

18 May 2023

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

Weighed Down By Cooling Measures

Target Price (Return):	SGD0.57 (-1%)
Price (Market Cap):	SGD0.58 (USD153m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (SGD/USD)	0.14m/0.11m

- **Stay NEUTRAL, with new SGD0.57 TP from SGD0.60, 1% downside.** 1Q23 net profit missed expectations amid a sharp slowdown in residential transactions. Recent cooling measures in April are expected to further dampen resale volume but new sales transactions should see a slight uptick in 2H23, supported by more new launches. We are positive on APAC Realty's latest efforts to boost technological capabilities for its agents. The stock remains well supported on the downside due to its net cash position and healthy yield of c.6%.
- **1Q23 net profit fell sharply by 67%YoY...** impacted by a 48% decline in new home brokerage revenue on the back of lower new launches while resale and rental segment revenue declined by 13%. APAC's bottom line was also impacted by higher marketing expenses and SGD0.5m loss at its overseas business (mainly from ERA Vietnam). We cut FY23F-24F net profit by 14% and 12% by lowering our transaction volume assumption for the secondary market by 15% (from -5%) and assume small losses from its overseas operations.
- **...but 2H expected to fare better.** Despite recent cooling measures moderating sentiment, more than 20 projects of ~7,000 units are targeted to be launched later this year. This, in our view, should help in boosting new sales volume vs 2022, which saw only c.4000 units launched. The measures, which mainly target foreigners and investors, accounted for c.10% of overall transactions last year. However, resale volume is expected to decline by 10-30% in 2023 amidst a growing divergence in pricing expectations between buyers and sellers.
- **Growing agent count and technology a positive boost.** Singapore agent count increased by 2% during the quarter to 8,700 with the company targeting to grow agent count by 9% and 8% in 2023 and 2024. One of the key drivers of this has been its initiative to boost productivity of agents via the integration of ChatGPT features in content generation and marketing. ERA's market share by volume has been holding steady at 34.8% of total market share in 1Q and we expect it to be at a similar level for the full year.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note titled [Envisioning a Better Future](#).
- **We raise APAC's ESG score by a notch to 3.0(out of 4.0),** taking note of its active steps taken to monitor and reduce its energy emissions and renewable energy usage. As the score is at par with the country median, we have not attributed any ESG premium/discount.

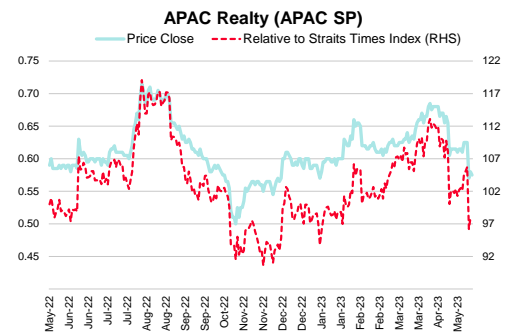
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.6)	(15.5)	(7.3)	4.5	(2.6)
Relative	(1.4)	(12.3)	(3.9)	6.7	(3.0)
52-wk Price low/high (SGD)	0.50 – 0.72				



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

APAC Realty exceeded its annual Singapore target for electricity emission reduction of 1.2% YoY in 2022 from energy-saving initiatives and by investing in and harvesting solar power. It has also invested in solar panels to reduce carbon emissions from purchased electricity, and prevented Scope 2 purchased electricity emissions/month by 4,368 Kg CO₂. It currently does not calculate our Scope 1 direct CO₂ emission as the group does not own/control company vehicles.

S: GOOD

Two disciplinary actions against sales person lower than last year (7) and peers. The company has set a target of Zero such instances in future through education. Good dental and insurance coverage policy for employees. ERA is a long-time Platinum Award contributor to the Community Chest since 1999 and has set up a Care for Children to assist children from financially disadvantaged families.

