Singapore Company Guide

APAC Realty

Version 4 | Bloomberg: APAC SP | Reuters: APAC.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 14 Jun 2018

BUY

Last Traded Price (13 Jun 2018): S$0.825 (**STI :** 3,392.51)
Price Target 12-mth: S$1.22 (48% upside) (Prev S$1.32)

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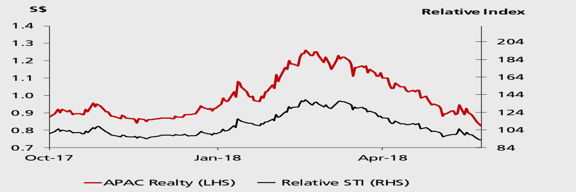
What's New

- Recent price weakness an opportunity to accumulate
- Uptrend in property market intact
- Expect APAC to deliver stronger 2H18 earnings on strong project pipeline and active en-bloc activity
- Reiterate BUY; TP reduced to S$1.22

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2016A	2017A	2018F	2019F
Revenue	288	401	454	492
EBITDA	20.8	31.2	36.0	39.4
Pre-tax Profit	18.1	29.4	34.3	36.8
Net Profit	15.9	25.9	30.2	32.4
Net Pft (Pre Ex.)	15.9	25.9	30.2	32.4
Net Pft Gth (Pre-ex) (%)	87.2	63.1	16.5	7.4
EPS (S cts)	4.47	7.29	8.50	9.12
EPS Pre Ex. (S cts)	4.47	7.29	8.50	9.12
EPS Gth Pre Ex (%)	87	63	16	7
Diluted EPS (S cts)	4.47	7.29	8.50	9.12
Net DPS (S cts)	0.0	2.00	5.10	5.47
BV Per Share (S cts)	22.2	37.5	40.8	44.5
PE (X)	18.5	11.3	9.7	9.0
PE Pre Ex. (X)	18.5	11.3	9.7	9.0
P/Cash Flow (X)	12.9	8.5	10.2	8.5
EV/EBITDA (X)	14.1	7.4	8.2	7.1
Net Div Yield (%)	0.0	2.4	6.2	6.6
P/Book Value (X)	3.7	2.2	2.0	1.9
Net Debt/Equity (X)	0.0	CASH	0.0	CASH
ROAE (%)	22.4	24.4	21.7	21.4
Earnings Rev (%):			-	-
Consensus EPS (S cts):			8.30	9.10
Other Broker Recs:		B: 2	S: 0	H: 0

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

Opportunity to accumulate

Recent price weakness an opportunity to accumulate. APAC's share price has shed c.35% from its recent high in March this year. Current valuation is attractive at 9.5x forward PE or -1.5SD, which is even lower than the c.10x forward PE when it was listed in Sep 17. APAC is one of the purest proxies to ride on the uptrend in the Singapore property market. 2H18 earnings is expected to be stronger with more projects slated for launch. ERA is also able to secure a high market share for the projects that it has been appointed as marketing agent, as compared to other appointed agents. Its low risk fee-based business model enables it to ride on the property up-cycle and protects it in a down cycle. Furthermore, the recent acquisition of an office headquarters allows the group to build recurring rental income.

Where we differ: Sizeable scale and leading market share a winning formula in our view. ERA's strong market share of c.38% in terms of transaction value in the Singapore residential market allows the agency to reach out to a diverse base of potential property buyers. ERA has a pipeline of 11,343 units across 21 new project launches till 3Q18, which is significantly higher than the units secured in the whole of 2017. Successful sell-through rates for the various projects will set the stage for another record year in FY18F.

Stronger-than-projected volumes could surprise on the upside. We maintain our projection of industry transaction value for the private residential market of S$52.2bn in FY18F (+15% y-o-y), and S$57.4bn for FY19F (+10%). Every additional S$1bn in transaction value adds 2% to our EPS and TP estimates.

Valuation:

Reiterate BUY, TP reduced to S$1.22. Our TP which is based on discounted cash flow (DCF) valuation is lower now as we account for the debt financing portion for the new office building. In terms of PE valuation, we continue to peg the multiple to peers' historical average of 15x FY18F earnings. On a blended basis, our TP is reduced to S$1.22 (Prev S$1.32).

Key Risks to Our View:

Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (Sm/USm)	293 / 219
Major Shareholders (%)	
Tan Choon Hong	72.0
Free Float (%)	28.0
3m Avg. Daily Val (US$m)	1.1

ICB Industry : Industrials / Support Services

WHAT'S NEW

Recent price weakness an opportunity to accumulate

Opportunity to accumulate.

APAC's share price has shed c.35% from its recent high in March this year. We believe that the current valuation is attractive at 9.7x FY18F PE and 9x FY19F PE as APAC is one of the purest proxies to ride on the uptrend in the Singapore property market. 2H18 earnings is expected to be stronger with more projects slated for launch. ERA is also able to secure a high market share for the projects that it has been appointed as marketing agent, as compared to other appointed agents. Its low risk fee-based business model enables it to ride on the property up-cycle and protects it in a down cycle. Furthermore, the recent acquisition of an office headquarters allows the group to build recurring income in the form of rental income. Reiterate BUY with lower TP of S$1.22 (prev S$1.32) based on blended valuation, after accounting for partial debt financing for the new office building based on DCF valuation, and maintaining PE peg of 15x on FY18F earnings.

Addressing concerns. In this report, we also attempt to address whether Proptech is a disruptor or enabler; and analyse the low 1Q18 numbers and margins, and high receivables.

