

4 July 2024

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

Downgrading 2024 Forecasts

- **Stay NEUTRAL, lower SGD0.42 TP from SGD0.44 (7% upside).** The sharp slowdown in new launches this year – resulting in weaker transaction volumes – is expected to hit APAC Realty's bottomline, as this (new home sales) is the company's high-margin segment and a key contributor to earnings. However, with the Government ramping up land supply, there should be more new launches in the next two years, and a recovery is likely around the corner. The stock remains supported by its overall net cash position and relatively healthy c.5% yield.
- **FY24F net profit cut by 28% to SGD9m (-24% YoY),** as we now expect new home sales volumes for the year to be 5-15% lower than that of last year (from our previous expectation of a slight growth). The key reason for this is the deferment of new launches, with only c.2,000 units being launched in 1H24 – as a result, YTD (May) new sales have slumped 48% YoY to 1,697 units. This comes on the back of a delay in getting planning and launch approvals, as well as weaker sentiment in the high-end segment, resulting in the postponement of certain projects by developers. New home sales commissions typically contribute 25-40% of revenue, but can account for 40-60% of the bottomline, as the segment's gross margin is at 13-17% (more than double that of the 6-8% for the resale and rental market segment). However, with the continued ramp up in government land supply over the last few years, and developers' requirements to sell the project within five years, we believe there will be significantly more new launches in the next two years. We have raised our FY25-26F net profit forecasts by c.5%.
- **Resale and rental market segments relatively stable.** The lack of new launches and growing price gap with new launches have resulted in buyers shifting to private resale and Housing Development Board (HDB) resale flats. As a result, overall volumes for the segment are expected to be slightly higher than last year. We believe the impact on agencies from the launch of the new HDB flat portal ([link](#)) – by which buyers and sellers can directly engage in transactions – is likely minimal, considering the time consuming nature of the entire process, as well as the value-add services provided by property agents.
- **Focusing on raising agent count and productivity using technology.** APAC's overall Singapore agent count rose 6.6% YoY last year to 8,891 (industry: +2.4% YoY). It aims to increase this to 10,000 agents by end-2024. It has also been heavily investing in technology tools by integrating the latest artificial intelligence tools in its SALES+ super app, which has received a favourable response and helped to attract and retain young talents.
- **ESG.** Our DCF-derived TP includes a 0% ESG discount/premium, as APAC's ESG score of 3.1 (out of 4.0) is in line with the country median score.

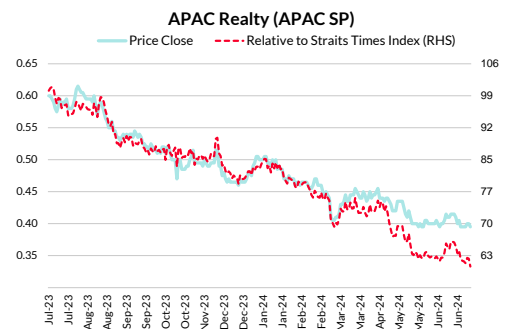
Target Price (Return):	SGD0.42 (7.3%)
Price (Market Cap):	SGD0.40 (USD103m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (SGD/USD)	0.03m/0.02m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.8)	(1.3)	(11.2)	(21.0)	(34.2)
Relative	(25.7)	(2.2)	(14.9)	(25.3)	(39.3)
52-wk Price low/high (SGD)				0.40	-0.62



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

APAC Realty has put in place energy-saving initiatives by harvesting solar power at its headquarters. It has also invested in solar panels to reduce carbon emissions from purchased electricity, and prevented Scope 2 purchased electricity emissions by 54,670 Kg CO₂

S: EXCELLENT

Women make up 57% of its total workforce and the firm was recognised as one of Singapore's best employers last year. 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

