

26 April 2022

Property | Real Estate Oper & Svcs

APAC Realty (APAC SP)

Neutral (Maintained)

Change Of Major Shareholder

- **Stay NEUTRAL and SGD0.75 TP, 7% downside.** Morgan Stanley Private Equity (MSPE) has acquired majority stake in APAC Realty from Northstar Group at SGD0.57/share – a 29% discount to the closing price. MSPE will make a mandatory offer at the same price to all unitholders. We recommend unitholders to not accept this general offer as it is significantly below our TP and long-term value. While the share price is likely to see a kneejerk reaction, we see SGD0.65 and below as a good long-term entry level.
- **Transfer of major shareholder.** MSPE announced the acquisition of a c.59.8% stake from Northstar, the group that led the buyout of APAC's ERA Singapore from Hersing Corp for SGD130m in 2013 (see [Northstar buyout](#) for details). Since then, Northstar has enjoyed a steady stream of annual dividends and will be exiting the investment at an estimated 56% gains over its purchase price (excluding dividends). We believe the entry of MSPE – one of the world's largest investment managers (USD1.6trn assets under management as at end Dec 2021) – is likely to bring in more M&A opportunities for the company and will help further in its Asia-Pacific expansion plans. The management team – Executive Chairman Jack Chua, key Executive Officer Eugene Lim, and CFO Poh Chee Yong (who collectively hold >10% of APAC) – will not be tendering their shares and remain committed to its long-term growth.
- **Offer an opportunistic one and undervalues the long-term potential.** We believe the offer price of SGD0.57/share (6x FY21F and 9x FY22F P/Es) is low and significantly undervalues APAC's long-term potential. The move comes amidst the latest round of cooling measures (Dec 2021) that is impacting sales volumes with an expected 20-30% decline in overall transaction volumes this year. However, we note that the underlying Singapore property market fundamentals remain robust and well supported by healthy GDP growth and strong household balance sheets. In our view, Northstar's exit, which comes after >8 years of initial investment, is possibly to redeploy the proceeds into other market opportunities.
- **Attractive 6% yield and net cash position.** We believe downside risks to share price are limited by APAC's attractive dividend potential, asset-light business model and net cash position, which puts the company in a good position to ride out any near-term volatilities. Management has also set a target to increase its agent count to 10,840 by 2025 – a 10% CAGR growth – along with improving its technology capabilities.
- **We assign an ESG Score of 2.9 out of 4.0** based on our proprietary in-house methodology. As this score is in line – one notch below our median score – we have not applied a 2% discount to our DCF-derived intrinsic value.

Target Price (Return): SGD0.75 (-7.4%)
Price (Market Cap): SGD0.81 (USD208m)
ESG score: 2.90 (out of 4)
Avg Daily Turnover (SGD/USD) 0.48m/0.36m

Analysts

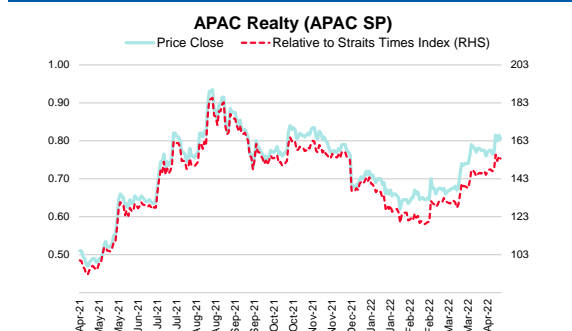
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.8	8.8	22.9	(4.2)	59.4
Relative	4.9	11.0	20.1	(8.5)	54.8
52-wk Price low/high (SGD)	0.47 – 0.94				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	395	740	560	564	568
Recurring net profit (SGDm)	17	36	24	24	25
Recurring net profit growth (%)	18.5	115.6	(34.1)	2.6	3.2
Recurring EPS (SGD)	0.05	0.10	0.07	0.07	0.07
DPS (SGD)	0.02	0.08	0.05	0.05	0.05
Recurring P/E (x)	17.23	7.99	12.12	11.82	11.45
P/B (x)	1.85	1.78	1.72	1.66	1.60
Dividend Yield (%)	2.5	10.2	6.2	6.3	6.6
Return on average equity (%)	11.1	22.7	14.3	13.9	13.6
Net debt to equity (%)	10.7	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.90 (out of 4)

E: GOOD

For FY20, there has been zero incidents of environmental non-compliance. The company has moved its headquarters to ERA APAC Centre and has installed energy-efficient lights and appliances. It also further plans to reduce its energy footprint in the coming years.