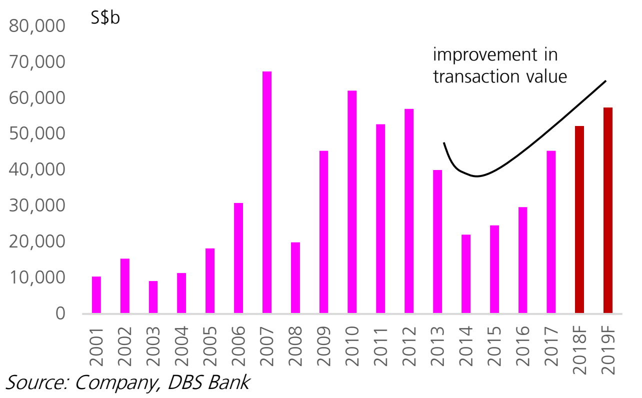
Management's update. We hosted a group meeting for APAC recently to address any concerns, if any, in view of the recent share price weakness. Key areas highlighted by the management include the industry dynamics on the back of a slew of new projects in the pipeline, en-bloc fever and the take-up rate for new launches. Management also addressed the lower margin trend going forward and provided more colour on the recent acquisition of the commercial building in Toa Payoh.

Uptrend in Singapore property market intact

The first five months of 2018 saw a 10% y-o-y increase in property transaction value for the overall market. For the whole of this year, we are expecting a 15% increase in transaction value, followed by another 10% in 2019. This is generally fueled by:-

1) pent up demand as more people decide to jump on the band wagon as market sentiment improves;
2) expectations that prices will increase further as developers have been putting in more aggressive bids for land, which should translate into higher selling prices;
3) en-bloc fever, as there were >50 en bloc sites transacted in the last two years and these home owners would need to find replacement homes or to buy for investment;
4) increase in purchasing power as the number of households with monthly income of >$20,000 surged >400% during the 2005 to 2017 period; and
5) the return of foreign interest. Foreigner purchases have historically ranged between 4%-18% (average of 9%) of total primary sales across the property cycle. At the current level of 5% to 6%, we can expect foreign purchases to rise.

Total Singapore property transaction value (S$bn)



Source: Company, DBS Bank

Expect APAC to deliver strong 2H18 earnings

Strong project pipeline. ERA has a pipeline of 11,343 units across 21 new project launches till 3Q18, which is significantly higher than the units secured in the whole of 2017. ERA has already launched seven projects and secured another 14 projects which will be launched during the rest of 2018. This is more than double the 4,800 units (from eight projects) launched by ERA in 2017, which points to higher growth potential for ERA.

En-bloc fever. En-bloc sales have been very active. The first five months of 2018 already chalked up S$8.8 billion worth of collective sales deals, and exceeded 2017's S$8.7 billion. A portion of the sale proceeds is expected to be ploughed back into the property market for replacement homes or investment purposes. The redevelopment of these en-bloc sites will add a significant number of housing units to the existing supply pipeline. The number of potential units from the redevelopment of en-bloc sites (13,200) and available parcels on Government land sales (6,900) could add up to 20,100.

Entrenched leader in project sales

YTD, ERA has launched seven projects - New Futura, The Tapestry, The Verandah Residences, Park Place Residences, Rivercove Residences, and Twin VEW. For these projects, ERA has secured a market share of 41.6% in terms of number of units sold as at 23 May 2018, as an appointed marketing agent. The latest project, Affinity at Serangoon, was launched in June, and is not included in the tabulation. The market shares for the next two marketing agents are 30% and 19% respectively. Thus, ERA is clearly the leader in terms of total sales for the projects that it is appointed as marketing agent.

Project sales for 2018 launches – as at 23 May 2018

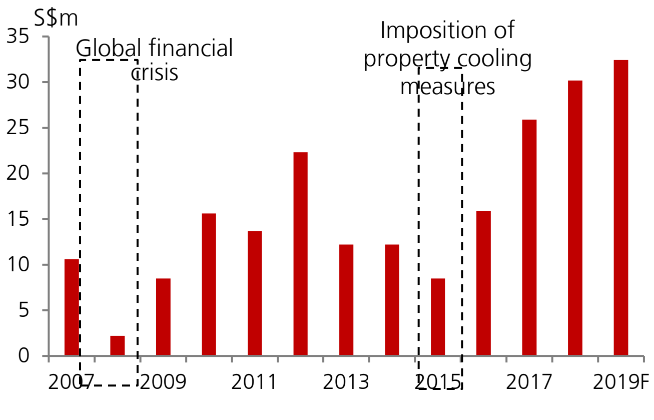
Project name	Developer	Launch Date	Total units avail. for sale	Total sold (unit)	Total sold (%)	ERA market share (%)
New Futura	CDL	18-Jan-18	124	83	66.9	20.5
The Tapestry	Bellevue Properties	24-Mar-18	861	418	48.6	27.3
The Verandah Residences	Oxley	07-Apr-18	170	162	95.3	51.5
Park Place Residences at PLQ (Phase 2)	Lendlease	07-Apr-18	219	175	79.9	77.1
Rivercove Residences	Sunway / Hoi Hup	14-Apr-18	628	594	94.6	47.5
Twin VEW	CSC Land Group	05-May-18	520	454	87.3	33.8
			2,522	**1,886**	**74.8**	**41.6**
Affinity	Oxley	Jun-18	300	112	37.3	n.a.

