

Real Estate Agencies

Can have pie and eat it, too



3 June 2019

SINGAPORE | REAL ESTATE (AGENCIES) | INITIATION

- Both PropNex and APAC Realty (operating under the ERA brand) have close to half the number of real estate agents in Singapore and handled an average c.85% of all property transactions (by no. of units) in 2018.
- High unleveraged return on capital, due to asset-light nature of business and variable pay structure of most of the salesforce.
- Resilient even in industry downturns, matching or beating the movements of the property market.
- Initiate coverage on APAC Realty Limited (BUY; TP S\$0.65) and PropNex Limited (BUY; TP S\$0.63)

Investment Merits

1) Exceptional market share

PropNex and ERA comprise c.48% of the property agents in Singapore (Figure 1). In 2018, these two brokerages made up for 93% / 77% / 83% of HDB resale / primary residential / secondary residential transactions (by no. of units) (Figure 2). Industry consolidation in the past has seen PropNex and ERA gain market share over the years, from 13% and 15% of total property agents in Singapore in 2012 to 26% and 23% in 2019, respectively. The dominance of these two market players within the real estate brokerage market in Singapore allowed them to capture a substantial amount of transactions, be it in a buyers' market or sellers' market.

2) High unleveraged return on capital

Both companies clocked in high double-digit ROEs over the years – PropNex 31% and APAC Realty 17%, for FY2018 – with little to no leverage (the debt presently held under APAC Realty relates to a mortgage over its single investment property). The brokerage business is asset-light, with most of the salesforce being paid on a variable basis, allowing both companies to easily maintain or grow their high ROE.

3) Resilient even in industry downturns

Both PropNex and APAC Realty were able to match or beat the movements of the property market each time, with their revenue YoY change overlapping that of the private residential transactions YoY change (Figure 20). In 2018 for example, PropNex and APAC Realty recorded a +6% and +30% increase in revenue, respectively, in spite of the -8% decline in private residential transactions. On the flip side, in 2017, PropNex and APAC Realty recorded a +39% and +35% increase in revenue, respectively, outstripping the +21% growth in private residential transactions.

Outlook

The real estate agencies' model is highly scalable and resilient, especially with both APAC Realty and PropNex capturing an average c.85% of total market transactions. Aside from gaining market share and being a proxy to the Singapore residential market when volumes pick up, a key upside would be the pivoting towards overseas markets – by eventually owning and consolidating said operations, thus also diversifying the earnings base out of Singapore.

Investment Actions

Initiate on the Real Estate Agencies sector:

- BUY on APAC Realty Limited (TP: S\$0.65)
- BUY on PropNex Limited (TP: S\$0.63)

APAC REALTY

BUY (Initiation)

LAST DONE PRICE	SGD 0.52
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.65
TOTAL RETURN	34.0%

PROPNE X REALTY

BUY (Initiation)

LAST DONE PRICE	SGD 0.51
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.63
TOTAL RETURN	31.8%

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Real estate agencies landscape in Singapore

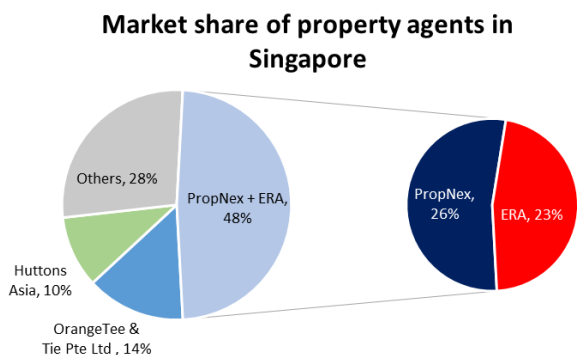
The real estate agency industry in Singapore is dominated by a handful of players (c.72% market share of agents belonging to just four players – see Figure 1) with the remaining market share spread over a thousand agencies.

The industry has gone through multiple consolidation exercises in the past (Figure 22), as a result of heightened compliance requirements and competition. This is also driven by the need to consolidate the smaller brokerages, as the natural attrition rate eats into the agent count of these brokerages – particularly so for agents that are not within the top few agencies.

PropNex Realty (PropNex) and **APAC Realty** (operating under the **ERA** brand), the only two listed real estate agencies in Singapore, have consistently held the top two positions in terms of market share of agents and currently hold close to half of the entire market share of property agents in Singapore. The bulk of these agencies’ earnings are generated via brokerage income, which is a function of transaction volume and prices, market share and commission rates. Other income is earned from – among other items – royalties by sub-franchisees, property valuation and management, training and auction.

Figure 1: PropNex and ERA Realty comprise close to half of the entire market share of property agents in Singapore

Figure 2: Agency count among the biggest real estate agencies in Singapore. Currently, only PropNex and APAC Realty (operating under the ERA brand) are listed

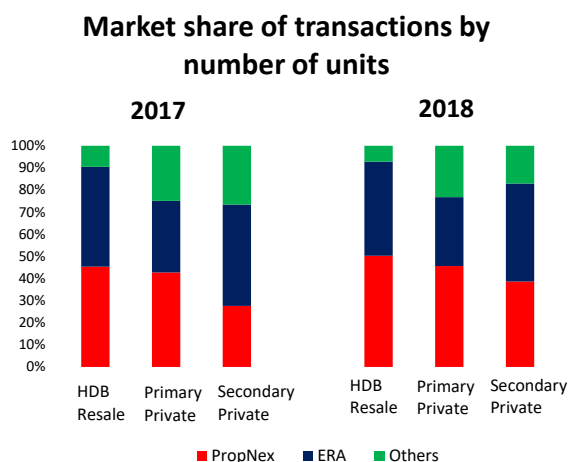


Source: CEA, PSR

Estate Agent	No. of agents
PropNex Realty Pte Ltd	7,837
ERA Realty Network Pte Ltd	6,839
OrangeTee & Tie Pte Ltd	4,247
Huttons Asia Pte Ltd	3,072
Others (c.1.2k agencies)	8,399
TOTAL	30,394

Source: CEA, PSR

Figure 3: Correspondingly, PropNex and ERA Realty both have 80-90% share of transactions across the private residential (primary and secondary) and HDB resale markets

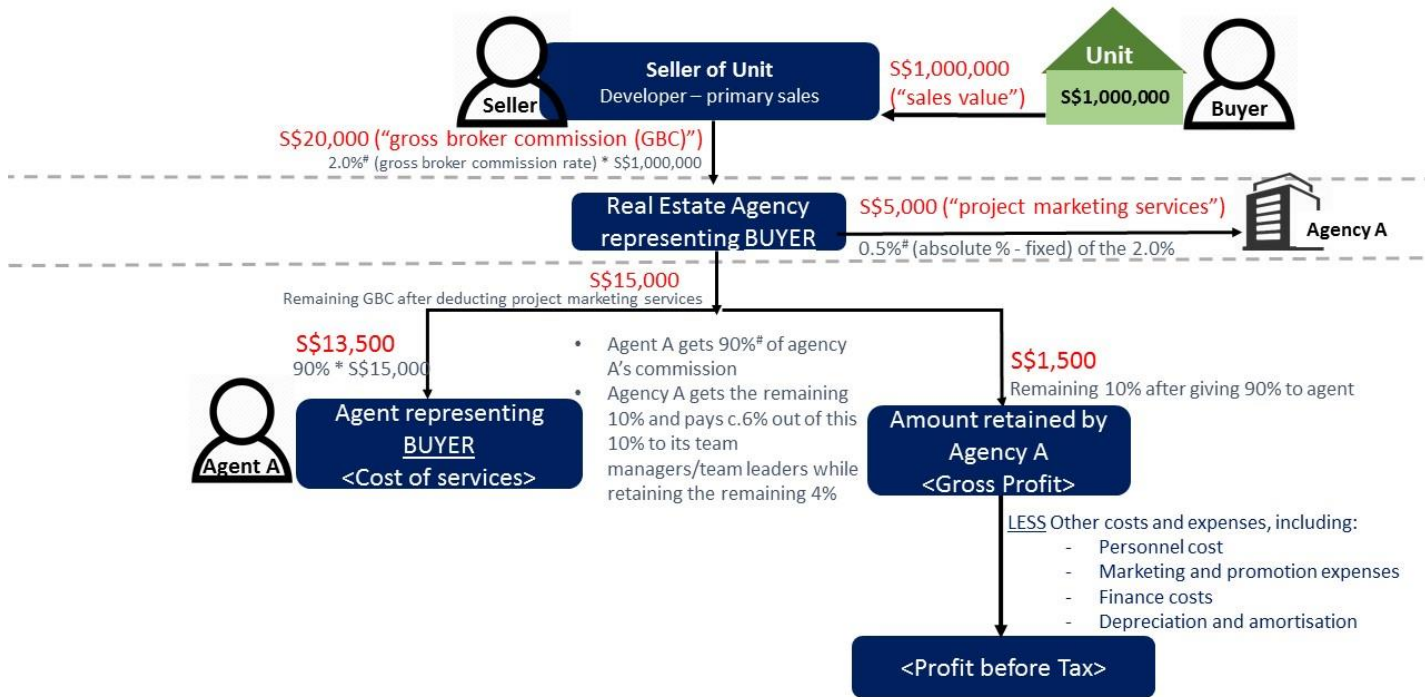


Source: APAC Realty, PropNex, PSR

Commission structure for private residential sales (primary sales and resale)

