

14 November 2023

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

A Muted Outlook

- **Keep NEUTRAL, new SGD0.46 TP from SGD0.54, 8% downside.** APAC Realty's 3Q numbers missed our expectations. Private residential transaction volumes have been slowing down amid a pricing mismatch in a rising interest rate environment. We expect this trend to persist up until 1H24. While the new launch supply pipeline has increased, developers have delayed some of their launches to better assess the impact of the implement cooling measures, particularly in the high-end segment. The public resale and rental market is expected to stay resilient.
- **9M23 earnings down 68% YoY** on the back of a 23% revenue decline and higher operational costs from marketing, personnel, and technology expenses, as well as losses from overseas entities. We cut our FY23F-25F earnings 22-24% by lowering transaction volume assumptions coupled with higher operational cost pressures. These are likely to persist amid a highly competitive real estate agency market landscape. The share price remains supported on the downside with a decent 5% dividend yield.
- **We expect full-year private new sales volumes** to decline 10% to 20% YoY to 6,000-6,500 units (9M23: 5,549 units). A recovery is expected only in 2H24, mainly driven by higher new launch supply. Since this segment is APAC Realty's key margin driver, this will continue to weigh on its bottomline. Private resale volumes are also expected to be lower by 15-30% YoY while the Housing & Development Board's or HDB resale market and rental transactions are expected to be relatively stable.
- **Focus to turn to increasing primary market share and agent count.** ERA Realty Network's (ERA) market share in new launches has declined to c.29% for 9M23 from c.34% in 2021. Management is taking active steps to regain market share in this segment. Overall market share remains relatively steady at c.34% with slight improvements seen in the private resale market share, which offset lower primary market share. The agent count here has increased to 9,056 as at end October from 8,144 at the start of the year. It is on track to achieve the target to have 10,000 agents by the end of 2024. ERA's strategy has been to attract young talent and invest heavily on the latest technological tools to increase overall productivity and secure its long-term growth. Meanwhile, ERA's overseas market performance remains weak with net losses so far, but – according to management – a breakeven is expected to be achieved next year.
- **APAC Realty's ESG score** of 3.0 (out of 4.0) is at par with the country median. As a result, we apply a 0% premium/discount to our TP.
- **Key risks:** Regulatory and policy risks, and disruption from technology represent downside risks. A resurgence in Singapore's real estate transaction volumes would be an upside risk.

Target Price (Return): SGD0.46 (-7.8%)
 Price (Market Cap): SGD0.50 (USD129m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.02m/0.01m

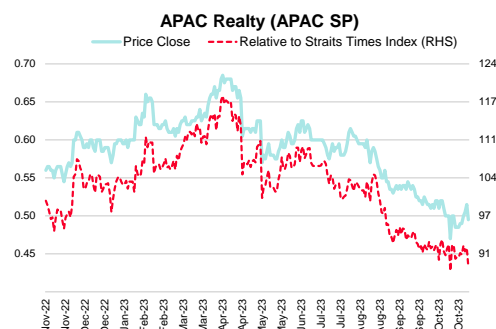
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.1)	(3.9)	(16.8)	(19.5)	(11.6)
Relative	(12.5)	(2.7)	(11.5)	(15.5)	(11.4)
52-wk Price low/high (SGD)	0.47 – 0.69				



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

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

S: GOOD

Two disciplinary actions against sales person lower than last year's seven and vs its 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	583	594	600
Recurring net profit (SGDm)	35	26	11	12	13
Recurring net profit growth (%)	116.7	(25.2)	(59.4)	12.5	9.2
Recurring EPS (SGD)	0.10	0.07	0.03	0.03	0.04
DPS (SGD)	0.08	0.08	0.02	0.03	0.03
Recurring P/E (x)	5.00	6.68	16.46	14.63	13.40
P/B (x)	1.09	1.10	1.08	1.06	1.04
Dividend Yield (%)	16.7	15.2	4.6	5.1	5.6
Return on average equity (%)	22.3	16.4	6.6	7.2	7.6
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	0.03	0.03	0.04
Property	EPS	0.10	0.07	0.03	0.03	0.04
APAC Realty	DPS	0.08	0.08	0.02	0.03	0.03
APAC SP	BVPS	0.45	0.45	0.46	0.47	0.48
Neutral	Return on average equity (%)	22.3	16.4	6.6	7.2	7.6
	Return on average assets (%)	10.0	6.8	2.7	3.0	3.3
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DCF methodology	Recurring P/E (x)	5.00	6.68	16.46	14.63	13.40
	P/B (x)	1.1	1.1	1.1	1.1	1.0
	Dividend Yield (%)	16.7	15.2	4.6	5.1	5.6
	EV/EBITDA (x)	3.65	4.65	9.14	8.56	8.30
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Resurgence in Singapore real estate transaction volumes;	Total turnover	740	705	583	594	600
ii. Growth in market share and agents;	Gross profit	75	73	56	59	60
iii. Growth from other market segments and overseas business.	EBITDA	47	37	19	20	21
	Depreciation and amortisation	(3)	(3)	(3)	(3)	(3)
	Operating profit	44	34	16	17	17
	Net interest	(1)	(1)	(2)	(2)	(2)
	Pre-tax profit	43	33	13	14	16
	Taxation	(7)	(6)	(2)	(2)	(3)
	Reported net profit	35	26	11	12	13
	Recurring net profit	35	26	11	12	13
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Regulatory and policy risks, and disruption from technology represent downside risks. A resurgence in Singapore's real estate transaction volumes would be an upside risk.	Change in working capital	6.4	(1.1)	(4.4)	(2.7)	(1.4)
	Cash flow from operations	55.3	35.2	16.0	18.5	20.0
	Capex	(1.3)	(9.0)	(2.5)	(2.5)	(2.5)
	Cash flow from investing activities	(2.1)	(8.5)	(2.5)	(2.5)	(2.5)
	Dividends paid	(29.3)	(26.6)	(8.0)	(9.0)	(9.8)
	Cash flow from financing activities	(34.2)	(31.3)	(14.9)	(13.8)	(14.8)
	Cash at beginning of period	35.1	53.7	49.3	53.6	56.5
	Net change in cash	18.9	(4.5)	(1.4)	2.2	2.7
	Ending balance cash	54.1	49.2	47.8	55.8	59.2
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	46	48	51
	Tangible fixed assets	73	74	74	74	74
	Intangible assets	97	104	103	102	101
	Total other assets	6	3	3	3	3
	Total assets	386	388	355	357	362
	Short-term debt	3	46	46	46	46
	Total long-term debt	46	0	0	0	0
	Total liabilities	225	228	192	191	192
	Shareholders' equity	161	160	163	166	169
	Minority interests	(0)	0	0	0	0
	Total equity	161	160	163	166	169
	Total liabilities & equity	386	388	355	357	362
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	87.2	(4.7)	(17.3)	1.9	1.0
	Recurring net profit growth (%)	116.7	(25.2)	(59.4)	12.5	9.2
	Recurrent EPS growth (%)	116.7	(25.2)	(59.4)	12.5	9.2
	Gross margin (%)	10.2	10.4	9.6	10.0	10.1
	Recurring net profit margin (%)	4.8	3.7	1.8	2.0	2.2
	Dividend payout ratio (%)	83.3	101.2	75.0	75.0	75.0