Source: Company, DBS Bank

Low risk business model to ride on the property up-cycle

The bulk of APAC's revenue is from commission generated from property transactions. This fee-based business model allows APAC to ride on the property up-cycle due to more new project launches and the more active secondary resale market. In a down-cycle, developers may have to offer higher commissions to agents in order to move their project sales. Thus, APAC was able to maintain profitability in the last 10 years even during the recession period.

Profitable even during global financial crisis



Source: Company; DBS Bank

Building recurring income base to ride property down-cycle

APAC recently proposed to acquire a commercial building at Toa Payoh for S$72.8m, which is at current valuation. The vendor is Hersing Corporation, which was previously the listed vehicle of ERA but was delisted in 2012. Some of the current tenants are enjoying preferential rental rates under the previous owner. The lease of these tenants is not likely to be renewed. APAC would then be able to charge new tenants market rates when they come onboard.

Occupancy rate for this building is about 90%. APAC intends to retain 50% of the space and lease the balance 50% to third parties. For its own 50% of space, APAC intends to sub-lease a portion to its own agents. Thus, APAC would be able to generate rental income from third parties and from its agents. The higher rental, which is expected to double from the current of c.S$2m, could kick in from FY19F.

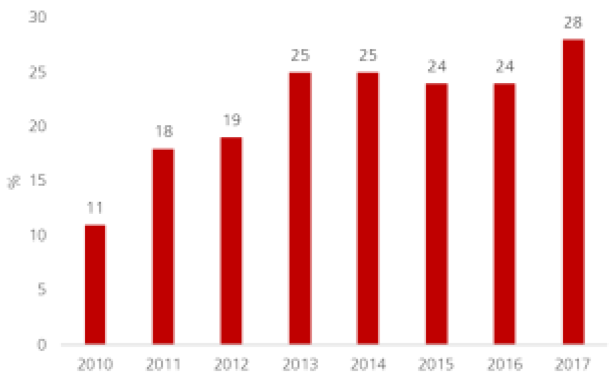
Other than rental income, APAC is also beefing up its other non-brokerage business. Though this segment only contributes 2% to FY17 topline but at the gross profit level, it contributes 15% as gross margin is high at c.90%. Non-brokerage business includes property valuation, property management, training and franchise. About 60% of non-brokerage gross profit consists of services offered to agents.

Proptech – both a disruptor and enabler

The use of technology in the property industry, or "proptech" is gaining a lot of traction today. Different types of services are now available online. These include databases such as REALIS in Singapore, or platforms that enable property agents as well as property developers and owners to showcase their listings on a single online portal, e.g. PropertyGuru that was launched in 2007. There are also portals for commercial leasing (CommercialGuru), public housing transacting and rental (Ohmyhome) to market research (DREA). PropertyGuru has also launched a mobile showroom where users are able to walk through potential apartment listings via virtual reality devices.

While proptech aims to enhance the experience and convenience for the consumer, and provide greater convenience for home buyers and sellers, it bypasses the traditional third-party service providers such as property agents and consultants, to a certain extent. According to data from HDB, the percentage of resale buyers and sellers who do-it-yourself (DIY) has been rising, from about 11% in 2010 to 28% in 2017. Going forward, we expect this trend to continue rising.

Percentage of resale buyers and sellers who DIY



Data include both buyer and seller
Source HDB; DBS Bank

However, while proptech should be adopted to improve processes and efficiency, certain elements of the real estate industry cannot be entirely replaced by technology. Human touch is still vital, especially for big ticket items such as property transactions. Thus, the experience and knowledge of property agents still bring value to the equation.

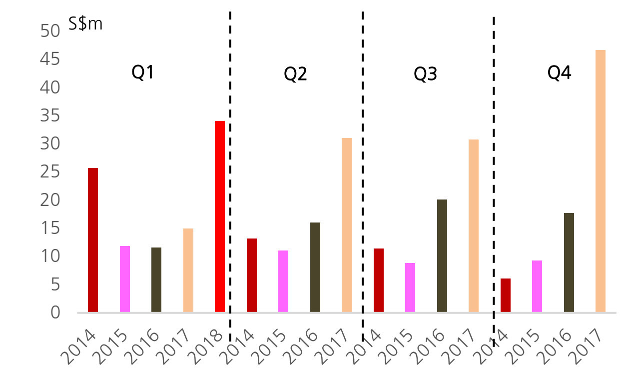
Property agents and technology platforms can co-exist alongside one another. Technology can help agents to be more productive, cut down on admin and focus their efforts and energies on marketing and closing the deal. The winners are those who are able to fill the gaps which artificial intelligence and technology cannot perform, while maximising the boundless opportunities that technology offers. Agents who provide value-added services will be the ones making the most out of this, while those who act as mere middlemen in the transaction could be replaced.

