Singapore

Overweight *(no change)*

Highlighted Companies

APAC Realty Ltd
ADD, TP S$0.67, S$0.49 close

An early mover in the property brokerage industry and a one-stop holistic property service provider. Trading at attractive 8.5x FY20F P/E and offers attractive dividend yield of 7.5%.

Propnex Ltd
ADD, TP S$0.64, S$0.49 close

Largest property broker by agent headcount with a 25.7% market share and significant cash hoard of S$0.20/share. Trading at 11.0x FY20F P/E with dividend yield of 7.2%.

Summary Valuation Metrics

P/E (x)	Dec-19F	Dec-20F	Dec-21F
APAC Realty Ltd	8.78	8.46	8.03
Propnex Ltd	11.44	11.06	10.58
P/BV (x)	**Dec-19F**	**Dec-20F**	**Dec-21F**
APAC Realty Ltd	1.18	1.13	1.07
Propnex Ltd	2.58	2.46	2.33
Dividend Yield	**Dec-19F**	**Dec-20F**	**Dec-21F**
APAC Realty Ltd	7.51%	7.79%	8.21%
Propnex Ltd	7.22%	7.22%	7.22%

Property Devt & Invt

At your service

- Property brokerage stocks offer investors asset-light, lower-risk exposure to property sector, with FY19-21F EPS CAGR of 4.4% and double-digit ROE.
- We see transaction volume improvement from 2020F, from a low base in 2019F, and rising commission rates to bolster earnings recovery from 2020F.
- Initiate coverage on the property brokerage sector with an Overweight rating and Add ratings on APAC and PROP, in this order of preference.

5 things to drive property agencies

We see the property brokerage business as a lower risk part of the property value chain given its asset-light and segment-agnostic characteristics. We believe earnings growth will be driven by: i) organic revenue expansion from a low post-cooling-measure base in 2019F, ii) commission rate expansion, iii) bumper new private residential launches and iv) projected transaction volume recovery from upgrader demand as well as v) inorganic growth from increased agent share through strategic alliances and mergers. Our proprietary study showed that proptech platforms are enablers, not disruptors.

Commission rates to continue rising

Property agencies are set to reap the rewards from expanding commission rates, in our view, particularly given the increasingly competitive landscape due to numerous new project launches scheduled for 2019-20F. This, coupled with volume recovery, should result in a double boost to topline, in our view. While gross profit margins may not show an immediate significant uplift due to the commission split structure between agent and agency, we believe the improvement would be felt though an expansion in profitability.

Holistic business model to lend stability

To tap new market opportunities, property agencies are starting to diversify their businesses to be one-stop service providers, ranging from property management, training, auction and valuation services. While other services currently make up c.7% and 15% of PROP and APAC's gross profits in FY18, APAC could likely see this income source growing more rapidly to 17% by FY21F. More importantly, these contributions are higher yielding and we think they should boost overall operating margins in the medium term as these businesses gain traction.

Regional diversification another wing for medium term growth

In a segment that is well-served by c.30,000 registered agents, regional diversification into other Asia Pacific markets including Indonesia, Thailand and Vietnam, could provide another avenue of income growth in the medium term. This is done via a cost-efficient model, via a franchise agreement, followed by separate partnership and cooperation agreements signed with existing franchisees, in APAC's case, to eventually have direct ownership of these operations. This has not been factored into our current forecasts

Attractive valuations, overweight on property brokers

We initiate coverage on APAC and PROP with Add ratings. Their share prices have declined 30-35% since Jul 2018 amid the market-wide rout and these stocks are trading between 8.5x and 11.0x FY20F P/E. We value these stocks using an average of FY20F P/E multiple and DCF valuations. This translates into target prices of S$0.67 for APAC and S$0.64 for PROP. APAC and PROP offer potential FY19F dividend yields of 7.5% and 7.2%, respectively. Key catalysts for the sector include an improvement in residential transaction volumes, while a downside risk would be a compression in commission rates.

Figure 1: Key comparison between APAC and PROP

	APAC	PROP
Number of agents (as at May 2019)	6826	7771
Market share (by no. of agents)	22.5%	25.7%
Capital structure	Net debt (Net debt to equity - 10%)	Net cash (Net cash per share - 20Scts)
Revenue per agent (FY18)	S$66,606	S$63,937
Gross Margin (FY18)	12.5%	9.6%
Regional franchisees	17 (Indonesia, Thailand, Japan, Vietnam, etc)	3 (Indonesia, Malaysia, Vietnam)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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At your service

We initiate coverage on the property brokerage sector with an Overweight rating as we believe this sector offers investors a higher dividend and lower risk proxy for the Singapore property sector given their asset-light business model and fee-based revenue structure. We anticipate property brokerage companies to move into a phase of earnings growth from 2020F, driven by organic revenue expansion coming from a low post-cooling-measure base in 2019F, on the back of commission rate expansion, bumper new private residential launches and our anticipation of transaction volume recovery from upgrader demand amid a stable price trend. Inorganic growth prospects from gaining more agent share through strategic alliances and mergers would likely continue to favour the larger players, in our view, thanks to their established platforms, well-known brands, wider network and reach, as well as ability to offer holistic services. With the property market being well served by a total of c.30,000 agents in Singapore, we believe regional diversification into other countries in the Asia Pacific region and expanding non-brokerage income could be another medium-term growth driver. While technology has often been touted as a disruptor to this industry, our channel checks found that the impact of proptech as a disruptor is limited for now.

From a valuation perspective, the share price of property brokerage companies have declined 30-35% from their Jul 2018 peaks, dragged down by the market-wide rout, and close to their all-time lows. Re-rating catalysts could come from newsflow on improved property transaction volumes.

Figure 2: Key comparison between APAC and PROP

	APAC	PROP
Number of agents (as at May 2019)	6826	7771
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Capital structure	Net debt (Net debt to equity - 10%)	Net cash (Net cash per share - 20Scts)
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Gross Margin (FY18)	12.5%	9.6%
Regional franchisees	17 (Indonesia, Thailand, Japan, Vietnam, etc)	3 (Indonesia, Malaysia, Vietnam)

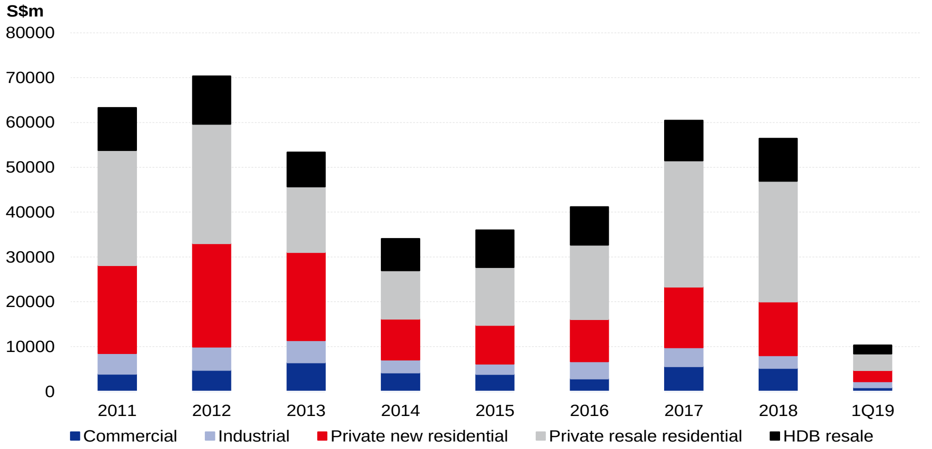
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sizeable property market

The Singapore property market is a deep and liquid market. According to the Urban Development Authority (URA), in 2018, a total of S$56.4bn worth of properties (excluding en-bloc) changed hands, serviced by a total of c.30,000 property agents. The transaction value in 2018 was 6.7% lower than in 2017 as a result of a weaker 2H18 following the introduction of new property cooling measures. In 1Q19, a further S$10.3bn worth of properties were transacted. The largest part of the market remained the private residential sector where new home and secondary sales accounted for 69% of total 2018 ex-enbloc transaction value while Housing Development Board (HDB) resale market made up a further c.17%.

APAC Realty (APAC SP, Add, TP:S$0.67; APAC) shared that it had an overall 40% market share of transaction value in 2018 while Propnex Ltd. (PROP SP, Add, TP:S$0.64; PROP) had between 34-50% share of transaction volumes in the new sales, resale and HDB resale segments.

Figure 3: Property transaction value (excluding en-bloc) in Singapore



SOURCES: CGS-CIMB RESEARCH, URA, COMPANY REPORTS

Asset-light, lower-risk alternative to the Singapore property market

In Singapore, property brokerages charge a percentage of the property's value as transaction fee or commission. As property agents are typically independent contractors and not employees of a brokerage company, the fee/commission is split between the agent and brokerage company. Under this commission/fee based business model, property brokerage companies cater to the entire property market including the private and public residential, commercial and other segments including new launches, resale and leasing activities.

Hence, this business is highly correlated to overall property market trends without the accompanying development and unsold inventory risks. In this regard, we see property brokerages as a lower risk proxy for the property market.

Figure 4: Commission structure for project marketing, private resale and HDB resale in Singapore

Party	Commission
Project Marketing	
Developer	Minimum of 1% of transacted price and up to 6% if developers want to clear off completed or near-completed units
Private Resale	
Seller	Typically 2% of transaction price with a minimum of 1%. If buyer has own agent (co-broking), commission is shared between 2 agents. Up to 5% depending on property type, transaction complexity and urgency
HDB Resale	
Seller	2% of transacted price
Buyer	1% of transacted price

SOURCES: CGS-CIMB RESEARCH, FROST & SULLIVAN

Higher sensitivity to changes in market values

The growth in revenue of property brokerage companies tracks closely to growth in property market transaction values and activities as well as commission rates charged. Transaction values are, in turn, a function of property prices, product mix (i.e. combination of high-end, mid-market or mass-market properties) and transaction volumes.

In our assessment of the drivers to brokerage companies' revenue, based on the current commission split structure, we find that their EPS are more sensitive to changes in market transaction values rather than changes in market share by value (Figure 5). For example, a 5% increase in overall market transaction values would lift APAC's EPS by 3% while a 1% pt hike in market share would move its EPS by a smaller 1.8%, based on our analysis. This implies that a recovery in market volumes and prices would have a more uplifting effect on APAC's earnings.

Figure 5: Earnings and valuations sensitivity to changes in market conditions

Company	APAC		PROP	
FY19F EPS	5.58 Scts		4.24 Scts	
TP	S$0.67		S$0.64	
	Change in FY19F EPS	**Change in TP**	**Change in FY19F EPS**	**Change in TP**
+5% change in transaction values	+3.0%	+3.0%	+1.4%	+1.4%
+1% pt change in market share	+1.8%	+1.8%	+1.7%	+1.7%

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Property market outlook

Key assumptions factored into our 2019F and 2020F property market outlook are:

i) slight 7.4% and 5.6% increases in private new residential sales to 9,000 and 9,500 units in 2019F and 2020F, respectively, assuming 2% and 0% price hikes over the same period

ii) a lower annual private resale transaction volume of 10,000 in 2019F and 2020F, accompanied by zero price growth over the same period

iii) annual 3% and 1% increase in HDB resale volume and price, respectively, in 2019F and 2020F

iv) annual 1% increment in leasing activities in 2019F and 2020F.

We believe these assumptions are achievable in view of the bumper number of new launches in the pipeline, replacement demand from en-bloc sellers as well as upgrading demand from a higher number of HDB dwellers meeting their Minimum Occupation Period (MOP).

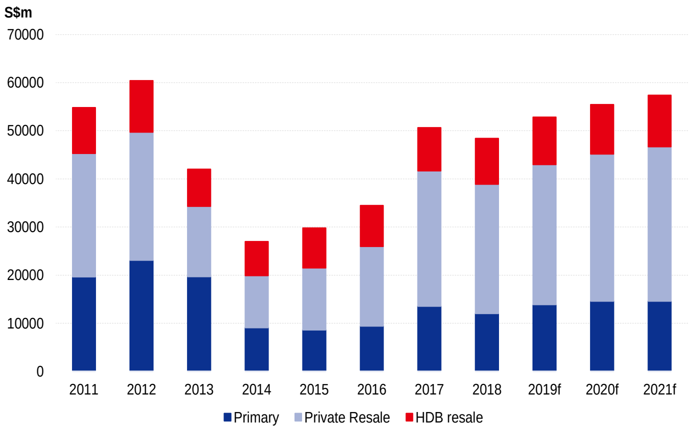
Residential market

According to URA and HDB, the Singapore residential market comprised c.1.4m housing units as at end-2018, of which close to 74% were public housing units or HDB flats, and the remainder were privately constructed apartments, condominiums and landed homes. Home ownership is high, with 91% of resident households owning their homes as at end-2018.

The Singapore residential market generated S$48.4bn worth of transactions in 2018, comprising the private residential, private resale and HDB resale segments. The bulk was contributed by the private resale market which made up 56% of total transaction value, followed by private primary transactions (25%) and the remaining 19% from the HDB resale segment.

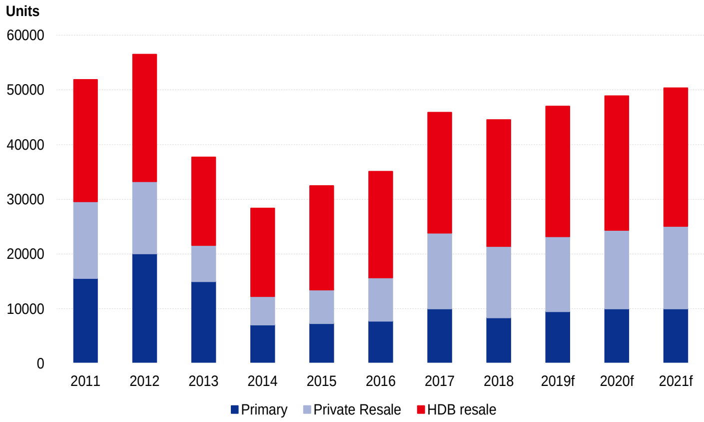
Overall transaction values have been picking up steadily since the low in 2013 but are still 20% below the high recorded in 2012. While the latest round of property cooling measures put in place in Jul 2018 have led to somewhat moderated transaction volumes, according to URA statistics, prices have generally held up over the past nine months. Going forward, we expect property prices to remain largely stable and the volume of transactions to rise slightly (by 5.6%-7.4%) on the back of higher number of launches. The private resale market had a quiet 1Q19, with only S$3.7bn worth of units changing hands vs. the S$7.6bn transacted in 1Q18. Hence, we expect the private resale market to be a drag on overall market performance in 2019F and for total market transaction value to decline slightly yoy in 2019F before stabilising in 2020F.

Figure 6: Total residential transaction value



SOURCES: CGS-CIMB RESEARCH ESTIMATES, URA, HDB

Figure 7: Total residential transaction



SOURCES: CGS-CIMB RESEARCH ESTIMATES, URA, HDB

Stable volumes…

We expect the private residential market to chalk up 9,000-10,000 units of primary sales from new launches in 2019F and 2020F vs. 8,380 units transacted in 2018. More importantly, whilst volumes have cooled post the property measures in Jul 2018, on a qoq basis, since 4Q18-1Q19, volumes have remained relatively stable, indicating continued buying interest, in our view. 1Q19 transactions totalled 1,838 units, flat from the 1,836 units seen in 4Q18. With c.20,000 units from 50 projects scheduled to be marketed over the next 12-18 months, we believe take-up would continue to be somewhat supply-led as well as coming from a portion of replacement demand from en-bloc sellers. As such, we believe property brokerage companies are well placed to benefit from sustainable volumes. In addition, given the greater number of launches and increased competition for buyers' wallet share, we expect commission rates to continue ticking up over FY19F and FY20F, thus benefiting both property agents and property agencies.

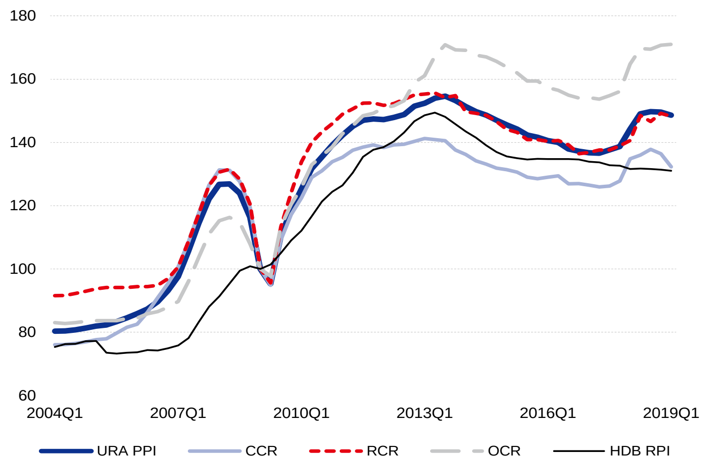
…amid near-term range-bound prices

We expect private home prices to move between 0% and +3% in 2019F, slower than the 7.6% expansion seen in 2018, post the property cooling measures. We think developers should continue to clear their current inventory given that they still have a 4-5 year window until the projects are completed and the Additional Buyer's Stamp Duty (ABSD) penalty kicks in if they have remaining unsold units. As such, we expect prices to remain relatively stable in the near term.

Figure 8: Private residential transaction volume (units)

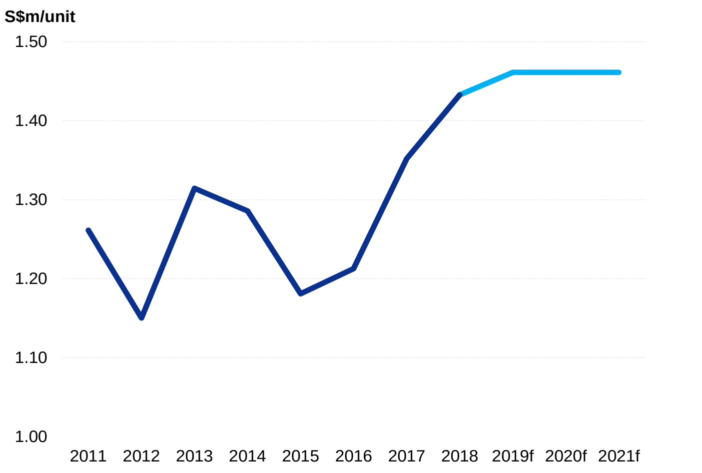
SOURCES: CGS-CIMB RESEARCH, URA

Figure 9: URA property price index



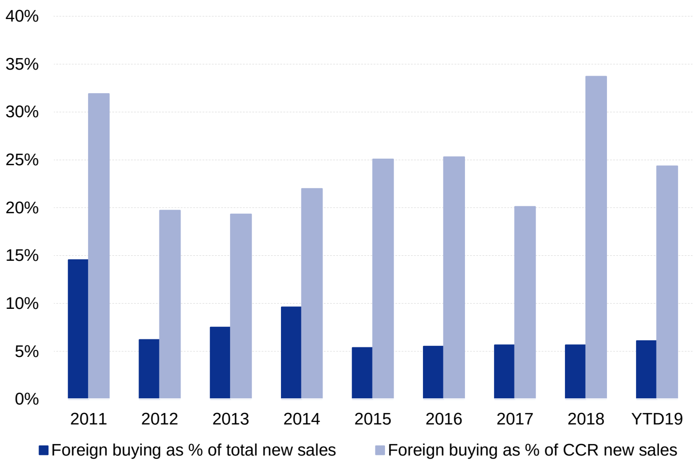
SOURCES: CGS-CIMB RESEARCH, URA

Figure 10: Average transaction price/unit



SOURCES: CGS-CIMB RESEARCH, URA, COMPANY REPORTS

Figure 11: Foreign buying as % of new sales



SOURCES: CGS-CIMB RESEARCH, URA

Figure 12: List of potential new project launches

Project	Developer	Units
Juniper Hill	Allgreen	115
Former Royalville	Allgreen	323
Sky Everton	Sustained Land consortium	262
Former Pacific Mansion	Hong Leong/Guocoland	720
Van Holland	Koh Brothers Grp	97
Former Tulip Garden	Yanlord Land/MCL Land	670
Riviere	Frasers Property	455
Nouvel 18	City Dev	156
Haus on Handy	City Dev	188
Uptown @ Farrer	Low Keng Huat	116
The Atelier	Bukit Sembawang	154
Meyerhouse	UOL/Kheng Leong	56
Former The Estoril	Far East consortium	166
Former Hollandia	Far East consortium	143
Former Pearl Bank Apts	Capitaland	774
The Antares	FSKH Development	250
Forner Katong Park Towers	Bukit Sembawang	388
Former Kismis View	Tong Eng Grp/Roxy Pacific	168
Dunearn 386	Roxy Pacific	35
19 Nassim	Keppel Land	101
Former Katong Omega Apts	Global Dragon	36
Parc komo	Chip Eng Seng	276
Pullman Residences	EL Devt	348
Avenue South Residence	UOL/UIC/Kheng Leong	1074
Hillview Rise GLS	Hong Leong/Guocoland	535
Parc Clematis	Singhaiyi	1468
Piermont Grand EC	City Dev/TID	820
Canberra Link EC	Hoi Hup/Sunway	450
Anchorvale Crescent EC	Evia Real Est/Gamuda	550
Total		**10894**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Private resale residential market

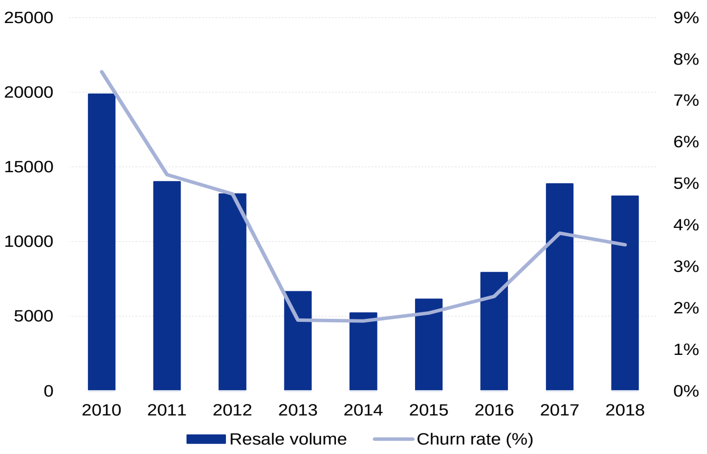
The private resale segment forms the most significant part of the residential market; by value, in 2018, with 13,041 units changed hands, making up 55% of total transaction value. Meanwhile, average value per transaction had increased 1.6% in 2018 over a year ago. 1Q19 was a quiet quarter, with only 1,905 units valued at S$3.7bn transacted.

Historically, annual resale transaction volumes represent an annual ‘churn rate’ of 1.7%-7.7% of total private housing stock between 2010-2018. Over the past two years, the resale transaction volume ‘churn rate’ ranged 3.5-3.8%, based on URA statistics.

We believe that our projection of flat 10,000 transactions annually from 2019F to 2021F is a conservative assumption. Furthermore, we expect this segment of the market to remain active on the back of en-bloc replacement demand as well as relative value proposition given the current sizeable 10-15% pricing discount gap between primary and resale units.

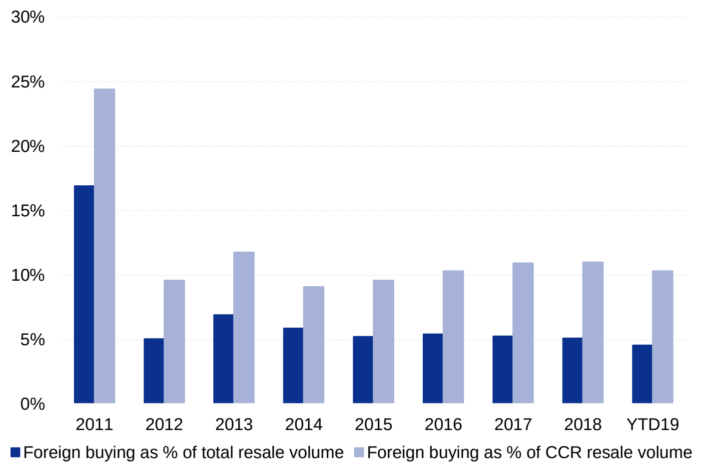
In terms of pricing, we expect the average selling price to remain flat over the next three years, i.e. from 2019F to 2021F.

Figure 13: Private residential resale churn rate



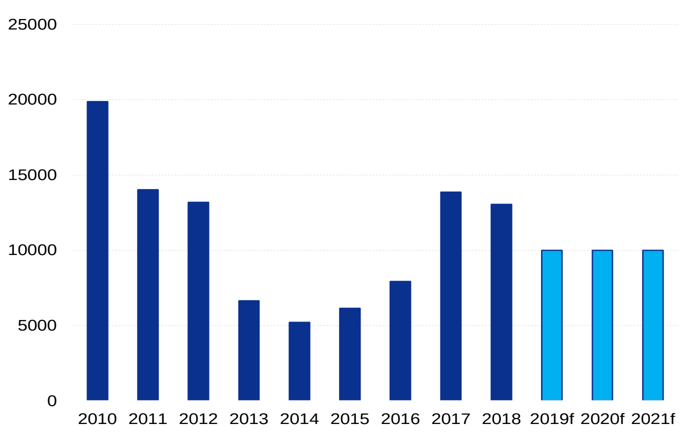
SOURCES: CGS-CIMB RESEARCH, URA

Figure 14: Foreign buying as a % of resale transaction volume



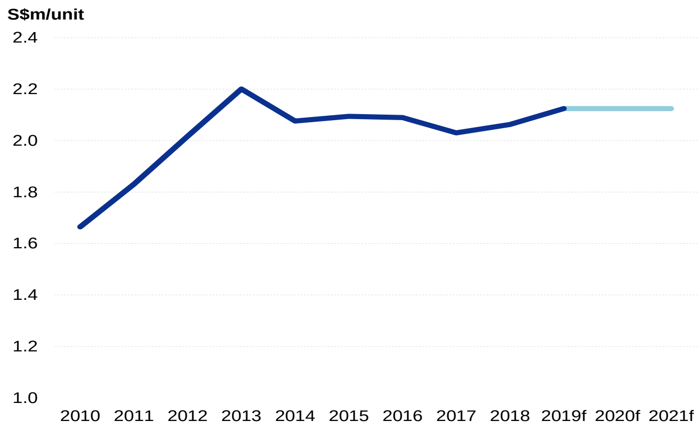
SOURCES: CGS-CIMB RESEARCH, URA

Figure 15: Resale transaction volume projections



SOURCES: CGS-CIMB RESEARCH ESTIMATES, URA

Figure 16: Average transaction price/unit



SOURCES: CGS-CIMB RESEARCH ESTIMATES, URA

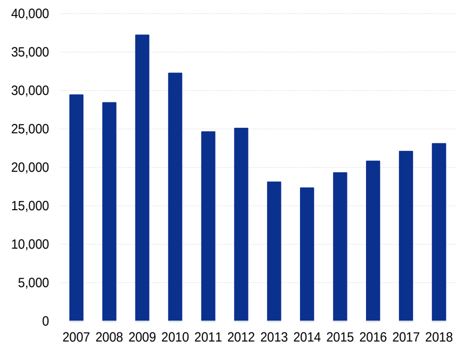
HDB resale market

While the initial sale of HDB flats are via built-to-order (BTO) launches, secondary sales of HDB flats are at the owner's discretion following a 5-year Minimum Occupation Period (MOP). The ownership of HDB resale flats are still restricted to Singaporean citizens and permanent residents.

Applications for approvals to resell HDB flats have been on the rise since the trough in 2014. In 2018, there were more than 23,000 HDB resale applications, higher than the 22,000 applications seen in 2017. With more HDB units being built over the past five years, we anticipate resale transactions to continue ticking up, in line with the Singaporeans' upgrade aspirations.

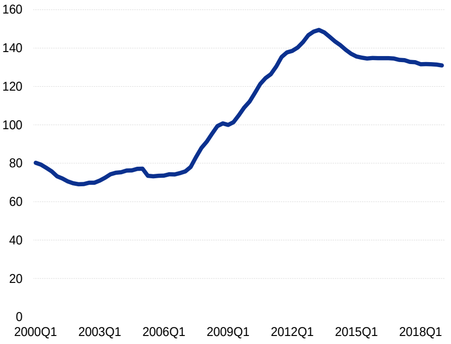
In the meantime, HDB resale prices appear to have stabilised after declining since the mid-2013 peak. This should be supportive of HDB resale transaction values, in our view.