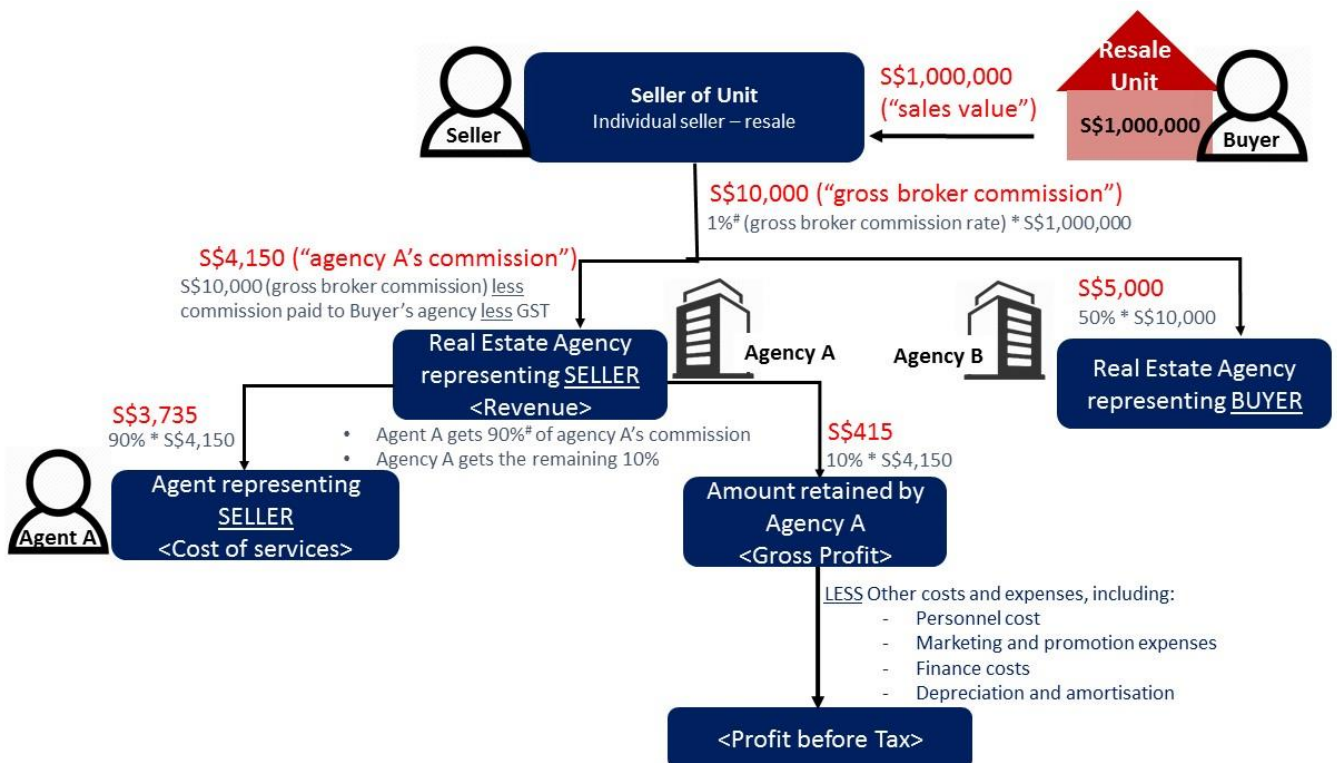
Key difference between primary sale and resale is that the agency would get an additional fixed percentage override (a fixed 0.5% cut from the gross broker commission) – called the project marketing services. The gross broker commission rate is a negotiated rate between Seller and Agencies – up to 5% for primary sales and typically 1-2% for secondary sales (figures 26-29, 34).

Figure 4: Example of a primary sale (private residential)



Source: PSR

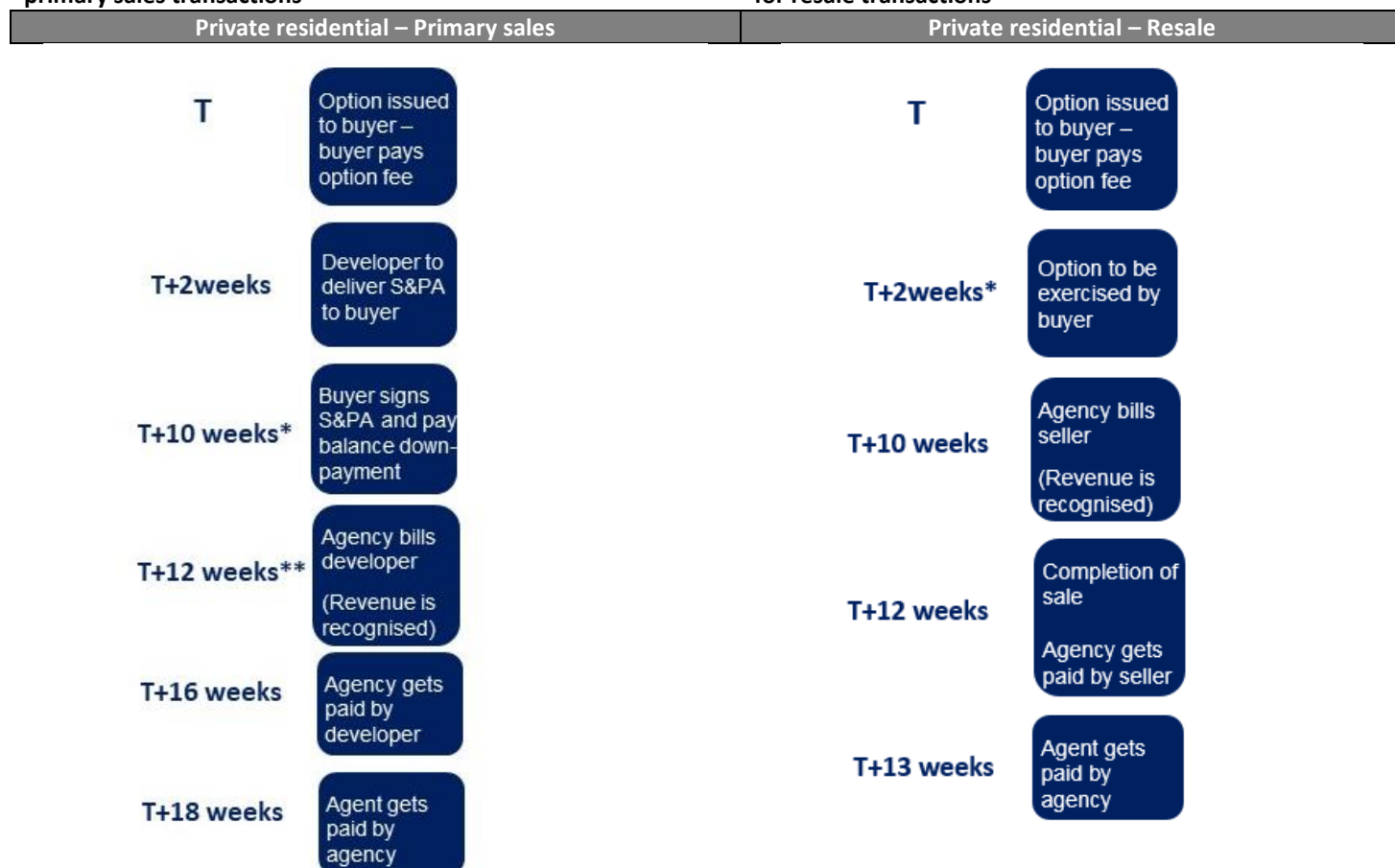
Figure 5: Example of a resale (private residential)



Source: PSR

Key financial line items

Revenue	Brokerage related (c.75-80% of revenue) <ul style="list-style-type: none"> • Private residential – primary launches • Private residential – resale • HDB – resale • Commercial/industrial – resale • Rental – Private residential, HDB, commercial/industrial 	<p>Bread and butter of the brokerage business.</p> <p>Bulk of revenue stems from the private residential – resale segment (c.40-50%) as well as the private residential – primary launches segment (c.25%), followed by the leasing (c.20%) and HDB resale (c.15%) segments.</p> <p>Time lags between the issuance of a sales & purchase agreement (S&PA) to the buyer, recognition of revenue, payment from developer/seller to agency, and agencies' payout to the agents. (figures 6 & 7)</p>
	Non-brokerage related (c.20-25% of revenue) <ul style="list-style-type: none"> • Franchise • Training • Property valuation • Property management 	<p>Fees from overseas franchises as well as in-house training, valuation and management.</p>

Figure 6: Agents typically wait up to 6 months to get paid, for primary sales transactions


* if option not exercised, developer keeps 25% of option fee

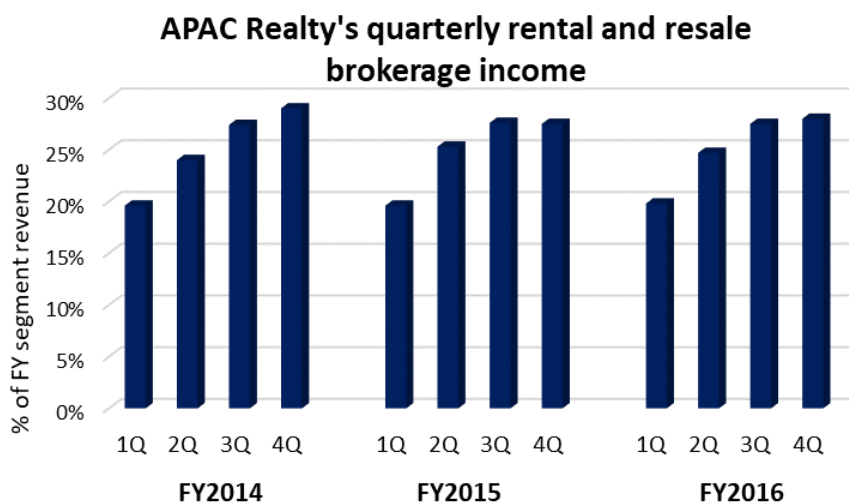
** delay of revenue recognition from T+8weeks due to batching effect (consolidating of sales orders)

* if option not exercised, seller keeps the option fee

Source: PSR

Source: PSR

Figure 8: General seasonality effect observed for the resale and leasing segments, compared to the other segments. Given the time lag between the commencement of transactions and eventual revenue recognition, the lower rental and resale income in the first half of the year could be attributed to typically lower transaction volumes at year-end as well as the Chinese New Year.