Low 1Q18 numbers not a concern as resale and rental are traditionally the weakest while project sales are expected to be strong in 2H18

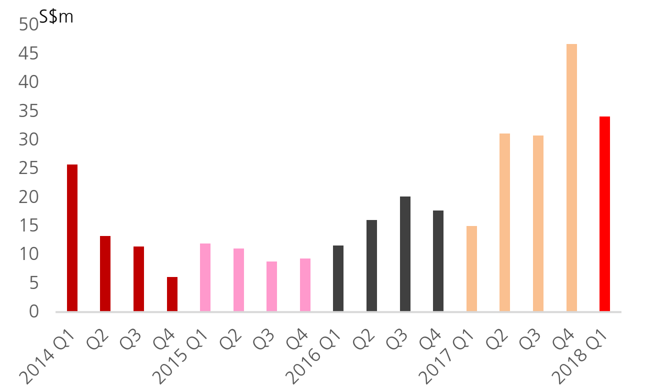
The overall market transaction volume for 1Q18 saw a 67.3% y-o-y rise for the private secondary market but primary sales registered a 46.6% drop as few projects were launched in 1Q18. In terms of ERA's transaction value for 1Q18, the secondary market also fared better than the primary market - 19.6% was from private primary sales, 51.6% from the secondary market, 23.6% from HDB resale and the balance 5.2% from commercial resale and leasing.

We are not too overly concerned about the low 1Q18 numbers as traditionally, for resale and rental, 1Q is always the lowest in the past few years, while 3Q and 4Q are always the strongest. For the primary market, it is dependent on project sales. In 2017, it was more front loaded. More transactions were closed in 1H17 and the booking of revenue, which is usually three to six months later, was in 2H17. For 2018, most of the projects, about 14 of them, are expected to be launched in 2H18. Furthermore, out of the >50 en-bloc sites transacted in the past two years, less than five have been launched and the balance will be launched in the next one to two years.

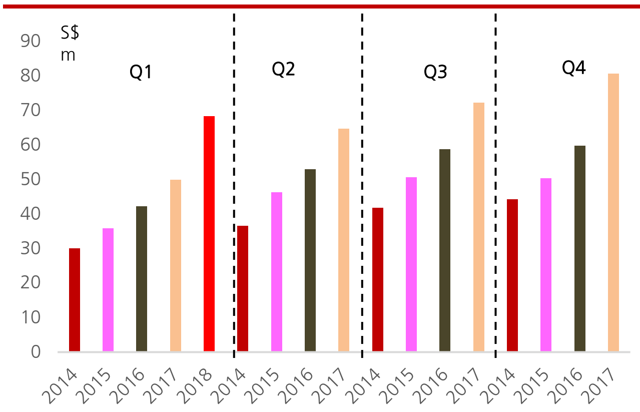
Project sales – comparing same quarter in different years



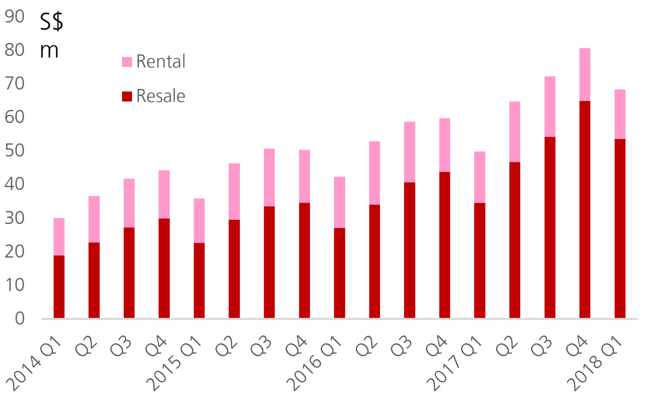
Project sales – quarterly data



Resale and rental – comparing same quarters in different years



Resale and rental – quarterly data



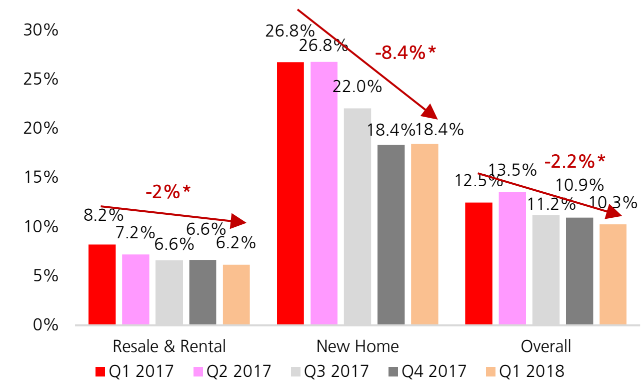
Source: Company; DBS Bank

Lower margins compensated by higher amounts due to higher transaction values

The gross margins for APAC for all the segments have been on a declining trend. The lower gross margins were due to higher commission payout to agents and also alignment with the industry rate. The lower gross margin of 12.2% in 1Q18, vs 15.1% in 1Q17 and 13.7% in FY17 was mainly due to higher payout to agents as they gradually moved up the commission scale. To recap, agents generally get between 70% to 90% of the total commission received. ERA has also adjusted its commission structure to align with the industry standard.

Going forward, margins are not expected to revert to the 2017 level and should stabilise at about 6% to 7% for resale leasing, and 18% to 20% for project sales.

Segmental gross margins trend



** change from Q1 2017 to Q1 2018*
Source: Company; DBS Bank

Negligible provision for doubtful debts despite high trade receivables

Trade receivables as at 31 March 2018 was high at S$70.9m, representing 52% of current assets. The high receivables was mainly due to the nature of the booking for commissions received for property transactions. Commissions earned by agents from property sales or rentals are paid directly to ERA. Subsequently, the agent's share of commission is deducted and paid out to the agent, in a 70% to 90% split to the agent. Thus, the bulk of the receivables represent agents' share of commissions.