Figure 17: HDB resale applications



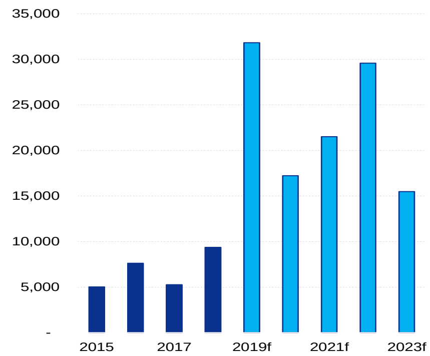
SOURCES: CGS-CIMB RESEARCH, HDB

Figure 18: HDB resale price index



SOURCES: CGS-CIMB RESEARCH, HDB

Figure 19: Number of HDB flats reaching MOP

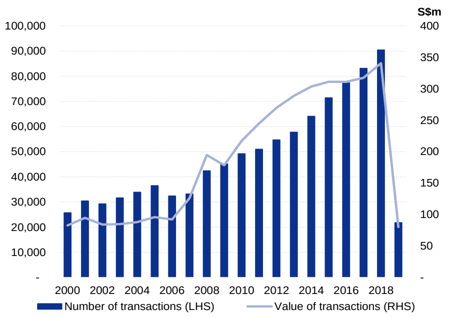


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Leasing market

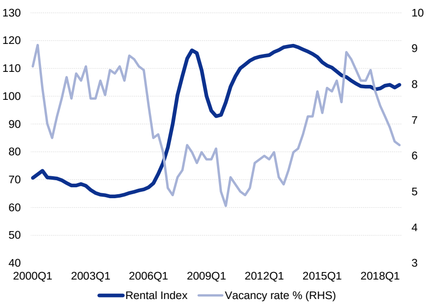
The private and HDB leasing markets have been experiencing rising leasing transactions while leasing contract values have remained robust. According to APAC, there were 87,256 leasing contracts signed in the private residential segment and another 46,440 HDB rental contracts receiving approvals in 2018. These represent a 3-year (2015-2018) CAGR of 7.5% and 3.6%, respectively.

Figure 20: Number and value of private leasing transactions



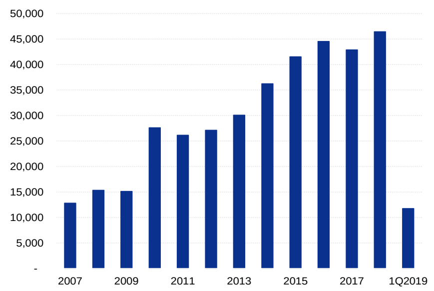
SOURCES: CGS-CIMB RESEARCH, URA

Figure 21: URA private residential rental index



SOURCES: CGS-CIMB RESEARCH, URA

Figure 22: Number of HDB rental approvals

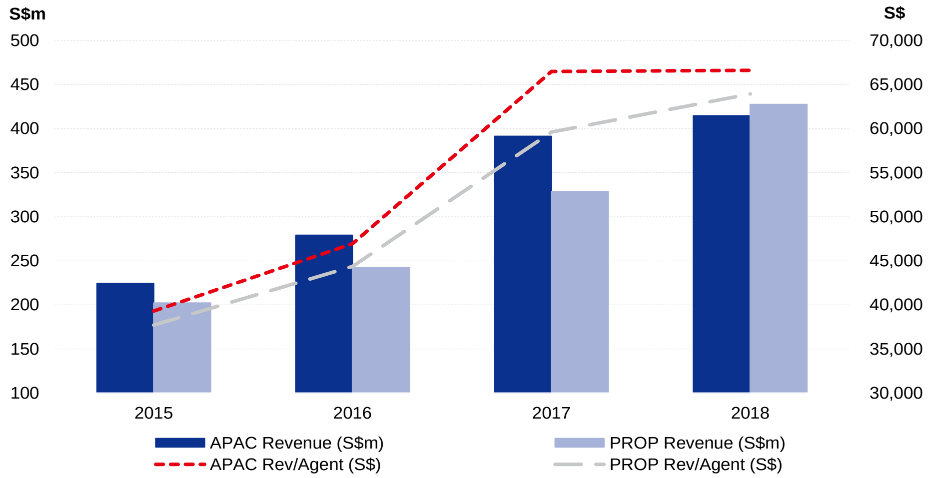


SOURCES: CGS-CIMB RESEARCH, HDB

Commission rates on expansion trend

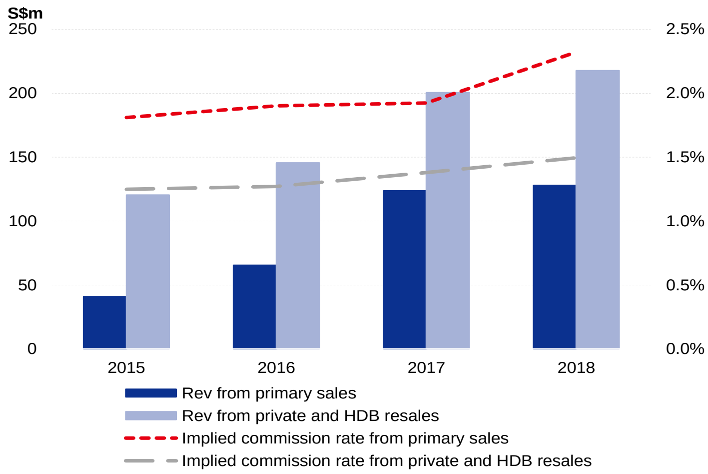
Based on our calculations, anecdotal evidence from historical revenue and estimated share of transaction value show that implied brokerage commission rates across both the primary sales and resale markets have been rising over the past two years. With the marketplace becoming more competitive due to numerous upcoming private property launches and active strategies to gain buyers' wallet share, we anticipate commission rates to continue trending up over the next few years. This should translate to positive margin expansion for property brokerages in the medium term.

Figure 23: Comparison of brokerage revenue and revenue per agent from 2015 to 2018



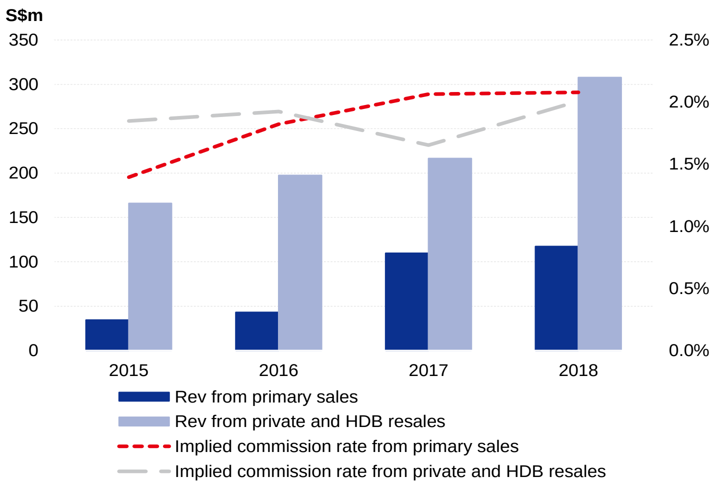
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Estimated APAC historical commission rates



SOURCES: CGS-CIMB RESEARCH ESTIMATES

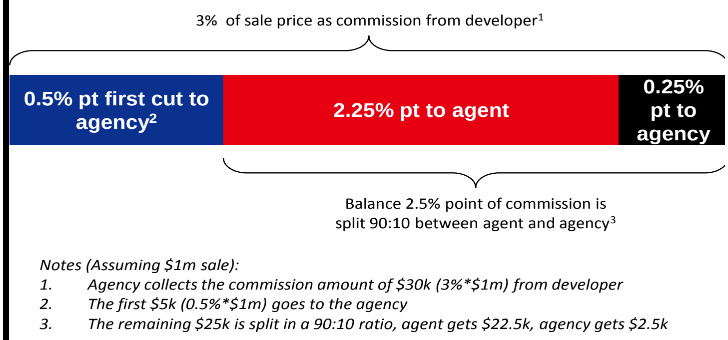
Figure 25: Estimated PROP historical commission rates



SOURCES: CGS-CIMB RESEARCH ESTIMATES

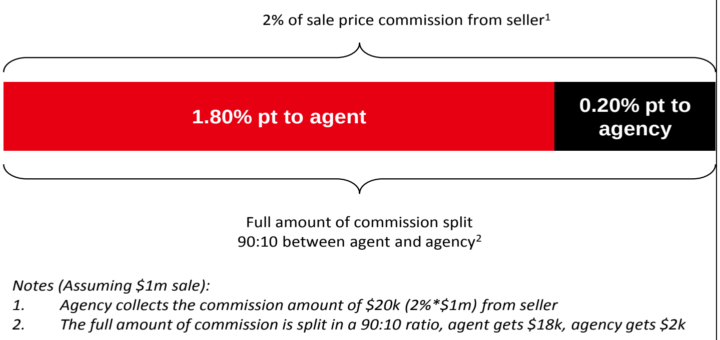
In addition to commission rate expansion, we believe the skew towards more primary sales business would have an uplifting impact on the overall gross profit margins of property agencies. Based on the commission split structures outlined in the figures below, a property agency benefits more from commissions earned from primary sales transaction compared to a resale transaction. With an estimated 10,000-11,000 residential units planned for launch in the remainder of this year, we anticipate the increased activity to positively impact agencies' profitability.

Figure 26: Example of commission split for primary sales transactions



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 27: Example of commission split for resale transactions



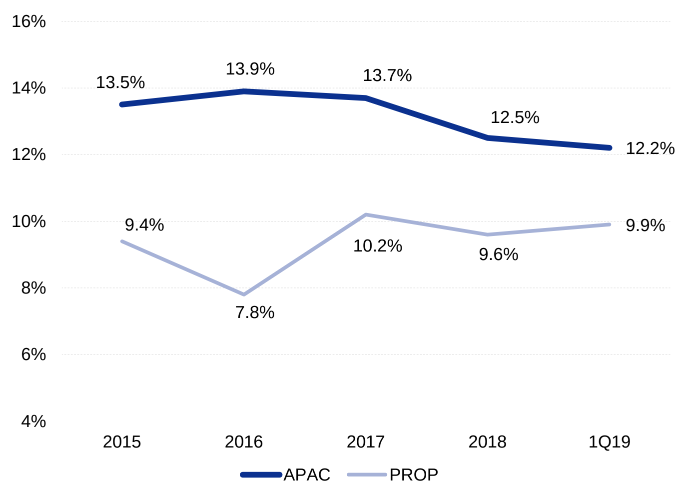
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

1Q19 margins impacted by lower operating leverage,

Despite a 26.5% and 27.8% yoy drop in APAC's and PROP's 1Q19 revenue respectively, gross profit margins have held relatively steady as commission structures remain unchanged. However, a decline in operating leverage due to lower topline and fixed costs, such as staff costs and rental remain unchanged. This led to pre-tax margins slipping significantly in 1Q19. We think as the first quarter tends to be a seasonally weak quarter, revenue and operating leverage should stabilize and improve in the coming quarters.

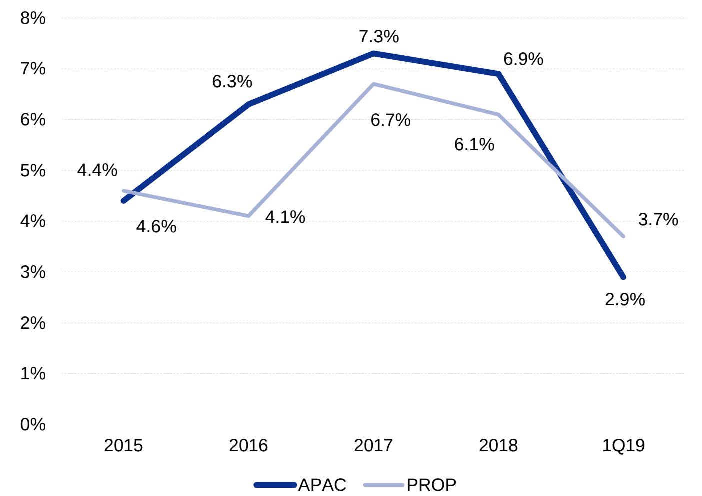
In addition, although having predominantly similar business models, APAC's and PROP's gross profit margins has varied by 2.3% pts to 6.1% pts between 2015-1Q19 due to two main reasons – firstly, APAC has a larger component of higher yielding non-brokerage income. Although non-brokerage income made up 1-2% of APAC's revenue between 2015-2018, it accounted for a significant 15-19% of gross profit. Secondly, apart from having very little non-brokerage income, the inclusion of a pension scheme which PROP offers to its Team Leaders, also bumped up cost of services and led to moderated margins.

Figure 28: Comparison of gross profit margins from 2015-1Q19



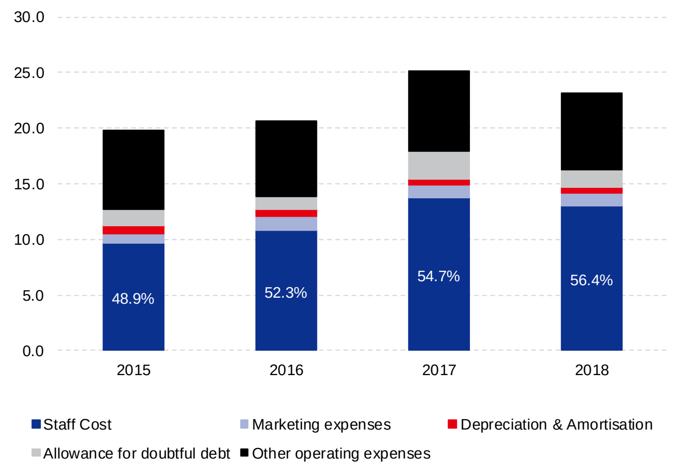
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 29: Comparison of pretax profit margins from 2015-1Q19



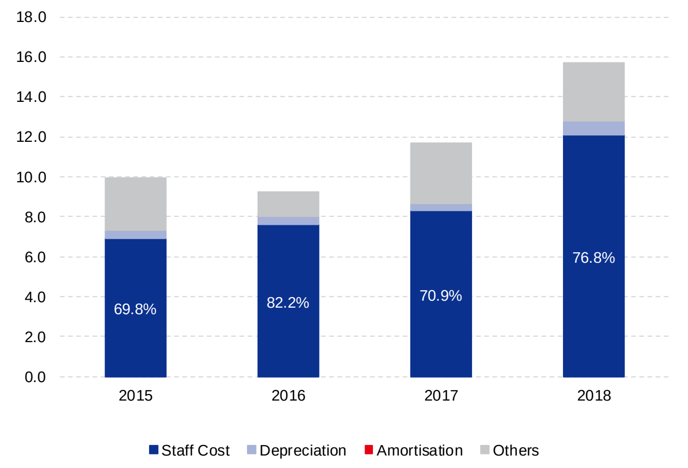
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 30: Breakdown of APAC's operating expenses (%)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 31: Breakdown of PROP's operating expenses (%)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

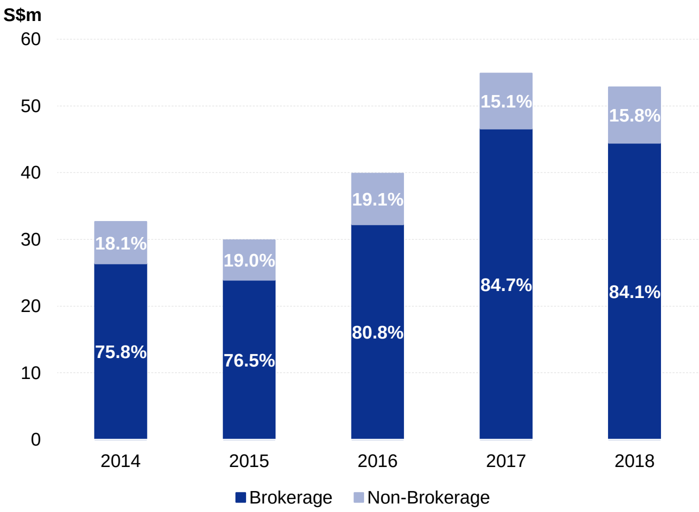
Holistic service providers with stable non-brokerage income source

While they generate the bulk of their revenue (96-99%) from the property agency business, property brokerage companies in Singapore tend to be a one-stop service provider with a slew of non-brokerage services such as training, property valuations, property management, rental, franchise fees and others. This provides a stable recurring addition to their income base.

APAC's non-brokerage revenue consistently formed 2-4% of its revenue between FY14 and FY18 but accounted for 15.7-19% of overall gross profit due to the higher profit margin. We forecast this segment to contribute c.1-2% of revenue over FY19-21F and for the high estimated gross margin of c.17% to be sustained.

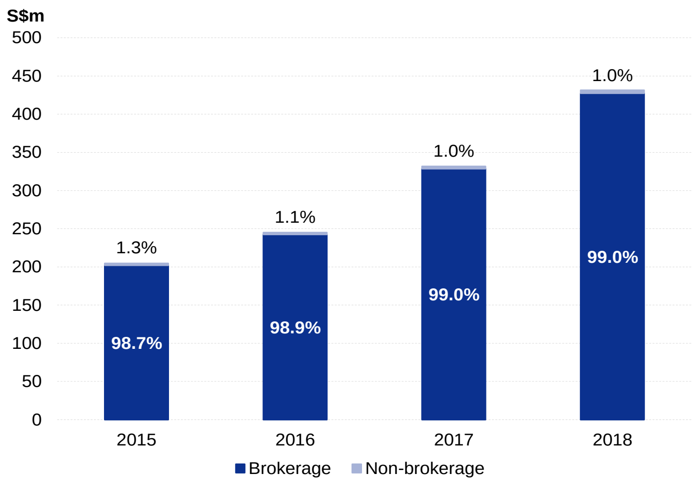
Meanwhile, 99% of PROP's revenue is generated from the brokerage business with a small 1% of topline contributed by training services and property management fees. It established a real estate consultancy arm in 2018 to provide auction and corporate sales services and investment or en-bloc services. The corporate sales and auction services department undertakes transactions across all real estate segments including the industrial and commercial space in addition to residential property. In Feb 2019, PROP launched the first HDB Auction service as a means to tap into the large number of flats reaching their 5-year Minimum Occupation Period in 2019. The service offers an alternative option to HDB owners to market their flats and assist them in the price discovery process. These consultancy services form part of the brokerage services that PROP offers to complement its existing services.

Figure 32: APAC's gross profit breakdown by source



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 33: PROP's revenue breakdown by source



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Cost-efficient regional expansion strategy

With Singapore being well-served by c.30,000 registered agents, we believe a medium-term growth driver for both APAC and PROP would be to expand its platform to other countries in the region that have less established independent brokerage models.

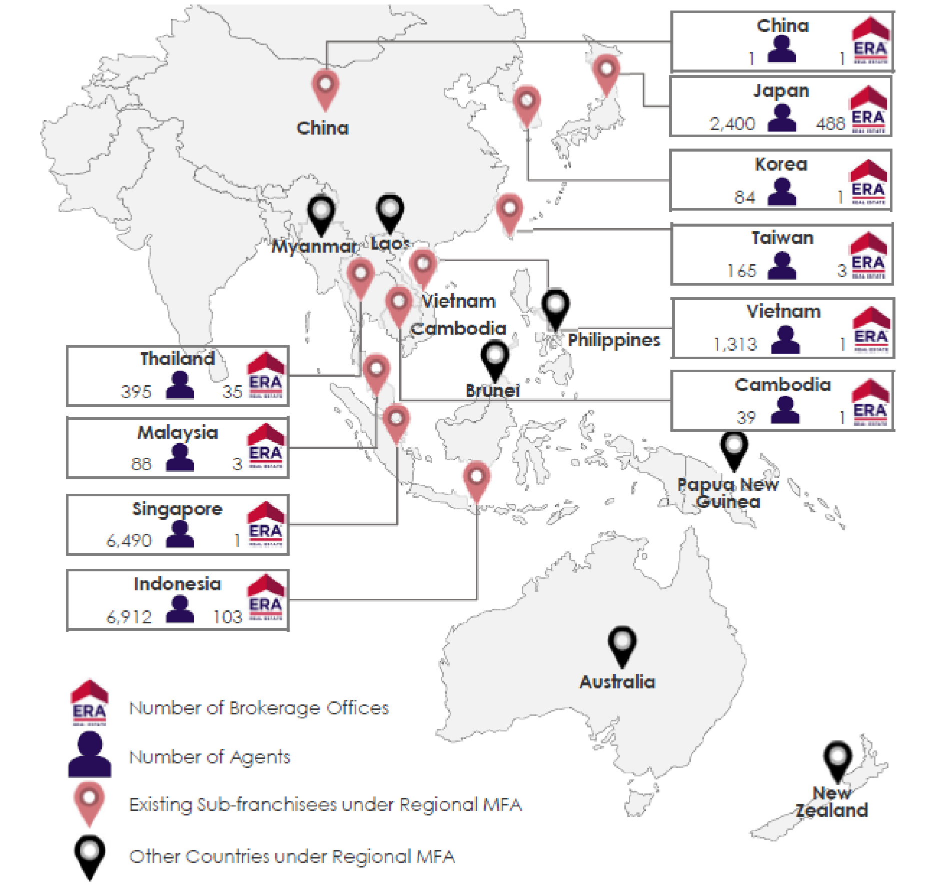
While APAC's overseas earnings contributions are not meaningful at present, we see scope for expansion in this segment in the medium term. We think earnings contribution from Thailand could pick up from 2H19F, when APAC's franchise agreement is potentially converted into a direct ownership structure and from Indonesia from FY20F onwards. Based on APAC's proforma FY17 estimates, we think consolidating the Indonesian operations could result in an annualised 1-2% increase in the group's bottomline. Vietnam's and Cambodia's master franchise agreements would also contribute to APAC's royalty income. These have not been factored into our current estimates.

To recap, APAC's regional presence has expanded rapidly in several countries post listing in 2017. APAC's forays abroad have been initially conducted via franchise agreements, followed by separate partnership and cooperation agreements signed with existing franchisees to allow APAC to eventually have direct ownership of these operations. This business model enables APAC to have a cost-efficient learning curve as it expands into new and unfamiliar markets, with the potential to participate in the growth of the brokerage business through direct ownership in the longer term. It has franchise arrangements in Vietnam and Cambodia and plans to directly own the Thailand and Indonesia operations.

The Vietnam franchise was established in mid-2017 and currently has more than 1,300 agents, while the Cambodia franchise was started in Feb 2018. In Aug 2018, APAC entered into a joint venture agreement with two Chinese companies to establish a presence in Hainan, China.

Meanwhile, APAC has restructured its franchise agreement in Thailand and entered into a cooperation agreement to directly hold the ERA master franchise rights for Thailand. This facilitates cross-selling opportunities for Thailand properties in Singapore and vice versa. ERA Thailand has been operational since Jun 1993 and has close to 400 agents that record an average of c.1,000 transactions per year.

Figure 34: ERA sub-franchisees and other countries under the Regional Master Franchise Agreement (MFA) (as at 1Q19)



SOURCES: CGS-CIMB RESEARCH, APAC

PROP aims to strengthen its regional presence in existing markets like Indonesia and Malaysia while developing new business opportunities throughout the rest of Southeast Asia. PROP has c.1,000 salespeople across 18 offices in Indonesia, c.300 salespeople in Malaysia and c.100 salespeople in Vietnam as at end-FY18. For each of its overseas markets, PROP has the ambitious goal of being among the top 5 real estate agencies within five years of establishment, according to management. To date, the overseas offices operate under a franchise model rather than direct ownership by PROP. Royalty fees from the use of the PROP brand are recognised based on a percentage of franchisees'/licensees' monthly sales.

Figure 35: Geographical footprint of PROP (FY18)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

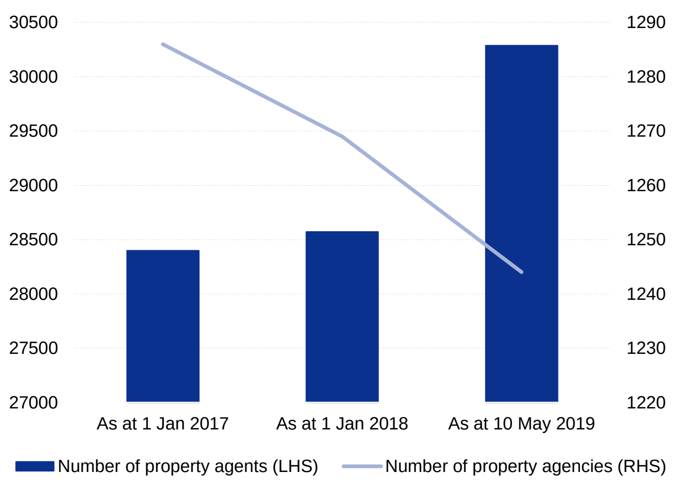
In 2016, PROP entered into a master franchise agreement in Indonesia. This was followed by expansion into Malaysia through a 10-year licensing agreement which is renewable for another 10 years subject to the fulfillment of conditions stipulated in the agreement. In Aug 2018, an initiation of a Master Franchise Agreement for Vietnam was struck with an initial term of 10 years and renewable for another 10 years. While PROP has no presence in the Philippines and Thailand currently, according to management, it is constantly looking to grow its Southeast Asian footprint. Management stated that it aims to penetrate a new market every year.

Inorganic agent growth to further drive topline

Another driver to topline growth for property brokerages had been from inorganic sources, through the acquisition of more agents via merger of brokerages or strategic alliances. As a result, the number of brokerages shrank from 1,369 in 2015 to 1,244 as at May 2019 even as the number of agents increased to 30,286. At this juncture, we think property brokerages seeking to gain agent headcount would be via taking share from other brokerages rather than by a significant increase in the overall number of agents, in our view.

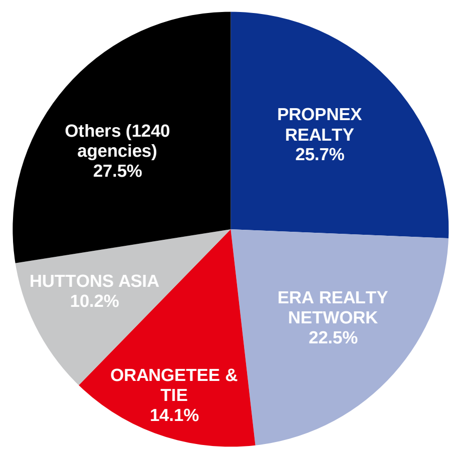
The consolidation trend tends to favour larger brokerages such as APAC and PROP. Larger property agencies tend to have the economies of scale required for value-added services, like consultancy, trainings and seminars, for both agents and consumers. Greater size helps to spread sunk costs over a larger pool of agents. This also helps to improve the reach of the agency and make it more attractive as a project marketing partner for developers launching new projects.

Figure 36: Number of property agents and agencies



SOURCES: CGS-CIMB RESEARCH, COUNCIL FOR ESTATE AGENCIES (CEA)

Figure 37: Market share (%) as of May 2019



SOURCES: CGS-CIMB RESEARCH, CEA

Some of the notable transactions include:

In 2017, PROP entered into a business takeover agreement with Dennis Wee Realty (Unlisted; DWR) to transfer 845 DWR agents to PROP. This move allowed PROP to overtake APAC as the largest agency in Singapore based on agent numbers. The aggregate purchase consideration was up to S$5m.

Two months after the merger between PropNex and DWR was announced, OrangeTee (Unlisted) and Edmund Tie & Co (Unlisted) unveiled a joint venture, OrangeTee & Tie. This combined OrangeTee's 2,938 agents and Edmund Tie & Co's 1,122 agents to form the third largest property agency in Singapore. The joint venture aimed to create economies of scale to enhance productivity and cost effectiveness and leverage technology to maximise efficiency and effectiveness.

In 2018, APAC Realty announced a collaboration with CBRE Realty Associates (Unlisted) where 280-290 CBRE agents focusing on residential transactions will move over to the ERA Realty network.

In 2019, PROP entered into a strategic collaboration with Global Alliance Property Pte Ltd (Unlisted; GAP), which operates under the Century 21 franchise, for the transfer of GAP's salespeople to PROP. We believe this collaboration would further strengthen PROP's position as Singapore's largest listed real estate agency.

Channel checks on factors for agent retention

As the operating landscape for larger players becomes more competitive, we think agent retention, particularly for high performers, would be another factor that drives financial performance. To assess agent stickiness, we reached out to multiple property agents from different property agencies for their thoughts on the real estate agency sector.

The key areas we sought opinions on were:

Factors they considered when choosing an agency. The majority of agents mentioned branding, exposure and support as the key reasons for selecting an agency. Branding helps to attract clients due to the established policies and procedures that tend to come along with larger and more established agencies. Larger agencies also tend to be chosen by developers to market new launches and this improves the exposure that agents get. Some agents felt that having exposure to both new launch and resale units would allow them to provide a more holistic service to their clients.

Many also suggested that the training sessions provided played a part in swaying their decision to join their current agency. This was especially evident in newer agents who see the value in attending training to help them find a competitive edge. Apart from formal training sessions, informal on-the-job training and guidance within teams were also a consideration. While there are benefits to joining a larger team, one agent chose a smaller team due to the more personal support and development provided.

Key problem with the job. Almost all agents we surveyed cited the two key issues of income and time management. The commission-based nature of the role results in inconsistent income for agents. This makes it difficult for agents to do proper financial planning and also results in a higher attrition rate when the property cycle turns downwards and competition between agents becomes more intense. As the majority of their clients work office hours, agents are only able to contact them in the evening or on weekends. Some also cited the high service levels required as clients are able to contact them at odd hours of the day.

How their agency can help improve the job. Most agents cited better training programmes would help them cope with the job. This should not only be limited to property-specific topics but also personal skills like presentations, time management and budgeting. The newer agents we questioned also suggested having more support for fresh agents starting up to make up for their lack of experience. For example, being partnered with experienced agents to learn the ropes in real life scenarios or even providing leads for them to follow up on.