G: GOOD

High level of transparency in financial announcements and earnings releases. 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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	740	705	595	602	607
Recurring net profit (SGDm)	36	26	17	18	19
Recurring net profit growth (%)	117.0	(26.4)	(34.0)	6.3	2.3
Recurring EPS (SGD)	0.10	0.07	0.05	0.05	0.05
DPS (SGD)	0.08	0.06	0.04	0.04	0.04
Recurring P/E (x)	5.74	7.80	11.81	11.11	10.86
P/B (x)	1.27	1.28	1.24	1.21	1.17
Dividend Yield (%)	14.3	9.7	6.2	6.7	7.1
Return on average equity (%)	22.6	16.3	10.6	10.8	10.5
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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.10	0.07	0.05	0.05	0.05
Property	EPS	0.10	0.07	0.05	0.05	0.05
APAC Realty	DPS	0.08	0.06	0.04	0.04	0.04
APAC SP	BVPS	0.45	0.45	0.46	0.48	0.49
Neutral	Return on average equity (%)	22.6	16.3	10.6	10.8	10.5
	Return on average assets (%)	10.1	6.8	4.4	4.5	4.5
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DCF methodology	Recurring P/E (x)	5.74	7.80	11.81	11.11	10.86
	P/B (x)	1.3	1.3	1.2	1.2	1.2
	Dividend Yield (%)	14.3	9.7	6.2	6.7	7.1
	EV/EBITDA (x)	4.26	5.41	7.88	7.19	6.77
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Continued strong uptrend in Singapore real estate volumes;	Total turnover	740	705	595	602	607
ii. Growth in market share and agents;	Gross profit	75	73	59	61	63
iii. Growth from other market segments and overseas business.	EBITDA	47	37	26	27	28
	Depreciation and amortisation	(3)	(3)	(3)	(3)	(3)
	Operating profit	44	34	22	24	24
	Net interest	(1)	(1)	(2)	(2)	(2)
	Pre-tax profit	43	33	21	22	23
	Taxation	(7)	(6)	(3)	(4)	(4)
	Reported net profit	36	26	17	18	19
	Recurring net profit	36	26	17	18	19
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Regulatory and policy risks;	Change in working capital	6.4	(1.1)	(4.7)	1.5	1.8
ii. Disruption from technology advances;	Cash flow from operations	55.3	35.2	21.0	28.5	29.1
iii. Loss of market share and margin reduction from rising competition.	Capex	(1.3)	(9.0)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(2.1)	(8.5)	(3.0)	(3.0)	(3.0)
	Dividends paid	(29.3)	(19.8)	(12.6)	(13.8)	(14.5)
	Cash flow from financing activities	(37.1)	(70.4)	(17.9)	(19.0)	(19.6)
	Cash at beginning of period	35.1	53.7	49.3	56.0	65.5
	Net change in cash	16.0	(43.6)	0.2	6.5	6.5
	Ending balance cash	51.2	10.1	49.5	62.4	72.0
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
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	54	49	48	55	62
	Tangible fixed assets	73	74	74	75	76
	Intangible assets	97	104	103	102	101
	Total other assets	6	3	3	3	3
	Total assets	386	388	360	366	372
	Short-term debt	3	46	46	46	46
	Total long-term debt	46	0	0	0	0
	Total liabilities	225	228	195	197	198
	Shareholders' equity	161	160	165	169	174
	Minority interests	(0)	0	0	0	0
	Total equity	161	160	165	169	174
	Total liabilities & equity	386	388	360	366	372
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	87.2	(4.7)	(15.5)	1.1	0.9
	Recurring net profit growth (%)	117.0	(26.4)	(34.0)	6.3	2.3
	Recurrent EPS growth (%)	117.0	(26.4)	(34.0)	6.3	2.3
	Gross margin (%)	10.2	10.4	10.0	10.2	10.3
	Recurring net profit margin (%)	4.8	3.7	2.9	3.1	3.1
	Dividend payout ratio (%)	82.3	75.7	72.8	75.0	77.0

Source: Company data, RHB

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Figure 1: APAC's DCF valuation table

(SGDm)	FY23F	FY24F	FY25F	FY26F	Terminal Value
EBIT * (1- Tax rate)	17.6	19.7	21.0	22.1	
Add: Depreciation and Amortisation	3.4	3.4	3.4	3.4	
Less : Working capital changes	(4.7)	1.5	1.8	2.0	
Less : Capex	3.0	3.0	3.0	2.0	
Total Free Cash Flow	22.8	18.6	19.7	21.5	191.7
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of Free Cash Flow	21.6	15.8	15.1	14.8	132.2
Sum of PV of FCF (SGDm)	67.3				
PV of Terminal Value (SGDm)	132.2				
Enterprise Value (SGDm)	199.5				
Add: Net Cash/(Debt)	3.4				
Total Equity Value (SGDm)	202.8				
No. of shares (m)	355.2				
Intrinsic Value per share (SGD)	0.57				
ESG Premium/(discount)	0.00				
Target Price (SGD)	0.57				
Assumptions					
Risk-free rate	2.8%				
Market return	10.0%				
Beta	1.1				
Equity risk premium	7.8%				
WACC	11.2%				
Terminal Growth	0%				

Source: RHB

Recommendation Chart

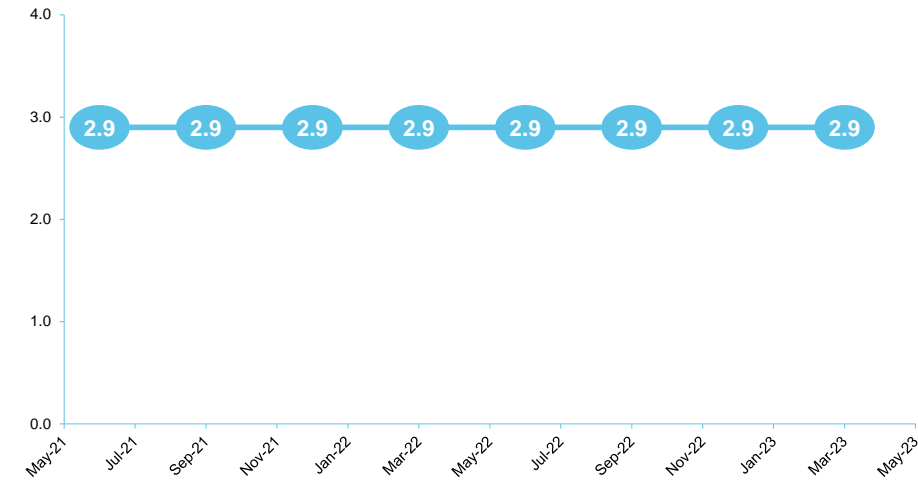


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-11-14	Buy	0.60	0.51
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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