Despite the high trade receivables, provision for doubtful debts was only S$0.5m (vs S$1.1m in 1Q17), mainly from overseas exposure but APAC generated the bulk of its revenue from Singapore. Thus, there is negligible provision for doubtful debts despite the high receivables.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Transaction value expected to continue growing. We are expecting transaction value to hit S$52.2bn in FY18F (+15% y-o-y) and S$57.4bn for FY19F (+10% y-o-y) for the total private residential market, including both primary and secondary markets. We see multiple catalysts for residential prices to head higher in the next two years. Prices in the residential market could rise by 6-10% by 2019. Overall, for the whole residential market, including HDB segment, we expect transaction value to grow 13.3% in FY18F and 8.3% in FY19F.

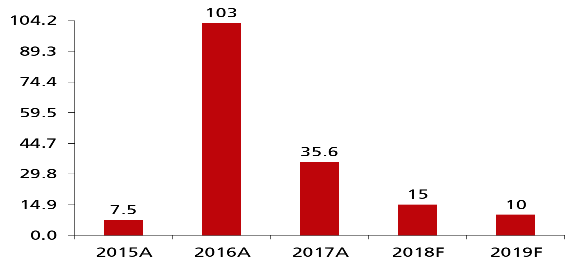
Market share is critical. Market share for ERA based on transaction value increased from 26.9% in 2011 to about 38% in 1Q18. ERA has established itself as one of the market leaders in project marketing, alongside Huttons whose strength is in mass market projects, and Savills and Knight Frank which are both strong in luxury developments.

Project pipeline. In terms of project launches, ERA secured 12 projects out of 19 (47%) in 2015; 14 out of 23 (66%) in 2016 and eight projects or 91% of projects launched in 2017. To date, ERA has already secured 21 projects to be launched in 2018 with about 11,343 residential units available for sale. This is double the 4,800 units (from eight projects) launched by ERA in 2017.

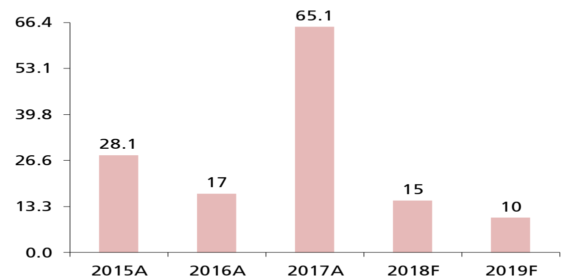
Agents strength. APAC has one of the largest numbers of registered real estate agents. APAC's agents are its primary sales force and are not employees of the group, through which units are transacted. APAC has grown its network of agents over the years, and has gained market share. As at April 2018, APAC has about 6,100 agents with a market share of around 21%, up from 16% in 2014.

Technological initiative to enhance competitiveness. APAC currently offers various tools such as mobile applications for its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities to enhance its competitiveness. It has launched a new Property Investment Calculator in its i-ERA mobile app, which will provide salespersons with a one-stop financial analysis tool for any property. They will be able to assist their clients to make more effective buying and selling decisions as all variables are dynamically updated.