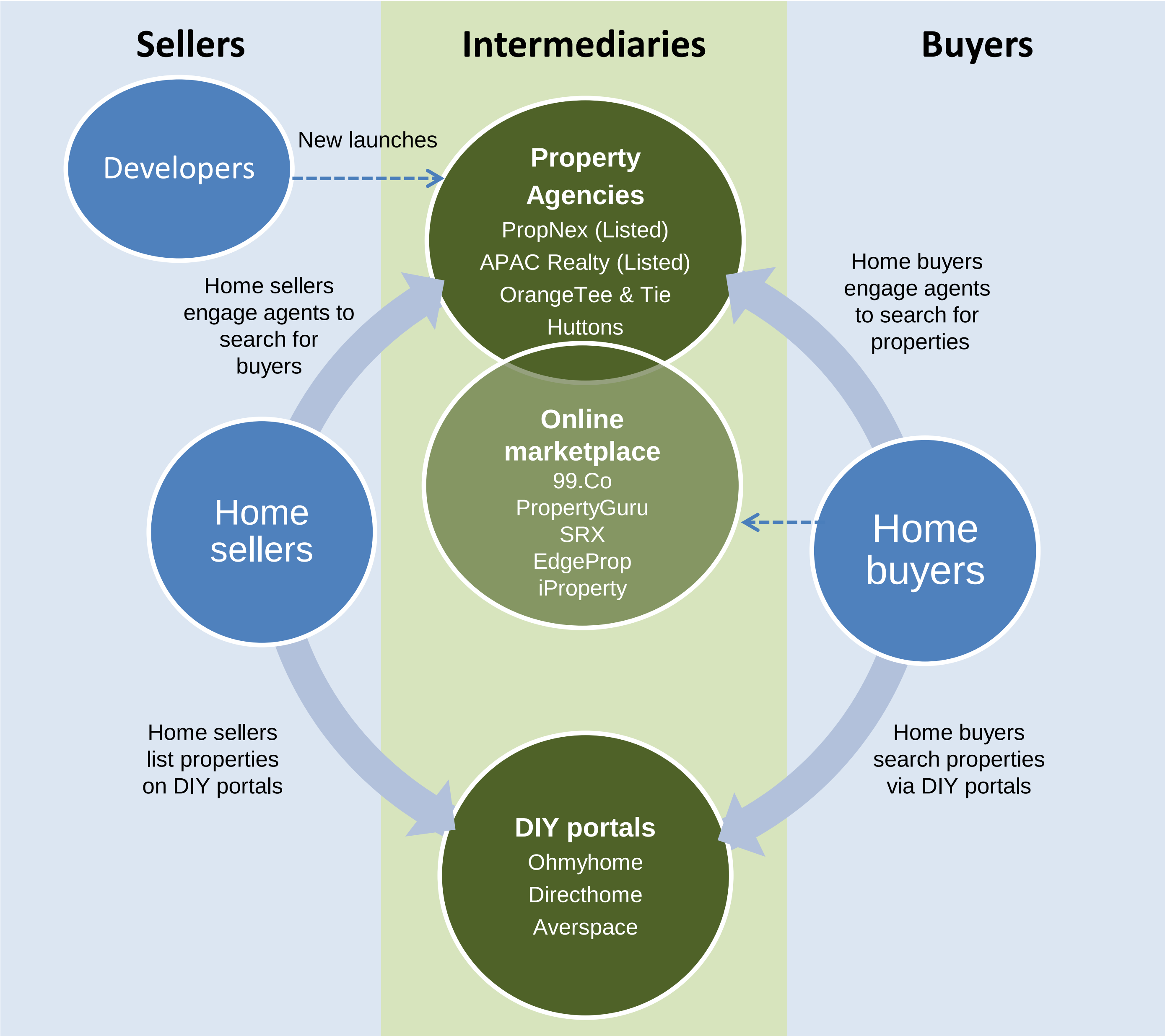
As property information is readily available online, some agents find that consumers are increasingly becoming more educated. This makes it more challenging for agents to provide value-added services. One interesting suggestion was to have stronger research teams to provide analysis on market data and trends or centralised databases for them to search for information.

Proprietary study show proptech is not a disruptor

Much has been said about proptech disruption within the real estate market and the potential depth and width of its impact on the market place. According to CBRE, in proptech, there are three forms of technologies that are pertinent and pervasive in the property industry. They are blockchain, augmented reality (AR) and artificial intelligence (AI).

In tandem with the increasing presence of proptech in the property industry, the number of online platforms offering property brokerage services has been on the rise. We have conducted ground checks on the impact of proptech entities on the property brokerage industry in Singapore.

Figure 38: Overall residential property market value chain



SOURCES: CGS-CIMB RESEARCH

Proptech players have thus far aimed to solve two key ‘pain points’ in real estate transactions, matching buyers & sellers and reducing transaction costs. A search on Singaporean proptech players shows that the majority of them are online property listing portals that help match buyers and sellers. For matches on such portals, transactions are still being carried out by agents from traditional real estate brokerages like APAC and PROP. Proptech players that help to reduce transaction cost allow buyers and sellers to undertake transactions themselves without using an agent or with basic transaction processing services.

Figure 39: Comparison of proptech players

	Transactions	Map-based search	Agent search	Agent	Commercial listings	Mortgage Calculator	Unique features
Property Guru	Agent	No	Yes	3rd Party	No	Yes	1. Overseas properties 2. Forum 3. Home Services 4. Renovation
99.co	Agent	Yes	No	3rd Party	Yes	Yes	
iProperty	Agent	No	Yes	3rd Party	Yes	Yes	1. Overseas properties 2. Interior design 3. Home Services
EdgeProperty	Agent	Yes	Yes	3rd Party	Yes	Yes	1. En Bloc analysis 2. Overseas properties 3. Land sales analysis 4. Heat map 5. Home valuation
Ohmyhome (OMH)	DIY or Agent	Yes	No	In-House Agent	No	Yes	
SRX Property	Agent	No	Yes	3rd Party	Yes	Yes	1. Find a roommate 2. Electricity retailer 3. Home valuation 4. BTO analysis
SOREAL	Agent	No	No	3rd Party	Yes	No	
Directhome.com.sg	DIY	No	No	No	No	No	
ST Property	Agent	No	Yes	3rd Party	Yes	Yes	
DBS Property Marketplace	DIY or Agent	No	No	3rd Party	No	Yes	1. Direct mortgage
Averspace	DIY	No	No	No	No	No	
Greyloft	Agent	No	No	In-House Agent	No	Yes	1. E-Signing of contract 2. Viewing scheduler 3. Heat map 4. Home valuation

SOURCES: CGS-CIMB RESEARCH, VARIOUS WEBSITES, CHANNEL CHECKS

We think that the negative impact of proptech players will be limited in the near term as the majority are listing portals that help match buyers & sellers and do not directly act as an intermediary in the transaction. Instead, our ground checks revealed that property agents benefit from the use of online property portals via increased outreach and lower costs.

Figure 40: Cost of property advertisement in the Classifieds section of The Straits Times for 3 lines of text on a weekday

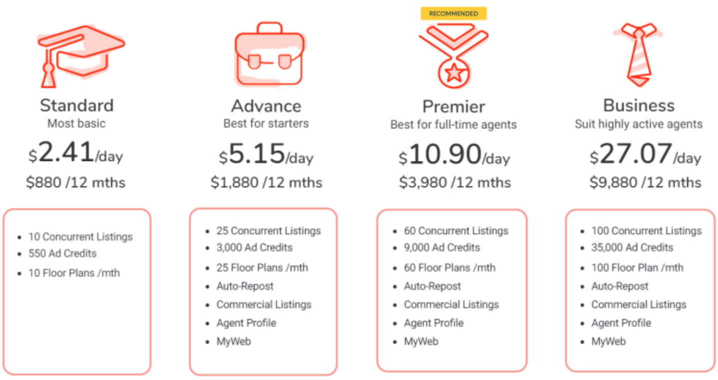
Rate Summary:	
Advertisement Category:	Property
Publication:	The Straits Times
Selected Days:	13 Jun 2019 (Thu)
Advertisement Type:	Run-On
Advertisement Size:	3 Lines
Rate Per Line:	$ 12.00
Total (Before GST):	$ 36.00
GST at 7%:	$ 2.52
Total (After GST):	$ 38.52 *

* ***Disclaimer:*** *The results generated by this rate calculator are indicative only. The actual cost of your classified advertisement shall be determined at the point of sales, or as communicated by our CATS Classified sales representatives.*

Recalculate

SOURCES: CGS-CIMB RESEARCH, THE STRAITS TIMES CLASSIFIEDS (RETRIEVED ON 13 MAY 2019)

Figure 41: Cost of PropertyGuru subscription packages (as at May 2019)

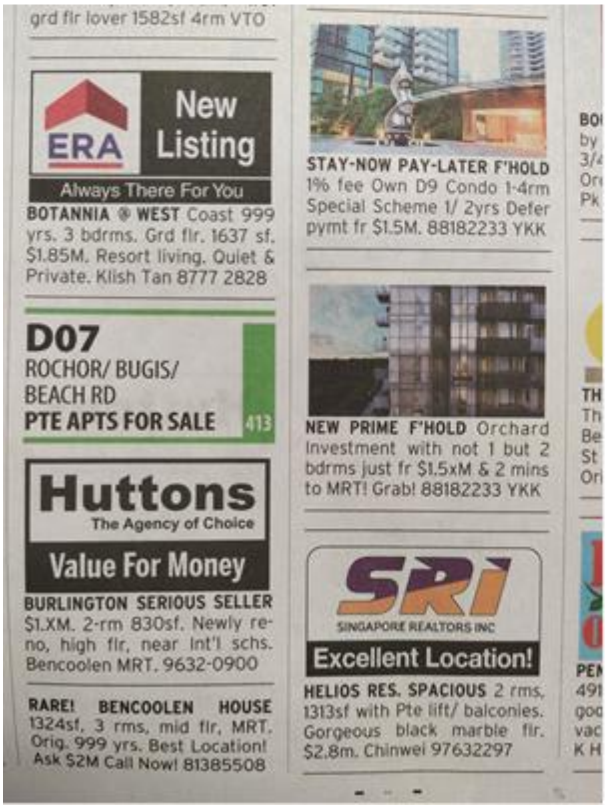


SOURCES: CGS-CIMB RESEARCH, PROPERTYGURU

A basic advertisement in The Straits Times Classifieds section with three lines of text and no pictures on a weekday would cost an agent S$38.52 per day per listing based on a check done on 13 May 2019 for an advertisement on 13 June 2019. This costs substantially more compared to the S$880 annually for 10 concurrent listings with no restrictions on text and pictures for PropertyGuru's (Unlisted) most basic subscription package. Comparing the two options, 23 single-day listings on the Classifieds would completely cover the cost of the annual subscription.

Online property portals also tend to contain significantly more information than 3-4 line newspaper ads. This improves the efficiency of buyers searching for homes as filters and maps can help buyers narrow down their search. Our ground checks with agents and APAC and PROP also suggest that online property portals help to improve the conversion rate from property viewings as buyers are better informed before viewings.

Figure 42: Property listings in the Straits Times Classifieds


grd flr lover 1582sf 4rm VTO

ERA New Listing Always There For You

BOTANNIA ❀ WEST Coast 999 yrs. 3 bdrms. Grd flr. 1637 sf. $1.85M. Resort living. Quiet & Private. Klish Tan 8777 2828

D07 ROCHOR/ BUGIS/ BEACH RD PTE APTS FOR SALE 413

Huttons The Agency of Choice Value For Money

BURLINGTON SERIOUS SELLER $1.XM. 2-rm 830sf. Newly reno, high flr, near Int'l schs. Bencoolen MRT. 9632-0900

RARE! BENCOOLEN HOUSE 1324sf, 3 rms, mid flr, MRT. Orig. 999 yrs. Best Location! Ask $2M Call Now! 81385508

STAY-NOW PAY-LATER F'HOLD 1% fee Own D9 Condo 1-4rm Special Scheme 1/ 2yrs Defer pymt fr $1.5M. 88182233 YKK

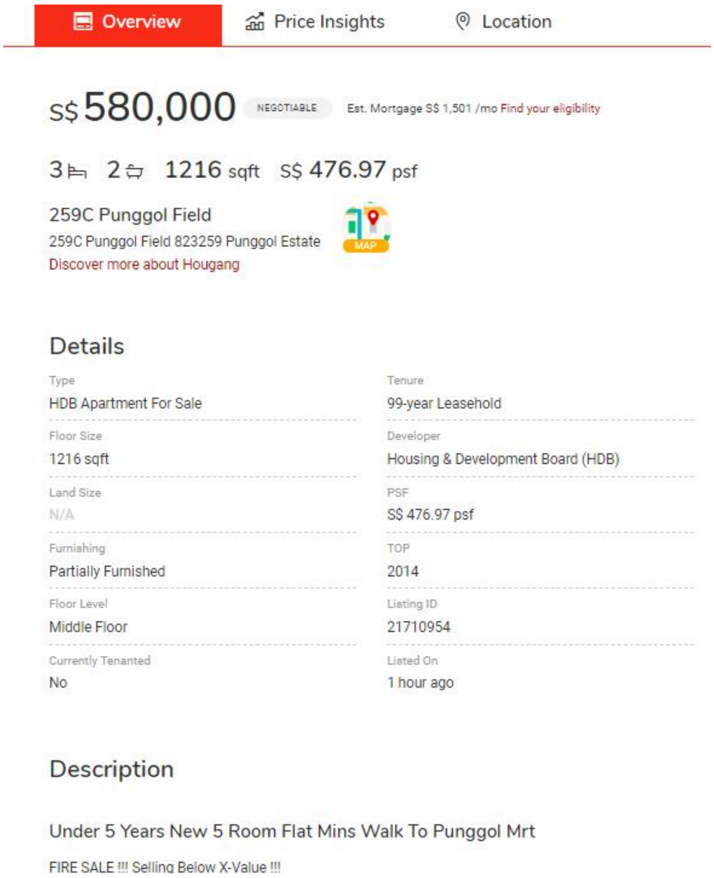
NEW PRIME F'HOLD Orchard Investment with not 1 but 2 bdrms just fr $1.5xM & 2 mins to MRT! Grab! 88182233 YKK

SRI SINGAPORE REALTORS INC Excellent Location!

HELIOS RES. SPACIOUS 2 rms, 1313sf with Pte lift/ balconies. Gorgeous black marble flr. $2.8m. Chinwei 97632297

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, THE STRAITS TIMES

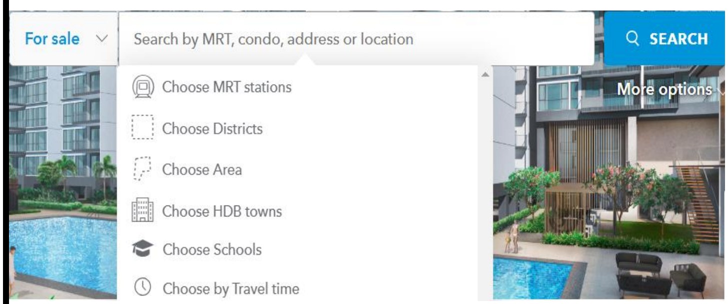
Figure 43: Example of property listing on PropertyGuru



SOURCES: CGS-CIMB RESEARCH, PROPERTYGURU

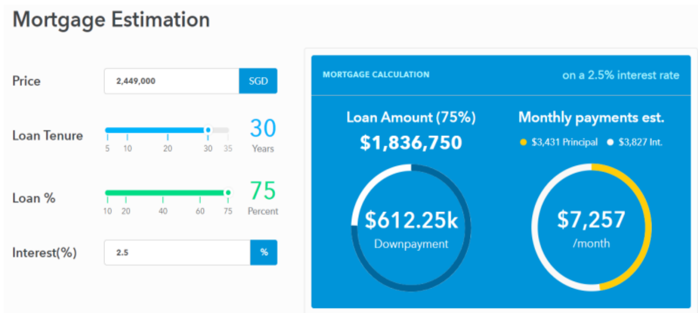
Apart from the actual listings, many proptech players also provide value-added functions like mortgage calculators, basic home valuation and sophisticated search capabilities. Such functions increase the value proposition of these online marketplaces as platforms since consumers do not have to navigate to a different site to find such information.

Figure 44: Types of searches available on 99.co



SOURCES: CGS-CIMB RESEARCH, 99.CO WEBSITE

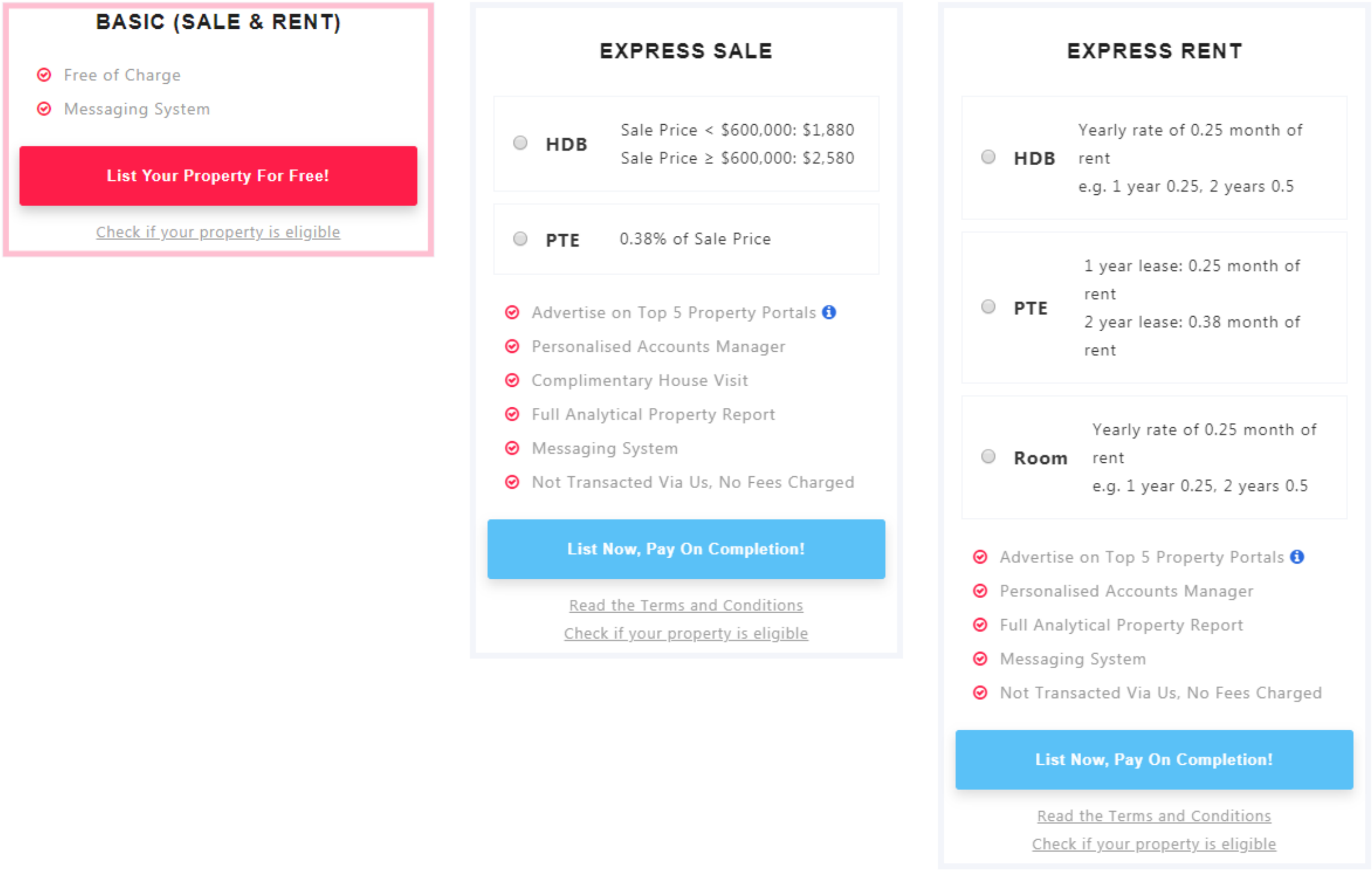
Figure 45: 99.co mortgage calculator



SOURCES: CGS-CIMB RESEARCH, 99.CO WEBSITE

While online property portals have gained in popularity, DIY portals have caught on to a lesser extent due to the complexity of property transactions. The vast majority of home buyers and sellers do not undertake property transactions frequently enough to fully understand the process of executing the full transaction cycle. Even when either party has sufficient knowledge, they might not want the hassle that comes with property transactions. DIY portals like Ohmyhome (Unlisted) and DirectHome (Unlisted) have acknowledged this and have added fee-based agent and documentation services for buyers and sellers.

Figure 46: Charges and services for DirectHome (as at Jun 2019)



SOURCES: CGS-CIMB RESEARCH, DIRECTHOME

For sellers, property agents provide multiple services like price discovery, marketing the property, managing buyer enquiries, scheduling viewings and negotiating and closing a sale. For buyers, property agents help to identify suitable properties based on buyers' requirements like location and size as well as help during the negotiation process.

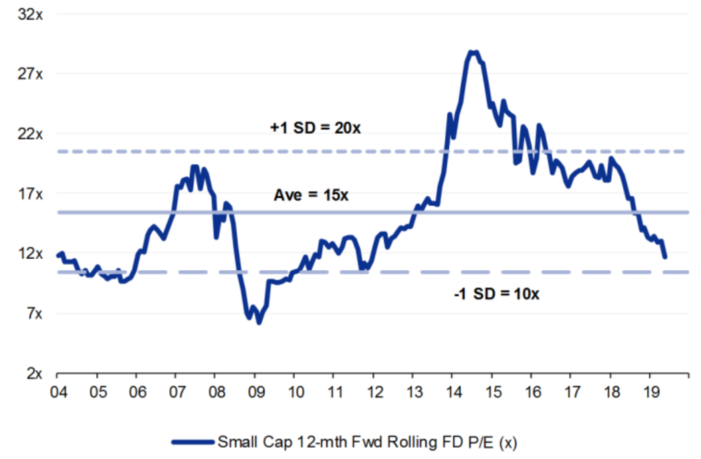
Valuation and recommendation

We initiate coverage on the property brokerage sector with an Overweight recommendation and Add ratings for APAC and PROP. We like this industry for its asset-light business model and segment agnostic characteristics, which enable it to benefit from all segments of the property market, in our view. We believe the sector is on a growth trend, recovering from a low base in FY19F with potential volume and price growth in the medium term as the market digests the effects of the government cooling measures put in place last Jul.

PROP is trading at a higher FY20F P/E multiple of 11x vs. APAC's 9x, in part due to the former's high cash balance, in our view. Adjusting for this, on a like-for-like basis, PROP is trading at a slightly lower multiple.

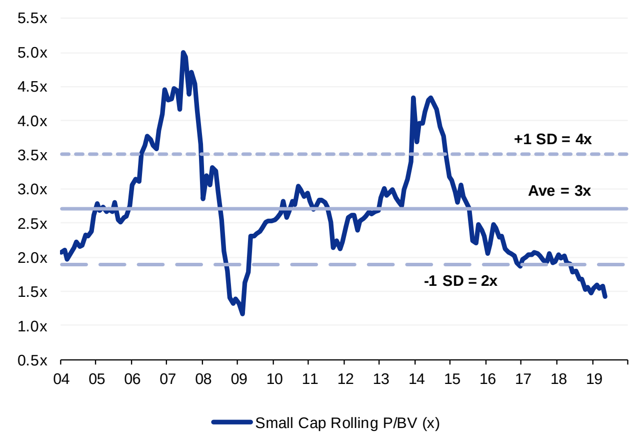
Given their fee-based revenue model and taking into account PROP's net cash position, we believe the relevant valuation methodology would be a blend of P/E multiple and DCF valuation basis. Due to both companies' relatively small market cap, we assume a fair 10x FY20F P/E target multiple, -1 s.d. below our small-cap universe target multiple. Our DCF valuation is calculated based on a cost of equity of 9.6% and terminal growth of 1%. This implies a target price of 64 Scts for PROP and 67 Scts for APAC.

Figure 47: Small-cap universe 12-month forward rolling P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 48: Small-cap universe current P/BV



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 49: Singapore property companies peer comparison table

Company	Bloomberg Ticker	Recom.	Price (lc)	Tgt Px (lc)	Mkt Cap (US$ m)	Core P/E (x) FY19F	FY20F	FY21F	RNAV FY20F	Prem./(Disc.) to RNAV (%)	P/BV (x) FY19F	FY20F	Div. Yield (%) FY19F	FY20F
APAC Realty Ltd	APAC SP	Add	0.49	0.67	127	8.8	8.5	8.0	n.a.	n.a.	1.18	1.13	7.5%	7.8%
Aspen (Group) Holdings Ltd	ASPEN SP	Add	0.14	0.29	101	5.6	na	na	0.53	-73%	1.04	na	3.6%	na
CapitaLand	CAPL SP	Add	3.23	3.56	9,849	13.8	13.9	13.8	5.48	-41%	0.69	0.67	3.8%	3.8%
City Developments	CIT SP	Add	8.26	10.66	5,471	15.5	17.2	17.3	16.40	-50%	0.75	0.73	2.4%	2.4%
Frasers Property Limited	FPL SP	Add	1.80	2.08	3,839	11.5	14.6	18.0	3.21	-44%	0.53	0.52	4.8%	4.8%
Guocoland	GUOL SP	Add	1.96	2.25	1,694	18.8	18.2	15.4	3.76	-48%	0.52	0.52	3.6%	3.6%
Ho Bee Land	HOBEE SP	Add	2.35	3.00	1,142	16.6	12.1	na	4.99	-53%	0.47	0.46	4.3%	4.3%
Hongkong Land Holdings Ltd	HKL SP	Add	6.69	9.40	15,740	15.1	12.6	12.5	13.50	-50%	0.41	0.40	3.4%	3.7%
Perennial Real Estate Holdings	PREH SP	Add	0.62	0.99	752	171.5	95.1	na	1.99	-69%	0.38	0.38	1.6%	1.6%
Propnex Ltd	PROP SP	Add	0.49	0.64	131	11.4	11.1	10.6	n.a.	n.a.	2.58	2.46	7.2%	7.2%
United Engineers	UEM SP	Add	2.51	2.94	1,169	45.4	45.5	na	3.46	-28%	0.81	0.80	1.6%	2.0%
UOL Group	UOL SP	Add	6.80	8.45	4,187	15.8	15.2	17.2	12.08	-44%	0.58	0.57	2.6%	2.6%
Wing Tai Holdings	WINGT SP	Hold	2.02	1.97	1,132	22.5	12.1	10.2	3.58	-44%	0.46	0.45	4.0%	4.0%
Singapore average						**15.2**	**14.4**	**14.1**		**-46%**	**0.53**	**0.51**	**3.4%**	**3.5%**

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG (AS AT 3 JUN 2019)

APPENDIX

Singapore property brokerage industry

Overview

The Singapore property brokerage industry is well developed and highly competitive. It is governed by the Council for Estate Agencies (CEA), a statutory board under the Ministry of National Development. Established under the Estate Agents Act, CEA is empowered to administer the regulatory framework for the real estate agency industry. In addition, CEA is committed to raise the professionalism of the real estate agency industry through collaborative efforts with the industry on development programmes and protect the interests of consumers through targeted public education schemes. Its responsibilities include administration of the licensing regime as well as the examination and continuing professional development of estate agents, regulation and control of the practice of estate agents and salespeople in estate agency transactions as well as other frameworks within the responsibilities of the council.

According to CEA, there are 1,245 agencies and 30,286 registered real estate agents in Singapore as at May 2019. An estimated 82% of the registered agents are affiliated with the top-10 largest real estate agencies. PROP has the largest number of agents at 7,771 (25.7% market share) followed by APAC, under ERA Realty, at 6,826 agents (22.5% market share). Other competitors include Huttons Asia (Unlisted) and OrangeTee & Tie.

Given the competitive landscape, the property brokerage industry has been experiencing some consolidation amongst its players. According to CEA, whilst the number of property agents has been growing in the past 3 years, the number of property agencies has declined. We think this trend of consolidation may continue, particularly amongst the smaller agencies, to improve network effect, and cost efficiencies through economies of scale. In addition, larger companies also have the critical mass to offer other value-added services such as consultancy, valuation services, training and seminars.

Some of the notable transactions include:

i) PROP entering into a business takeover agreement with Dennis Wee Realty (DWR) in 2017, to transfer 845 DWR agents to PROP, making them the largest by agency by agent count.