S: GOOD

Three disciplinary actions against sales persons is a relatively lower rate than its peers, and APAC has set a target of zero such instances in future through education. It has good dental and insurance coverage policies for employees. Meanwhile, ERA Singapore is a long-time Platinum Award contributor to the Community Chest since 1999 and has set up 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.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.05	0.10	0.07	0.07	0.07
Property	EPS	0.05	0.10	0.07	0.07	0.07
APAC Realty	DPS	0.02	0.08	0.05	0.05	0.05
APAC SP	BVPS	0.44	0.45	0.47	0.49	0.50
Neutral	Return on average equity (%)	11.1	22.7	14.3	13.9	13.6
	Return on average assets (%)	5.4	10.1	6.0	6.0	6.0
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DCF methodology	Recurring P/E (x)	17.23	7.99	12.12	11.82	11.45
	P/B (x)	1.8	1.8	1.7	1.7	1.6
	Dividend Yield (%)	2.5	10.2	6.2	6.3	6.6
	EV/EBITDA (x)	13.48	6.00	8.59	8.14	7.65
Key drivers	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Continued strong uptrend in Singapore real estate volumes;	Total turnover	395	740	560	564	568
ii. Growth in market share and agents;	Gross profit	48	75	58	59	61
iii. Expanding the franchise network and training services.	EBITDA	22	47	32	33	34
	Depreciation and amortisation	(2)	(3)	(3)	(3)	(3)
	Operating profit	21	44	29	30	31
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	43	28	29	30
	Taxation	(3)	(7)	(5)	(5)	(5)
	Reported net profit	17	36	24	24	25
	Recurring net profit	17	36	24	24	25
Key risks	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Downside risk: Singapore's economy faltering, which will result in a collapse in transaction volumes.	Change in working capital	(4.3)	6.4	(3.8)	0.2	0.1
	Cash flow from operations	20.2	55.3	28.7	33.3	34.0
	Capex	(0.4)	(1.3)	(2.0)	(2.0)	(2.0)
	Cash flow from investing activities	(4.9)	(2.1)	(2.0)	(2.0)	(2.0)
	Dividends paid	(7.1)	(29.3)	(17.7)	(18.1)	(18.7)
	Cash flow from financing activities	(14.9)	(37.1)	(20.1)	(20.5)	(21.1)
	Cash at beginning of period	32.0	35.1	53.7	64.6	76.2
	Net change in cash	0.4	16.0	6.6	10.7	10.9
Upside risk: Strong rebound in transaction volumes.	Ending balance cash	32.4	51.2	60.3	75.3	87.1
Company Profile	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
APAC Realty is one of the largest real estate agencies in Singapore and has regional master franchise rights in 17 countries in the Asia-Pacific region.	Total cash and equivalents	35	54	56	65	74
	Tangible fixed assets	74	73	71	70	69
	Intangible assets	98	97	96	95	94
	Total other assets	8	6	6	6	6
	Total assets	321	386	358	365	373
	Short-term debt	3	3	3	3	3
	Total long-term debt	49	46	46	46	46
	Total liabilities	167	225	191	193	194
	Shareholders' equity	155	161	167	173	179
	Minority interests	(0)	(0)	0	0	0
	Total equity	155	161	167	173	179
	Total liabilities & equity	321	386	358	365	373
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	6.9	87.2	(24.3)	0.7	0.7
	Recurring net profit growth (%)	18.5	115.6	(34.1)	2.6	3.2
	Recurrent EPS growth (%)	18.5	115.6	(34.1)	2.6	3.2
	Gross margin (%)	12.0	10.2	10.4	10.5	10.7
	Recurring net profit margin (%)	4.2	4.8	4.2	4.3	4.4
	Dividend payout ratio (%)	42.8	81.9	75.0	75.0	75.0