Zero cases of corruption and no incidents of non-compliance with rules or regulations last year. Good 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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	705	557	574	606	624
Recurring net profit (SGDm)	26	12	9	13	15
Recurring net profit growth (%)	(25.2)	(55.2)	(24.0)	43.8	14.4
Recurring EPS (SGD)	0.07	0.03	0.03	0.04	0.04
DPS (SGD)	0.06	0.03	0.02	0.03	0.03
Recurring P/E (x)	5.33	11.92	15.68	10.90	9.53
P/B (x)	0.88	0.89	0.87	0.86	0.83
Dividend Yield (%)	15.8	6.3	4.8	6.9	7.3
Return on average equity (%)	16.4	7.4	5.6	7.9	8.8
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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.07	0.03	0.03	0.04	0.04
Property	EPS	0.07	0.03	0.03	0.04	0.04
APAC Realty	DPS	0.06	0.03	0.02	0.03	0.03
APAC SP	BVPS	0.45	0.45	0.45	0.46	0.47
Neutral	Return on average equity (%)	16.4	7.4	5.6	7.9	8.8
	Return on average assets (%)	6.8	3.2	2.6	3.6	4.0
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DCF methodology	Recurring P/E (x)	5.33	11.92	15.68	10.90	9.53
	P/B (x)	0.9	0.9	0.9	0.9	0.8
	Dividend Yield (%)	15.8	6.3	4.8	6.9	7.3
	EV/EBITDA (x)	3.70	7.18	8.56	6.35	5.78
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Resurgence in Singapore real estate transaction volumes,	Total turnover	705	557	574	606	624
ii. Growth in market share and agents, and	Gross profit	73	55	54	61	63
iii. Growth from other market segments and overseas business.	EBITDA	37	19	16	21	22
	Depreciation and amortisation	(3)	(4)	(4)	(4)	(4)
	Operating profit	34	16	12	17	19
	Net interest	(1)	(2)	(2)	(2)	(1)
	Pre-tax profit	33	14	10	16	18
	Taxation	(6)	(3)	(2)	(3)	(3)
	Reported net profit	26	12	9	13	15
	Recurring net profit	26	12	9	13	15
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Regulatory and policy risks,	Change in working capital	(1.4)	3.6	(0.9)	(0.7)	(0.2)
ii. Disruption from technology advances, and	Cash flow from operations	35.0	17.2	15.3	19.6	21.4
iii. Loss of market share and margin reductions from rising competition.	Capex	(9.0)	(5.5)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(8.5)	(5.5)	(3.0)	(3.0)	(3.0)
	Dividends paid	(26.6)	(13.7)	(6.7)	(9.7)	(10.3)
	Cash flow from financing activities	(31.3)	(17.0)	(11.0)	(13.7)	(14.0)
	Cash at beginning of period	53.7	49.3	44.1	45.9	50.7
	Net change in cash	(4.8)	(5.3)	1.3	2.9	4.5
	Ending balance cash	48.9	44.0	45.3	48.8	55.2
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
APAC Realty Pte. Ltd. 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	49	44	45	49	54
	Tangible fixed assets	74	72	73	73	73
	Intangible assets	104	111	110	109	108
	Total other assets	3	1	1	1	1
	Total assets	388	342	348	359	367
	Short-term debt	46	3	3	3	3
	Total long-term debt	0	40	40	40	40
	Total liabilities	228	184	188	195	199
	Shareholders' equity	160	158	161	164	168
	Minority interests	0	0	0	0	0
	Total equity	160	159	161	164	168
	Total liabilities & equity	388	342	348	359	367
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(4.7)	(21.0)	3.0	5.7	2.8
	Recurring net profit growth (%)	(25.2)	(55.2)	(24.0)	43.8	14.4
	Recurrent EPS growth (%)	(25.2)	(55.2)	(24.0)	43.8	14.4
	Gross margin (%)	10.4	9.9	9.5	10.0	10.1
	Recurring net profit margin (%)	3.7	2.1	1.6	2.1	2.4
	Dividend payout ratio (%)	84.4	75.4	75.0	75.0	69.9