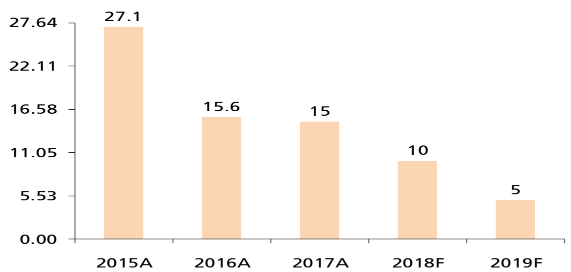
Private residential - primary



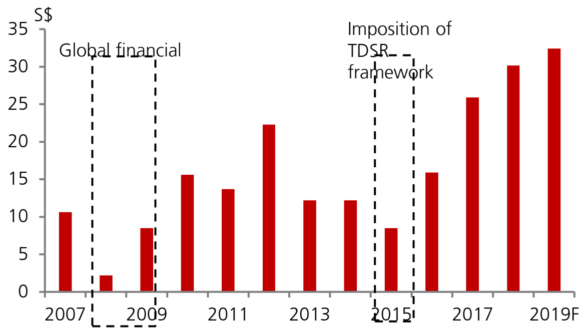
Private residential - secondary



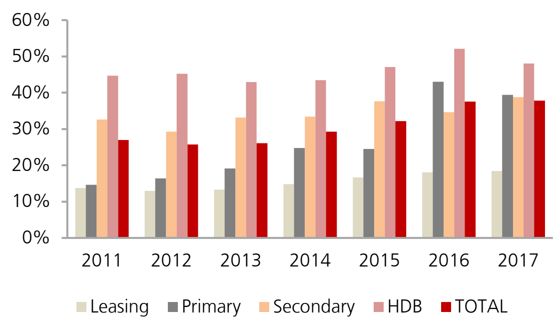
HDB resale



Net profit trend

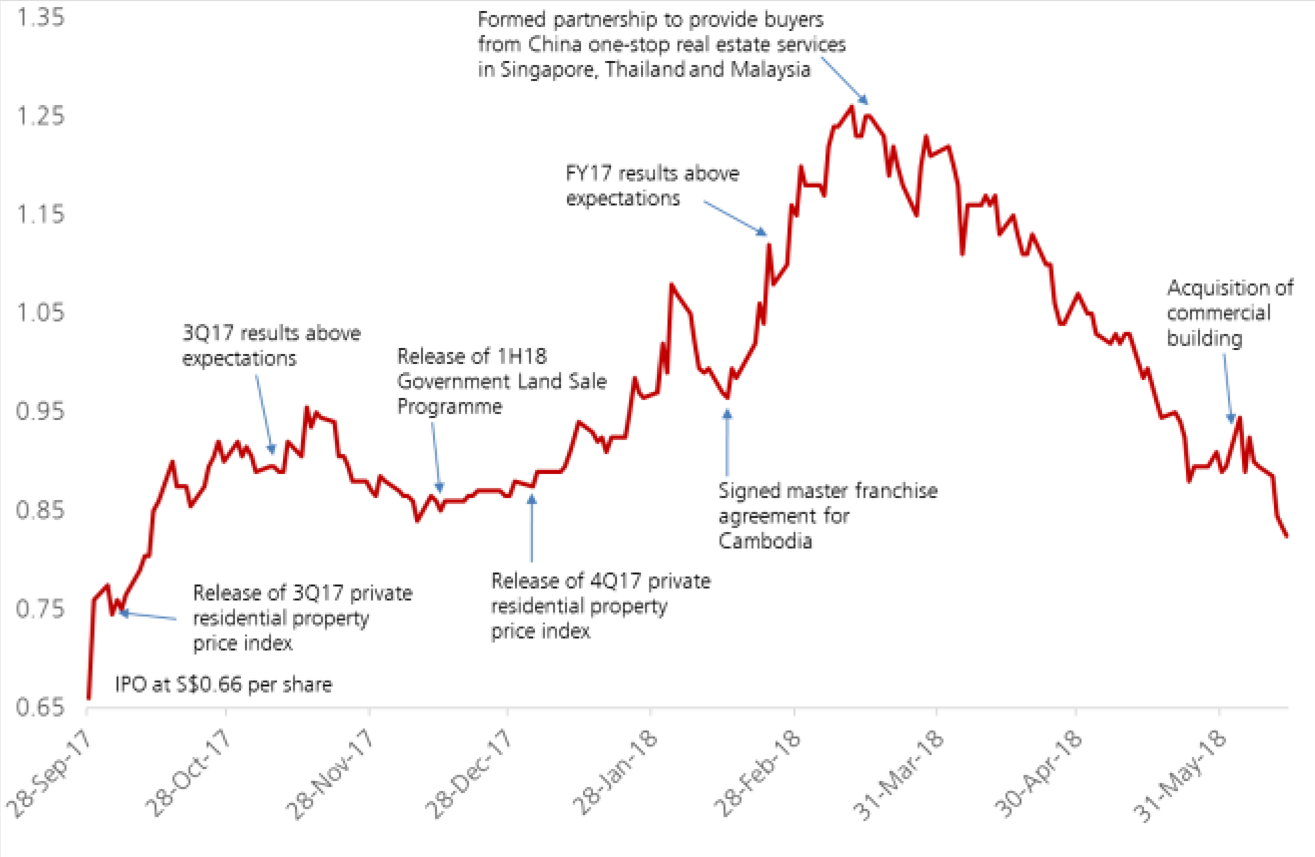


ERA's market share



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



Source: Company, DBS Bank

New launches till 3Q18 for which ERA has secured marketing agent role

	Location / Project	Developer	Target Launch (Estimated)	Estimated Number of Units
1	New Futura (Former Futura)	CDL	launched - 1Q18	124
2	The Tapestry (Tampines Avenue 10)	CDL	launched - 1Q18	861
3	Rivercove Residences (Anchorvale Lane EC)	Sunway / Hoi Hup	launched - 2Q18	628
4	Twin VEW (West Coast Vale)	CSC Land Group	launched - 2Q18	520
5	The Verandah Residences (Pasir Panjang)	Oxley	launched - 2Q18	170
6	Park Place Residences at PLQ (Phase 2)	Lendlease	launched - 2Q18	219
7	Affinity @ Serangoon (Former Serangoon Ville)	Oxley Serangoon & KSH	launched - 2Q18	1,052
8	TwentyOne Angullia Park	Private Owner	2Q 2018	28
9	Belgravia (Phase 2)	Fairview Developments	2Q/3Q 2018	118
10	Woodleigh Lane	CEL Unique Development	2Q/3Q 2018	735
11	Shunfu Road (Former Shunfu Ville)	Qing Jian	2Q/3Q 2018	1,300
12	Potong Pasir Avenue 1 (Former Raintree Gardens)	UOL	2Q/3Q 2018	750
13	Hougang Avenue 7 (Former Rio Casa)	Oxley - Lian Beng Ventures	2Q/3Q 2018	1,472
14	Flora Drive	Hong Leong / CDL / TID	2Q/3Q 2018	400
15	Stirling Residences (Stirling Road)	Logan / Nanshan	2Q/3Q 2018	1,110
16	Rifle Range Road (Former Mayfair Gardens)	Oxley	2Q/3Q 2018	387
17	Marina One Residences (Phase 2)	M + S	2Q/3Q 2018	500
18	Bukit Timah Road (Former Royalville)	Allgreen	2Q/3Q 2018	320
19	Ewe Boon Road (Former Crystal Tower)	Allgreen	2Q/3Q 2018	130
20	Fourth Avenue	Allgreen	2Q/3Q 2018	455
21	Balmoral Road (Former 11 Balmoral)	Aurum Land	2Q/3Q 2018	64
	TOTAL			11,343

Source: Company, DBS Bank

Balance Sheet:

Cash-generative business. Barring any major capital expenditure, APAC is a cash-generating business with good cash conversion cycle as APAC only pays out to its agents after receiving payments from its debtors. As at 31 March 2018, APAC had fully pared down its debt, with cash balance of S$63.5m.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to S$100m as at March 2018, derived from ERA Realty Network Pte Ltd, ERA Singapore Pte Ltd, Realty International Associates Pte Ltd and Coldwell Banker Real Estate (S) Pte Ltd. Franchise rights are held for the exclusive right of use of the brand names "ERA" and "Coldwell Banker". The group acquired the exclusive ERA Regional master franchise rights for certain countries in the Asia-Pacific region for an initial term of 30 years from 19 November 1999, expiring in 2029, with the option to renew for another 30 years. The group also holds the ERA sub-franchise rights in Singapore for an initial term of 30 years from 28 June 1990, which expires in 2020, also with the option to renew for another 30 years.