Source: APAC Realty, PSR

Figure 9: Sensitivity analysis between the commission rates and market share on revenue. For primary sales transactions, the margin may seem compressed as the project marketing fees are a fixed cut regardless of the level of commission rates paid out by the developer to the agency.

		Market Share						
		33%	34%	35%	36%	37%	38%	39%
Commission rate	108,926							
	0.90%	74,887	77,156	79,425	81,695	83,964	86,233	88,503
	1.00%	83,208	85,729	88,251	90,772	93,293	95,815	98,336
	1.10%	91,528	94,302	97,076	99,849	102,623	105,396	108,170
	1.20%	99,849	102,875	105,901	108,926	111,952	114,978	118,004
	1.30%	108,170	111,448	114,726	118,004	121,281	124,559	127,837
	1.40%	116,491	120,021	123,551	127,081	130,611	134,141	137,671
	1.50%	124,811	128,594	132,376	136,158	139,940	143,722	147,504

Source: PSR

Costs and expenses	<ul style="list-style-type: none"> • Cost of services • Personnel cost • Brokerage services • Others (merchandise sales, training, etc) • Marketing and promotion expenses • Others (finance costs, other operating expenses, depreciation & amortisation, etc) 	<p>Cost of services is the single biggest cost component (c.85-90% of revenue), giving an average gross profit margin of 10-15%. This is the commission paid to the agents (figures 30 & 35). The split varies between 90-10, 80-20 and 70-30, depending on the experience of the agent. For primary residential sales, the split is almost exclusively 90-10.</p> <p>Primary residential sales generally carry a higher commission rate (1.5-5%) than that of resale transactions (c.1%).</p> <p>Key difference between primary sale and resale is that the agency would get an additional fixed percentage override (a fixed 0.5% cut from the gross broker commission) – called the project marketing services.</p>
Trade receivables Trade payables	<p>Typically takes up a sizeable portion of balance sheet due to revenue recognition lag of 2-6 months (ref. figures 4-7).</p> <p>Generally longer revenue recognition lag time for primary residential sales due to additional steps involved and batching effect from consolidation of orders.</p> <p>Payment from the developer to the agency and payment from the agency to agents will experience the same lag period correspondingly.</p> <ul style="list-style-type: none"> • Commission is held as a trade receivable item up until the S&PA has been exercised 	
Intangible assets	<p>Goodwill and trademark arising from franchise agreements.</p>	

Key risks

▪ Losing agent count to other agencies

Risk of losing market share of number of agents to other agencies. While the number of agents do not directly correlate to the market share of transactions, the loss of key performing agents can result in a more-than-proportionate shift in market share of transactions.

In addition, the consolidation of agencies do not necessarily result in a sustained increased agent count, as there could be fallout due to a clash of company culture, among other things.

▪ Potential technological disruption of business

Risk from companies offering online platforms or solutions that ultimately reduce the need for an agent and that would render the brokerage business non-competitive.

While we believe a wholesale displacement of real estate agents by technology platforms is unlikely in the near-term, there is a risk of certain market share migrating to these online platforms.

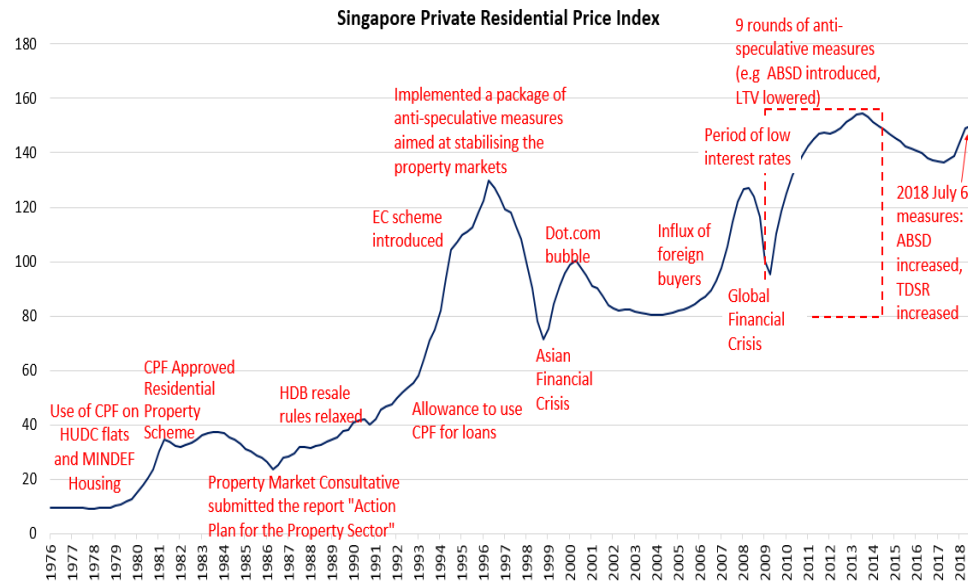
What does it take to be a property agent?

Requirements to be a property agent in Singapore:

- 1) at least 21 years of age
- 2) is not registered as a salesperson with another estate agent
- 3) does not hold a licence as any other estate agent
- 4) has a minimum of four GCE "O" level passes (or obtained an equivalent or higher qualification as determined by the CEA)
- 5) passed the Real Estate Salespersons (RES) Examination

Outlook for Singapore property market

Figure 10: Major property events through the decades



Source: CEIC, PSR

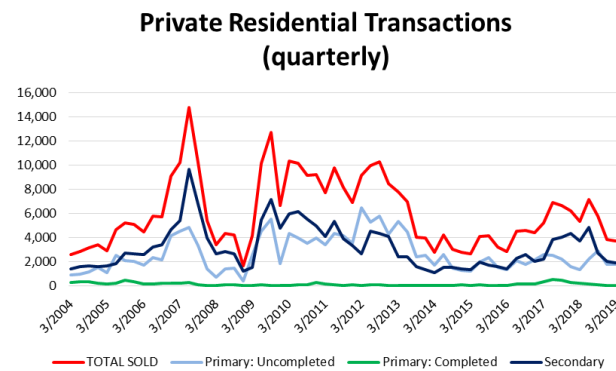
Demand – muted in the near term

- Pool of buyers have shrunk to first-home buyers and en-bloc sellers.
- However, potential demand for upgraders as the number of flats hitting the minimum occupation period (MOP) in 2019 is double than that in 2018.

Supply – possible adjustment in upcoming supply

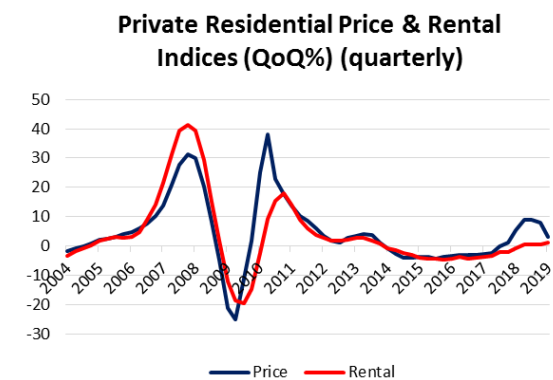
- Avg. annual demand of 9.4k units < pending launch of c.18k units (excl. ECs) of ~60 launches in 2019.
- En-bloc market has cooled; reserve prices being cut.
- GLS tenders announced for 1H2019 lowest level since 1H2007 portending a possible halt of confirmed GLS sites.

Figure 11: Uncompleted primary transactions held up better than that of the secondary market, both QoQ and YoY



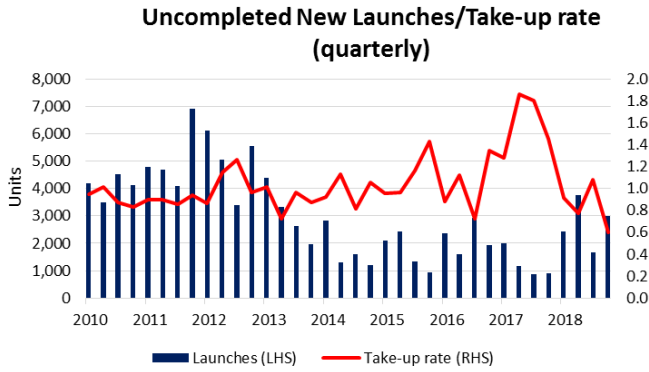
Source: CEIC, PSR

Figure 12: Prices took a dip QoQ in 1Q19, while rents held steady



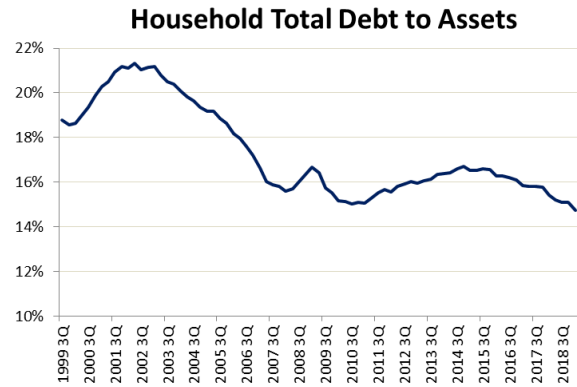
Source: CEIC, PSR

Figure 13: Take-up rate of uncompleted new launches declined to 0.6x in 1Q19 (2018 average: 1.1x)



