.8	10.5	10.3
Opp Profit Margins (%)	5.6	5.0	5.9	6.0	5.9
Net Profit Margins (%)	4.5	3.9	4.8	4.8	4.9

Balance Sheet (\$\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	73.9	72.8	69.1	65.4	61.7
Invts in Associates & JVs	2.43	2.36	2.36	2.36	2.36
Other LT Assets	103	100	100	100	100
Cash & ST Invts	35.1	53.7	55.2	68.2	86.7
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	79.6	121	80.5	77.0	85.9
Other Current Assets	27.4	36.1	36.1	36.1	36.1
Total Assets	321	386	343	349	373
ST Debt	2.90	2.90	2.90	2.90	2.90
Creditor	90.9	148	95.6	91.3	102
Other Current Liab	18.2	24.5	22.4	21.9	22.7
LT Debt	48.8	45.9	45.9	45.9	45.9
Other LT Liabilities	5.94	4.13	4.13	4.13	4.13
Shareholder's Equity	155	161	173	183	195
Minority Interests	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Total Cap. & Liab.	321	386	343	349	373
Non-Cash Wkg. Capital	(2.1)	(15.3)	(1.5)	(0.1)	(2.7)
Net Cash/(Debt)	(16.6)	4.85	6.39	19.3	37.9
Debtors Turn (avg days)	68.3	49.4	61.8	50.6	46.9
Creditors Turn (avg days)	86.3	66.0	84.1	67.7	62.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.3	2.1	1.6	1.6	1.8
Current Ratio (x)	1.3	1.2	1.4	1.6	1.6
Quick Ratio (x)	1.0	1.0	1.1	1.2	1.4
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	2.0	2.0	2.0
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	2022F	2023F	2024F
Pre-Tax Profit	19.6	42.6	31.3	28.3	32.9
Dep. & Amort.	3.27	4.74	4.74	4.74	4.74
Tax Paid	(2.5)	(4.1)	(7.5)	(5.4)	(4.9)
Assoc. & JV Inc/(loss)	0.16	0.40	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.3)	6.45	(11.8)	(0.8)	1.77
Other Operating CF	3.73	4.77	0.0	0.0	0.0
Net Operating CF	20.0	54.9	16.8	26.8	34.5
Capital Exp.(net)	(0.2)	(1.1)	(1.0)	(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)	0.0	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)	0.0	0.0	0.0
Net Investing CF	(4.9)	(2.1)	(1.0)	(1.0)	(1.0)
Div Paid	(7.1)	(29.3)	(14.3)	(12.9)	(15.0)
Chg in Gross Debt	(4.9)	(4.9)	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
Net Financing CF	(12.0)	(34.2)	(14.3)	(12.9)	(15.0)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3.10	18.5	1.54	13.0	18.5
Opg CFPS (S cts)	6.85	13.6	8.04	7.78	9.22
Free CFPS (S cts)	5.59	15.1	4.45	7.27	9.43

Source: Company, DBS Bank

Target Price & Ratings 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

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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