Source: Company data, RHB

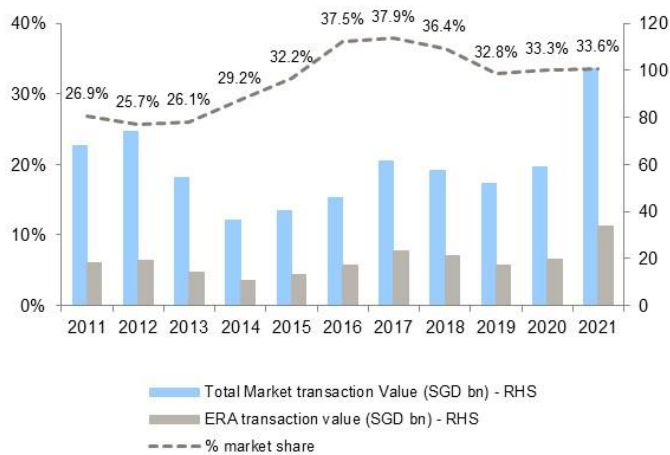
Figure 1: APAC's DCF valuation table

(SGDm)	FY22F	FY23F	FY24F	FY25F	Terminal value
EBIT * (1- tax rate)	24.4	25.0	25.8	25.2	
Add: Depreciation and amortisation	3.0	3.0	3.0	3.0	
Less : Working capital changes	(3.8)	0.2	0.1	(0.1)	
Less : Capex	2.0	2.0	2.0	2.0	
Total free cash flow (FCF)	29.2	25.9	26.7	26.3	243.1
Discount factor (years)	0.5	1.5	2.5	3.5	3.5
PV of FCF	27.7	22.2	20.7	26.3	169.7
Sum of PV of FCF (SGDm)	96.9				
PV of terminal value (SGDm)	169.7				
Enterprise value (SGDm)	266.6				
Add: Net cash/(debt)	4.8				
Total equity value (SGDm)	271.5				
Number of shares (m)	355.2				
Intrinsic value per share (SGD)	0.76				
ESG premium/(discount)	-0.02				
TP (SGD)	0.75				

Assumptions	
Risk-free rate	2.8%
Market return	9.0%
Beta	1.1
Equity risk premium	7.1%
WACC	10.8%
Terminal growth	0%

Source: RHB

Figure 2: Market share – based on transaction value



Source: Company data, RHB

Figure 3: Agent count and market share*



Note: *Based on 1 Jan the following year

Source: Company data, RHB

Recommendation Chart

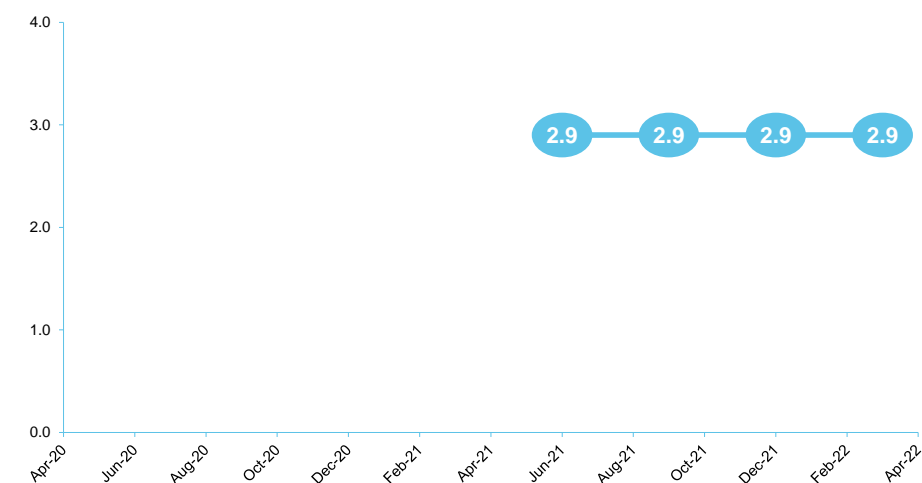


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-11-22	Buy	0.55	0.43
2020-06-14	Buy	0.50	0.40
2019-11-14	Buy	0.60	0.51
2019-08-06	Buy	0.65	0.52
2019-05-14	Buy	0.67	0.53
2018-11-13	Buy	0.72	0.50
2018-08-31	Buy	0.77	0.57

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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