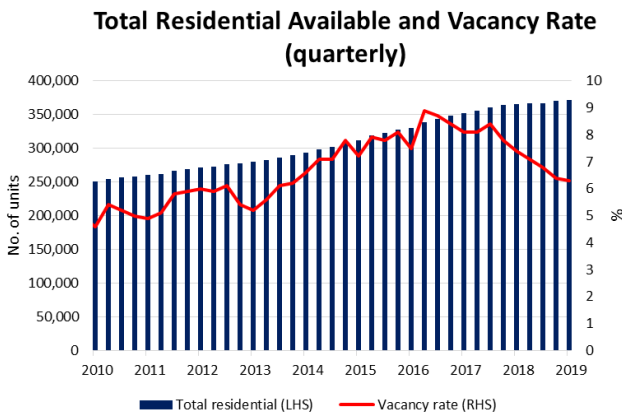
Source: CEIC, PSR

Figure 14: Household balance sheet has been healthier over the years



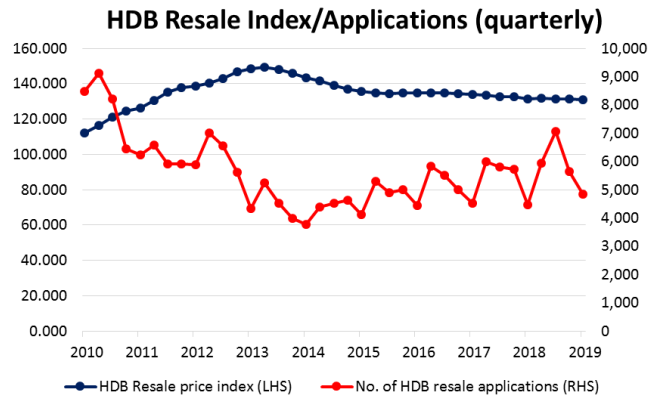
Source: Singstat, PSR

Figure 15: Vacancy rate had been declining since late 2017



Source: CEIC, PSR

Figure 16: Excluding one quarter (3Q16), 1Q19 would have been the 22nd consecutive YoY dip in the HDB resale price index



Source: CEIC, PSR

Figure 17: Anticipated line-up of 69 projects (>25k units) in 2019. Below are some of the new launches and top-selling launched developments in 1Q19

Biggest launch of the year

	Project name	Developer	First transaction /launch	Total Units
	TREASURE AT TAMPINES	Sim Lian Group	22-Mar-19	2,200
New launches in 2019	FOURTH AVENUE RESIDENCES	Allgreen Properties	17-Jan-19	470
	BOULEVARD 88	City Developments Limited	8-Mar-19	154
	RV ALTITUDE	Roxy-Pacific Holdings	18-Jan-19	140
	1953	Oxley Holdings	9-Mar-19	58
Top-selling launched developments	THE TRE VER	UOL	2-Jan-19	729
	AFFINITY AT SERANGOON	Oxley Serangoon	4-Jan-19	1,012
	STIRLING RESIDENCES	Nanshan Group & Logan Property Holdings	5-Jan-19	1,259
	PARC ESTA	MCL Land	1-Jan-19	1,399
	PARC BOTANNIA	Sing Holdings & Wee Hur Holdings	10-Jan-19	735

Source: CEIC, PSR

Figure 18: Developers have thrown in a “sweetener” in the form of higher commissions to agents post-cooling measures, which also underscores the significance of the agencies’ roles during these new property launches

	Pre-cooling measures	Post-cooling measures
Primary sales	Launch: 1.5% to 2% Post-launch: 2-2.5%	Launch: 2% Post-launch: 3-6%
Resale	1% to 1.5%	2%

Source: PSR

Figure 19: How the two listed Singapore property agencies stack against its global and regional listed peers. PropNex Ltd has the highest ROE and P/B ratio amongst all counters

Company	Listing	Last price (S\$)	Mkt cap (S\$m)	ROE (%)	ROA (%)	P/E (x)	P/B (x)	Operating Margin (%)	Dividend Yld (%)	Gearing (%)
APAC Realty Ltd	Singapore	0.52	182.93	17.56	9.34	7.55	1.28	6.95	9.71	20.31
Propnex Ltd	Singapore	0.51	188.70	141.26	16.56	8.92	20.10	5.94	2.94	N.A.
LARGE-CAP LISTED PEERS										
CBRE Group Inc	New York	48.11	16,178.32	22.81	8.10	17.05	3.18	5.10	N.A.	23.03
Colliers International Group Inc	NASDAQ GS	61.88	2,457.31	26.28	4.50	N.A.	N.A.	7.13	0.16	28.51
Savills PLC	London	8.32	1,188.80	18.10	5.74	14.79	2.65	5.71	1.88	10.72
Jones Lang LaSalle Inc	New York	132.74	6,071.88	12.96	4.71	11.36	1.62	4.33	0.65	10.32
MID-TO-LARGE-CAP LISTED PEERS										
Realogy Holdings Corp	New York	7.40	845.06	4.55	1.39	6.15	0.39	6.68	4.86	51.84
Century 21 Real Estate of Japan Ltd	Tokyo	1,197.00	13,556.03	13.91	12.06	15.53	2.09	29.08	4.18	0.42
Countrywide PLC	London	0.05	86.82	(82.42)	(38.31)	N.A.	0.39	(38.19)	N.A.	19.95
Foxtons Group PLC	London	0.58	159.56	(12.97)	(10.13)	N.A.	1.28	(15.74)	N.A.	N.A.
Hopefluent Group Holdings Ltd	Hong Kong	2.20	1,469.60	11.34	6.36	4.49	0.50	11.93	5.00	11.76
Japan Living Service Co Ltd/The LSL Property Services PLC	Tokyo	1,868.00	3,717.03	2.15	0.93	25.46	0.55	2.58	2.67	37.51
	London	2.35	241.22	12.29	6.61	13.52	1.69	7.75	4.70	18.73
M Winkworth PLC	London	1.20	15.28	22.57	19.66	13.13	3.28	22.90	6.25	N.A.
Midland Holdings Ltd	Hong Kong	1.45	1,041.17	4.13	1.29	17.90	0.72	1.06	N.A.	5.56
McGrath Ltd	ASE	0.26	43.66	(84.90)	(63.58)	N.A.	1.19	(66.05)	N.A.	N.A.
RE/MAX Holdings Inc	New York	32.12	975.41	5.59	5.65	27.92	1.18	36.61	2.62	62.92
Sinyi Realty Inc	Taiwan	32.50	23,947.51	14.59	6.06	14.66	2.04	20.41	4.00	41.70

Source: Bloomberg, PSR

INVESTMENT MERITS

1) Exceptional market share

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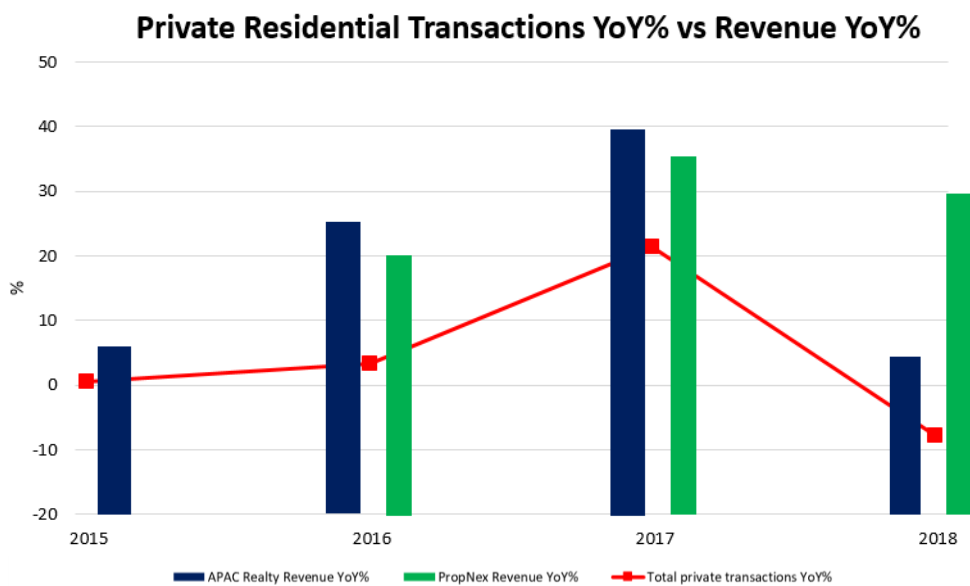
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3) Resilient even in industry downturns

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Figure 20: Both PropNex and APAC Realty were able to match or beat their revenue movements against the movements in the property market transactions each time



Source: URA REALIS, PSR, APAC Realty, PropNex

Figure 21: Agency practices across countries – the 70-90% commission payout is unique to Singapore

	Singapore	Hong Kong	China	Indonesia	Japan	Vietnam
Fee for Primary/ Secondary Market Transaction	Primary: Up to 5% Secondary: Typically 1-2%	Primary: Typically 2-7% Secondary: Typically 1-2%	Primary: Typically 1-3% Secondary: Typically 1%	Primary & Secondary: Typically 2-3%	Typically 3% + ¥60k + Consumption tax (8%)	Primary: Typically 2-5% Secondary: Typically 1-1.5%
Fee for Rental Market Transaction	1 month rental for 2 year lease	1 month rental for 2 year lease	Shanghai: 0.35 month rental for 6 months lease Other cities: 0.5 month rental for 6 months lease	4-5% of total rent for a 2 or 3 year lease	1 month rental for 1 year lease	1 month rental for 1 year lease
Co-broke	Commission split based on negotiation	Typically 25% for co-broke agent & 75% for primary agent	Commission split based on negotiation	Typically 50% for each party	Commission split based on negotiation or a referral fee	Commission split based on negotiation
Commission payout	70-90% to agent	Typically fixed salary + 25-30% of commission	Fixed salary + bonus	Typically 60% to agent	Fixed salary + bonus	0.2-0.8% of property price goes to agency, remaining to agent
Brokerage license	Required	Required	Required, but barrier to entry low	Not required, agents can be independent.	Required	Required
Major players	ERA, PropNex, Huttons, Orangetee, Edmund Tie & Co	Centaline, Midland Realty, C&W, JLL, Savills	Lianjia, Centaline, Century 21, I Love My Family, Sinyi Realty	Raywhite, ERA Knight Frank, Century 21, Savills	Mitsui Fudosan Realty, Sumitomo Real Estate Sales, Tokyu Livable, Nomura Real Estate Group, Mitsubishi UFJ Real Estate Services	Green Land Real Estate and Service, Saigon Sacomreal Real Estate, CBRE, Savills, Hai Phat Investment
Operating business model	Main office with “mobile” agents	Traditional retail shop	Traditional retail shop	Main office with “mobile” agents	Traditional retail shop	Main office with “mobile” agents

Source: Cushman & Wakefield, APAC Realty, PSR

Figure 22: PropNex and ERA have consistently been the top two in terms of market share of number of agents, closely followed by Orange Tee & Tie Pte Ltd and Huttons Asia. PropNex had done two consolidation exercises in the past, of Dennis Wee Realty in Jul 2017 and Global Alliance Property (operating under the Century 21 franchise) in Feb 2019.