Share Price Drivers:

We believe that APAC is largely viewed by the market as a proxy to Singapore's private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market would have an impact on APAC's share price.

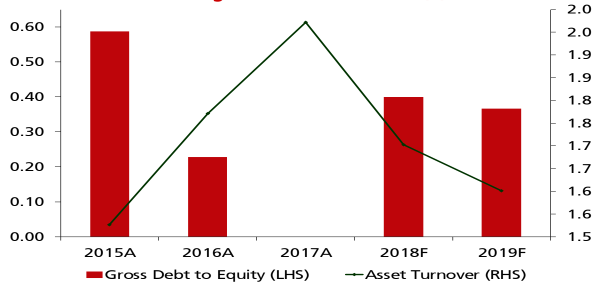
Key Risks:

APAC is highly dependent on Singapore's residential property market and macroeconomic conditions. Any change in government policies that has effect on the property market, will in turn affect APAC. For example, residential transaction volumes and values suffered sharp declines in 2014 due to the cumulative effect of various measures introduced by the government. In the longer term, the real estate brokerage industry may also be disrupted by technology with increasing adoption of websites that facilitate private sales.

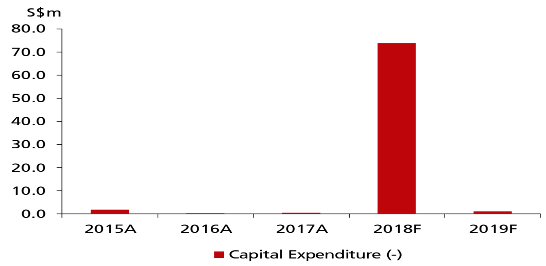
Company Background

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.

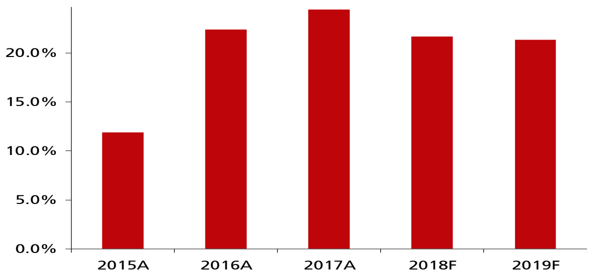
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Transaction value growth					
Private residential - primary	7.50	103	35.6	15.0	10.0
Private residential - secondary	28.1	17.0	65.1	15.0	10.0
HDB resale	27.1	15.6	15.0	10.0	5.00

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
Brokerage	224	279	391	443	480
Non-brokerage	8.28	8.62	9.38	11.0	12.1
Total	233	288	401	454	492
Gross profit (S$m)					
Brokerage	23.9	32.2	46.6	53.2	57.6
Non-brokerage	7.33	7.66	8.29	9.90	10.9
Total	31.3	39.9	54.9	63.1	68.5
Gross profit Margins (%)					
Brokerage	10.7	11.5	11.9	12.0	12.0
Non-brokerage	88.5	88.9	88.4	90.0	90.0
Total	13.4	13.9	13.7	13.9	13.9

Growth driven by higher growth assumptions for sales transactions

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	233	288	401	454	492
Cost of Goods Sold	(201)	(248)	(346)	(391)	(424)
Gross Profit	31.3	39.9	54.9	63.1	68.5
Other Opng (Exp)/Inc	(19.8)	(20.7)	(25.2)	(28.1)	(30.1)
Operating Profit	11.5	19.2	29.7	35.1	38.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.01	0.0	0.0
Net Interest (Exp)/Inc	(1.2)	(1.1)	(0.3)	(0.8)	(1.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.3	18.1	29.4	34.3	36.8
Tax	(1.8)	(2.2)	(3.5)	(4.1)	(4.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	8.49	15.9	25.9	30.2	32.4
Net Profit before Except.	8.49	15.9	25.9	30.2	32.4
EBITDA	13.0	20.8	31.2	36.0	39.4
Growth					
Revenue Gth (%)	6.6	23.7	39.2	13.4	8.4
EBITDA Gth (%)	(23.7)	59.6	49.7	15.5	9.4
Opg Profit Gth (%)	(27.4)	67.3	54.7	18.0	9.6
Net Profit Gth (Pre-ex) (%)	(30.7)	87.2	63.1	16.5	7.4
Margins & Ratio					
Gross Margins (%)	13.4	13.9	13.7	13.9	13.9
Opg Profit Margin (%)	4.9	6.7	7.4	7.7	7.8
Net Profit Margin (%)	3.6	5.5	6.5	6.6	6.6
ROAE (%)	11.9	22.4	24.4	21.7	21.4
ROA (%)	5.6	9.8	12.8	11.3	10.5
ROCE (%)	6.9	14.3	21.5	17.0	14.4
Div Payout Ratio (%)	0.0	0.0	27.4	60.0	60.0
Net Interest Cover (x)	9.8	17.1	111.6	44.5	23.6