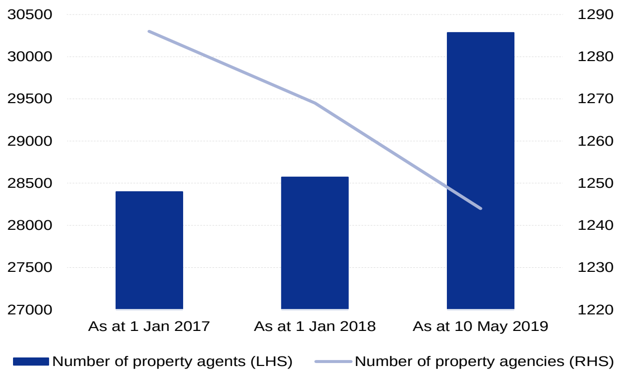
ii) OrangeTee and Edmund Tie & Co entering into a JV in 2017 to combine their agents, making them the third largest in Singapore and enabling them to create economies of scale to enhance productivity and cost effectiveness and leveraging technology to maximise efficiency and effectiveness.

iii) In 2018, APAC announced a collaboration with CBRE Realty Associates where c.280-290 CBRE agents focusing on residential transactions will move over to the ERA Realty network.

iv) In 2019, PROP entered into a strategic collaboration with Global Alliance Property Pte Ltd (GAP), which operates under the Century 21 franchise, for the transfer of GAP's salespersons to PROP.

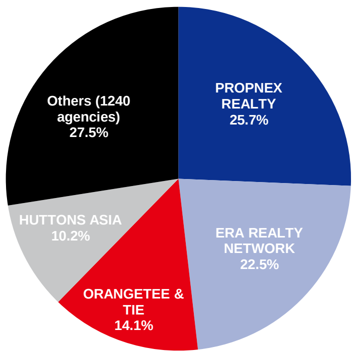
Larger property agencies tend to have the economies of scale required to offer value-added services, like consultancy, trainings and seminars, for both agents and consumers. Greater size helps to spread sunk costs over a larger pool of agents. This also helps to improve the reach of the agency and make it more attractive as a project marketing partner to developers launching new projects. While mergers could be disruptive for agents in the short term due to the need to adjust to a new operating structure, we think that the disruption would be minimal as agents tend to work on the same teams even after crossing over to a new agency and each team's working environment is fairly independent of the larger agency as a whole. In the long run, we think that the greater exposure to projects and training opportunities would benefit agents.

Figure 50: Number of property agents and agencies



SOURCES: CGS-CIMB RESEARCH, CEA

Figure 51: Market share (%) as of May 2019



SOURCES: CGS-CIMB RESEARCH, CEA

Agency structure

In Singapore, agents are independent contractors and are not employees of the real estate brokerage company (principal). They are basically rewarded through a commission payout structure.

Figure 52: Comparison of agency practices across the region (as at FY18)

Country	Singapore	Hong Kong	China	Indonesia	Japan	Vietnam
Fee for primary market transaction	As high as 5%, depending on developer	Typically 2-7%	Tyically 1-3%	Typically 2-3%	Typically 3% + ¥60k + consumption tax (8%)	Typically 2-5%
Fee for secondary market transaction	Typically 1-2%	Typically 1%	Typically 1%	Typically 2-3%	Typically 3% + ¥60k + consumption tax (8%)	Typically 1-1.5%
Fee for rental market transaction	1 mth rental for 2 yr lease	1 mth rental for 2 yr lease	Shanghai: 0.35 mth rental for 6 mths lease. Other cities: 0.5 mth rental for 6 mths lease	4-5% of total rent for a 2 or 3 yr lease	1mth rental for 1 yr lease	1mth rental for 1 yr lease
Co-broke	Commission split based on negotiation	Typically 25% for co-broke agent and 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 licence	Required	Required	Required but barrier to entry low	Not required, agents can be independent	Required	Required

SOURCES: CGS-CIMB RESEARCH, CUSHMAN & WAKEFIELD

Agents are required to enter into a Salesperson or Associate Agreement prior to undertaking real estate brokerage services. Key terms of the Agreement to note are:

- **Professional Indemnity** – Agents shall fully indemnify the real estate brokerage company against all cost and damages arising out of the agent's acts or omissions which are not covered by the insurance. For APAC, the agent is covered by professional indemnity insurance provided by ERA Realty but pays ERA Realty the requisite premium for the same. For PROP, agents are required to purchase professional indemnity insurance in their own name of between S$200,000 and S$300,000.

- **Commission** – The commission to be charged to customers will be determined by the Principal and the commissions must be paid to the Principal, not to the Agent. Subsequent to the receipt of payment, the commission shall then be divided between the Principal and the agent based on the percentages defined in the Agreement.

- **Termination** – The Agreement does not have a fixed term and can be terminated by either party with a 24-hour written notice. At PROP, if the agent is a Team Leader, a 30-day written notice is required to terminate the Agreement.

Commission structure

Brokerage commissions form the bulk of revenue and profits earned by both property agencies and are paid directly to the agencies following the sale or lease of properties. It is important to note that while commission rates for primary market sales are determined by developers, rates for resale transactions can be negotiated and can vary depending on factors like urgency and complexity.

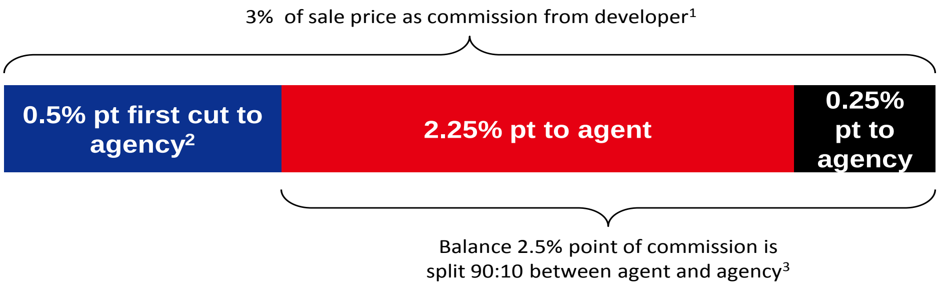
Figure 53: Commission structure for project marketing, private resale and HDB resale

Party	Commission
Project Marketing	
Developer	Minimum of 1% of transacted price and up to 6% if developers want to clear off completed or near-completed units
Private Resale	
Seller	Typically 2% of transaction price with a minimum of 1%. If buyer has own agent (co-broking), commission is shared between 2 agents. Up to 5% depending on property type, transaction complexity and urgency
HDB Resale	
Seller	2% of transacted price
Buyer	1% of transacted price

SOURCES: CGS-CIMB RESEARCH, FROST & SULLIVAN

- **Primary market** – Property developers typically appoint real estate brokerages for the marketing and sales of property on behalf of the property developers. Upon a sale, the brokerage earns a sales commission based on a percentage of the property value. We understand that while this was 1.5% before pre-cooling measures, this has risen to 3.0% as developers incentivise agents to increase marketing efforts, according to management. The marketing efforts are coordinated through an experienced salesperson (commonly known as the Project-in-charge (IC) and a Core Team that supports the Project IC. The Closing Agent receives the eventual commission via a waterfall structure where the Broker, Project IC and Core Team take their respective cuts. Each Project IC or Team Leader is typically entitled to 2.0%-15.5% of over-riding commission for each transaction completed by a supervised salesperson depending on their respective commission scheme. Revenue is only recognised upon signing of the sale and purchase agreement. No revenue is recognised when buyers pay an option fee to the developers.

Figure 54: Example of commission split between agent and agency



Notes (Assuming $1m sale):

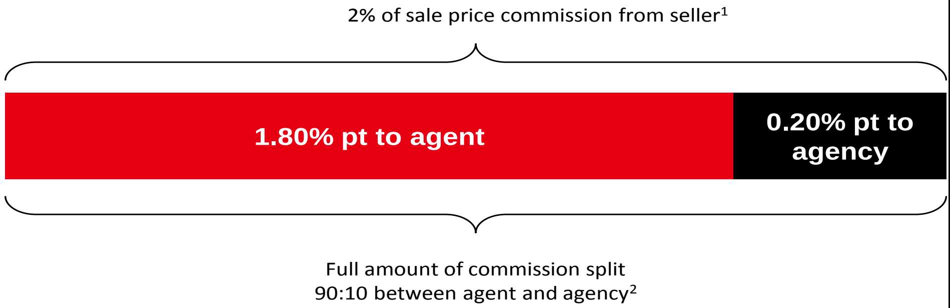
1. *Agency collects the commission amount of $30k (3%*$1m) from developer*
2. *The first $5k (0.5%*$1m) goes to the agency*
3. *The remaining $25k is split in a 90:10 ratio, agent gets $22.5k, agency gets $2.5k*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the example above, assuming the developer pays a 5% commission, the agencies would take a first cut of 0.5%. This 0.5% first cut applies for both APAC and PROP. The remaining balance is then split according to a 90:10 ratio between the agent and the agency. Commissions for project marketing will be split on a 90:10 ratio regardless of the cumulative commissions earned, unlike resale transactions which follow a tiered scheme; this applies for both agencies.

- **Secondary market** – Commission rates negotiated between the agent and the buyer/seller typically range from 1-2% of the transacted price. From this agreed commission, the payout to agents is determined by each brokerage's commission scheme. For both APAC and PROP, the commission payout is 70%-90% and is dependent on an agent's cumulative commission with the payout increasing with higher cumulative commission. The cumulative commission is typically in line with the experience and seniority of the agent and we understand that the lower payout for junior agents helps to offset some of the training costs required. Unlike Project Marketing, there is no 0.5% first cut that either agency takes from resale transactions. According to our checks, agents tend to hit the 90% payout level within 1-2 years.

Figure 55: Example of commission split for resale market



Notes (Assuming $1m sale):
1. Agency collects the commission amount of $20k (2%$1m) from seller*
2. The full amount of commission is split in a 90:10 ratio, agent gets $18k, agency gets $2k

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 56: APAC Commission Scheme for Agents as at FY18

Cumulative Commission	Commission Payout to Agent
S$18,000 and below	70%
S$18,001 to S$38,000	75%
S$38,001 to S$68,000	80%
S$68,001 to S$88,000	85%
Above S$88,000	90%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

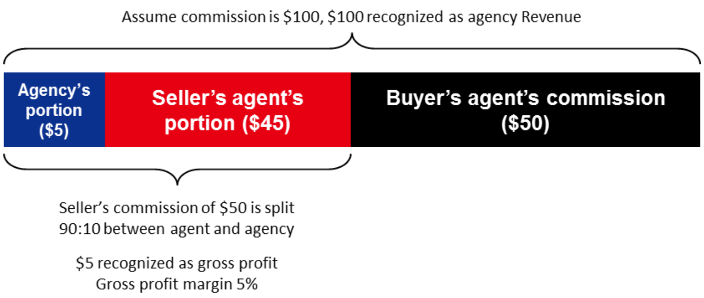
Figure 57: PROP Commission Scheme for Agents as at FY18

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

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

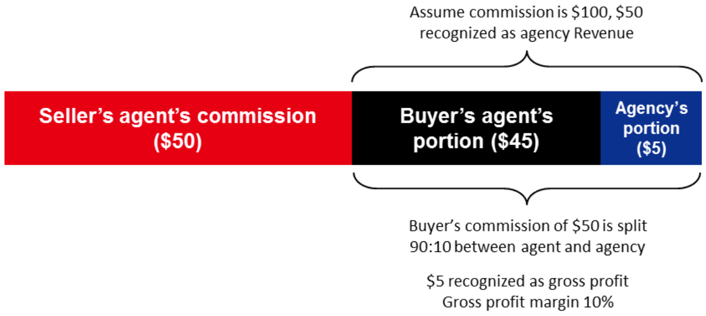
For resale transactions that are co-brokered by two agents, the commission is usually split evenly. For private properties, the sellers pay 1-2% commission to the seller's agency. This amount is then split with the buyer's agency; while the split would typically be 50:50, this amount is negotiable between the two agents. The buyer pays nothing regardless of whether they are using an agent or not. The amounts paid to the seller's and buyer's agencies are then split in a 90:10 ratio between the respective agent and agency.

Figure 58: Co-broking commission from a seller's agent's perspective



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 59: Co-broking commission from a buyer's agent's perspective



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the example illustrated above, assuming the commission received is $100 and is evenly split between the seller's and buyer's agents, the agency of the seller's agent recognises revenue of $100 and gross profit of $5, leading to a gross profit margin of 5%. For the same transaction, the agency of the buyer's agent recognises revenue of $50 and gross profit of $5, leading to gross profit margin of 10%.

- **Leasing** – Property agents are paid a commission upon the successful lease of a residential unit. While the typical commission payable tends to be one month's rent for a 2-year lease and 0.5 month's rent for a one-year lease, the actual commission can vary depending on property type and complexity and urgency of the transaction. Similar to the secondary market, this commission paid is then split between the agent and the agency in a ratio which depends on the agent's cumulative commission tier.

Company Briefs

APAC Realty Ltd

Shifting to a compelling ERA of growth

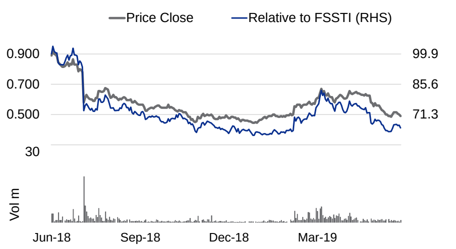
- Initiate coverage with Add and TP of S$0.67, based on P/E and DCF blend.
- Higher margin and yield proxy for Singapore's residential market vs. PROP.
- We project FY19-21F EPS CAGR of 4.7%, on the back of anticipated Singapore residential property market recovery and rising commission rates.

Singapore	
ADD	
Consensus ratings*:	Buy 2 Hold 1 Sell 0
Current price:	S$0.49
Target price:	S$0.67
Previous target:	N/A
Up/downside:	35.8%
CGS-CIMB / Consensus:	5.0%
Reuters:	APAC.SI
Bloomberg:	APAC SP
Market cap:	US$127.1m
	S$174.0m
Average daily turnover:	US$0.73m
	S$0.98m
Current shares o/s:	355.2m
Free float:	26.5%

*Source: Bloomberg

Key changes in this note

- N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-14.8	-13.3	-48.2
Relative (%)	-6.9	-10.3	-39.3

Major shareholders	% held
Tan Choon Hong	71.8
FIL Invt Mgmt	4.3
Qilin Asset Mgmt	3.4

A leading property brokerage with presence in 17 countries

APAC is one of Singapore's early movers in provision of real estate services and holds the rights to the exclusive ERA master franchise for 17 countries in Asia-Pacific. We think APAC's key competitive strengths are its ability to expand its agent force and market share, as well as its global reach via the ERA brand. APAC had a significant c.40% share of market transaction value in 2018 and is the second-largest property brokerage in the country with 6,826 agents (22.5% market share by headcount).

APAC's gross profit margins and yield above closest listed peer

APAC has consistently generated higher gross profit margins of 12.5% in FY18 vs. 9.6% for PropNex (PROP, Add, TP: S$0.64). We think that this could be due to APAC's higher proportion of revenue from the primary sales segment (c.30% vs. PROP's c.27% in FY18) and a larger non-brokerage segment (c.15% of gross profit for APAC vs. c.7% for PROP in FY18). We think its FY19F dividend yield of 7.5% is sustainable, despite a net debt position, due to the cash-generative nature of its business.

Non-brokerage and regional expansion to bear fruit in medium term

Growing demand for higher-yielding non-brokerage services such as valuation, property management and rental income could provide another source of revenue growth. While non-brokerage services contributed 2.2% of APAC's FY18 revenue, the segment contributed 15.8% of gross profit; we expect this segment to account for c.21% of gross profit in FY19-20F. Moreover, we expect regional expansion into Thailand and Indonesia to bear fruit over the next 2-3 years, with deeper market reach and direct ownership structure. Based on APAC's proforma FY17 estimates, we estimate consolidating the Indonesian operations could result in an annualised 1-2% increase in APAC's bottomline.

Trough FY19F earnings priced in; look forward to FY20F recovery

With its share price down 35% since Jul 2018, we think the market has priced in the expected decline in APAC's FY19F earnings due to impact from the new property-cooling measures. Qoq transaction volumes appear to have stabilised in 4Q18-1Q19. The greater number of new launches, replacement home demand from en-bloc sellers, and upgrading demand from Housing Development Board (HDB) flat owners should underpin market activity and bolster overall transaction values from FY20F onwards, in our view.

Initiate with Add and S$0.67 TP, based on P/E and DCF blend

We initiate coverage on APAC with an Add call and a TP of S$0.67, based on an average of 10x FY20F P/E (-1 S.D. below our cyclical small-cap universe valuation) and DCF valuations. At the current share price, we estimate APAC offers total returns of c.43%, backed by FY19F dividend yield of c.7.5%. Potential re-rating catalysts are stronger transaction volume growth and the consolidation of agents under APAC. Downside risks include weaker-than-expected recovery in the residential property market in Singapore.

Analyst(s)

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Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues (S$m)	400.6	424.0	389.2	400.2	410.3
Operating EBITDA (S$m)	30.21	30.19	25.92	26.63	27.80
Net Profit (S$m)	25.90	24.24	19.82	20.57	21.68
Normalised EPS (S$)	0.092	0.072	0.056	0.058	0.061
Normalised EPS Growth	39.3%	(22.3%)	(22.0%)	3.8%	5.4%
FD Normalised P/E (x)	5.32	6.85	8.78	8.46	8.03
DPS (S$)	-	0.045	0.037	0.038	0.040
Dividend Yield	0.00%	9.18%	7.51%	7.79%	8.21%
EV/EBITDA (x)	2.51	5.98	6.99	6.48	5.88
P/FCFE (x)	8.21	NA	7.75	8.42	8.08
Net Gearing	(46.6%)	10.1%	4.9%	(1.0%)	(6.6%)
P/BV (x)	1.19	1.22	1.18	1.13	1.07
ROE	24.4%	17.6%	13.7%	13.7%	13.7%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			0.71	0.70	1.22

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

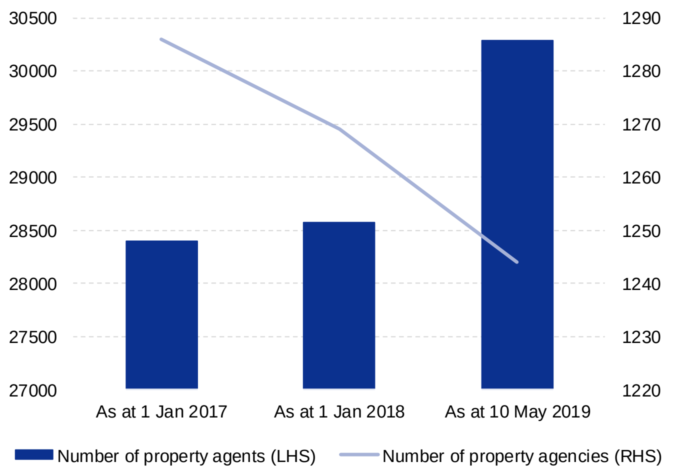
Shifting to a compelling ERA of growth

Investment overview

APAC Realty Ltd (APAC) is a real estate services provider that operates under the ERA brand of real estate brokerage in Singapore. APAC holds the exclusive ERA regional master franchise rights for 17 countries in Asia-Pacific, acquired from Realogy Group LLC (RLGY US, Not Rated). Through its franchisee network, APAC has access to more than 17,800 salespeople across 637 offices in 10 countries.

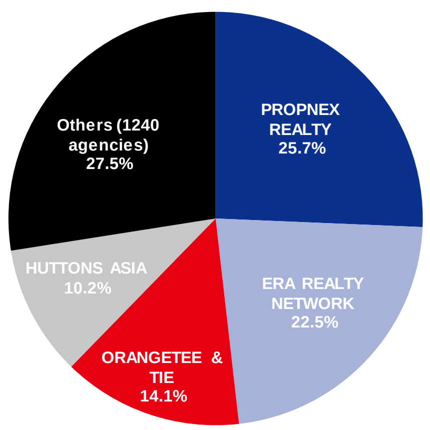
APAC has demonstrated a strong ability to increase its agent headcount and market share. In terms of agent headcount, it had 6,826 agents as at May 2019, making up 22.5% of the total agent pool in Singapore and ranks second in the country, after Propnex (PROP SP, Add). Since 2011, APAC has been expanding its agent network steadily by a CAGR of c.5%. This is despite the consolidation of agencies amid the government's introduction of numerous property-cooling measures.

Figure 1: Number of property agents and agencies in Singapore



SOURCES: CGS-CIMB RESEARCH, COUNCIL FOR ESTATE AGENCIES (CEA)

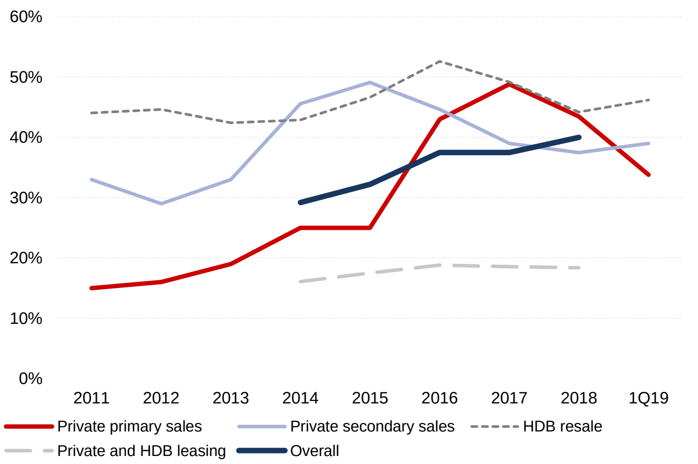
Figure 2: Singapore property brokerage market share (by number of agents) as of May 2019



SOURCES: CGS-CIMB RESEARCH, CEA

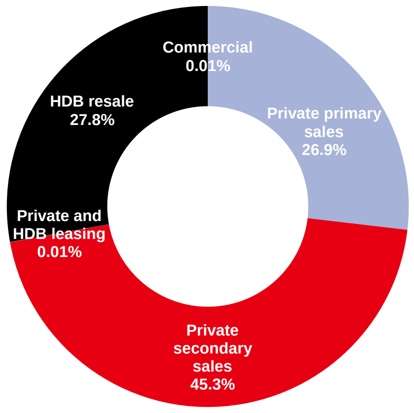
In addition, APAC's Singapore property brokerage market share by transaction value has grown steadily since 2014. APAC brokered S$22.7bn worth of deals in 2018 and took a significant 40% market share. We think this is a testament to its strong branding in Singapore, established track record, good relationship with developers, as well as its global network via the ERA brand. Based on Realogy Group LLC's 2018 annual report, the ERA global franchise network has 2,300 offices and 40,300 brokers and sales agents worldwide, spread over 36 countries. This network could provide an advantage to APAC in attracting overseas buyers.

Figure 3: APAC's market share by segment (S$ m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Breakdown of APAC's 1Q19 transaction value by source (S$ m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Proxy for Singapore's residential market

In 1QFY19, 98.4% of APAC's revenue (98.7% in FY18) and 76.9% of its gross profit (84.1% in FY18) was derived from brokerage income from primary launches, resale and leasing transactions, making it a proxy for the Singapore property market, in our opinion. The company's focus has been on project marketing and the private resale market, which is the deepest segment of the residential sector (in terms of transaction value). In comparison, the company's revenue from the HDB resale segment has been relatively resilient.

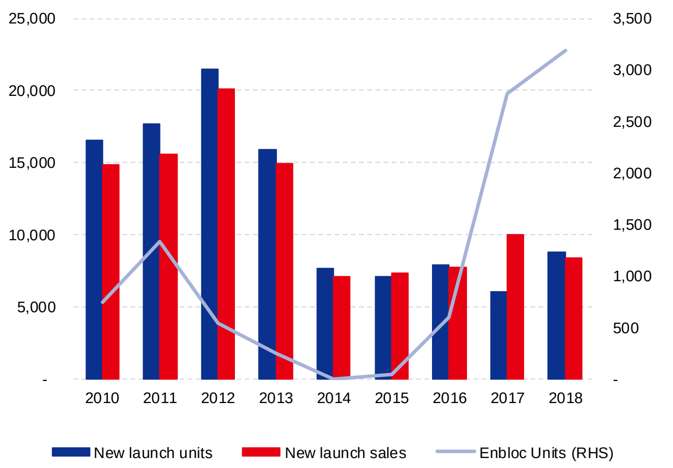
As a real estate broker, APAC's revenue is dependent of transaction values, as well as commission rates. The former is a function of volume activity and selling prices, while the latter is determined by market forces, such as rising competition from the supply of new launches and developers' strategy of incentivising agents to close deals as quickly as possible.

Looking ahead, while the property-cooling measures introduced by the Singapore government in Jul 2018 have tempered transaction volumes somewhat, prices have remained fairly stable. Hence, we anticipate the volume activity to trough this year and recover from 2020F onwards. We think HDB resale transactions would increase over the same period as more flats reach their minimum occupation periods, thus enabling the owners to upgrade their properties.

A strong project pipeline ahead

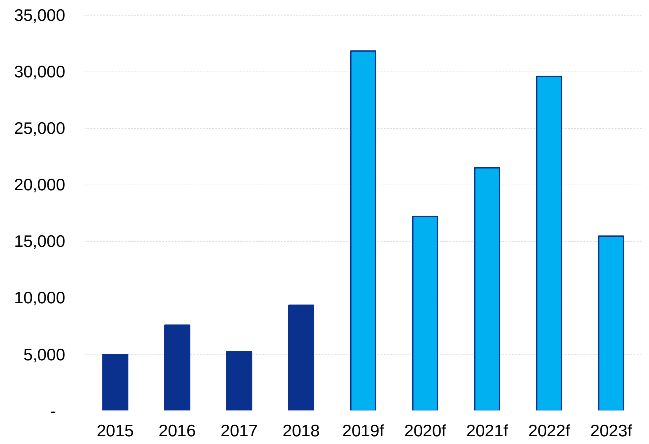
We estimate the number of new launch units in Singapore in 2019-20F could be as high as c.25,000 across 69 projects, assuming no delays; this is substantially higher than the average of c.7,500 in the past five years (2014-18). The large number of launches scheduled for 2019F-2020F is due to government land sales and collective en-bloc transactions that occurred in 2017-18. APAC has secured marketing roles for 42 projects, comprising a total of 16,497 units, YTD.

Figure 5: New launches and sales against en-bloc units



SOURCES: CGS-CIMB RESEARCH, URBAN REDEVELOPMENT AUTHORITY (URA)

Figure 6: Number of HDB flats reaching minimum occupation period (MOP)

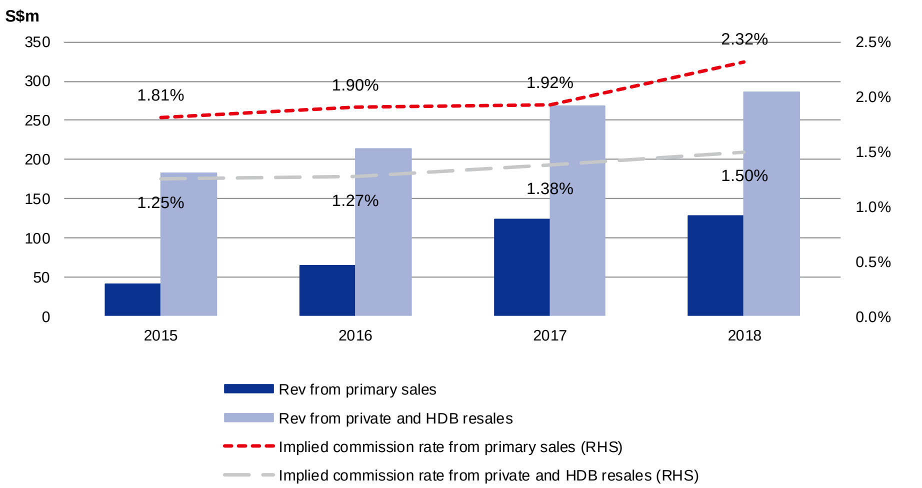


SOURCES: CGS-CIMB RESEARCH, HDB

As en-bloc transactions picked up in 2017/18, we expect a corresponding increase in transaction volumes across various segments as the en-bloc sellers find replacement homes. We also expect a further increase in HDB transaction volume due to the significant increase in the number of HDB flats reaching their Minimum Occupation Period (MOP). As HDB flats reach their 5-year MOP, owners are allowed to sell their flats in the resale market. Possible reasons for doing so include moving to a better location or upgrading to a condominium or a larger property.

More importantly, with a more competitive project marketing landscape, we anticipate commission rates to continue to increase. Anecdotal evidence suggests that commission rates have been rising since 2017 and we expect them to continue to increase due to the large pipeline of new project launches. This is likely to lead to higher absolute commission rates, even after taking into account the agents' cut.