Source: Company data, RHB

Emissions And ESG

Trend analysis

APAC Realty does not calculate Scope 1 direct CO2 emission, as the group does not own/control company vehicles. It exceeded its target to reduce energy emissions by 1.2% pa with a Scope 2 emission reduction of 12% last year. This was on the back of its investment in solar panels that reduced emissions from purchased electricity. The emission from solar panels was 442.23kg CO2 and including this the net Scope 2 emissions would decrease to 30,252kg CO2. APAC Realty sold 2,609kWh of electricity generated from solar panels to the national grid.

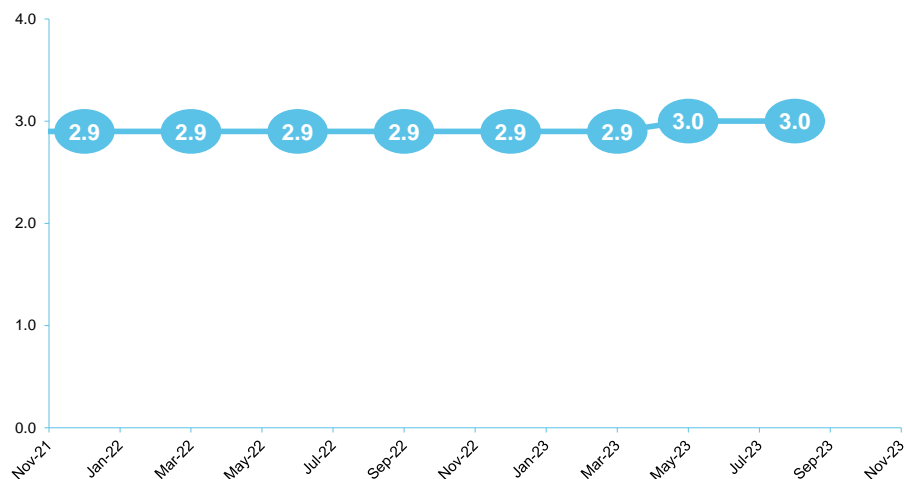
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	na	na
Scope 2	473	467	410
Scope 3	na	na	305
Total emissions	473	467	715

Source: Company data, RHB

Latest ESG-Related Developments

- APAC Realty calculated its Scope 3 emissions for the first time based on the number of air flights taken last year.
- Since travel restrictions were only gradually relaxed in 2022, the group will be setting 2023 as baseline for Scope 3 related emission reductions moving forward.

ESG Rating History



Source: RHB

Figure 1: APAC's DCF valuation table

(SGDm)	FY23F	FY24F	FY25F	FY26F	Terminal value
EBIT * (1- tax rate)	11.5	13.2	15.1	16.6	
Add: Depreciation and amortisation	3.4	3.4	3.4	3.4	
Less : Working capital changes	(4.4)	(2.7)	(1.4)	1.5	
Less : Capex	2.5	2.5	2.5	2.0	
Total free cash flow	16.7	16.8	17.5	16.5	149.6
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of free cash flow	15.9	14.4	13.4	11.5	103.7
Sum of PV of FCF (SGDm)	55.2				
PV of terminal value (SGDm)	103.7				
Enterprise value (SGDm)	158.8				
Add: Net cash/(debt)	3.4				
Total equity value (SGDm)	162.2				
Number of shares (m)	355.2				
Intrinsic value per share (SGD)	0.46				
ESG premium/(discount)	0.00				
TP (SGD)	0.46				

Assumptions	
Risk-free rate	2.8%
Market return	10.0%
Beta	1.1
Equity risk premium	7.8%
WACC	11.1%
Terminal growth	0%

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-15	Neutral	0.54	0.57
2023-05-17	Neutral	0.57	0.58
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

Source: RHB, Bloomberg

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