No. of registered agents	January							May
Real estate agency	2012	2013	2014	2015	2016	2017	2018	2019
Propnex Realty	3,919	4,438	5,151	5,357	5,506	5,560	6,684	7,837
YOY % Change		13%	16%	4%	3%	1%	20%	17%
% of TOTAL agents	13%	14%	16%	17%	19%	20%	23%	26%
ERA Realty	4,613	4,874	5,138	5,707	5,947	5,885	5,882	6,839
YOY % Change		6%	5%	11%	4%	-1%	0%	16%
% of TOTAL agents	15%	16%	16%	19%	20%	21%	20%	23%
OrangeTee & Tie Pte Ltd	2,362	2,414	1,978	1,850	2,348	2,343	3,898	4,247
YOY % Change		2%	-18%	-6%	27%	0%	66%	9%
% of TOTAL agents	8%	8%	6%	6%	8%	8%	13%	14%
Huttons Asia	2,162	2,623	3,199	3,179	2,852	2,919	3,207	3,072
YOY % Change		21%	22%	-1%	-10%	2%	10%	-4%
% of TOTAL agents	7%	8%	10%	10%	10%	10%	11%	10%
Savills Residential	869	895	766	738	700	732	543	717
YOY % Change		3%	-14%	-4%	-5%	5%	-26%	32%
% of TOTAL agents	3%	3%	2%	2%	2%	3%	2%	2%
Knight Frank (KF) Property Network	586	1,027	928	792	621	765	689	614
YOY % Change		75%	-10%	-15%	-22%	23%	-10%	-11%
% of TOTAL agents	2%	3%	3%	3%	2%	3%	2%	2%
HSR International	1,971	1,707	1,372	1,056	578	478	377	N.A.
YOY % Change		-13%	-20%	-23%	-45%	-17%	-21%	
% of TOTAL agents	6%	5%	4%	3%	2%	2%	1%	
Global Alliance Property (C21 / GA)	493	557	644	466	666	709	457	
YOY % Change		13%	16%	-28%	43%	6%	-35.5%	
% of TOTAL agents	2%	2%	2%	2%	2%	2%	2%	
Edmund Tie & Company Property Net	1,982	2,048	1,934	1,835	1,387	1,152		
YOY % Change		3%	-6%	-5%	-24%	-17%		
% of TOTAL agents	6%	7%	6%	6%	5%	4%		
Dennis Wee Realty	1,946	1,415	1,321	1,331	1,186	1,005		
YOY % Change		-27%	-7%	1%	-11%	-15%		
% of TOTAL agents	6%	5%	4%	4%	4%	4%		
Total for the above agencies	20,904	22,000	22,432	22,311	21,791	21,549	21,738	23,327
YOY % Change		5%	2%	-1%	-2%	-1%	1%	7%
% of TOTAL agents	68%	71%	71%	72%	74%	76%	74%	77%
Others	9,673	9,040	9,351	8,519	7,471	6,848	7,728	7,067
TOTAL	30,577	31,040	31,783	30,830	29,262	28,397	29,466	30,394
YOY % Change		2%	2%	-3%	-5%	-3%	4%	3%

Merged with Propnex in Feb 2019

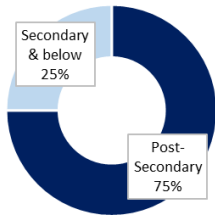
Merged with Edmund Tie & Co in Sep 2017

Merged with Propnex in Jul 2017

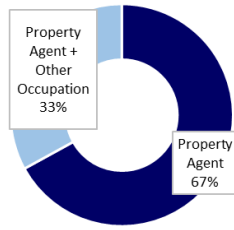
Source: CEA, Cushman & Wakefield, Frost & Sullivan, PSR

Figure 23: Demographics of property agents in Singapore

Education profile of property agents

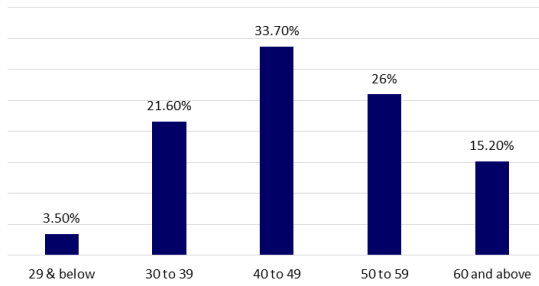


Job Status of property agents



Most are exclusively property agents and do not hold any other occupation.

Age profile of property agents



Majority of the registered property agents in Singapore are above 40 years of age.

Source: CEA, PSR

APAC Realty Limited

Ushering in an ERA of growth

SINGAPORE | REAL ESTATE (AGENCIES) | INITIATION

- Established market player with demonstrated ability to organically grow its agent base.
- Building an international presence through the ERA regional master franchise rights for 17 countries. Announced in Feb 2019 strategic partnerships with ERA Indonesia and ERA Thailand.
- Non-brokerage income stream with GP margins of 88% (brokerage 10%) to provide some buffer to the transaction based business.
- Initiate coverage on APAC Realty with a BUY and TP of S\$0.65.

Company Background

ERA Realty Network Pte Ltd (ERA Realty), a wholly-owned subsidiary of APAC Realty Limited (APAC Realty), was established in 1982 and is among the top two real estate brokerages in Singapore. APAC Realty's wholly-owned subsidiary Realty International Associates Pte Ltd (RIA) operates training programmes and courses for real estate agents and also undertakes valuation work on behalf of clients. APAC Realty holds the ERA regional master franchise rights for 17 countries in Asia Pacific as well as the master franchise rights for Coldwell Banker – one of the most established US real estate franchising companies – in Singapore. Prior to its listing on the SGX Mainboard in Sep 2017, the Group was part of Hersing Corporation Ltd (Hersing) – which was listed on the SGX-ST in 1998 and privatised in 2012. The Group subsequently acquired Hersing's subsidiaries and incorporated APAC Realty in 2013.

Investment Merits

1) Established market player

ERA Realty is a household name in the real estate brokerage scene in Singapore since 1982. Notwithstanding the consolidation activities in the agency market, the Group had consistently held the leading position in market share of transacted units across all segments. ERA Realty has had not had any agency consolidation exercises to-date, underscoring its ability to organically grow its agent base.

2) Meaningful international presence

APAC Realty holds the ERA regional master franchise rights for 17 countries, nine of which are existing ERA sub-franchisees. In Feb 2019, the Group announced a partnership with ERA Indonesia to fund the purchase of the Indonesia country master franchise operations from its current shareholders. In addition, the Group entered into a strategic cooperation agreement to directly own the ERA master franchise rights for Thailand. These sets in motion future overseas expansion plans, to eventually diversify its earnings base out of Singapore.

3) Non-brokerage income stream to lend a buffer

APAC Realty's non-brokerage stream, which comprises its training, property valuation and management arms, comprised 15.8% of its FY2018 gross profit. The gross margins for the brokerage and non-brokerage segments are at 10.7% and 88%, respectively. The Group's acquisition of ERA APAC Centre, via acquisition of shares in HC Home, in June 2018 adds on to the Group's stream of non-brokerage income. While revenue from the brokerage segment will continue to be the mainstay, recurring income from its non-brokerage stream helps lend a buffer especially in property downcycles.

Initiate coverage on APAC Realty with a BUY and a TP of S\$0.65

Our DCF-derived target price of S\$0.65 is based on a cost of equity of 7.2% and a terminal growth rate of 0%. APAC Realty is currently trading at a PE ratio of 9.15x, which is on par with its historical mean and at a c.35% discount from that of its regional peers.



StocksBnB.com

3 June 2019

APAC REALTY

BUY (Initiation)

LAST DONE PRICE	SGD 0.52
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.65
TOTAL RETURN	34.0%

COMPANY DATA

BLOOMBERG CODE:	APAC SP Equity
O/S SHARES (MN):	355
MARKET CAP (USD mn / SGD mn):	132 / 181
52 - WK HV/L0 (SGD):	0.95 / 0.44
3M Average Daily T/O (mn):	187

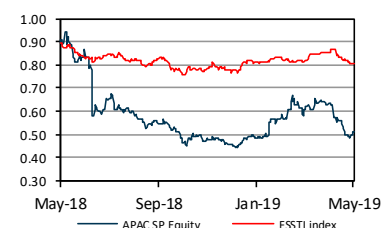
MAJOR SHAREHOLDERS (%)

TAN CHOON HONG	71.8%
FIL INVESTMENT MANAGEMENT	4.3%
QILIN ASSET MANAGEMENT	3.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(17.2)	(7.7)	(39.7)
STI RETURN	(4.3)	(12)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY 17	FY 18	FY 19 e	FY 20 e
Revenue	401	424	437	460
Gross Profit	55	53	57	60
Operating Profit	29	29	33	36
PAT	26	24	28	30
P/E (x)	6.4	7.5	6.5	6.0
P/B (x)	12	11	15	16
EPS, SGD cents	8.0	6.8	7.9	8.6
Dividend yield, %	3.9	8.7	8.4	9.2
ROE, %	19%	17%	23%	27%
ROA, %	11%	9%	10%	11%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 7.2%, Terminal growth 0%)

