

kopi-C: the Company brew

APAC Realty Rides Nascent Property Rebound



APAC Realty Ltd

SGX Code	CLN
Mkt Cap S\$M	314
% Price Change vs IPO Price	+34.1%
2017 High Price	0.975
2017 High Date	14/11/17
2017 Low Price	0.690
2017 Low Date	28/09/17
% Div Yld	N/A
% ROE	22.4%
P/E	12.0x
P/B	2.5x

Source: SGX StockFacts (29 Nov 2017)
Listing date: 28 Sept 2017

Jack Chua, the Chief Executive Officer of SGX-listed APAC Realty Ltd, is passionate about all things property. The genial 57-year-old, who has lived and breathed real estate most of his life, has a penchant for land, buildings and architecture.

"As a kid, I always enjoyed looking at beautiful homes, and when I got older, I became interested in owning properties," Chua said.

"A property is something that everyone needs. I love how it is able to preserve value, and how that value can appreciate over time. I guess it's very much a part of the local psyche - most Singaporeans desire to own homes and other forms of real estate."

Chua holds a Bachelor of Science in Building with Honours and a Master of Science in Project Management from the National University of Singapore. He spent six years with the Public Works Department before joining the previous holding company of the Group's subsidiaries - Hersing Corporation - in 1990.

Northstar Group, APAC Realty's largest shareholder, acquired the real estate and real estate-related businesses from Hersing in August 2013, one year after the latter's delisting. Later that year, Chua was appointed CEO of the restructured group.

APAC Realty, which owns the largest international real estate agency in the city-state, listed on SGX Mainboard on 28 September. Its three main business segments are real estate brokerage services, franchise agreements, as well as training and other ancillary services.

APAC Realty's real estate brokerage services are operated by its wholly owned subsidiary, ERA Realty Network Pte Ltd. It derives commission-based fees by providing property brokerage services for primary and secondary sales, as well as rental of residential, commercial and industrial properties. ERA Realty had a total of 6,278 registered agents as of 15 November 2017.

The Group also holds the exclusive ERA regional master franchise rights over 17 countries in the Asia Pacific, and the master franchise rights for Singapore for Coldwell Banker, one of the oldest and most established real estate companies in the US.

Another wholly owned unit, Realty International Associates Pte Ltd, conducts training for real estate agents, and provides valuation as well as property management services.

APAC Realty has a market capitalisation of over S\$300 million. The stock has gained more than 30% from its initial public offer price of S\$0.66 per share. Its IPO cornerstone investors are FIL Investment, Qilin Asset Management, Asdew Acquisitions and Azure Capital Pte Ltd.

On the Cusp

Chua expects blue skies ahead with the domestic property market on the cusp of a revival.

"There's quite a bit of pent-up demand in the market over the last few years following the government's cooling measures," he noted.

Prices of private residential properties rose 0.7% quarter-on-quarter in the July-September quarter, marking a reversal from the 0.1% decline in the April-June period and the first price uptick in four years, according to data from the Urban Redevelopment Authority (URA). Resale transactions also increased to 4,030 units in the third quarter from 3,828 units in the second quarter.

In March, the Singapore government cut stamp duties that sellers have to pay on residential properties, and eased some restrictions on mortgage thresholds, but left most of its cooling measures in place. The slew of property curbs, implemented from 2009 to slow red-hot domestic demand, has sent private home prices falling for 13 consecutive quarters.

"Unsold units have been depleted significantly - from 40,000 units to 17,000 units - while en-bloc sales have surged. Post en-bloc deals, these sellers, who need to get new homes, have flooded the market," Chua added.

"On the supply side, land costs remain high and are still rising, with the margin between land cost and the finished unit narrowing in per square foot terms. That's worrying for many buyers."

This year, collective sales in Singapore look set to hit their third-largest year in value terms. About 2,800 private homes have been sold en-bloc so far in 2017, more than quadruple the 600 units sold last year. The total value of the deals have already exceeded S\$6 billion, and more deals could close before the year is out, according to property analysts.

Private resale transactions in the domestic market, which usually average about 10,000 units a year, could double in 2018, Chua pointed out.

Between January and September 2017, the number of resale transactions in the market rose to 10,098 units, up 59% from the year-ago period. New private home sales for the first nine months of the year also jumped 53.8% to 8,702 units from the year-earlier period, URA data showed.

"It's all about demand and supply dynamics. If demand is strong, the market will move, and right now, it's very active. Whether prices will reach the levels that buyers and developers expect is another story," he added.

"Prices have not run up a lot, but looking at bids from land sales, we can see the direction is definitely up - it's just a question of how high the levels will be."

Weathering Downturns

2018 should be a decent year for the Singapore property market - "that's a no-brainer," he noted.

"Normally, a cycle spans five years, and the market has been down since 2013. So it's about time for an upturn, and there are many signs that prices have already begun to recover."

Nonetheless, the rebound should be slow and steady. "Prices will peak only in two to three years' time," he added.

In a research report published on 24 November, Macquarie Research said it had revised its forecast for Singapore residential property prices to increase by 3% to 5% per annum over the next two years, from a flat projection previously.

Signs of a pick up in the sector come as a huge relief to Chua. "Now that the market is starting to improve, I sleep a lot better!" he said, with a chuckle.