Assume 60% payout. APAC paid a 2-Sct DPS in 4QFY17 which translates into 90% payout post IPO and based on 4Q17 earnings

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	67.2	91.1	106	130	105
Cost of Goods Sold	(57.0)	(83.2)	(91.9)	(114)	(92.3)
Gross Profit	10.2	7.94	13.7	16.0	12.9
Other Oper. (Exp)/Inc	(5.3)	1.83	(7.1)	(7.6)	(5.8)
Operating Profit	4.89	9.78	6.59	8.43	7.13
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.75	9.69	6.55	8.43	7.13
Tax	(0.7)	(1.2)	(1.0)	(0.5)	(1.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	4.03	8.49	5.51	7.88	5.92
Net profit bef Except.	4.03	8.49	5.51	7.88	5.92
EBITDA	5.25	10.1	6.95	8.79	7.49
Growth					
Revenue Gth (%)	(15.9)	35.7	15.8	22.9	(18.9)
EBITDA Gth (%)	(10.0)	92.9	(31.5)	26.5	(14.8)
Opg Profit Gth (%)	(10.2)	99.8	(32.6)	27.9	(15.4)
Net Profit Gth (Pre-ex) (%)	(18.3)	110.5	(35.1)	43.0	(24.9)
Margins					
Gross Margins (%)	15.1	8.7	13.0	12.3	12.2
Opg Profit Margins (%)	7.3	10.7	6.2	6.5	6.8
Net Profit Margins (%)	6.0	9.3	5.2	6.1	5.6

Fewer new launches in 1Q18

Lower gross margins as more agents move up the commission scale

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	2.14	1.44	1.22	75.0	76.0
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	103	102	101	99.9	98.9
Cash & ST Invts	14.2	17.7	62.0	56.8	70.8
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	33.6	47.8	70.1	64.3	69.7
Other Current Assets	2.04	1.63	1.92	1.92	1.92
Total Assets	155	170	236	298	317
ST Debt	6.00	6.00	0.0	0.0	0.0
Creditor	39.0	55.6	82.0	74.7	80.9
Other Current Liab	10.5	13.1	16.4	15.6	15.9
LT Debt	31.0	12.0	0.0	58.0	58.0
Other LT Liabilities	5.14	4.67	4.49	4.49	4.49
Shareholder's Equity	63.0	78.9	133	145	158
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	155	170	236	298	317
Non-Cash Wkg. Capital	(13.9)	(19.4)	(26.5)	(24.1)	(25.2)
Net Cash/(Debt)	(22.8)	(0.3)	62.0	(1.3)	12.8
Debtors Turn (avg days)	46.6	51.6	53.7	54.0	49.6
Creditors Turn (avg days)	67.6	70.1	73.0	73.3	67.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.5	1.8	2.0	1.7	1.6
Current Ratio (x)	0.9	0.9	1.4	1.4	1.5
Quick Ratio (x)	0.9	0.9	1.3	1.3	1.5
Net Debt/Equity (X)	0.4	0.0	CASH	0.0	CASH
Net Debt/Equity ex MI (X)	0.4	0.0	CASH	0.0	CASH
Capex to Debt (%)	4.9	0.8	N/A	127.2	1.7
Z-Score (X)	4.7	5.1	5.2	5.2	5.8

Acquisition of commercial building

Assume bulk of debt financing for the acquisition of commercial building

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	10.3	18.1	29.4	34.3	36.8
Dep. & Amort.	1.56	1.62	1.44	0.93	0.93
Tax Paid	(2.6)	(1.6)	(3.2)	(5.0)	(4.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.8)	3.35	4.16	(1.5)	0.85
Other Operating CF	1.58	1.22	2.80	0.0	0.0
Net Operating CF	**7.12**	**22.7**	**34.6**	**28.7**	**34.5**
Capital Exp.(net)	(1.8)	(0.1)	(0.5)	(73.8)	(1.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	(0.2)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.3)	0.0	0.0	0.0	0.0
Net Investing CF	**(2.1)**	**(0.1)**	**(0.7)**	**(73.8)**	**(1.0)**
Div Paid	0.0	0.0	0.0	(18.1)	(19.4)
Chg in Gross Debt	16.0	(19.0)	(18.0)	58.0	0.0
Capital Issues	0.0	0.0	28.2	0.0	0.0
Other Financing CF	(25.0)	0.0	0.0	0.0	0.0
Net Financing CF	**(9.0)**	**(19.0)**	**10.2**	**39.9**	**(19.4)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(4.0)	3.53	44.2	(5.2)	14.0
Opg CFPS (S cts)	3.06	5.44	8.58	8.51	9.47
Free CFPS (S cts)	1.50	6.34	9.62	(12.7)	9.43

Acquisition of commercial building

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:	09 Nov 17	0.92	1.03	BUY
2:	13 Nov 17	0.96	1.12	BUY
3:	19 Feb 18	1.06	1.12	BUY
4:	26 Feb 18	1.16	1.25	BUY
5:	19 Mar 18	1.19	1.42	BUY
6:	10 May 18	1.03	1.32	BUY
7:	06 Jun 18	0.90	1.32	BUY

Source: DBS Bank
Analyst: Lee Keng LING
Derek TAN

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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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 14 Jun 2018 16:22:38 (SGT)
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