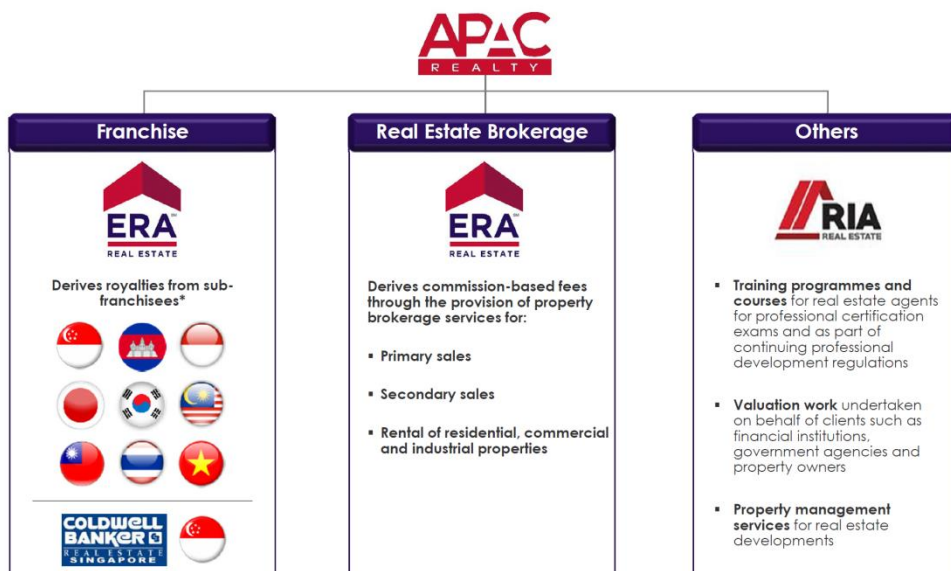
Tara Wong (+65 6212 1850)

Research Analyst

tarawongsj@phillip.com.sg

Business model

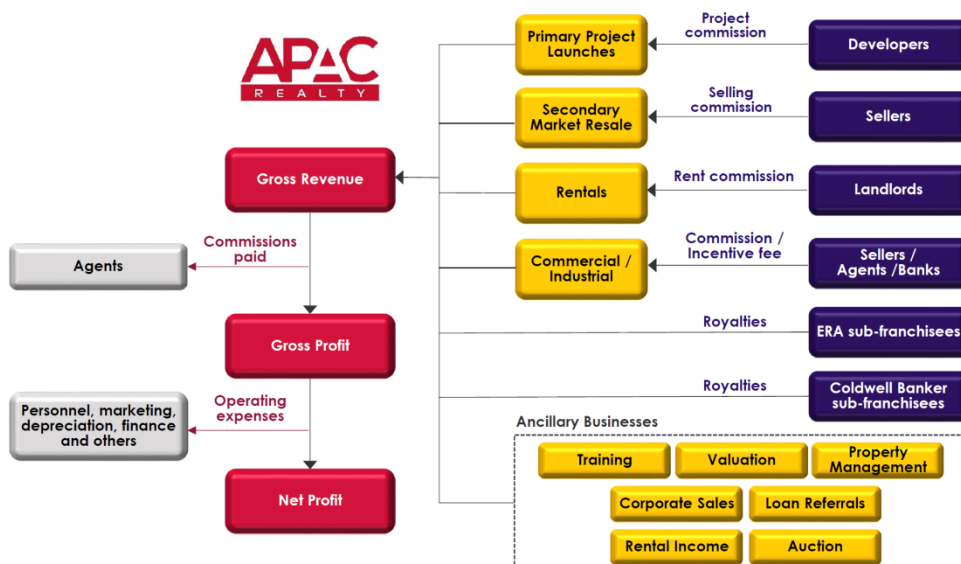
Figure 24: Three main business segments of APAC Realty



c.98% of revenue is derived from the real estate brokerage services segment.

Source: Company

Figure 25: Commissions make up the brokerage revenue while royalty fees and other revenue streams from the ancillary businesses make up the non-brokerage revenue.



Source: Company

Commission structure

Figure 26: Project marketing (private residential new launches)

Tiers	Commission Structure
First tier	A percentage of the transaction price will be paid out as commission by developer
Second tier	Brokerage takes a portion of the commission payout for being the overall in-charge of the project, while the rest goes to the Project IC, Core Team and closing agent
Third tier	Project IC and the Core Team will take a proportion from the commission payout by developers to the closing agent.

Source: Company, PSR

Figure 27: Private residential - Secondary

Scenario	Commission
When a buyer does not have an agent	Seller pays 1-2% of the transacted price to seller's agent. In some cases, commission could go up to 5% depending on the type of property and the urgency to transact by the seller.
When a buyer has an agent (co-broke deal)	Seller's agent is expected to share the commission paid by the seller with the buyer's agent.

Source: Company, PSR

A co-brokerage deal involves two agents brokering a deal together, one representing the seller and the other, the buyer.

Both agents may be from the same agency, but may not be the same person.

Figure 28: HDB Resale

Role	Commission
For agent representing the seller	Seller pays 1-2% of transacted price to seller's agent.
For agent representing the buyer	Buyer pays up to 1% of transacted price to buyer's agent.

Source: Company, PSR

Figure 29: Leasing - Private residential / HDB

Scenario	Commission
2-year lease / rent below \$3,500 per month	1 month's rent payable by landlord to landlord's agent 1 month's rent payable by tenant to tenant's agent
1-year lease / rent below \$3,500 per month	0.5 month's rent payable by landlord to landlord's agent 0.5 month's rent payable by tenant to tenant's agent
2-year lease / rent above \$3,500 per month	1 month's rent payable by landlord to landlord's and tenant's agents (to be split equally) 1 month's rent payable by landlord to landlord's agent if tenant does not appoint agent
1-year lease / rent above \$3,500 per month	0.5 month's rent payable by landlord to landlord's agent 0.5 month's rent payable by tenant to tenant's agent

Source: Company, PSR

Agents' commission structure

Figure 30: Split of commissions between ERA Realty and the agent

Commission to Agent	Criteria (GBC Cumulative)
70%	Up to S\$18,000
75%	S\$18,001 to S\$38,000
80%	S\$38,001 to S\$68,000
85%	S\$68,001 to S\$88,000
90%	More than S\$88,001

Source: Company, PSR

For new home sales, all agents will received 90% of commissions regardless of the cumulative GBC.

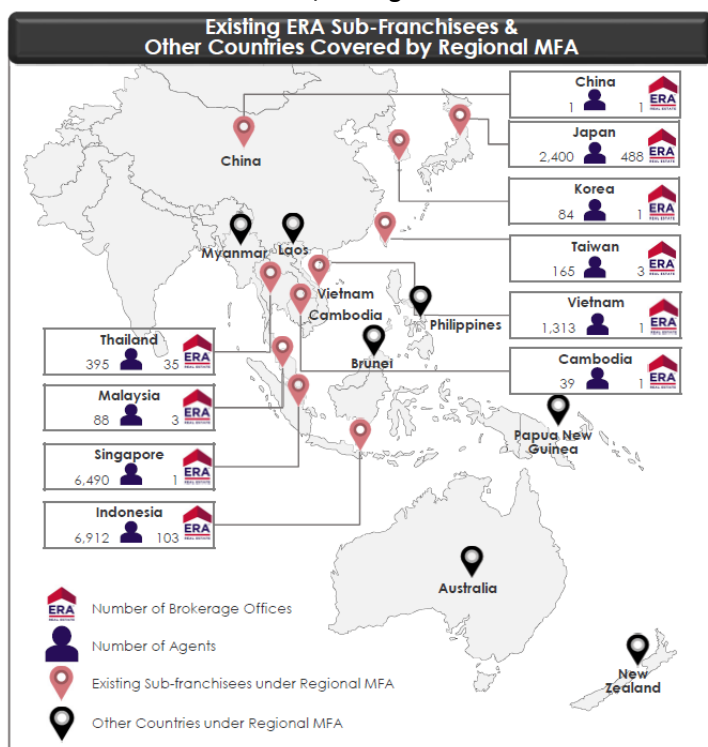
Investment Merits
1) Established market player

ERA Realty is a household name in the real estate brokerage scene in Singapore since 1982. Notwithstanding the consolidation activities in the agency market, the Group had consistently held the leading position in market share of transacted units across all segments. ERA Realty has had not had any agency consolidation exercises to-date, underscoring its strength to organically grow its agent base.

2) Meaningful international presence

APAC Realty holds the ERA regional master franchise rights for 17 countries, nine of which are existing ERA sub-franchisees. In Feb 2019, the Group announced a partnership with ERA Indonesia to fund the purchase of the Indonesia country master franchise operations from its current shareholders. In addition, the Group entered into a strategic cooperation agreement to directly own the ERA master franchise rights for Thailand. These sets in motion future overseas expansion plans, to eventually diversify its earnings base out of Singapore.

Figure 31: APAC Realty currently has more than 17,800 agents in 637 offices across 10 countries across Asia-Pacific, through its ERA franchisees.

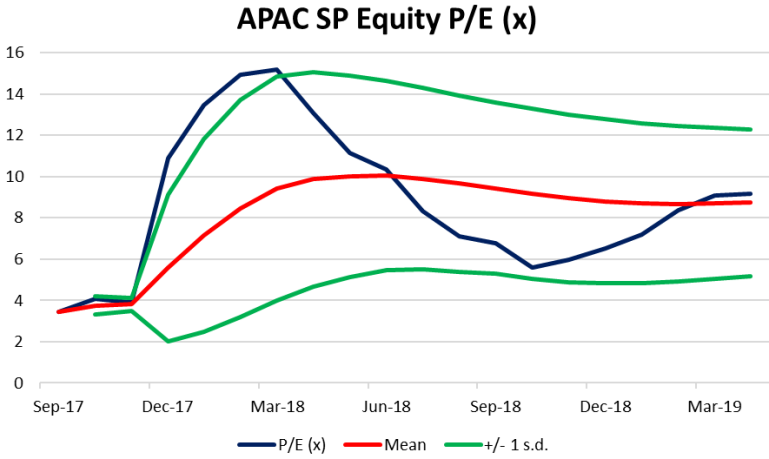


Source: Company

3) Non-brokerage stream to lend a buffer

APAC Realty’s non-brokerage stream, which comprises its training, property valuation and management arms, comprised 15.8% of its FY2018 gross profit. The gross margins for the brokerage and non-brokerage segments are at 10.7% and 88%, respectively. The Group’s acquisition of ERA APAC Centre, via acquisition of shares in HC Home, in June 2018 adds on to the Group’s stream of non-brokerage income. While revenue from the brokerage segment will continue to be the mainstay, recurring income from its non-brokerage stream helps lend a buffer especially in property downcycles.