But everything that goes up must come down. "During the good times, we will ride the wave, but at the same time, we need to gird ourselves by boosting our non-property brokerage operations so we can weather the downcycle when it arrives," he said.

"This is our key challenge."

In Singapore, ERA Realty holds an approximate 48% share of both the public and private housing markets, 33% of project sales transactions, an 18% share of the commercial market and 25% of all leasing transactions. These operations account for 80% of the Group's gross profit.

"We have a diversified business model - we do commercial, private and public residential transactions, developer sales, as well as rentals - that helps us during a sector downturn, as some pockets of the market will still be active during that time," he said.

Another advantage is the Group's low overheads. Commissions are paid to agents only when they close deals, while the number of salaried support staff remains low - at 144. The rental cost of its office operations is also offset by sub-letting rooms and facilities to agents who want to set up individual offices within the premises.

Regional Ambitions

APAC Realty plans to boost its non-brokerage revenues, which contribute about 20% of gross profit, by beefing up training programmes for existing and new agents, as well as extending such courses to the public to increase their knowledge of the local property market. It will also explore extending its property management services - currently focused on condominiums - to include landed homes.

In the next three to five years, the Group aims to achieve a 50:50 split for its brokerage versus non-brokerage revenues.

It currently has franchise operations only in eight markets in the Asia Pacific - Japan, South Korea, Taiwan, Thailand, Vietnam, Indonesia, Malaysia and Singapore.

"The ERA franchise is performing well in Indonesia, and is one of the largest in the country with 5,500 agents. We're looking at turning the franchise into a brokerage model," Chua said.

Going forward, APAC Realty will also target China and Cambodia. "Each country is at a different stage of readiness. It takes time for the market to accept a model that pays commissions, without a basic salary. China is now more mature, and the time may be right."

APAC Realty's status as the only listed real estate agency in Singapore is also a feather in its cap. "By listing on SGX, the image and reputation of our company has risen one level above that of our competitors," Chua said.

"We're seen as financially stronger and more transparent as a result of meeting relevant compliance and disclosure regulations."

This not only boosts cross-border opportunities in the region, it also helps to attract and retain agents, who are critical to the Group's ability to grow its bottom line and economies of scale.

"Our setup is very agent-focused. We want to provide our agents with excellent service because they are the ones who take care of customers and bring in the deals."

Chua, known for his bubbly, cheerful personality, also has a big heart for his employees and agents.

"I enjoy motivating our staff and helping our agents," he said. "I want our staff to share the Group's vision so we can all move forward in the same direction. I want to invest in the training and development of our agents so that when they grow, the company can also grow."

The father of two - a son, 17, and a daughter, 18 - has always tried to impart to his children similar values of kindness and thoughtfulness.

"I've taught them that it's very important to help other people. One should always try to make other people happy and successful, so that you, too, can be happy and successful."

Financial Results

Year ended 31 December (S\$ '000)	2016	2015	2014
Total revenue	287,749	232,586	218,191
Profit before tax	18,079	10,327	14,691
Net profit for the year	15,882	8,486	12,241

Quarter ended 30 September (S\$ '000)	3Q 2017	3Q 2016	% Change
Total revenue	105,532	80,977	30.3
Profit before tax	6,548	6,039	8.4
Net profit attributable to owners	5,508	5,140	7.2

Source: Company data

Brokers' Ratings

Buys	2
Holds	
Sells	
PT	1.16

Source: SGX StockFacts

Price Chart



Outlook & Risks

- The Singapore residential property market is likely to remain active as underlying demand for residential properties remains strong, and current mortgage interest rates remain attractive. However, this may be affected by adverse global economic conditions and changes in interest rates.
- The total number of unsold private residential units has been declining for the past two years and reached 17,178 (including ECs) as at 30 September 2017. However, the vacancy rate of completed private residential units remains high at 8.4% as at 30 September 2017.
- As en-bloc sales have been very active over the past one to two years, the redevelopment of these en-bloc sites will add a significant number of housing units to the existing supply pipeline. The potential units from redevelopments of en-bloc sales (9,300) and available parcels on government

land sales (7,400) could add up to 16,700. According to URA, a large part of this potential supply could be put up for sale in the next one to two years.

APAC Realty Ltd

APAC Realty is a real estate services provider with a market-leading real estate brokerage in Singapore. It operates three main business segments - real estate brokerage services, franchise agreements, training, valuation, property management and other ancillary services. APAC Realty's real estate brokerage services are operated by its wholly owned subsidiary ERA Realty Network Pte Ltd under the ERA brand. ERA Realty is one of Singapore's largest real estate agencies, providing property brokerage services for primary home sales, secondary home sales, and rental of residential, commercial and industrial properties. APAC Realty holds the exclusive ERA regional master franchise rights for 17 countries in Asia Pacific, acquired from Realogy Group LLC, and the master franchise rights for Singapore for Coldwell Banker, one of the oldest and most established real estate office and franchising companies in the United States.

The company website is: www.apacrealty.com.sg.

Click [here](#) for the company's Stockfacts page.

For third quarter and nine months ended 30 September 2017 financial results, click [here](#).

Text: Jennifer LH Tan

Photo: Company file

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