Figure 7: APAC's historical commission rates



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Cost-efficient regional expansion efforts picking up ›

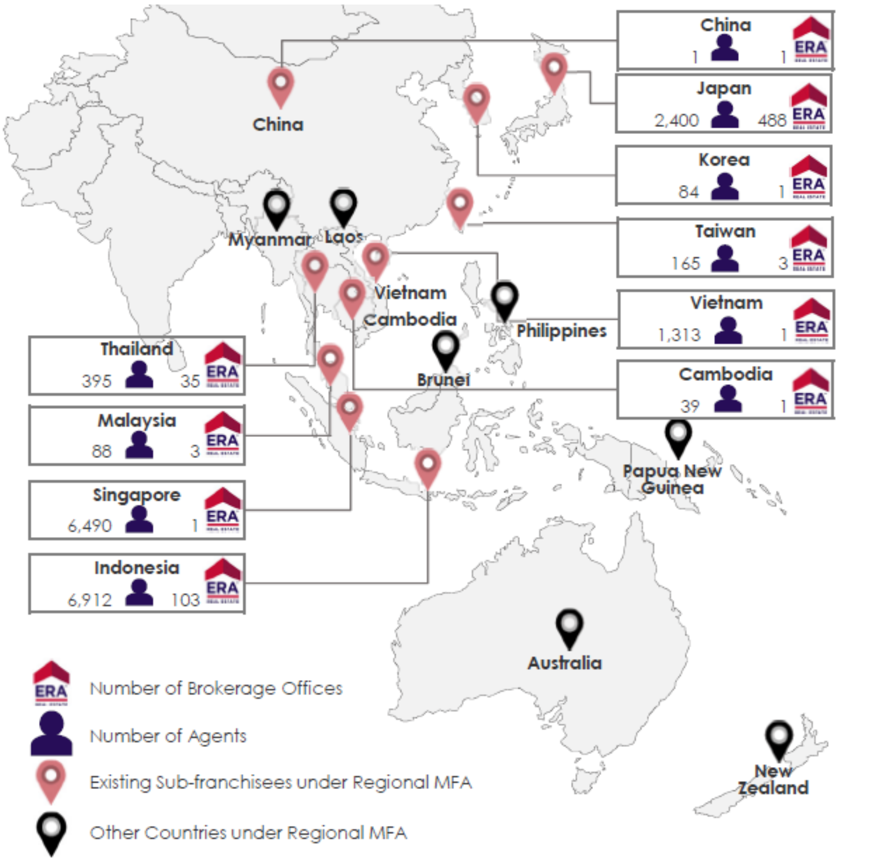
After its listing in 2017, APAC's presence has expanded rapidly in several countries. Its forays abroad have been initially conducted via franchise agreements, followed by separate partnership and cooperation agreements signed with existing franchisees to allow APAC to eventually have direct ownership of these operations. This business model enables APAC to have a cost-efficient learning curve as it expands into new and unfamiliar markets, with the potential to participate in the growth of the brokerage business through direct ownership in the longer term.

An example of this is APAC's partnership with the ERA Indonesia's current CEO, Darmadi Darmawangsa, and its management team to fund the purchase of the Indonesia country master franchise operations. The ERA master franchise in Indonesia was previously owned by Intiland Development (DILD IJ, Not Rated), an Indonesian property developer. In the medium term, APAC has put in place a structure that would allow it to eventually have direct ownership of the ERA operations in Indonesia. This would enable APAC to participate in the growth prospects of the Indonesia real estate market rather than earn a franchise fee.

While APAC's overseas earnings contributions are not meaningful at present, we see scope for expansion in this segment in the medium term. We think earnings contribution from Thailand could pick up from 2H19F, when APAC's franchise agreement is potentially converted into a direct ownership structure and from Indonesia in FY20F onwards. Based on APAC's proforma FY17 estimates, consolidating the Indonesian operations could result in an annualised 1-2% increase in the group's bottomline. This has not been factored into our current estimates.

Overall, APAC has earmarked S$10m of its S$29.1m gross IPO proceeds for the expansion of its range of services and geographical presence in the Asia-Pacific region. Management revealed that APAC aims to use a franchise model for countries in which it does not have an established presence, like Vietnam and Cambodia, while it prefers a direct ownership model for countries in which the ERA brand name is established, like Indonesia and Thailand. The Vietnam franchise, established in mid-2017, currently has more than 1,300 agents, while the Cambodia franchise was started in Feb 2018. Both countries' master franchise agreements would contribute to APAC's royalty income. In Aug 2018, APAC entered into a joint venture agreement with two Chinese companies to establish a presence in Hainan, China.

Figure 8: ERA sub-franchisees and other countries under the Regional Master Franchise Agreement (MFA)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

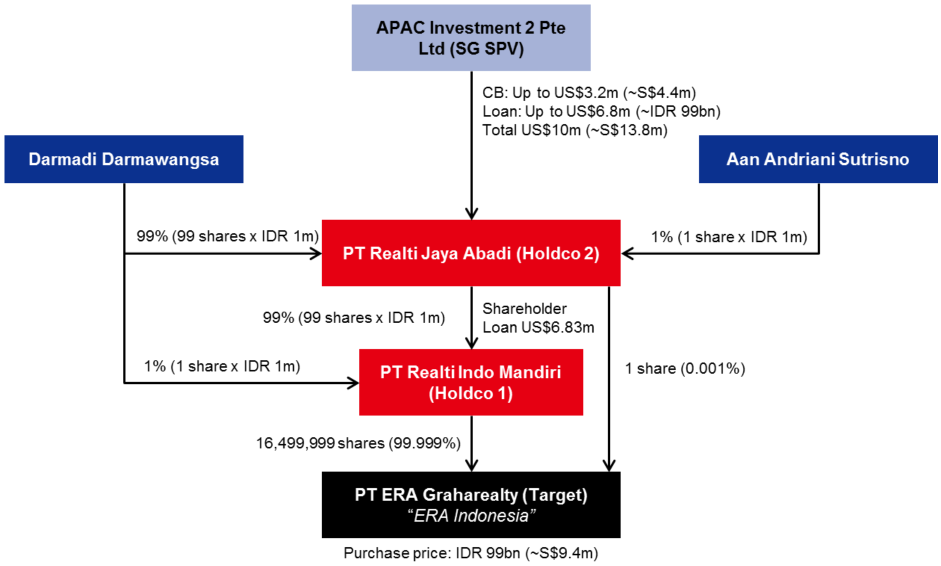
Indonesia

In Feb 2019, APAC announced its regional expansion plans via strategic moves in Indonesia and Thailand. In Indonesia, APAC partnered with the ERA Indonesia's current CEO, Darmadi Darmawangsa, and its management team to fund the purchase of the Indonesia country master franchise operations. The master franchise was previously owned by Intiland Development. Subsequent to the sale, we understand that ERA Indonesia has signed an agreement to undertake project market services for future Intiland developments.

APAC plans to lend up to S$13.85m to ERA Indonesia, comprising a convertible loan of S$4.42m, conditional sale of shares and purchase agreement loan worth S$9.43m. Of this amount, c.S$9.12m will come from the proceeds raised from APAC's IPO. If the loan is fully converted, we believe that ERA Indonesia will be an indirect wholly-owned subsidiary of APAC. APAC is currently unable to own a direct stake in ERA Indonesia due to restrictions on foreign ownership of property agencies by the Indonesian government.

In FY17, ERA Indonesia recorded a net profit of c.S$0.44m, representing c.1.7% of APAC's FY17 net profit. As at end-FY18, ERA Indonesia had a network of more than 6,900 agents across 103 offices and had a market share of around 10% of the secondary property market in Indonesia, based on our estimates. According to Cushman & Wakefield, the government's relaxation of financing ratios for mortgage transactions in Aug 2018 could boost overall credit growth and the recovery in Indonesia's residential market.

Figure 9: ERA Indonesia's ownership structure (as at 1Q19)

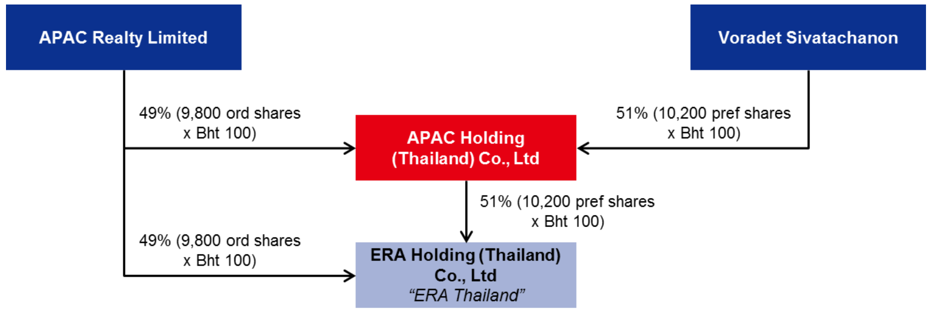


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Thailand

In Thailand, APAC entered into a cooperation agreement with the existing CEO and Managing Director of the ERA master franchisor in Thailand, Mr Voradet Sivatachanon. This agreement would allow APAC to directly hold the ERA master franchise rights for Thailand. Prior to the agreement, the relationship between APAC and ERA Thailand was that of franchisor-franchisee. The new operational structure could facilitate cross-selling opportunities for Thai properties in Singapore and vice versa. APAC's effective interest in ERA Thailand is c.74% as at 1Q19. ERA Thailand has been operational since Jun 1993 and has close to 400 agents that record an average of c.1,000 transactions per year.

Figure 10: ERA Thailand's ownership structure (as at 1Q19)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Increasing higher-yielding non-brokerage income ›

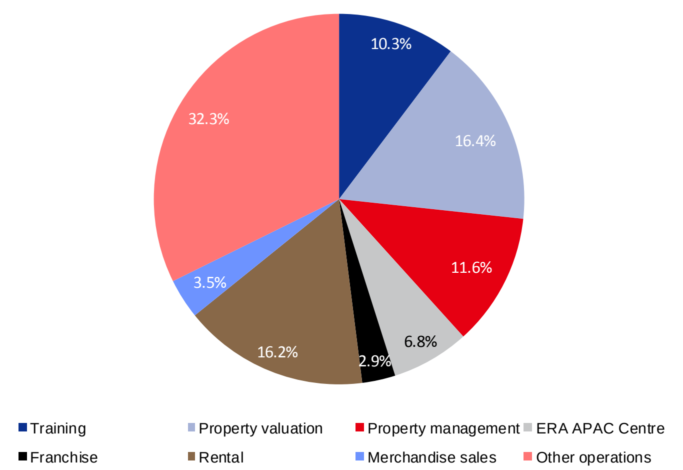
Although other non-brokerage services (valuation, property management and training) contributed only 2.2% of APAC's FY18 revenue, the segment comprised 15.8% of gross profit. This is due to the high gross profit margins generated by these ancillary services.

In the medium term, we project this segment to account for a higher c.21% of annual gross profit in FY19-20F, bolstered by greater non-brokerage service earnings contribution and rental income from its newly-acquired property (which will serve two purposes – securing a permanent place of business and diversifying its revenue streams by collecting rental income).

In Jun 2018, APAC acquired a commercial property at 450 Lorong 6 Toa Payoh in Singapore for an aggregate purchase price of S$72.8m. The acquisition was funded by a combination of bank borrowings and internal funds; APAC drew down S$10m of its IPO proceeds, which were set aside to strengthen and expand its presence in Singapore.

This property is now the headquarters of ERA Asia-Pacific and serves as a hub for agents to interact, attend training sessions and have access to senior management. Parts of the property have been leased out as private office space for agents to earn recurring income for the group, while the excess space would be leased to third parties for retail activities. Looking ahead, while APAC's asset-heavier approach may moderate ROE metrics, we think that the resulting diversification of revenue sources would dampen earnings fluctuations from the brokerage segment.

Figure 11: Non-brokerage gross profit by business segment in FY18



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Enhancing technological capabilities

On the technological front, APAC has introduced new tools for its agents to equip them with the latest marketing and real estate market information to help them close transactions and enhance co-broking opportunities. To date, APAC has implemented mobile apps (i-ERA, ERA Connect SG), a website (ERA.com.sg), a customer relationship and management system (24/7 PropWatch) and an internal portal (MyERA). Apart from increasing the business efficiency of agents, these tools help APAC to offer a better level of service to its customers.

During its IPO, APAC stated that it would set aside S$5m to enhance its technological capabilities. While these proceeds have yet to be deployed, we understand that APAC is continuously on the lookout for partners and investment opportunities in the technology space.

COMPANY BACKGROUND

APAC Realty Ltd (APAC) is a real estate services provider that operates under the ERA brand of real estate brokerage in Singapore. It currently holds the rights to the exclusive ERA master franchise for 17 countries in the Asia-Pacific region, acquired from Realogy Group LLC. APAC was listed on the Singapore Exchange in Sep 2017 and its public offer was 27 times oversubscribed.

Corporate history ›

ERA Realty first attained ERA Member Broker status in 1982 from Electronic Realty Associates Inc (predecessor to Realogy Group LLC). The Membership Agreement allowed ERA Realty to operate a real estate brokerage under the ERA brand and system. The founder of Hersing Corporation Pte Ltd, the former holding company of APAC, acquired the ERA franchise for Singapore.

In 1993, Realty International Associates (RIA) was appointed to the panel of valuers approved by HDB. This allowed RIA to be allocated valuation assignments for HDB resale transactions.

In 1998, Hersing was listed on the Singapore Exchange and also acquired the Coldwell Banker master franchise rights for Singapore. Coldwell Banker is one of the oldest and most established real estate companies in the US. Following the public listing, Hersing acquired the ERA regional master franchise rights for the Territories in Asia-Pacific region. The master franchise was valid for an initial term of 30 years, up till 2029, and can be renewed for a further 30 years provided certain conditions are not breached.

In 2011, The RIA School of Real Estate, a division of RIA, was appointed as an Approved Course Provider by the Council for Estate Agencies (CEA).

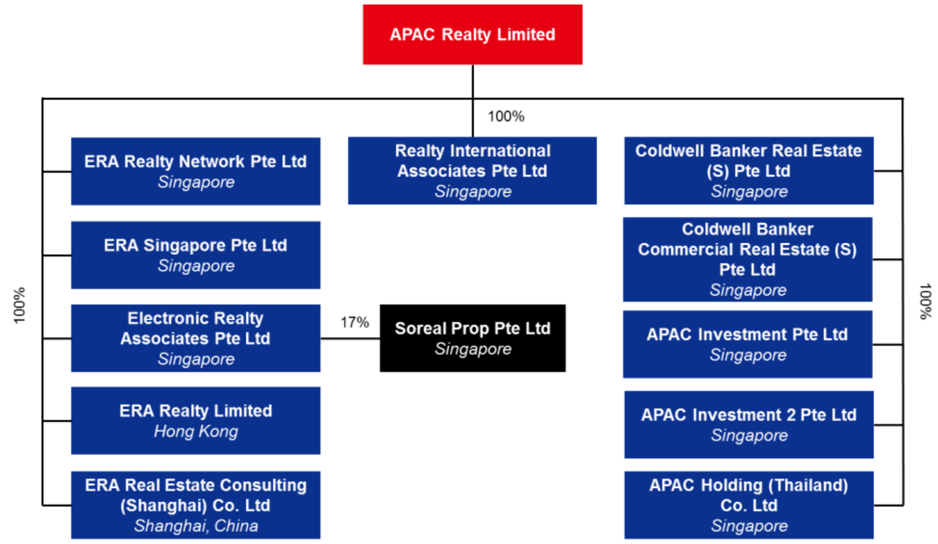
The privatisation and delisting of Hersing from the Singapore Exchange occurred in 2012. APAC Realty Ltd (APAC) was incorporated in 2013 and acquired its existing subsidiaries from Hersing, becoming the holding company of the Group. The rights and obligations under the various franchise agreements with ERA and Coldwell Banker were also assigned to APAC.

APAC Realty Ltd was listed on the Singapore Exchange on 28 Sep 2017 at S$0.66 per share. The IPO raised approximately S$27m for the company, of which the majority was set aside for strengthening and expanding its presence in Singapore and the Asia-Pacific region.

In 2018, APAC entered into a joint venture to establish ERA Hainan Real Estate Market Co Ltd (Unlisted). It also completed the purchase of ERA APAC Centre in Toa Payoh Singapore.

YTD, APAC deepened its presence in Southeast Asia by acquiring the ERA master franchisor for Indonesia with the aggregate consideration comprising a convertible loan of S$4.42m, a conditional sale of shares and purchase agreement loan worth S$9.43m. In Thailand, APAC entered into a cooperation agreement with the existing CEO of the ERA master franchisor in Thailand.

Figure 12: Corporate structure of APAC (as at 1Q19)

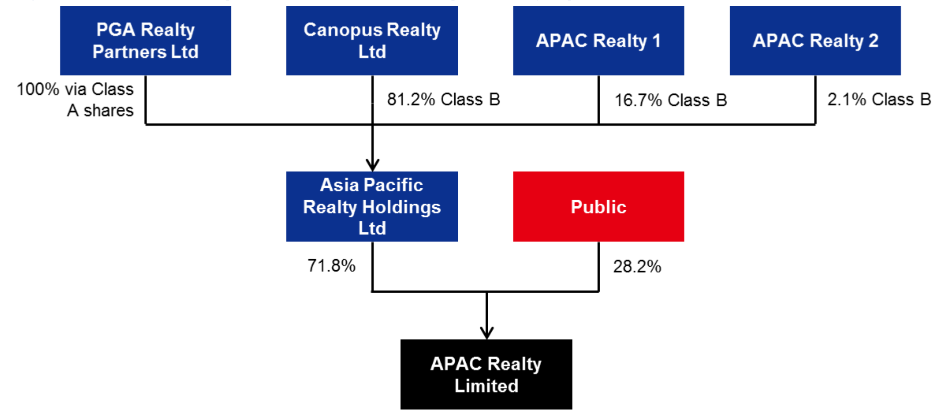


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Ownership structure »

APAC has a majority shareholder, Mr. Tan Choon Hong, a Non-Executive Director, as a result of his 100% shareholding in PGA Realty Partners Ltd, which owns 100% of Class A voting shares of Asia Pacific Realty Holdings Ltd (ARPH), which in turn has an approximately 72% interest (direct and deemed interest) in APAC. Non-individual shareholders hold c.17% of shares with FIL Investment Management being the largest institutional shareholder with 4.3% stake.

Figure 13: Ownership structure of APAC (as at 1Q19)

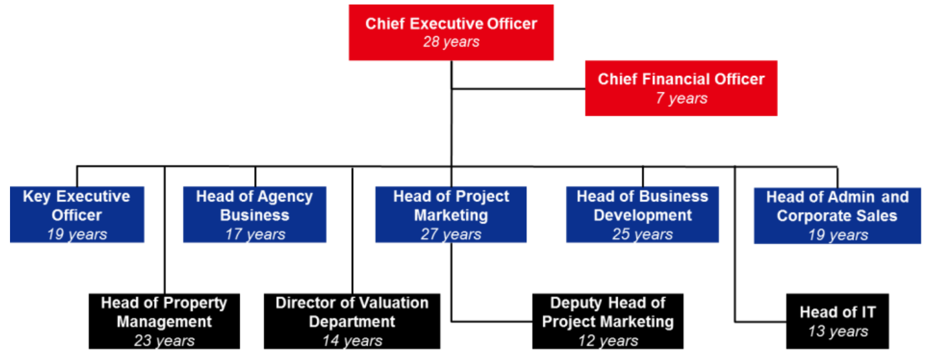


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Management team »

The Executive Officers of APAC have an average of 20 years' experience in the real estate industry. The current Chief Executive Officer (CEO), Mr. Jack Chua, joined the previous holding company of APAC's subsidiary, Hersing Corporation, in 1990 and was the President of the Group before being appointed as CEO in 2013. Having seen multiple property cycles, the experienced management team is well positioned to help the Group navigate and respond to future property cycles.

Figure 14: Current management structure of APAC



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BUSINESS SEGMENTS

APAC derives its revenue from two segments – brokerage and non-brokerage.

Brokerage segment »

Provision of real estate brokerage services under the ERA brand by its wholly-owned subsidiary ERA Realty. ERA Realty is one of the largest real estate agencies in Singapore with 6,826 agents as of May 2019, according to the Council for Estate Agencies (CEA). It derives commission-based fees via the provision of such services for primary project launches, secondary market resale and rental of residential, commercial and industrial properties. The brokerage segment accounted for 97.8% of APAC's revenue and 84.2% of gross profit in FY18. The brokerage segment is split into new home sales and resale & leasing of properties, with new home sales comprising a larger proportion of revenue.

Commission structure

Brokerage commissions, which form the bulk of the revenue and profits earned by the property agency, are paid directly to the agency following the sale or lease of properties. It is important to note that while commission rates for primary market sales are determined by developers, the rates for resale transactions can be negotiated and vary depending on situational factors like urgency and complexity.

Figure 15: Commission structures for project marketing, private resale and HDB resale

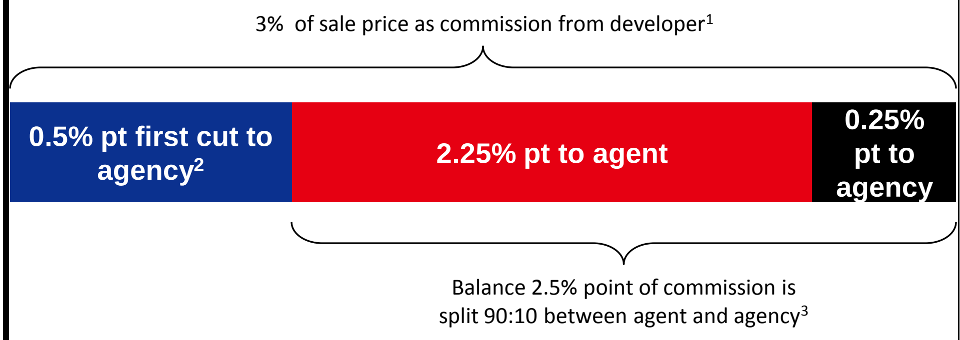
Party	Commission
Project Marketing	
Developer	Minimum of 1% of transacted price and up to 6% if developers want to clear off completed or near-completed units
Private Resale	
Seller	Typically 2% of transaction price with a minimum of 1%. If buyer has own agent (co-broking), commission is shared between 2 agents. Up to 5% depending on property type, transaction complexity and urgency
HDB Resale	
Seller	2% of transacted price
Buyer	1% of transacted price

SOURCES: CGS-CIMB RESEARCH, FROST & SULLIVAN

- **Primary market** – Property developers typically appoint real estate brokerages for the marketing and sale of a property on behalf of the property developers. Upon a sale, the brokerage earns a sales commission based on a percentage of the property value. We understand that the sales commission was 1.5% pre-cooling measures but has since risen to 3.0% as developers incentivise agents to increase their marketing efforts. The marketing efforts are coordinated through an experienced salesperson (commonly known as the Project IC) and a Core Team that supports the

Project IC. The Closing Agent receives the eventual commission via a waterfall structure, whereby the Broker, Project IC and Core Team take their respective cuts. Each Project IC or Team Leader is typically entitled to 2.0-15.5% of the overriding commission for each transaction completed by a supervised salesperson, depending on their respective commission schemes. Revenue is only recognised upon signing of the sale and purchase agreement. No revenue is recognised when buyers pay an option fee to the developers.

Figure 16: Example of commissions split between agent and agency



Notes (Assuming $1m sale):

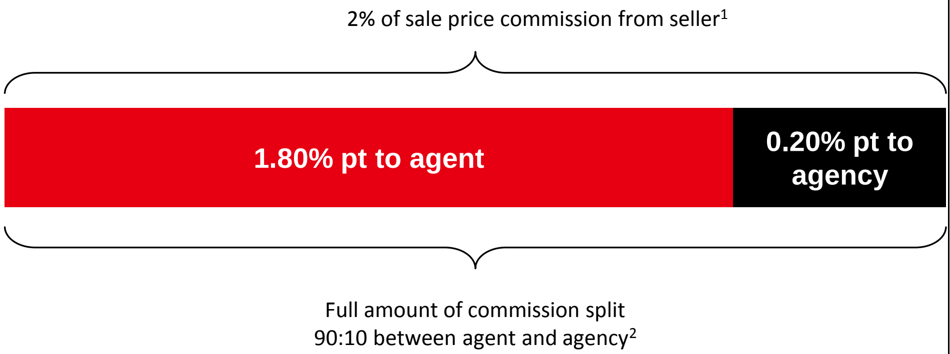
1. *Agency collects the commission amount of $30k (3%*$1m) from developer*
2. *The first $5k (0.5%*$1m) goes to the agency*
3. *The remaining $25k is split in a 90:10 ratio, agent gets $22.5k, agency gets $2.5k*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the example above, assuming the developer pays a 3% commission, the agency would take a first cut of 0.5%. The remaining balance is then split according to a 90:10 ratio between the agent and the agency. Commissions for project marketing will be split on a 90:10 ratio regardless of the cumulative commissions earned, unlike resale transactions that follow a tiered scheme. Numerically, if the sale price is S$1m, the property agency receives S$30,000 from the developer, out of which the agency takes a first cut of S$5,000. Subsequently, the remaining S$25,000 is split between the agent and agency in a 90:10 ratio (S$22,500 to agent, S$2,500 to agency). Overall, the agency recognises the initial S$30,000 commission received as revenue and S$7,500 as gross profit margin.

- **Secondary market** – Commission rates are negotiated between the agent and the buyer/seller and typically range from 1-2% of the transacted price. From this agreed commission, the payout to agents is determined by each brokerage's commission scheme. For APAC, the agent's commission payout is between 70% and 90%, and is dependent on the agent's cumulative commission, with the payout increasing with higher cumulative commission. The cumulative commission is typically in line with the experience and seniority of the agent and we understand that the lower payout for junior agents offsets some of the training costs required. Unlike project marketing, there is no 0.5% pt first cut that the agency takes from resale transactions. According to our checks, agents tend to hit the 90% payout level within 1-2 years.

Figure 17: Example of commissions split for resale market



Notes (Assuming $1m sale):
1. *Agency collects the commission amount of $20k (2%*$1m) from seller*
2. *The full amount of commission is split in a 90:10 ratio, agent gets $18k, agency gets $2k*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

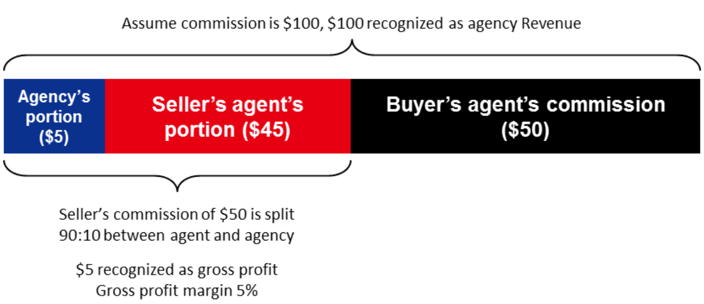
Figure 18: APAC's commission scheme for agents currently

Cumulative Commission	Commission Payout to Agent
S$18,000 and below	70%
S$18,001 to S$38,000	75%
S$38,001 to S$68,000	80%
S$68,001 to S$88,000	85%
Above S$88,000	90%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

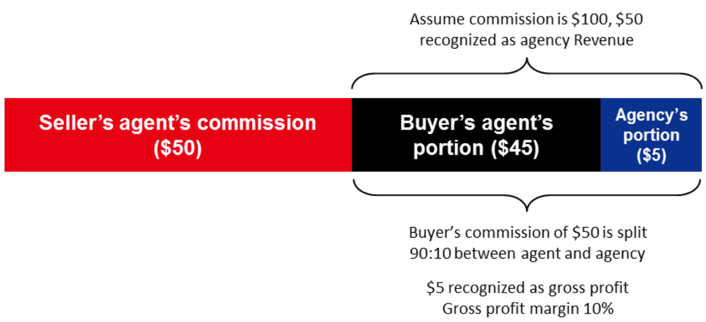
For resale transactions that are co-brokered by two agents, commissions are usually split evenly. For private properties, the seller generally pays 1-2% commission to the seller's agency. This amount is then split with the buyer's agency; while the split is typically 50:50, this amount is negotiable between the two agents. The buyer pays nothing regardless whether he uses an agent or not. The amounts paid to the seller's and buyer's agencies are then split in a 90:10 ratio between the respective agent and agency.

Figure 19: Co-broking commissions split from a seller's agent's perspective



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 20: Co-broking commissions split from a buyer's agent's perspective



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the example illustrated above (Figures 20-21), assuming the commission received is $100 and is evenly split between the seller's and buyer's agents, the agency of the seller's agent recognises revenue of $100 and gross profit of $5, leading to gross profit margin of 5%. For the same transaction, the agency of the buyer's agent recognises revenue of $50 and gross profit of $5 leading to gross profit margin of 10%.

- **Leasing** – Property agents are paid a commission upon successful lease of a residential unit. While the typical commission payable tends to be one month's rent for a 2-year lease and 0.5 month's rent for a 1-year lease, the actual commission can vary depending on property type, complexity and urgency of the transaction. Similar to the secondary market, the commission paid is then split between the agent and the agency in a ratio that depends on the agent's cumulative commission tier.

Non-brokerage segment

APAC derives non-brokerage income from franchise fees and provision of real estate services such as training, valuation and property management.

Franchise – Licensing real estate brands to sub-franchisees in various Asia-Pacific countries. APAC holds the master franchise for the ERA brand in various Asia-Pacific countries and a franchise licence in Singapore for Coldwell Banker.