Figure 32: APAC Realty is currently trading at a P/E of 9.1x



Source: Bloomberg, PSR

Financials

Income Statement

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
Revenue	288	401	424	437	460
Cost of services	248	346	371	380	400
Gross profit	40	55	53	57	60
Personnel cost	11	14	13	13	13
Other costs and expenses	11	12	11	11	11
Operating profit	18	29	29	33	36
Share of results in joint venture	-	(0.01)	(0.02)	-	-
Profit before tax	18	29	29	33	36
Tax	(2)	(4)	(5)	(5)	(5)
Profit after tax	16	26	24	28	30

Per share data

SGD cents, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS	22.5	8.0	6.8	7.9	8.6
DPS	-	2.0	4.5	4.3	4.7
NAV per share	29.8	41.9	45.1	34.7	31.2

Cash Flow

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	18.1	29.4	29.2	33.0	35.8
Adjustments	4	4	3	4	4
WC changes	3	4	(16)	(0)	(15)
Interest and Taxes paid, others	(3)	(3)	(5)	(4)	(5)
Cashflow from operations	23	35	11	33	20
CFI					
Acquisition of investment ppty	-	-	(73)	-	-
Purchase of PP&E	(0.1)	(0.5)	(0.4)	(0.4)	(0.4)
Others	-	(0)	(0)	-	-
Cashflow from investments	(0.1)	(0.7)	(74)	(0.4)	(0.4)
CFF					
Change in loans and borrowings	(19)	(18)	58	(16)	(15)
Payment of dividends	-	-	(14)	(15)	(17)
Others	-	28	-	-	-
Cashflow from financing	(19)	10	43	(31)	(32)
Net change in cash	4	44	(19)	1	(12)
CCE, end	18	62	43	44	32

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment property	-	-	73	72.8	72.8
PP&E	1.4	1.2	1.1	1.0	0.9
Intangible assets	101	100	99	99	98
Others	0.4	0.4	0.4	0.4	0.4
Total non-current assets	103	102	174	173	172
Trade & other receivables	49	72	64	64	83
Cash balance	18	62	43	44	32
Others	0.3	0.2	2.3	0.2	0.2
Total current assets	67	134	109	108	115
Total Assets	170	236	283	281	287

LIABILITIES

Trade & other payables	63	92	71	73	77
Loans and borrowings	6	-	3	3	3
Provision for taxation	4	5	5	5	5
Others	1.7	2.0	1.8	1.8	1.9
Total current liabilities	75	98	81	82	86
Loans and borrowings	12	-	55	70	85
Deferred taxation	5	4	4	4	4
Total non-current liabilities	17	4	59	75	90
Total Liabilities	91	103	140	157	176

EQUITY

Share capital	71	99	99	99	99
Accumulated profits	8	34	44	24	12
Non-controlling interests	-	-	0.04	-	-
Total Equity	79	133	143	123	111

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	2.3	6.4	7.5	6.5	6.0
P/B (x)	1.7	1.2	1.1	1.5	1.6
Dividend Yield (%)	-	3.9	8.7	8.4	9.2

Growth & Margins (%)

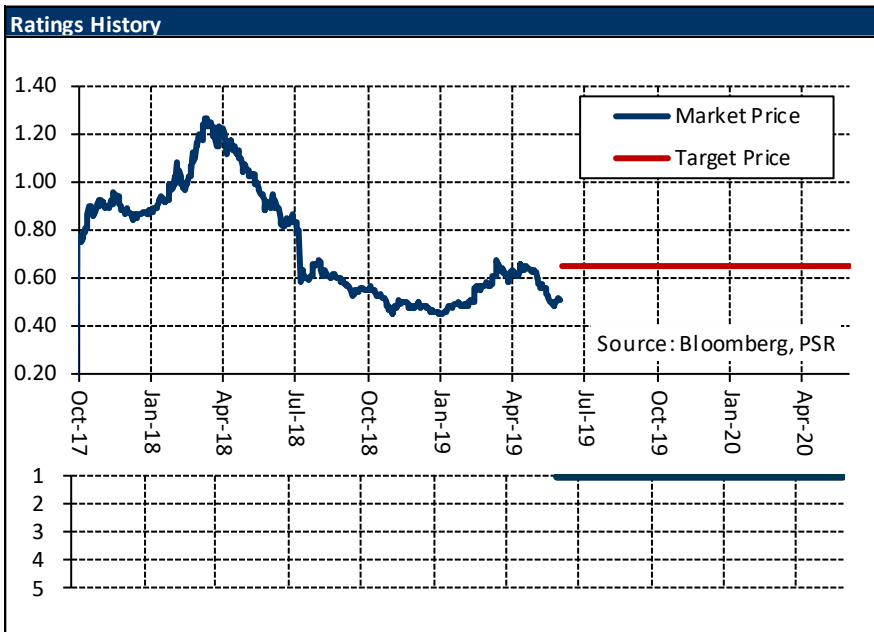
Growth					
Revenue	24%	39%	6%	3%	5%
Gross profit	28%	38%	-4%	8%	5%
PBT	75%	63%	-1%	13%	9%
PAT	87%	63%	-6%	16%	9%

Margins

GP margin	14%	14%	12%	13%	13%
PBT margin	6%	7%	7%	8%	8%
PAT Margin	6%	6%	6%	6%	7%

Key Ratios

ROE (%)	20%	19%	17%	23%	27%
ROA (%)	9%	11%	9%	10%	11%
Gearing (x)	0.23	-	0.40	0.60	0.79



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PropNex Limited

Growing its piece of the transactions pie

SINGAPORE | REAL ESTATE (AGENCIES) | INITIATION

- Largest real estate agency with demonstrated ability to expand inorganically.
- PropNex is still gaining market share. It has managed to push through to be among the top two agencies with the biggest market share of transactions for new launches.
- Agent-focused business model with multiple scheduled trainings, ‘bootcamps’ and conventions through the year to engage and educate its agents.
- Initiate coverage on PropNex Limited with a BUY and TP of S\$0.63.

Company Background

PropNex Limited (PropNex) is a real estate services company, comprising the brokerage (PropNex Realty Pte Ltd), training, property management and consultancy businesses. PropNex was listed on 2 Jul, 2018 and is currently the largest real estate agency in Singapore, in terms of number of agents. The Group owns the rights to its proprietary “PropNex” brand and counts Jones Lang LaSalle (JLL) as a shareholder of its PropNex International arm.

Investment Merits

1) Largest real estate agency with demonstrated ability to expand inorganically

PropNex currently holds the #1 title in terms of the number of real estate agents in Singapore, only recently jumping up from #2 position in 2017, after successfully merging with Dennis Wee Realty in July 2017. This expanded its agent count by 20% in 2018. Subsequently in Feb 2019, it entered into a strategic collaboration with Global Alliance Property (operating under the Century 21 franchise) for its agents to be transferred to PropNex. Its current agent count stands at 7,837, a 17% increase from 2018 even already increasing by 20% the year before.

2) Still gaining market share

PropNex had previously not been among the first port-of-calls for property developers when it comes to new launches. It had only in recent times gradually earned market share in this particular segment. While agent count does not correlate with market share of transactions, PropNex has managed to push through to be among the top two agencies with the biggest market share of transactions for new launches. Its market share of transactions in the other segments had also increased within the same period.

3) Agent-focused business model

PropNex is vested in the engagement and rewarding of its agents. It holds regular jumpstart trainings, power sales booster trainings, post cooling measures trainings and quarterly conventions. These trainings and conventions are intended to help its agents properly guide potential homebuyers during the process.

Initiate coverage on PropNex Limited with a BUY and a TP of S\$0.63

Our DCF-derived target price of S\$0.63 is based on a cost of equity of 7.2% and a terminal growth rate of 0%. PropNex is currently trading at a P/E of 8.92x, which is at the -1 s.d. level since its listing, and at a c.40% discount from that of its regional peers.



StocksBnB.com

3 June 2019

PROPNE X REALTY

BUY (Initiation)

LAST DONE PRICE	SGD 0.51
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.63
TOTAL RETURN	31.8%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN) :	370
MARKET CAP (USD mn / SGD mn) :	135 / 185
52 - WK HI/LO (SGD) :	0.76 / 0.44
3M Average Daily T/O (mn) :	0.38

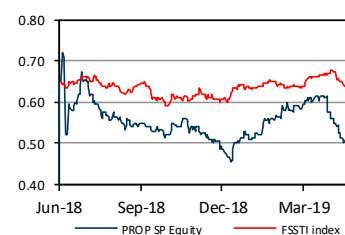
MAJOR SHAREHOLDERS (%)

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	8.6%
SEONG KELVIN FONG KENG	7.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(11.3)	(3.4)	N.A.
STIRETURN	(4.3)	(12)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY 17	FY 18	FY 19 e	FY 20 e
Revenue	332	432	464	487
Gross Profit	34	41	46	49
Operating Profit	22	26	33	35
PAT	19	22	27	29
P/E (x)	116	9.7	7.2	6.7
P/B (x)	8.9	2.7	19	15
EPS, SGD cents	4.4	5.2	7.1	7.6
Dividend yield, %	5.1	6.0	7.5	8.0
ROE, %	89%	31%	28%	24%
ROA, %	20%	15%	16%	14%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 7.2%, Terminal growth 0%)

Tara Wong (+65 6212 1850)

Research Analyst

tarawongsj@phillip.com.sg

Business model

Figure 33: PropNex derives bulk of its revenue from the brokerage services segment