Source: Company data, RHB

Figure 1: APAC's DCF valuation table

(SGDm)	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
EBIT x (1- Tax rate)	10.3	14.0	15.8	15.9	16.5	
Add: Depreciation and Amortisation	3.8	3.8	3.8	3.8	3.8	
Less : Working capital changes	(0.9)	(0.4)	(0.4)	(0.1)	(0.2)	
Less : Capex	2.5	2.5	2.5	2.5	2.5	
Total Free Cash Flow	12.5	15.7	17.5	17.4	18.0	151.7
Discount factor (years)	1.0	2.0	3.0	4.0	5.0	5.0
PV of Free Cash Flow	11.2	12.6	12.6	11.2	10.4	87.9
Sum of PV of FCF (SGD m)	58.1					
PV of Terminal Value (SGD m)	87.9					
Enterprise Value (SGD m)	146.0					
Add: Net Cash/(Debt)	1.9					
Total Equity Value (SGD m)	147.9					
No. of shares (m)	355.2					
Intrinsic Value per share (SGD)	0.42					
ESG Premium/(discount)	0.00					
Target Price (SGD)	0.42					
Assumptions						
Risk-free rate	2.8%					
Market return	10.0%					
Beta	1.1					
Equity risk premium	8.0%					
WACC	11.5%					
Terminal Growth	0%					

Source: RHB

Emissions And ESG

Trend analysis

APAC Realty's scope 2 emissions arising from Singapore and Thailand saw a 39% YoY decrease in FY23 primarily attributed to the decrease in rented office spaces in Singapore as the company seek to optimise operational efficiency and embrace remote work. Scope 2 emissions encompassing predominantly from business travel too fell significantly.

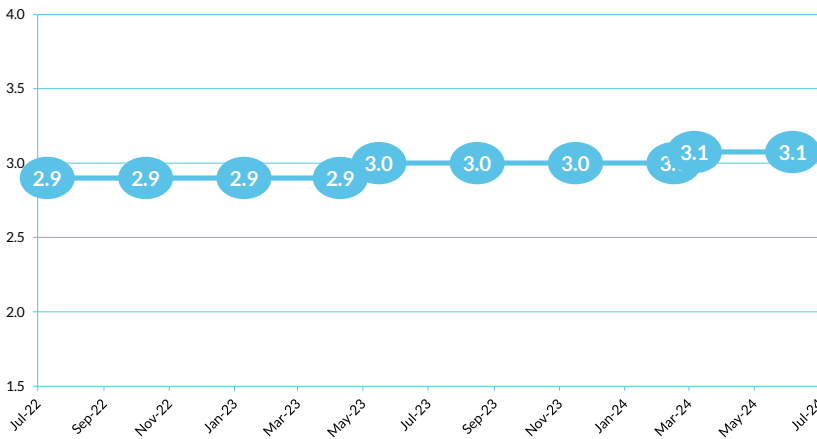
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	33
Scope 2	467	417	332
Scope 3	na	305	7
Total emissions	467	721	372

Source: Company data, RHB

Latest ESG-Related Developments

- To reduce Scope 2 emissions and contribute to Singapore's commitment to transitioning to green energy, APAC Realty has invested in solar panels installed on the roofs of our Singapore offices.
- For FY23, it harvested a total of 133,561 kWh of solar power, of which 131,105 kWh was utilised at Singapore operations, with the remaining amount sold back to Singapore's national grid.
- The adoption of solar power enabled APAC Realty to save 54,671 kgCO2e in Scope 2 emissions.
- Compared to FY2022, APAC Realty increased its solar power harvest by 35%, resulting in a 38% increase in Scope 2 emissions saved.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-08	Neutral	0.44	0.41
2023-11-13	Neutral	0.46	0.50
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

Source: RHB, Bloomberg

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