The franchise agreements regarding the ERA brand entered into by APAC with Realogy underpin the operation of the real estate brokerage business. APAC earns a royalty fee from ERA sub-franchisees; in FY18, the franchise segment made up 2.9% of APAC's non-brokerage gross profit. This segment comprises two key agreements:

- **Regional Master Franchise Agreement (MFA)** – Under the ERA Regional Master Franchise Agreement for Asia-Pacific dated 19 Nov 1999, Realogy granted APAC the use of the ERA Marks and ERA System and the ability to license the ERA Marks and System to sub-franchisees in the relevant Asia-Pacific territories. The licence granted under the Regional MFA does not allow APAC to extend the use of the ERA Marks and System to the collateral business (real estate inspection services, mortgage services, property management, etc.). It was granted for an initial term of 30 years, expiring in 2029 and can be renewed upon the same terms and conditions for additional 30-year terms. Notably, Realogy has the right to terminate the Regional MFA upon the insolvency of APAC or if APAC fails to maintain a minimum net worth of US$250,000 and a minimum liquid capital of US$100,000. Under the Agreement, APAC has provided indemnity to Realogy and ERA covering liability damages arising out of the operation of its business or business franchisees or sub-franchisees. APAC is also required to maintain insurance coverage for limits customarily maintained in the industry.

- **Sub-franchisee agreements** – Sub-franchisees pay a royalty fee based on a percentage of their gross revenue (4.0-10.0%) subject to a yearly minimum ranging from US$25,000 to US$180,000. APAC then pays a portion of this royalty fee received from sub-franchisees to Realogy. The amount APAC paid to Realogy amounted to US$159,700, US$184,900 and US$156,000 in FY14, FY15 and FY16, respectively.

Other non-brokerage services offered by APAC are:

- **Valuation** – The valuation department was set up in 1989 under RIA to provide valuation services to customers who require valuation reports or competitive market analysis reports. Their clients, who include government agencies, companies and individuals, utilise their services for various purposes such as the sale of properties, mortgages, insurance and company listings. RIA was also appointed by the HDB as an approved valuer to provide valuation consultancy services regarding HDB resale residential properties. As at 31 Mar 2017, RIA had 4 licensed valuers providing such services. While valuers are fixed-pay employees, valuation fees vary according to the type of properties appraised. Valuation fees for HDB flats range from S$140 to S$200 while those of private properties range from S$94 to S$5,000, depending on the type and size of property.

- **Property management** – The property management department manages condominium developments in Singapore. In the course of providing such services, RIA is responsible for the maintenance, administration and general upkeep of the property. The management fees earned by the department are estimated at S$100-S$250 per unit per annum according to Cushman & Wakefield; this amount is deducted from the maintenance fees collected from residents through the Management Corporation Strata Title (MCST). RIA is also an Accredited Managing Agent certified by the Singapore Institute of Surveyors and Valuers and the Association of Property and Facility Managers.

- **Training** – The RIA School of Real Estate conducts preparatory courses for the Real Estate Salespersons Examination, as well as other relevant training courses. Both in-house and external agents are eligible to sign up for such courses. In 2010, the Estate Agents (Estate Agency Work) Regulations instituted a requirement for agents to undergo a minimum of six hours of learning activities per calendar year. This requirement was aimed at achieving higher professional standards within the real estate agency industry. As one of the few accredited training centres licensed to provide CPD training, RIA has a captive market from which to collect recurring course fees.

SWOT analysis

Figure 21: SWOT analysis

STRENGTHS	OPPORTUNITIES
• Market leadership position in Singapore's property brokerage industry leads to economies of scale.	• Potential expansion into other regional markets in Asia-Pacific.
• Global ERA network.	• Inorganic growth through acquisition of agencies.
• Diversified presence across different segments of residential sector provides stability.	• Investment in technology.
• Strong brand and training helps in retaining and attracting agents.	
WEAKNESSES	**THREATS**
• Lack of presence outside of Singapore leads to concentration risk.	• Increased market competition.
• Low commission structure compared to other regional markets.	• Disruptions from technological advances.
	• Policy and regulatory changes.

SOURCES: CGS-CIMB RESEARCH, APAC

KEY RISKS

High exposure to cyclical residential property market – APAC is a close proxy for the residential property market in Singapore and could be negatively affected by macroeconomic shocks to the residential property market in the country.

Regulatory risk – Unfavourable policy changes from the Singaporean government could have negative impact on the residential property market. In Jul 2018, the cooling measures announced by the government led to a larger-than-20% decline in APAC's share price due to the expected drop in volume and value of residential property transactions.

Technological disruption – Direct home sale portals like OhMyHome and DirectHome allow buyers and sellers to transact properties without an agent. The absence of agents significantly brings down the costs for both the buyer and seller. The direct transaction method reduces the importance of agents as an intermediary.

Ability to attract and retain talent – The agency agreements do not restrict APAC's agents from leaving on short notice and joining its competitors. There is strong competition for high-performing agents in the industry, which is characterised by high levels of agent turnover. As APAC relies heavily on commissions generated by its agents, the inability to attract and retain talented agents could have a significant adverse impact on its business.

Reputation risk – Operating in an industry where integrity and trust are paramount, APAC is exposed to risks that could undermine the public perception of the company. This includes agent and employee misconduct, adverse regulatory incidents and negative publicity or speculations.

Expansion risk – APAC has historically conducted its business in Singapore only and faces the risk of being unable to adapt its business model to suit foreign markets. Apart from regulatory barriers, APAC could also face issues regarding different cultures and legal systems where industry practices may not be fully aligned with the company's own.

Exit by major shareholder – APAC is majority owned by a private equity fund, Northstar Group, which has a 10-year fund life. While extension of the fund life is possible, there is also a possibility that Northstar exits its position in APAC at a discount or premium to market price.

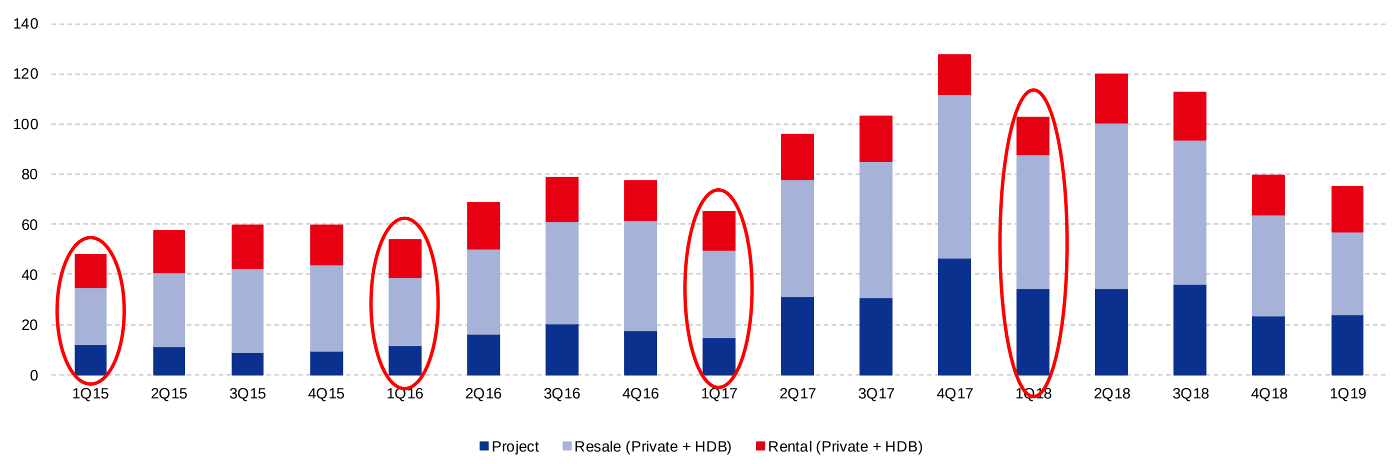
FINANCIALS

Earnings seasonality

Real estate brokerage commissions are success-based and revenue is only earned upon completion of a transaction; hence, there tends to be a 1-2 quarter lag in revenue recognition especially for new launches.

APAC's revenue is subject to seasonality, with 1Q typically the weakest quarter due to revenue recognition for transactions completed during the Christmas, New Year and Chinese New Year holiday periods. Other notable periods with lower transactions include the months of June (long school holidays) and August (Hungry Ghost Festival). Historically, resale and rental brokerage income in 1H accounted for 43-45% of APAC's annual revenue in FY15-17.

Figure 22: Breakdown of brokerage income by quarter (S$ m)

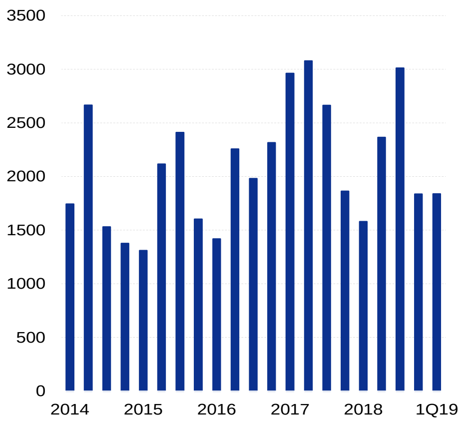


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Expect earnings trough in FY19F

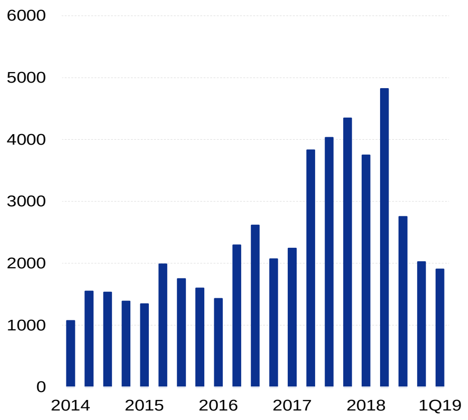
Following the property-cooling measures introduced by the government in Jul 2018, APAC recorded revenue declines of 37% yoy in 4Q18 and 26% yoy in 1Q19, as transaction volumes contracted. However, on a qoq basis, transaction volumes in the new launch and private resale market appear to be showing some stability in 4Q18-1Q19.

Figure 23: Quarterly new launch transaction volumes in Singapore



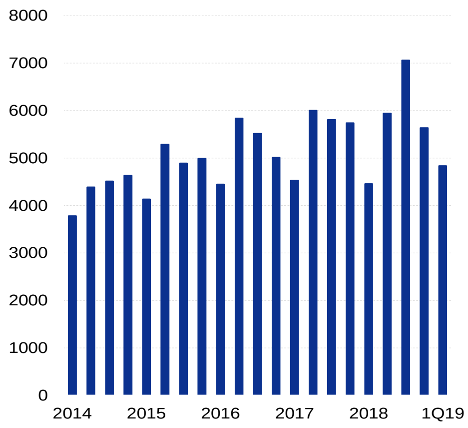
SOURCES: CGS-CIMB RESEARCH, HDB

Figure 24: Quarterly private resale transaction volumes in Singapore



SOURCES: CGS-CIMB RESEARCH, HDB

Figure 25: Quarterly HDB resale transaction volumes in Singapore



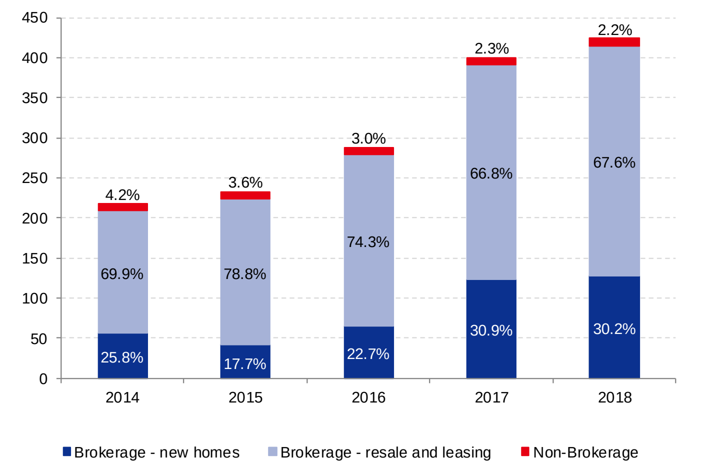
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

For 2019F, we expect a 2% increase in prices and a 7% increase in sales volume for new launches in Singapore. This is due to the larger number of new launches, coupled with demand-side factors, like en-bloc sellers getting replacement homes and HDB owners upgrading to private properties after reaching their MOPs. We project a further 3% increase in 2019F HDB resale transaction volume and expect private resale transactions to hit 10,000 in 2019F.

In 1Q19, APAC's market share for project marketing slipped to 33.8% (vs. 38% in 4Q18 and 43% for the whole of FY18), even as its market shares for the private resale and HDB resale segments improved qoq to 39% and 46% respectively. Looking at the rest of 2019F, we anticipate that APAC would gain some of the lost ground in the project marketing segment as it has secured marketing rights for 42 projects for the year.

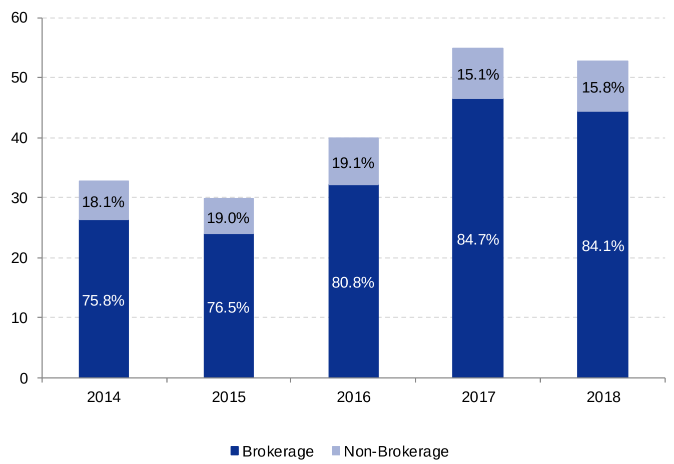
Overall, we forecast APAC's topline to decline by 8.3% yoy in FY19F and to recover by 2.8% yoy in FY20F.

Figure 26: APAC's revenue breakdown by source (S$ m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 27: APAC's gross profit breakdown by segment (S$ m)



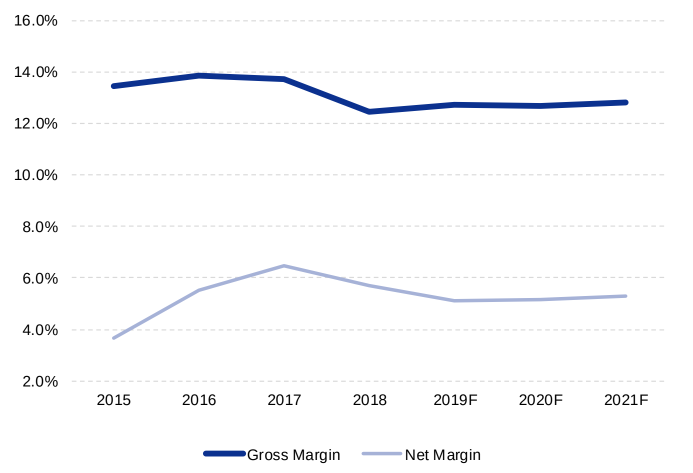
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Gross profit margins likely remain stable in FY19-21F

We expect APAC's FY19-21F gross margins to remain stable at c.12.7% as the margin decline in the brokerage segment is cushioned by the growing non-brokerage segment, which have higher margins. The brokerage segment margins are expected to decline as commissions increase because the fixed first-cut of the commission that APAC takes would comprise a smaller proportion of the total commission from the developer. Based on our channel checks, we understand that commission rates were historically 1-2% for new launch sales. However, as the supply of new launches is expected to be larger in 2019F, developers have increased commission rates to 3% and even up to 5% in order to incentivise agents to close transactions.

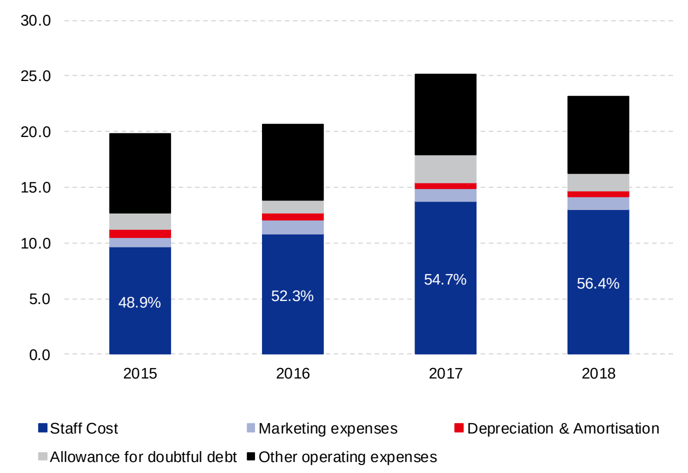
We further expect APAC's FY19-21F net profit margins to remain stable at between 5.1% and 5.3% as operating expenses like staff costs and marketing expenses stay in line with revenue growth.

Figure 28: APAC's gross and net margins



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 29: Breakdown of operating expenses for APAC



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sensitivity analysis

Based on its current revenue and profit margin structure, we believe APAC's earnings and valuation are more sensitive to changes in transaction values, rather than changes in its market share. A 5% change in transaction value would alter our FY19F EPS/target price by 3.0%/3.6%, while a 1%-pt change in its market share would change both our FY19F EPS/target price by 1.8%. Hence, we think volume and price recovery in the Singapore property market would be more beneficial to APAC's operating performance than market share gain.

Figure 30: Sensitivity of our FY19F EPS and TP and to changes in market conditions (transaction values and market share)

Company	APAC		PROP	
	Chg in FY19F EPS	Chg in TP	Chg in FY19F EPS	Chg in TP
5% chg in transaction values	+3.0%	+3.0%	+1.4%	+1.4%
1% pt chg in market share	+1.8%	+1.8%	+1.7%	+1.7%

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Cost structure is largely fixed

APAC's agency model has low fixed costs as it only had 152 employees at end-FY18 although it had more than 6,000 agents. The bulk of its fixed costs are staff and rental costs, which comprised c.67% of operating expenses in FY18. Its large fixed cost component provides the group with strong operating leverage.

Project high dividend yield of 7.5% in FY19F

While APAC does not have a fixed dividend policy, its IPO prospectus mentions its intention of distributing dividends comprising at least 50% of its net profit after tax (excluding exceptional items) for FY17 and FY18. To date, APAC has kept to this and paid out dividends of 2.0 Scts and 4.5 Scts in FY17 and FY18, respectively. Going forward, while management has not guided for a specific dividend payout, we think that the management would continue to reward shareholders so long as there is no urgent use for cash on the balance sheet.

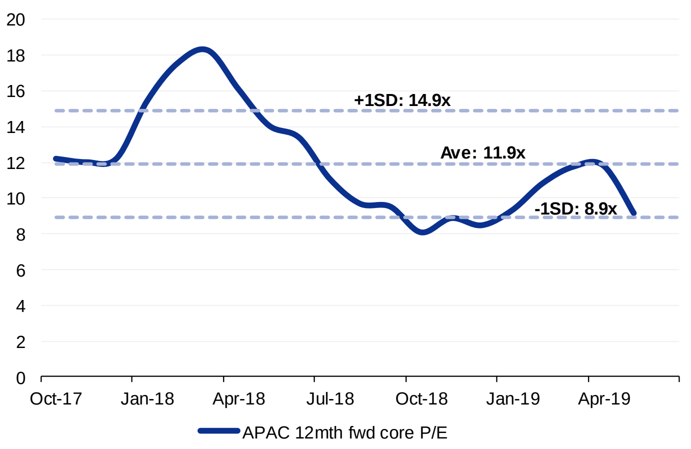
In FY19-21F, we expect the payout ratio of 66% to be maintained. This implies an FY19F dividend of 3.7 Scts, translating to a yield of 7.5% on current price.

VALUATION AND RECOMMENDATION

APAC's share price is down 35% since the Jul 2018 property cooling measures introduced by the government, underperforming the broader stock market as investors turn risk-off during the market rout. We think APAC's current valuations are compelling, as it is now trading at the low end of its historical P/E trading band (8-18x).

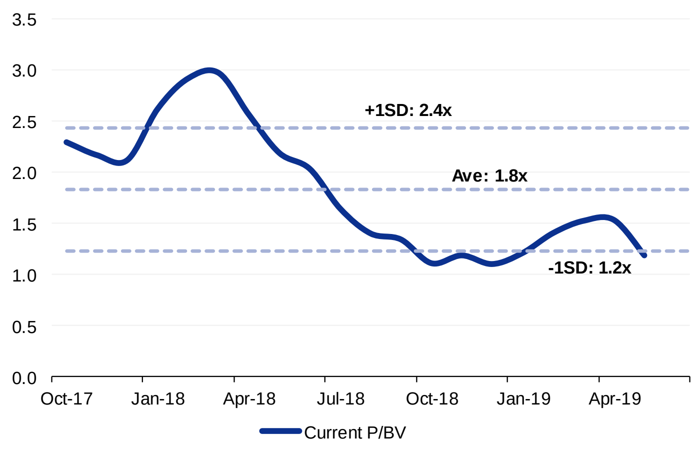
In terms of P/E valuation, APAC is currently trading at 8.9x 12-month forward P/E (-1 s.d. below the historical average of 11.9x) and 1.2x P/BV (1 s.d. below the historical average of 1.8x). After the government implemented property-cooling measures in Jul 2018, APAC's stock price corrected and traded down to a low of 8.1x 12-month forward P/E due to investor concerns regarding slowdown in the volume and value of real estate transactions in the country. We think that Singapore's real estate market has had sufficient time to digest the government policy changes and our channel checks with the agents and agencies show that sentiment on the ground is more positive than the immediate 1-3 months following the cooling measures, when the sector traded down to 8.1x 12-month forward P/E.

Figure 31: APAC 12-month forward core P/E



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 32: APAC current P/BV



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

We value APAC using a blend of the P/E multiple and the Discounted Cash Flow (DCF) methodologies. Using P/E multiple, we ascribe 10x FY20F P/E to APAC, which is -1 S.D. below the cyclical small-cap universe valuation and within APAC's trading band in Jul 2018-Apr 2019 (after the cooling measures) of c.10x 12-month forward P/E. This implies a P/E valuation of S$0.58. Our DCF approach implies a valuation of S$0.75 assuming stable market share and sales volume from FY21F onwards. We also assumed a 9.60% cost of equity and 1% terminal growth. Overall this translates to a **blended TP of S$0.67.**

Figure 33: Discounted Cash Flow calculations

DCF Assumptions				
Cost of equity	9.60%			
Rf	2.40%			
Market risk premium	6.00%			
Beta	1.20			
Terminal growth	1%			

DCF	2019F	2020F	2021F	Terminal Value
EBIT (1- Tax) (S$m)	21.21	21.89	22.93	
Depreciation&Amort (S$m)	2.87	2.77	2.69	
Working capital changes (S$m)	4.19	0.22	0.21	
Capex (S$m)	2.00	0.25	0.25	
FCF (S$m)	17.90	24.18	25.16	354.70
Discount factor	0.91	0.83	0.76	
PV FCF (S$m)	16.33	20.13	19.11	225.84
Sum of PV FCF (S$m)	281.42			
Net Cash (Net Debt) (S$m)	-14.50			
Equity value (S$m)	266.92			
Number of shares (m)	355.20			
Value per share (S$)	**0.75**			

SOURCES: CGS-CIMB RESEARCH

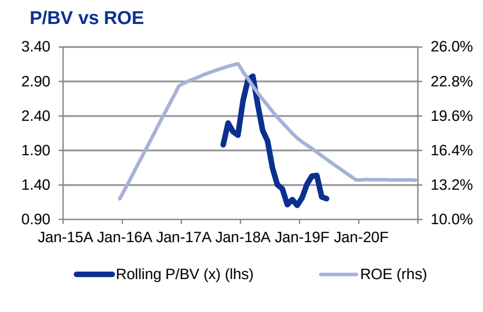
Potential re-rating catalysts could come from a recovery in residential volume transactions, while downside risks include a delay in market recovery owing to macro challenges that could drag down Singapore's economic growth outlook.

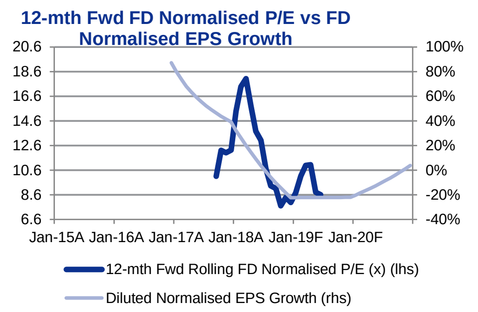
Figure 34: Singapore developers peer comparison table

Company	Bloomberg Ticker	Recom.	Price (lc)	Tgt Px (lc)	Mkt Cap (US$ m)	Core P/E (x) FY19F	Core P/E (x) FY20F	Core P/E (x) FY21F	RNAV FY20F	Prem./(Disc.) to RNAV (%)	P/BV (x) FY19F	P/BV (x) FY20F	Div. Yield (%) FY19F	Div. Yield (%) FY20F
APAC Realty Ltd	APAC SP	Add	0.49	0.67	127	8.8	8.5	8.0	n.a.	n.a.	1.18	1.13	7.5%	7.8%
Aspen (Group) Holdings Ltd	ASPEN SP	Add	0.14	0.29	101	5.6	na	na	0.53	-73%	1.04	na	3.6%	na
CapitaLand	CAPL SP	Add	3.23	3.56	9,849	13.8	13.9	13.8	5.48	-41%	0.69	0.67	3.8%	3.8%
City Developments	CIT SP	Add	8.26	10.66	5,471	15.5	17.2	17.3	16.40	-50%	0.75	0.73	2.4%	2.4%
Frasers Property Limited	FPL SP	Add	1.80	2.08	3,839	11.5	14.6	18.0	3.21	-44%	0.53	0.52	4.8%	4.8%
Guocoland	GUOL SP	Add	1.96	2.25	1,694	18.8	18.2	15.4	3.76	-48%	0.52	0.52	3.6%	3.6%
Ho Bee Land	HOBEE SP	Add	2.35	3.00	1,142	16.6	12.1	na	4.99	-53%	0.47	0.46	4.3%	4.3%
Hongkong Land Holdings Ltd	HKL SP	Add	6.69	9.40	15,740	15.1	12.6	12.5	13.50	-50%	0.41	0.40	3.4%	3.7%
Perennial Real Estate Holdings	PREH SP	Add	0.62	0.99	752	171.5	95.1	na	1.99	-69%	0.38	0.38	1.6%	1.6%
Propnex Ltd	PROP SP	Add	0.49	0.64	131	11.4	11.1	10.6	n.a.	n.a.	2.58	2.46	7.2%	7.2%
United Engineers	UEM SP	Add	2.51	2.94	1,169	45.4	45.5	na	3.46	-28%	0.81	0.80	1.6%	2.0%
UOL Group	UOL SP	Add	6.80	8.45	4,187	15.8	15.2	17.2	12.08	-44%	0.58	0.57	2.6%	2.6%
Wing Tai Holdings	WINGT SP	Hold	2.02	1.97	1,132	22.5	12.1	10.2	3.58	-44%	0.46	0.45	4.0%	4.0%
Singapore average						**15.2**	**14.4**	**14.1**		**-46%**	**0.53**	**0.51**	**3.4%**	**3.5%**

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG (AS AT 3 JUN 2019)

BY THE NUMBERS





Profit & Loss

(S$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	**400.6**	**424.0**	**389.2**	**400.2**	**410.3**
Gross Profit	**54.9**	**52.8**	**49.5**	**50.8**	**52.5**
Operating EBITDA	**30.2**	**30.2**	**25.9**	**26.6**	**27.8**
Depreciation And Amortisation	(0.5)	(0.5)	(0.3)	(0.2)	(0.2)
Operating EBIT	**29.7**	**29.7**	**25.6**	**26.4**	**27.6**
Financial Income/(Expense)	(0.3)	(0.4)	(1.7)	(1.6)	(1.5)
Pretax Income/(Loss) from Assoc.	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**29.4**	**29.2**	**23.9**	**24.8**	**26.1**
Exceptional Items					
Pre-tax Profit	**29.4**	**29.2**	**23.9**	**24.8**	**26.1**
Taxation	**(3.5)**	**(5.0)**	**(4.1)**	**(4.2)**	**(4.4)**
Exceptional Income - post-tax					
Profit After Tax	**25.9**	**24.2**	**19.8**	**20.6**	**21.7**
Minority Interests	0.0	0.0	0.0	0.0	0.0
Pref. & Special Div	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	**25.9**	**24.2**	**19.8**	**20.6**	**21.7**
Normalised Net Profit	25.9	24.2	19.8	20.6	21.7
Fully Diluted Normalised Profit	**25.9**	**24.2**	**19.8**	**20.6**	**21.7**