Brokerage Services	Training Services	Property Management Services	Real Estate Consultancy
<p>Revenue is derived through commission-based fees from sales and rental of residential, commercial and industrial properties.</p> <ul style="list-style-type: none"> Private & HDB resale properties Commercial & Industrial properties Luxury properties New launches project marketing (Local and International) 	<p>Life Mastery Academy is the training arm of the Group and is also a CEA-accredited provider of continuing professional development (“CPD”) courses.</p>	<p>PropNex Property Management is principally involved in managing boutique and high-end developments, providing services such as a property and facility maintenance, security management and building diagnostics.</p> <p>Some notable properties managed by PropNex Property Management are Canberra Residences, Dairy Farm Estate, and Orchid Park.</p>	<p>The real estate consultancy arm, established in 2018, provides corporate sales and auction services, investment sales services and corporate leasing.</p> <ul style="list-style-type: none"> Property Auction Services HDB Auction Services Chattels Auction Services Private Treaty Services Estate Sale Trustee Sale Liquidator Sale Mortgagee/Bank Sale Residential, Commercial and Industrial Sale/Lease Advice on the reserve price of properties Property market analysis Corporate Leasing

Source: Company, PSR

Commission structure

Figure 34: Commission structure for Project Marketing, Private Resale and HDB Resale

Party	Commission
Project Marketing	
Developer	Pay minimum of 1% of the transacted price. In some cases, developers pay up to 6% when they want to clear off completed or nearing completion units
Private Resale	
Seller	Generally pay 2% of the transaction price, with a minimum of 1%. If buyer has his own agent (co-broke), the commission is shared between two agents
HDB Resale	
Seller	Pay 2% of the transaction price
Buyer	Pay 1% of the transaction price

Source: Company, PSR

Agents' commission structure

Figure 35: Split of commissions between PropNex and the agent

Commission to Agent	Cumulative Commission
70%	S\$20,000 and below
80%	S\$20,001 and below
85%	S\$50,001 to S\$80,000
90%	S\$80,001 and above

Source: Company, PSR

Investment Merits

- 1) Largest real estate agency with demonstrated ability to expand inorganically**
 PropNex currently holds the #1 title in terms of the number of real estate agents in Singapore, only recently jumping up from #2 position in 2017, after successfully merging with Dennis Wee Realty in July 2017. This expanded its agent count by 20% in 2018. Subsequently in Feb 2019, it entered into a strategic collaboration with Global Alliance Property (operating under the Century 21 franchise) for its agents to be transferred to PropNex. Its current agent count stands at 7,837, a 17% increase from 2018 even already increasing by 20% the year before.

- 2) Still gaining market share**
 PropNex had previously not been among the first port-of-calls for property developers when it comes to new launches. It had only in recent times gradually earned market share in this particular segment. While agent count does not correlate with market share of transactions, PropNex has managed to push through to be among the top two agencies with the biggest market share of transactions for new launches. Its market share of transactions in the other segments had also increased within the same period.

- 3) Agent-focused business model**
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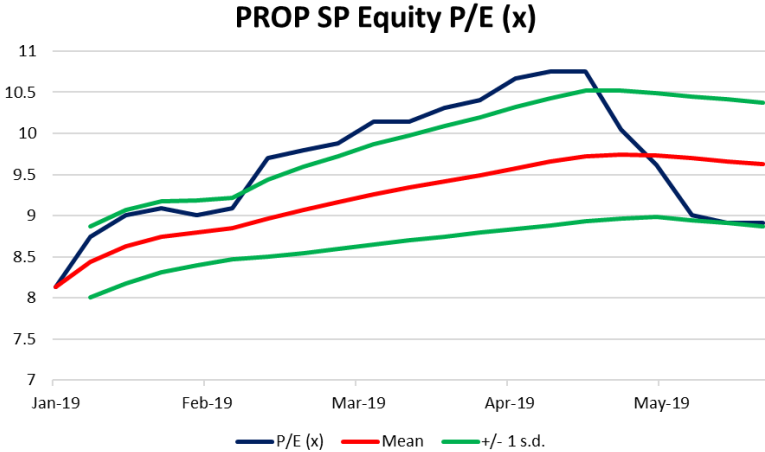
Figure 36: President Madam Halimah Yacob attended PropNex’s August convention

Source: Company
Figure 37: First PropNex consumer seminar of 2019 conducted by PropNex Executive Chairman & CEO Ismail Gafoor (centre, pictured)

Source: Company
Figure 38: PropNex also holds seminars directed at Chinese investors

Source: Company

Figure 39: PropNex is currently trading at a P/E of 8.9x



Source: Bloomberg, PSR

Financials

Income Statement

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
Revenue	245	332	432	464	487
Cost of services	(226)	(298)	(390)	(418)	(438)
Gross profit	19	34	41	46	49
Staff costs	(8)	(8)	(12)	(12)	(12)
Finance and other income	3	3	4	4	4
Other costs and expenses	(4)	(6)	(7)	(6)	(6)
Operating profit	10	22	26	33	35
Share of results in joint venture	-	(0.03)	-	-	-
Profit before tax	10	22	26	33	35
Tax	(1)	(3)	(4)	(6)	(6)
Profit after tax	9	19	22	27	29

Per share data

SGD cents, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS	2.5	4.4	5.2	7.1	7.6
DPS	1.7	2.6	3.0	3.8	4.1
NAV per share	4.2	5.7	19.0	27.0	33.8

Cash Flow

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	9	19	22	27	29
Adjustments	2	5	5	7	7
WC changes	0.1	1	(0.5)	(1)	(22)
Interest and Taxes paid, others	-1	-1	-3	6	6
Cashflow from operations	10	24	23	39	21
CFI					
Acquisition of plant and equipment	(0.3)	(1.5)	(1.8)	(1.7)	(1.8)
Others	0.1	0.1	0.5	-	-
Cashflow from investments	(0.2)	(1.4)	(1.3)	(1.7)	(1.8)
CFE					
Payment of dividends	-6.665	-10.76	-13.3	-15.15	-16.1
Others	-	-	39	-	-
Cashflow from financing	-7	-11	26	-15	-16
Net change in cash	3	12	48	22	3
CCE, end	16	28	76	98	100

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	0.7	1.7	2.8	2.8	2.8
Others	0.01	0.01	0.19	3.35	3.35
Total non-current assets	0.7	1.8	3.0	6.1	6.1
Trade & other receivables	34	63	63	70	95
Cash and cash equivalents	16	28	76	98	100
Total current assets	50	91	139	167	195
Total Assets	51	92	142	173	202
LIABILITIES					
Trade & other payables	36	67	66	71	75
Current tax liabilities	-1.2	-3.2	-4.9	-2.6	-2.9
Others	0.6	0.6	0.9	0.7	0.7
Total current liabilities	38	71	72	76	80
Deferred tax liability	0.03	0.14	0.17	0.09	0.11
Total non-current liabilities	0.03	0.14	0.17	1.85	1.86
Total Liabilities	38	71	72	78	81
EQUITY					
Share capital	0.4	0.4	57.5	57.5	57.5
Merger reserve	-	-	(17.7)	-	-
Translation reserve	0.0	(0.0)	(0.0)	-	-
Capital reserve	0.6	0.6	0.6	0.6	0.6
Accumulated profits	10.5	17.1	26.4	38.0	50.4
Non-controlling interests	1.5	3.1	3.5	3.5	3.5
Total Equity	13	21	70	96	120

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	20.4	11.5	9.6	7.1	6.7
P/B (x)	11.9	8.8	2.7	1.9	1.5
Dividend Yield (%)	3.3	5.2	6.0	7.6	8.1

Growth & Margins (%)

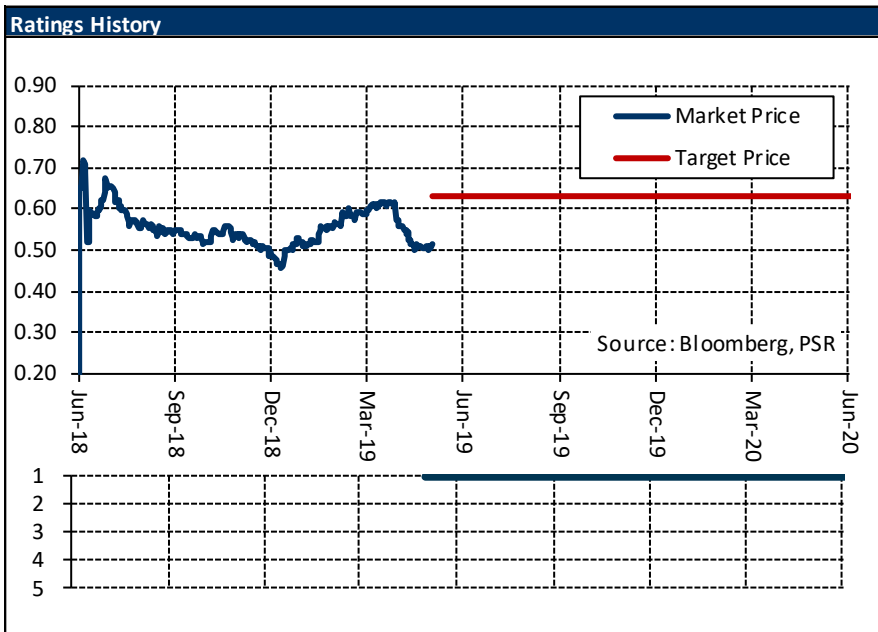
	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	20%	35%	30%	8%	5%
Gross profit	-	76%	23%	12%	5%
PBT	7%	122%	19%	24%	7%
PAT	6%	113%	16%	24%	7%

Margins

	FY16	FY17	FY18	FY19e	FY20e
GP margin	8%	10%	10%	10%	10%
PBT margin	4%	7%	6%	7%	7%
PAT Margin	4%	6%	5%	6%	6%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE (%)	68%	89%	31%	28%	24%
ROA (%)	17%	20%	15%	16%	14%
Gearing (x)	-	-	-	-	-



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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