Cash Flow

(S$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	30.21	30.19	25.92	26.63	27.80
Cash Flow from Invt. & Assoc.	0.01	0.02	0.02	0.02	0.02
Change In Working Capital	4.16	(16.11)	4.19	0.22	0.21
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1.60	1.48	1.27	1.17	1.09
Other Operating Cashflow	2.85	1.80	1.68	1.60	1.51
Net Interest (Paid)/Received	(0.20)	(0.16)	(1.68)	(1.60)	(1.51)
Tax Paid	(3.18)	(4.98)	(4.06)	(4.21)	(4.44)
Cashflow From Operations	**35.45**	**12.25**	**27.35**	**23.83**	**24.68**
Capex	(0.47)	(0.37)	0.00	0.00	0.00
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties	0.00	(72.80)	(2.00)	(0.25)	(0.25)
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(0.18)	(0.36)	0.00	0.00	0.00
Cash Flow From Investing	**(0.65)**	**(73.54)**	**(2.00)**	**(0.25)**	**(0.25)**
Debt Raised/(repaid)	(18.00)	57.52	(2.90)	(2.90)	(2.90)
Proceeds From Issue Of Shares	28.25	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	0.00	(14.21)	(15.98)	(13.07)	(13.56)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**10.25**	**43.31**	**(18.88)**	**(15.97)**	**(16.46)**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(S$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	62.0	43.0	47.4	53.2	59.5
Properties Under Development					
Total Debtors	71.7	64.1	56.3	57.8	59.1
Inventories					
Total Other Current Assets	0.3	2.3	2.3	2.3	2.3
Total Current Assets	**134.0**	**109.5**	**106.1**	**113.3**	**121.0**
Fixed Assets	1.2	1.1	0.7	0.5	0.3
Total Investments	**0.4**	**73.2**	**75.2**	**75.4**	**75.6**
Intangible Assets	100.4	99.5	98.5	97.6	96.7
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	**102.0**	**173.7**	**174.4**	**173.5**	**172.6**
Short-term Debt	0.0	2.9	2.9	2.9	2.9
Current Portion of Long-Term Debt					
Total Creditors	91.5	71.3	67.7	69.4	70.9
Other Current Liabilities	7.0	7.0	7.0	7.0	7.0
Total Current Liabilities	**98.5**	**81.2**	**77.6**	**79.3**	**80.9**
Total Long-term Debt	0.0	54.6	51.7	48.8	45.9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	**0.0**	**54.6**	**51.7**	**48.8**	**45.9**
Total Provisions	4.5	4.3	4.3	4.3	4.3
Total Liabilities	**103.0**	**140.1**	**133.6**	**132.4**	**131.1**
Shareholders' Equity	**133.0**	**143.1**	**146.9**	**154.4**	**162.5**
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**133.0**	**143.1**	**146.9**	**154.4**	**162.6**

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	39.2%	5.8%	(8.2%)	2.8%	2.5%
Operating EBITDA Growth	51.8%	(0.1%)	(14.1%)	2.7%	4.4%
Operating EBITDA Margin	7.54%	7.12%	6.66%	6.65%	6.78%
Net Cash Per Share (S$)	0.19	(0.04)	(0.02)	0.00	0.03
BVPS (S$)	0.41	0.40	0.41	0.43	0.46
Gross Interest Cover	111.9	66.9	15.2	16.5	18.3
Effective Tax Rate	11.9%	17.0%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	NA	65.9%	65.9%	65.9%	65.9%
Accounts Receivables Days	53.69	55.84	52.30	48.13	48.07
Inventory Days	-	-	-	-	-
Accounts Payables Days	72.66	71.53	66.25	63.61	63.60
ROIC (%)	35.6%	39.5%	28.8%	31.7%	33.8%
ROCE (%)	24.8%	17.3%	12.5%	12.7%	13.0%
Return On Average Assets	12.9%	9.5%	7.6%	7.8%	8.0%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Unbooked Presales (m) (S$)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (area: m sm)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (units)	N/A	N/A	N/A	N/A	N/A
Unsold attrib. landbank (area: m sm)	N/A	N/A	N/A	N/A	N/A
Gross Margins (%)	13.7%	12.5%	12.7%	12.7%	12.8%
Contracted Sales ASP (per Sm) (S$)	N/A	N/A	N/A	N/A	N/A
Residential EBIT Margin (%)	N/A	N/A	N/A	N/A	N/A
Investment rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Residential rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Invt. properties rental margin (%)	N/A	N/A	N/A	N/A	N/A
SG&A / Sales Ratio (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Singapore

ADD

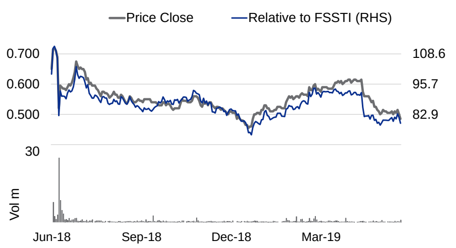
Consensus ratings*:	Buy 2	Hold 0	Sell 0

Current price:	S$0.49
Target price:	S$0.64
Previous target:	S$
Up/downside:	30.9%
CGS-CIMB / Consensus:	3.3%
Reuters:	PROP.SI
Bloomberg:	PROP SP
Market cap:	US$131.1m
	S$179.4m
Average daily turnover:	US$0.14m
	S$0.19m
Current shares o/s:	370.0m
Free float:	21.8%

Source: Bloomberg

Key changes in this note

- N/A.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-11.8	-14.2	
Relative (%)	-3.9	-11.2	

Major shareholders	% held
P&N Holdings	55.6
Ismail Mohamed	8.5
Kelvin Fong	7.6

Propnex Ltd

PROP-ping itself up for success

- PROP has the largest agent pool in Singapore with a robust strategy to attract and retain talent.
- Cash generative business with 40% of its market cap made up by net cash as at end-FY18, sustaining a dividend yield of c.7.2%.
- Initiate with Add at a TP of S$0.64, based on P/E and DCF blend.

Dominant agent share

PropNex's (PROP) sales force will have grown at a c.9.4% CAGR in 2015-2019F (based on our estimates) to become the largest real estate agency in Singapore with >25% market share in terms of total number of agents. In our view, this makes it an attractive marketing partner for developers as it implicitly has the widest outreach and additional manpower for specialist 'taggers' to help close transactions. We believe its size also allows it to offer a wider range of value-added services since it can spread out its fixed overheads across a larger revenue and agent base.

Educating its way to the top spot

PROP offers a wide range of training programmes aimed at giving its agents a competitive edge in closing transactions while its 'Dual Career Path' scheme helps to groom eligible agents to be its next generation of leaders. Such programmes further attract other agents to join PROP and strengthen its brand, in our view. PROP has also conducted 30 seminars for over 7,000 consumers in 2018, helping to position it as a trusted partner to consumers in their property journey.

Leveraged to the residential market

With 99% of its revenue derived from brokerage business in FY18, we see PROP as another proxy to the Singapore residential market. We anticipate bumper new launches, replacement home demand from en bloc sellers and upgrading activity from Housing Development Board flat dwellers to underpin transaction activity recovery from FY20F.

War chest representing c.40% of market cap; 7.2% dividend yield

PROP's end-FY18 cash balance of S$75.7m makes up c.40% of its market cap and accords it the flexibility to pursue its expansion strategies, in our view. We believe this cash balance is likely to grow as the company has a cash-generative business with positive net cash from operating activities, it is asset-light with no foreseeable capex needs and it does not have borrowings to service. We think this can help to sustain the 3.5 Scts dividend through any earnings fluctuations, implying a 7.2% yield based on current price.

Initiate with Add and TP of S$0.64, based on P/E and DCF blend

We initiate coverage on PROP with an Add call and a TP of S$0.64, based on a blend of 10x FY20F P/E, which is -1 s.d. below the cyclical small cap universe in Singapore and DCF valuation of S$0.83. PROP offers 31% upside to our target price. Key re-rating catalysts include stronger volume growth and further growth in market share while downside risks include a weaker-than-expected recovery in the residential property market in Singapore.

Analyst(s)

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Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues (S$m)	331.9	431.5	422.6	425.0	436.5
Operating EBITDA (S$m)	22.44	26.39	20.16	20.65	21.42
Net Profit (S$m)	16.31	19.41	15.68	16.23	16.95
Normalised EPS (S$)	0.049	0.052	0.042	0.044	0.046
Normalised EPS Growth	53.5%	7.9%	(19.2%)	3.5%	4.5%
FD Normalised P/E (x)	8.56	8.81	11.44	11.06	10.58
DPS (S$)	-	0.035	0.035	0.035	0.035
Dividend Yield	0.00%	7.22%	7.22%	7.22%	7.22%
EV/EBITDA (x)	6.15	4.07	5.08	4.77	4.39
P/FCFE (x)	6.42	7.57	8.86	9.47	9.12
Net Gearing	(131%)	(107%)	(110%)	(110%)	(110%)
P/BV (x)	8.98	2.68	2.58	2.46	2.33
ROE	110%	46%	23%	23%	23%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			0.71	0.66	0.80

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

PROP-ping itself up for success

PropNex Limited (PROP) is an integrated real estate services group in Singapore. It is the largest home-grown real estate agency by agent count (May 2019, Council for Estate Agencies). It has four key business segments, namely real estate brokerage, training, property management and real estate consultancy.

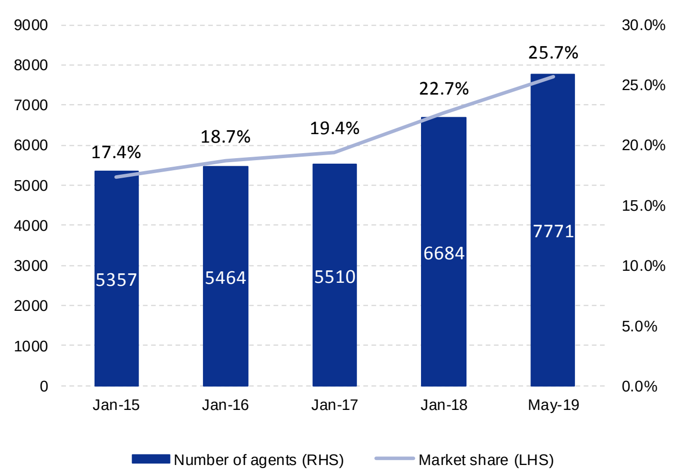
Dominant market share brings about key benefits

PROP is the largest real estate agency in Singapore with >25% market share in terms of number of agents and has over 7,700 agents (as at May 2019) according to the Council for Estate Agencies (CEA). Since 2015 (end-2015 – May 2019), its salesforce has grown at a c.9.4% CAGR, faster than the industry average as evidenced by its rising market share. Its large salesforce makes it one of the preferred real estate agencies amongst developers in Singapore; as of May 2019, it had been appointed for 46 out of 66 expected launches in 2019-2020. This size has brought about two key benefits as discussed below.

Larger outreach – Developers tend to prefer agencies with the widest outreach and a good track record to market their new launch projects. PROP's dominant market position implicitly allows it to reach out to the largest number of clients and also handle a larger volume of transactions, in our view. The larger salesforce also allows PROP to have dedicated staff for each project to be 'taggers'. The 'tagger' system implemented by PROP is where certain agents with specialised in-depth knowledge of a project are stationed at showrooms to assist other PROP agents to close transactions. This allows the other PROP agents to focus on reaching out to clients even if these other agents only have with basic knowledge of the project. To reduce the complexity in managing multiple agencies, developers tend to appoint 1-4 marketing agencies for new launches.

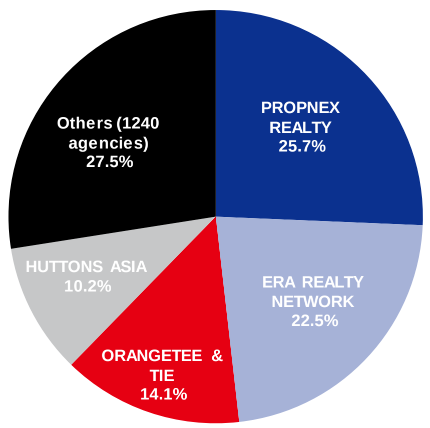
Cost efficiencies – Larger agencies like PROP can afford to spread out the cost of ancillary services like training and compliance across a larger revenue base. Its scale also allows it to enjoy bulk discounts for other outsourced services like marketing materials.

Figure 1: Number of PROP agents



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Market share (%) as of May 2019



SOURCES: CGS-CIMB RESEARCH, CEA

Apart from making it attractive to developers, PROP's salesforce size also makes it attractive for clients who prefer working with agents under agencies that can offer the widest range of options and services. In this virtuous cycle, non-PROP agents and other agencies are also attracted to join or partner with PROP to enjoy access to its wide customer base, relationships with developers and agent services like training programmes.

Educating its way to top spot

Despite already being the largest real estate agency in Singapore by the number of agents, PROP intends to continue growing its sales force and expanding its customer base to capture greater market share. One of its key strategies is to educate both agents and consumers via training programmes and consumer seminars respectively.

Agent training and career development programmes – We think that its training programmes, Dual Career Path scheme and strong branding help it to retain its competitive edge and grow its agent pool. PROP has delivered impactful training and development programmes for its agents and also held quarterly conventions where government officials were invited to help agents understand macro trends and government policies. Such trainings and conventions have also been extended to agents of its overseas franchisees in a move to replicate its local success.

The Dual Career Path scheme was introduced in 2000 to groom agents with leadership potential to be Team Leaders. To be eligible, agents would have to meet certain criteria, including completing certain training courses and achieving certain commission targets. They would first become a Team Manager and may be subsequently promoted to be a Team Leader. Team Leaders perform various supervisory duties like interviewing and providing training sessions to new agents. Agents under the scheme can continue to earn a commission from successful transactions on top of enjoying over-riding commissions from their team on a monthly basis.

PROP also has a number of training programmes for agents to choose from, some of which are listed in the figure below. We think that this wide range of training programmes is only possible due to its economies of scale which help reduce the training provision cost per agent. This variety of programmes also help to attract non-PROP agents and agencies to either cross over to PROP or partner with it to gain access to such programmes which may not be available elsewhere.

Figure 3: Training & Development programmes at PropNex (as at May 2019)

No.	Training Programme	Description (from PropNex website)
1	Power Presentation & Closing Mastery (PPCM)	If you are a salesperson looking to improve your presentation skills for your real estate business, join this 2 Full-Day Intensive Training programme to learn methods of overcoming the most difficult objections from sellers and buyers.
2	Project Power Presentation Course (PPPC)	A comprehensive 3-day programme that covers field works and classroom lectures, this course equips real estate consultants with in-depth knowledge on new project launches.
3	Salespersons' Bootcamp (SBC)	PropNex signature Salesperson Bootcamp (SBC) in partnership with Life Mastery Academy, a meticulously curated training.
4	Winning Wednesdays	Winning Wednesdays are conducted every Wednesday to cater to salespersons looking to propel their success to the next level.
5	Master Recruiter Training (MRT)	The Master Recruiter Training (MRT) is a 2-day course conducted by Key Executive Officer Lim Yong Hock to help you boost your recruitment intake.
6	Leadership Bootcamp	More than 500 Leaders and salespersons attended our various Boot Camps since its launch. The results were astounding as most attendees witnessed more than 50% increase in income in 2015 compared to the previous year.
7	Professional Start-Up Programme (PSP)	If you are a salesperson looking to improve your presentation skills for your real estate business, join this 2 Full-Day Intensive Training programme.
8	Zonal Market Direction	The Zonal Market Direction programme is designed to equip salespersons with relevant information and the right skills to be an expert in their respective zones (North/North East, Central, East or West).
9	Accelerated Closing Techniques (ACT)	This 4-day programme which includes 7 POWERFUL lessons by our Executive Director, Kelvin Fong and other PropNex leaders to accelerate your business to the next level.

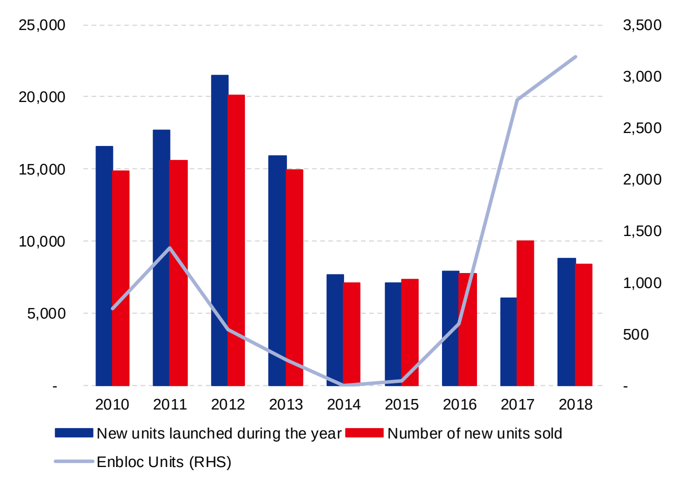
SOURCES: PROPNEX

Consumer seminars – PROP has had regular engagement with consumers via its Consumer Empowerment Seminars since 2013. The aim of these seminars is to equip consumers with a deeper understanding of the property market to make more informed decisions. In 2018, 30 consumer seminars were conducted for over 7,000 consumers. Apart from helping consumers understand macro trends and policies like the property cooling measures, PROP also conducts seminars specific to new launches in it markets. Overall, this helps to improve the mindshare of PROP and contribute to its positive branding.

Transaction volumes to rise

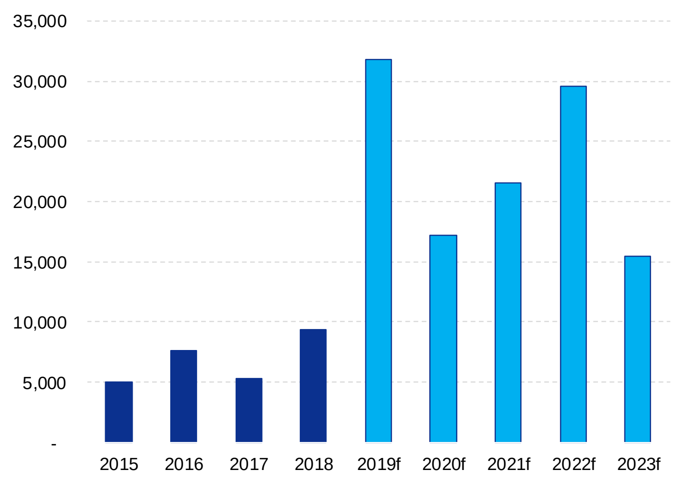
The number of new launch units in 2019F-2020F could be as high as c.25,000 across 69 projects, assuming no delays; this is substantially higher than the average of c.7,500 in the past five years from 2014-2018. The large number of launches in 2019F-2020F is due to the government land sales and collective en bloc transactions that occurred in 2017-18.

Figure 4: New launches and sales against en-bloc units



SOURCES: CGS-CIMB RESEARCH, URA

Figure 5: Number of HDB flats reaching MOP



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

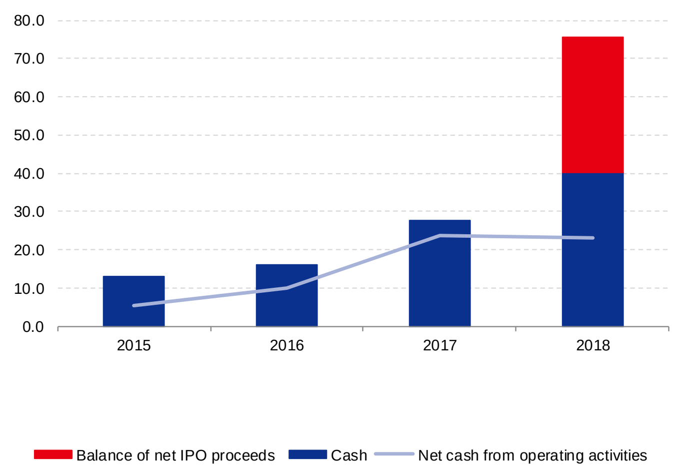
As en-bloc transactions picked up in 2017/2018, we expect an increase in transaction volumes across new launches, private and HDB resale, as en-bloc sellers find replacement homes from FY19-21F. We also expect a further increase in HDB transactions due to the significant increase in the number of HDB flats reaching their Minimum Occupation Period (MOP). As HDB flats reach their 5-year MOP, owners are allowed to sell their flats on the resale market. Possible reasons for doing so would include moving to a better location or upgrading to a private property or larger property.

Debt-free cash cow

PROP has a cash generative business that has consistently achieved positive cash flows from operating activities and grown its non-IPO cash balance; from 2015 to 2018, its non-IPO cash balance has grown at a c.28% CAGR. As at end-FY18, PropNex also had c.S$35m of its IPO proceeds remaining, representing 91% of net proceeds raised and c.46% of FY18 cash balance. Its end-FY18 cash balance of S$75.7m makes up c.40% of its market cap. In addition, PROP runs an asset-light business model that has no major foreseeable capex requirements, in our view, and has no borrowings to service.

To date, it has utilised 8.7% of its net IPO proceeds to renovate its new office, form new Auction and En Bloc departments and enhance its technological capabilities. We think that its cash balance provides it with the flexibility to pursue further expansion geographically and widen its range of services. With a target to be amongst the top five agencies for its overseas franchisees, we believe PROP could possibly take a direct stake in its franchisees once this top-five target is reached, in our view. The non-IPO portion of the cash could also help to reduce the volatility of dividends through the cycle and reward shareholders in the form of higher dividend payout ratios, in our view.

Figure 6: PropNex's cash balance and operating cash flows (S$m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Use of net proceeds from IPO as at 1Q19 (S$000)

	Allocation of proceeds	Proceeds utilised	Balance of IPO proceeds
Local and regional expansion	12,000	30	11,970
Enhancement of real estate brokerage business	8,000	2,512	5,488
Expansion in range of business services	7,000	344	6,656
Enhancement of technological capabilities	6,000	452	5,548
Working capital purposes	5,280	0	5,280
Total	**38,280**	**3,338**	**34,942**
%		**8.7%**	**91.3%**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Regional diversification efforts picking up

During its IPO in 2018, PROP earmarked S$12.0m for expanding its presence locally and regionally. It aimed to strengthen its presence in existing markets like Indonesia and Malaysia while developing new business opportunities throughout the rest of South East Asia. PROP has c.1000 salespeople across 18 offices in Indonesia, c.300 salespeople in Malaysia and c.100 salespeople in Vietnam as at end-FY18. For each of its overseas markets, PROP has the ambitious goal of being among the top 5 real estate agencies within five years of establishment. To date, the overseas offices operate as a franchise model rather than direct ownership by PROP. Royalty fees from the use of the PROP brand are recognised based on a percentage of franchisees'/licensees' monthly sales.

Figure 8: Geographical footprint of PROP (FY18)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In 2016, PROP entered into a master franchise agreement with PT PropNex Realty Indonesia (Unlisted). This coincided with a new regulation passed by the Indonesian government that will allow foreigners to own landed homes for a period of up to 80 years.

PROP expanded to Malaysia by entering into a licensing agreement with PropNex Realty Sdn Bhd (Unlisted) in Mar 2018. The agreement is for an initial term of 10 years and can be renewed for another 10 years subject to the fulfillment of conditions stipulated in the agreement.

In Aug 2018, PropNex Realty (Vietnam) Company Limited (Unlisted); PropNex Vietnam) was launched via the initiation of a Master Franchise Agreement with PropNex Limited. The agreement is for an initial term of 10 years and can be renewed for another 10 years subject to the fulfillment of conditions stipulated in the agreement. PropNex Vietnam will be 25% owned by PropNex Realty and 75% owned by unrelated parties.

While PROP has no presence in the Philippines and Thailand currently, it is constantly looking to grow its Southeast Asian footprint and has aimed to penetrate a new market every year according to management's guidance.

M&A and partnerships locally ›

In 2017, PROP entered into a business takeover agreement with Dennis Wee Realty (Unlisted) to transfer 845 DWR agents to PROP. This move allowed

PROP to overtake APAC Realty (APAC, Add, S$0.67) as the largest agency in Singapore based on agent numbers. The aggregate purchase consideration of up to S$5m included:

- One-time cash payment of S$700,000 to DWR
- Monthly installment of 1.5% of the aggregate gross commission earned by ex-DWR salespeople for that calendar month. This amount is payable up to S$4.3m and for the period up to 10 Jul 2027. If the balance S$4.3m is not fully paid up after 10 Jul 2027, PropNex will not be liable for the remaining amount.
- After the S$4.3m is paid out or 10 Jul 2027, whichever is earlier, biannual installments will be paid over 10 years with each installment being 0.5% of aggregate gross commissions earned by ex-DWR salespeople.

In 2019, PROP entered into a strategic collaboration with Global Alliance Property Pte Ltd (Unlisted; GAP), which operates under the Century 21 franchise, for the transfer of GAP's salespeople to PROP. We believe this collaboration would further strengthen PROP's position as Singapore's largest listed real estate agency.

COMPANY BACKGROUND

Corporate history

The Group was formerly known as First Class Consultants Pte Ltd, (Unlisted) which was formed in 1999 from the consolidation of Nooris Consultants (founded by Mr Mohamed Ismail) and Prulink Realty (founded by Mr Alan Lim and Mr Joseph Lee).

In 2003, the three co-founders incorporated their controlling shareholder, P&N Holdings (Unlisted). In the same year, PropNex Grandeur Homes (Unlisted) was also incorporated with the intention of penetrating the luxury homes real estate market.

In 2004, a unified PropNex Realty was formed via the merger of four franchisee partners with 3,000 salespersons. Post-merger, the entity moved into its headquarters at HDB Hub.

In 2006, the Life Mastery Academy (Unlisted) was incorporated to provide training and real estate courses to salespeople and the general public. This was aimed at providing more holistic training to the salespeople. PropNex International (Unlisted) was incorporated in 2007 to market real estate projects for the local and international markets. In 2008, PropNex Property Management (Unlisted) was incorporated to be a professional consultancy agency to manage boutique and high-end condominiums.

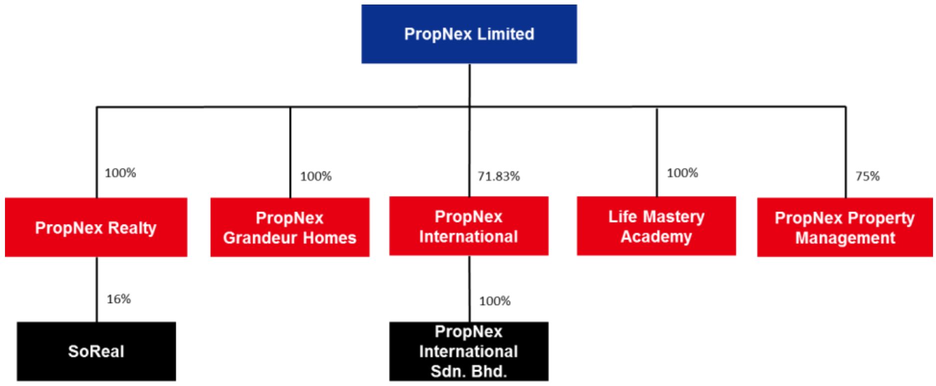
In 2013, Mr Joseph Lee retired and sold his equity interest in the controlling shareholder P&N Holdings to Mr Mohamed Ismail and Mr Alan Lim. In 2014, PROP entered into a JV with JLL to tap the project marketing strengths and global outreach of JLL. This JV saw ex-JLL salespeople joining as PROP salespeople.

In 2017, PROP entered into a business takeover agreement with Dennis Wee Realty Pte Ltd (Dennis Wee Realty). This led to the transfer of 845 salesperople from Dennis Wee Realty to PROP which led to PROP becoming the largest real estate agency in Singapore with 6,688 agents as at 10 Jul 2017.

PropNex Realty was listed on the Singapore Exchange on 1 Jul 2018 at S$0.65 per share. The IPO raised approximately S$40m for the company, of which the majority was set aside for local and regional expansion, the enhancement of its real estate brokerage business and expansion of its range of business services.

In Feb 2019, PROP entered into a strategic collaboration with Global Alliance Property Pte Ltd (GAP), which operates under the Century 21 franchise, to transfer GAP's salespeople to PROP.

Figure 9: Corporate structure of PropNex as at FY18

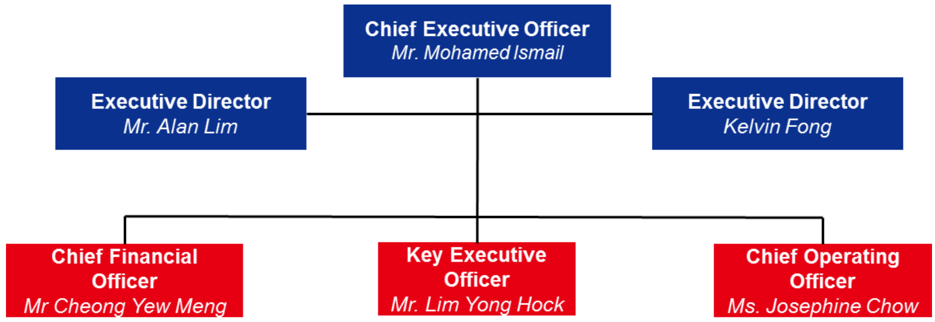


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Management team

The management is highly experienced, and is run by two of PROP's co-founders, Mr Mohamed Ismail and Mr Alan Lim. Both co-founders have worked for over 20 years in the real estate industry. Mr Mohamed Ismail is responsible for the group's strategic direction and oversees business operations while Mr Alan Lim is responsible for formulating the group's corporate strategies and business development opportunities. Mr Kelvin Fong was formerly one of the top Team Leaders in PROP and oversees the training development curriculum and is also responsible for the development of real estate salespeoples' skills.

Figure 10: Management structure of PROP



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BUSINESS SEGMENTS

Brokerage

PROP's primary business is in the provision of real estate brokerage services, comprising agency services and project marketing services. The agency services segment includes private resale and leasing and HDB resale and leasing, while the project marketing segment represents the sale of new launch private residential properties from developers. The brokerage business is operated through its fully-owned subsidiary, PropNex Realty which is supported by PropNex International in project marketing. As of May 2019, it has the largest sales force of over 7,600 agents, up c.14% from 6,684 in Jan 2018.

Commission structure – Brokerage commissions form the bulk of revenue and profits earned by PROP and are paid directly to PROP following the sale or lease of properties. It is important to note that while commission rates for primary market sales are determined by developers, rates for resale transactions can be negotiated and vary depending on situational factors like urgency and complexity.

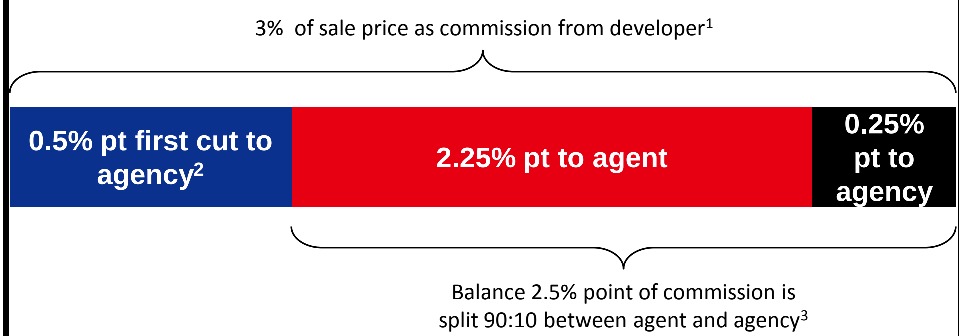
Figure 11: Commission structure for project marketing, private resale and HDB resale market

Party	Commission
Project Marketing	
Developer	Minimum of 1% of transacted price and up to 6% if developers want to clear off completed or nearly-completed units
Private Resale	
Seller	Typically 2% of transaction price with a minimum of 1%. If buyer has its own agent (co-broking), commission is shared between 2 agents. Up to 5% depending on property type, transaction complexity and urgency
HDB Resale	
Seller	2% of transacted price
Buyer	1% of transacted price

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

- **Primary market** – Property developers typically appoint real estate brokerages for the marketing and sales of property on behalf of the property developers. Upon a sale, the brokerage earns a sales commission based on a percentage of the property value. We understand that while this has been 1.5% prior to implementation of cooling measures in Jul 2018, it has since risen to 3.0% as developers incentivise agents to increase marketing efforts. The marketing efforts are coordinated through an experienced salesperson (Project-in-charge) and a project sales team that supports the Project-in-charge. The closing agent receives the eventual commission via a waterfall structure where the broker, team managers and team leaders take their respective cuts. Each Team Leader is typically entitled to up to 5% of over-riding commission for each transaction completed by a supervised salesperson depending on their respective commission scheme. Revenue is only recognised upon signing of the sale and purchase agreement. No revenue is recognised when buyers pay an option fee to the developers.

Figure 12: Example of commission split between agent and agency



Notes (Assuming S$1m sale):

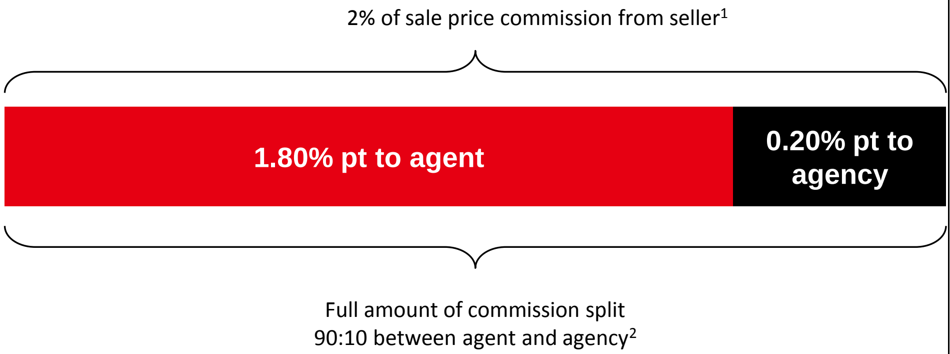
1. *Agency collects the commission amount of S$30k (3%*$1m) from developer*
2. *The first S$5k (0.5%*S$1m) goes to the agency*
3. *The remaining S$25k is split in a 90:10 ratio, agent gets S$22.5k, agency gets S$2.5k*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the example illustrated above, assuming the developer pays a 3% commission, the agencies would take a first cut of 0.5%. The remaining balance is then split according to a 90:10 ratio between the agent and the agency. Commissions for project marketing will be split on a 90:10 ratio regardless of the cumulative commissions earned unlike resale transactions which follow a tiered scheme; this applies for both agencies. Numerically, if the sale price is S$1m, the property agency receives S$30,000 from the developer and out of this S$30,000, the agency takes a first cut of S$5,000. After which, the remaining S$25,000 is split between the agent and agency in a 90:10 ratio (S$22,500 to agent, S$2,500 to agency). Overall, the agency recognises the initial S$30,000 commission received as revenue and S$7,500 as a gross profit margin.

- **Secondary market** – Commission rates are negotiated between the agent and the buyer/seller and typically range from 1% to 2% of the transacted price. From this agreed commission, the payout to agents is determined by each brokerage's commission scheme. For PROP, the commission payout is between 70% and 90% and is dependent on an agent's cumulative commission with the payout increasing with a higher cumulative commission. The cumulative commission is typically in line with the experience and seniority of the agent and we understand that the lower payout for junior agents helps to offset some of the training costs required. Unlike Project Marketing, there is no 0.5% point first cut that either agency takes from resale transactions. According to our channel checks, agents tend to hit the 90% payout level within 1-2 years.

Figure 13: Example of commission split for resale market



Notes (Assuming S$1m sale):
1. *Agency collects the commission amount of S$20k (2%*$1m) from seller*
2. *The full amount of commission is split in a 90:10 ratio, agent gets S$18k, agency gets $2k*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

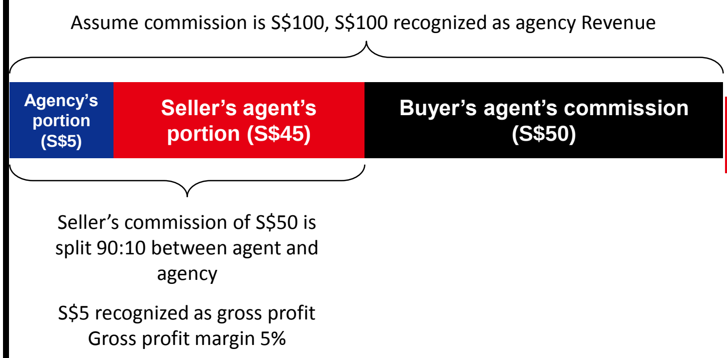
Figure 14: PROP's commission scheme for agents

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

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

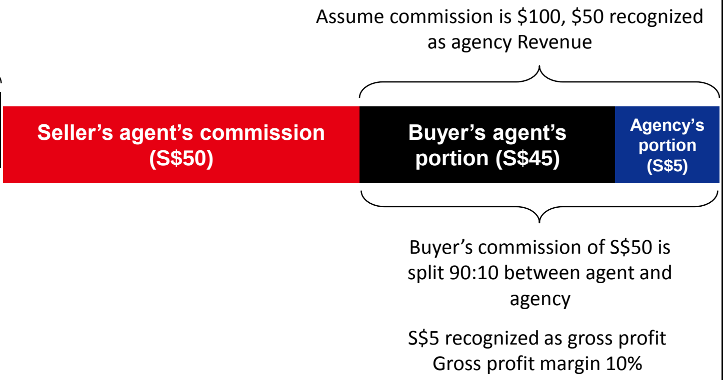
For resale transactions that are co-brokered by two agents, the commission is usually split evenly. For private properties, the sellers pay 1-2% commission to the seller's agency. This amount is then split with the buyer's agency; while the split would typically be 50:50, this amount is negotiable between the two agents. The buyer pays nothing regardless of whether they are using an agent or not. The amounts paid to the seller's and buyer's agencies are then split in a 90:10 ratio between the respective agent and agency.

Figure 15: Co-broking commission from a seller's agent's perspective



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: Co-broking commission from a buyer's agent's perspective



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the example illustrated above, assuming commission received is S$100 and is evenly split between the seller's and buyer's agents, the agency of the seller's agent recognises revenue of S$100 and a gross profit of S$5 leading to a gross profit margin of 5%. For the same transaction, the agency of the buyer's agent recognises revenue of S$50 and a gross profit of S$5 leading to a gross profit margin of 10%.

- **Leasing** – Property agents are paid a commission upon successful leasing of a residential unit. While the typical commission payable tends to be one month's rent for a 2-year lease and 0.5 month's rent for a 1-year lease, the actual commission can vary depending on property type and complexity & urgency of transaction. Similar to the secondary market, this commission paid is then split between the agent and the agency in a ratio which depends on the cumulative commission tier the agent is on.

Non-brokerage

Training – PROP's training arm is Life Mastery Academy, which provides training to individuals who intend to pursue careers as real estate agents to meet the licensing and registration framework of the Council for Estate Agencies (CEA). It is also an accredited provider of continuing professional development courses by the CEA. The current regulatory framework requires all practicing agents in Singapore to undertake a minimum of six hours of learning activities per calendar year. This provides the Life Mastery Academy with a captive market from which to collect recurring course fees. In FY16-18, revenue derived from training formed c.0.3% of total revenue.

Property Management – The property management arm under PropNex Property Management aims to be a one-stop professional consultancy to manage boutique and high-end condominiums. Services provided include building diagnostics, facilities management and project management. Notable properties managed by PROP in Singapore include Canberra Residences, Orchid Park and Dairy Farm Estate. In FY16-18, revenue derived from property management formed c.0.6-0.8% of total revenue.

Real Estate Consultancy – The real estate consultancy arm was established in 2018 to provide auction and corporate sales services and investment or en bloc services. The corporate sales and auction services department undertakes transactions across all real estate segments including industrial and commercial space in addition to residential property. In Feb 2019, PROP launched the first HDB Auction service as a means to tap into the large number of flats reaching their 5-year Minimum Occupation Period in 2019. The service offers an alternative option to HDB owners to market their flats and assist them in the price discovery process. These consultancy services form part of the brokerage services PROP offers to complement the existing services which PROP provides.

SWOT ANALYSIS

Figure 17: SWOT Analysis

Strengths	Opportunities
Dominant market position leads to economies of scale	Potential expansion into other regoinal markets
Net cash position provides flexible options	Inorganic growth through acquisition of agencies
Strong focus on education helps to attract agents and customers	Investment in technology
Weaknesses	**Threats**
Lack of presence outside of Singapore leads to concentration risk	Increased market competition
Low commission structure compared to other regional markets	Disruption from technological advances
	Policy and regulatory changes (ie. Property cooling measures)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

KEY RISKS

High exposure to the cyclical residential property market – PROP is a close proxy to the residential property market in Singapore and could be negatively impacted by macroeconomic shocks affecting the residential property market in Singapore.

Regulatory risk – Policy changes from the Singaporean government could negatively impact the residential property market. In Jul 2018, the cooling measures announced led to a more than 20% decline in the share price of PROP due to the anticipated drop in volume and value of residential property transactions.

Technological disruption – Direct home sale portals like OhMyHome and DirectHome allow buyers and sellers to transact properties without an agent. The absence of agents significantly brings down the cost. The direct transaction method reduces the importance of agents as an intermediary, in our view.

Ability to attract and retain talent – The agency agreements do not restrict agents from leaving on short notice and joining competitors. There is strong competition for high-performing agents in the industry, which is characterised by high levels of agent turnover. As PROP relies heavily on commissions generated by its agents, the inability to attract and retain talented agents could have a significant adverse impact on its business.

Reputation risk – Operating in an industry where integrity and trust are paramount, PROP is exposed to risks that could undermine the public perception of the company. This includes agent and employee misconduct, adverse regulatory incidents and negative publicity or speculation.

Expansion risk – PROP has historically conducted its business in Singapore only and could face the risk of being unable to adapt its business model to suit foreign markets. Apart from regulatory barriers, PROP could also face issues regarding different cultures and legal systems where industry practices may not be fully aligned with the company's own.

FINANCIALS

Earnings seasonality

Revenue experiences seasonality with 1Q being the weakest quarter due to revenue recognition for transactions completed during the Christmas, New Year and Chinese New Year holiday periods. Other notable periods with lower transactions are the month of June due to the long school holidays and in August which coincides with the Hungry Ghost Festival.

Projected to maintain market share in FY19F…

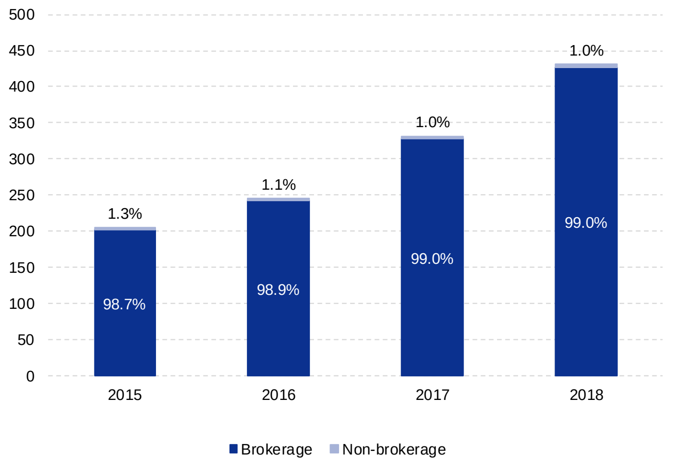
The brokerage segment has historically made up the majority (c.99%) of PROP revenue. In FY18, it experienced a 30% yoy increase in revenue due to the increase in salesforce from 6,684 in Jan 2018 to 7,771 in Jan 2019. Revenue dipped in 4Q18 and 1Q19 due to the impact of the property cooling measures in Singapore which were implemented in 3Q18. Revenue recognition tends to happen 2-3 months after a sales transaction is booked due to the time required to process the various sale documents.

We expect project marketing volume and price to grow in FY19-21F while PROP maintains its market share. For its agency services segment, we expect prices to trend upwards. While we think HDB resale and leasing volumes can achieve yoy growth, we expect the private resale market to be weaker.

…while gross margins may slip due to commission split structures

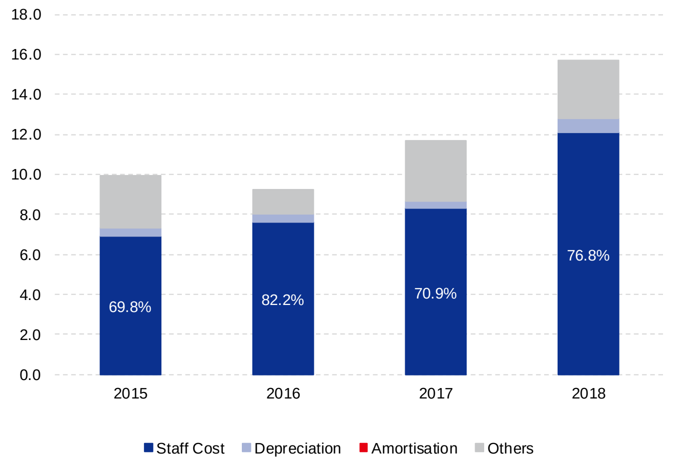
We project overall gross margins to decline yoy in FY19F before stabilising from from FY20F onward. We think gross margins could increase slightly due to the higher proportion of income from project marketing but this is offset by the increased commission rates for agents from developers. The inverse relationship between gross margins and commission rates is due to the fixed component that PROP takes out of the overall commission; this fixed component becomes a smaller proportion of total commission.

Figure 18: PROP's revenue breakdown by source (S$m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 19: Breakdown of operating expenses for PropNex (S$m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sensitivity analysis

In terms of sensitivity of earnings to changes in market conditions such as transaction value and market share, we estimate that a 5% change in transaction value in Singapore would shift PROP's FY19F EPS by 1.4% and TP by 1.4%. Conversely, a 1% pt move in market share in Singapore would change PROP's net profit by 1.7% and TP by 1.7%, based on our estimates.

7.2% yield sustained by cash hoard

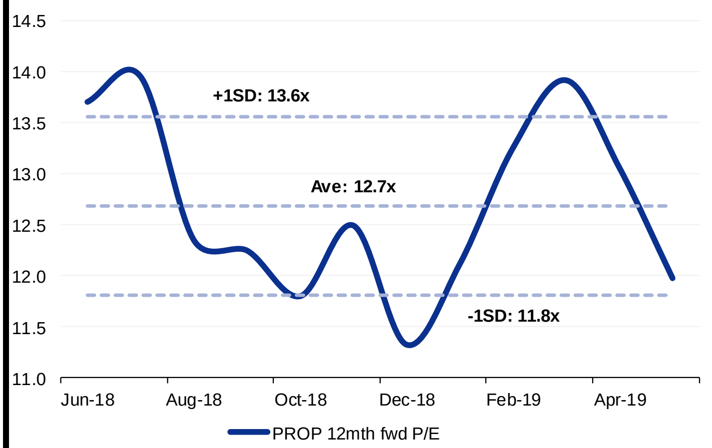
PROP does not have a fixed dividend policy but paid out a final dividend of 1.5 Scts and a special dividend of 2.0 Scts for FY18; this translated into a payout ratio of c.66.7%. During the IPO, PROP declared an intention to distribute at least 50% of the profit attributable to owners for the period from IPO to 31 Dec 2018 and for FY19. In FY19-21F, we expect a flat 3.5 Scts dividend to be paid out p.a., representing a 71-78% payout ratio which translates into a yield of 7.2% based on the current share price. We think this is reasonable even if earnings fluctuate as we believe PROP has sufficient cash to maintain its absolute dividend and increase its payout ratio. In addition, we do not think that PROP has substantial capex requirements due to its asset-light nature.

VALUATION AND RECOMMENDATION

PROP's share price is down 30% from its post-listing high and is currently trading at 12.0x 12-month forward P/E (vs. its historical average of 12.7x since listing in Jul 2018 until May 2019) and 2.6x 12-month forward P/BV (vs. its historical average of 3.5x since listing in Jul 2018 until May 2019. Based on the current share price, PROP is trading at close to its -1 s.d. 12-month forward P/E band.

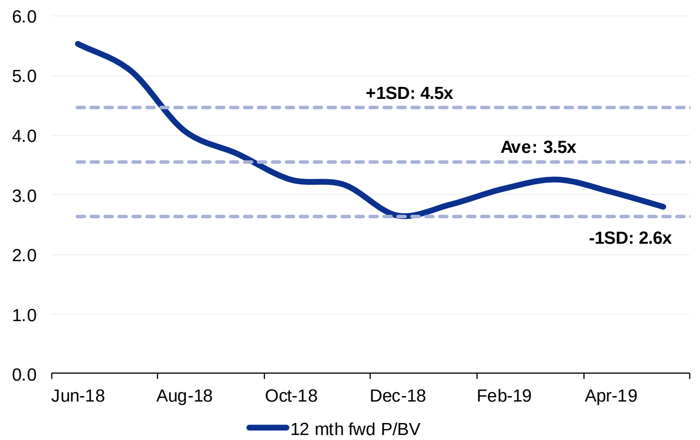
We value PROP using a blend of the P/E multiple and the Discounted Cash Flow (DCF) methodologies. On a P/E basis, we ascribe a multiple of 10x FY20F P/E, which is in line with -1 s.d. of our cyclical small-cap universe valuation. This implies a TP of S$0.44. Our DCF approach implies a target price of S$0.83 assuming stable market share and sales volume from FY21F onwards. We also assumed a 9.60% cost of equity and 1% terminal growth. This translates into a blended target price of S$0.64 and a 12-month forward P/E of 14.7x.

Figure 20: PROP 12mth fwd P/E (x)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 21: PROP 12-mth fwd P/BV (x)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 22: Discounted Cash Flow (DCF) calculations

DCF Assumptions				
Cost of equity	9.60%			
Rf	2.40%			
Market risk premium	6.00%			
Beta	1.20			
Terminal growth	1%			

DCF	2019F	2020F	2021F	Terminal Value
EBIT (1- Tax) (S$m)	16.24	16.76	17.48	
Depreciation&Amort (S$m)	3.31	3.18	3.08	
Working capital changes (S$m)	1.62	-0.04	0.08	
Capex (S$m)				
FCF (S$m)	17.93	19.98	20.48	288.16
Discount factor	0.91	0.83	0.76	
PV FCF (S$m)	16.36	16.63	15.55	183.48
Sum of PV FCF (S$m)	232.02			
Net Cash (Net Debt) (S$m)	75.67			
Equity value (S$m)	307.69			
Number of shares (m)	370.00			
Value per share (S$)	**0.83**			

SOURCES: CGS-CIMB RESEARCH

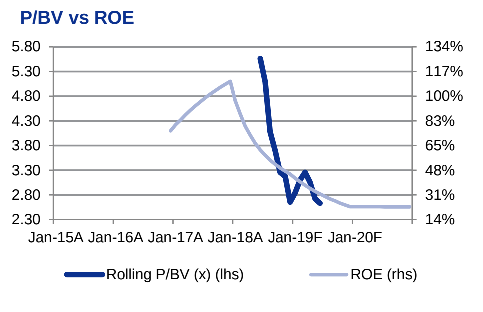
Upside catalysts could come from a recovery in the Singapore residential market while downside risks include a longer-than-expected time for improvement of transaction volumes.

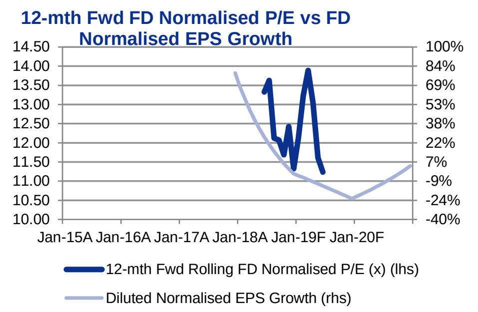
Figure 23: Singapore developers peer comparison table

Company	Bloomberg Ticker	Recom.	Price (lc)	Tgt Px (lc)	Mkt Cap (US$ m)	Core P/E (x) FY19F	Core P/E (x) FY20F	Core P/E (x) FY21F	RNAV FY20F	Prem./(Disc.) to RNAV (%)	P/BV (x) FY19F	P/BV (x) FY20F	Div. Yield (%) FY19F	Div. Yield (%) FY20F
APAC Realty Ltd	APAC SP	Add	0.49	0.67	127	8.8	8.5	8.0	n.a.	n.a.	1.18	1.13	7.5%	7.8%
Aspen (Group) Holdings Ltd	ASPEN SP	Add	0.14	0.29	101	5.6	na	na	0.53	-73%	1.04	na	3.6%	na
CapitaLand	CAPL SP	Add	3.23	3.56	9,849	13.8	13.9	13.8	5.48	-41%	0.69	0.67	3.8%	3.8%
City Developments	CIT SP	Add	8.26	10.66	5,471	15.5	17.2	17.3	16.40	-50%	0.75	0.73	2.4%	2.4%
Frasers Property Limited	FPL SP	Add	1.80	2.08	3,839	11.5	14.6	18.0	3.21	-44%	0.53	0.52	4.8%	4.8%
Guocoland	GUOL SP	Add	1.96	2.25	1,694	18.8	18.2	15.4	3.76	-48%	0.52	0.52	3.6%	3.6%
Ho Bee Land	HOBEE SP	Add	2.35	3.00	1,142	16.6	12.1	na	4.99	-53%	0.47	0.46	4.3%	4.3%
Hongkong Land Holdings Ltd	HKL SP	Add	6.69	9.40	15,740	15.1	12.6	12.5	13.50	-50%	0.41	0.40	3.4%	3.7%
Perennial Real Estate Holdings	PREH SP	Add	0.62	0.99	752	171.5	95.1	na	1.99	-69%	0.38	0.38	1.6%	1.6%
Propnex Ltd	PROP SP	Add	0.49	0.64	131	11.4	11.1	10.6	n.a.	n.a.	2.58	2.46	7.2%	7.2%
United Engineers	UEM SP	Add	2.51	2.94	1,169	45.4	45.5	na	3.46	-28%	0.81	0.80	1.6%	2.0%
UOL Group	UOL SP	Add	6.80	8.45	4,187	15.8	15.2	17.2	12.08	-44%	0.58	0.57	2.6%	2.6%
Wing Tai Holdings	WINGT SP	Hold	2.02	1.97	1,132	22.5	12.1	10.2	3.58	-44%	0.46	0.45	4.0%	4.0%
Singapore average						**15.2**	**14.4**	**14.1**		**-46%**	**0.53**	**0.51**	**3.4%**	**3.5%**

SOURCES: CGS-CIMB RESEARCH

BY THE NUMBERS





Profit & Loss

(S$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	**331.9**	**431.5**	**422.6**	**425.0**	**436.5**
Gross Profit	**33.8**	**41.4**	**36.8**	**37.4**	**38.5**
Operating EBITDA	**22.4**	**26.4**	**20.2**	**20.7**	**21.4**
Depreciation And Amortisation	(0.4)	(0.7)	(0.6)	(0.5)	(0.4)
Operating EBIT	**22.1**	**25.6**	**19.6**	**20.2**	**21.1**
Financial Income/(Expense)	0.1	0.7	1.4	1.5	1.6
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**22.2**	**26.4**	**21.0**	**21.7**	**22.7**
Exceptional Items					
Pre-tax Profit	**22.2**	**26.4**	**21.0**	**21.7**	**22.7**
Taxation	**(3.3)**	**(4.4)**	**(3.6)**	**(3.7)**	**(3.9)**
Exceptional Income - post-tax					
Profit After Tax	**18.9**	**21.9**	**17.4**	**18.0**	**18.8**
Minority Interests	(2.6)	(2.5)	(1.7)	(1.8)	(1.9)
Pref. & Special Div	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	**16.3**	**19.4**	**15.7**	**16.2**	**17.0**
Normalised Net Profit	18.9	21.9	17.4	18.0	18.8
Fully Diluted Normalised Profit	**16.3**	**19.4**	**15.7**	**16.2**	**17.0**

Cash Flow

(S$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	22.44	26.39	20.16	20.65	21.42
Cash Flow from Invt. & Assoc.	0.03	0.00	0.00	0.00	0.00
Change In Working Capital	1.10	(0.46)	1.62	(0.04)	0.08
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.40	0.81	0.62	0.50	0.40
Other Operating Cashflow	0.13	(0.61)	(1.42)	(1.53)	(1.64)
Net Interest (Paid)/Received	0.12	0.73	1.42	1.53	1.64
Tax Paid	(1.12)	(2.97)	(3.57)	(3.69)	(3.86)
Cashflow From Operations	**23.11**	**23.90**	**18.83**	**17.42**	**18.04**
Capex	(1.47)	(1.85)	0.00	0.00	0.00
Disposals Of FAs/subsidiaries	0.00	0.01	0.00	0.00	0.00
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments	(0.03)	(0.21)	0.00	0.00	0.00
Other Investing Cashflow	0.12	0.73	1.42	1.53	1.64
Cash Flow From Investing	**(1.38)**	**(1.32)**	**1.42**	**1.53**	**1.64**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	0.00	40.89	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(10.76)	(13.30)	(12.95)	(12.95)	(12.95)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(10.76)**	**27.59**	**(12.95)**	**(12.95)**	**(12.95)**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(S$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	27.68	75.67	82.39	87.92	94.29
Properties Under Development					
Total Debtors	62.93	63.46	60.38	60.71	62.36
Inventories					
Total Other Current Assets	0.00	0.00	0.00	0.00	0.00
Total Current Assets	**90.60**	**139.13**	**142.76**	**148.63**	**156.65**
Fixed Assets	1.75	2.79	2.20	1.74	1.37
Total Investments	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Intangible Assets	0.01	0.19	0.16	0.13	0.10
Total Other Non-Current Assets	0.00	0.00	0.00	0.00	0.00
Total Non-current Assets	**1.76**	**2.98**	**2.36**	**1.87**	**1.47**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	67.21	65.76	64.30	64.60	66.33
Other Current Liabilities	3.84	5.78	5.78	5.78	5.78
Total Current Liabilities	**71.05**	**71.55**	**70.09**	**70.38**	**72.12**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.00	0.00	0.00	0.00	0.00
Total Non-current Liabilities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total Provisions	0.14	0.17	0.17	0.17	0.17
Total Liabilities	**71.20**	**71.71**	**70.26**	**70.55**	**72.28**
Shareholders' Equity	**18.10**	**66.88**	**69.61**	**72.88**	**76.89**
Minority Interests	3.06	3.52	5.26	7.07	8.95
Total Equity	**21.16**	**70.40**	**74.87**	**79.95**	**85.84**

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	35.4%	30.0%	(2.1%)	0.6%	2.7%
Operating EBITDA Growth	118%	18%	(24%)	2%	4%
Operating EBITDA Margin	6.76%	6.12%	4.77%	4.86%	4.91%
Net Cash Per Share (S$)	0.08	0.20	0.22	0.24	0.25
BVPS (S$)	0.05	0.18	0.19	0.20	0.21
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	14.7%	16.8%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	NA	66.7%	82.6%	79.8%	76.4%
Accounts Receivables Days	53.32	53.45	53.47	52.14	51.45
Inventory Days	-	-	-	-	-
Accounts Payables Days	63.19	62.20	61.52	60.86	60.04
ROIC (%)	(720%)	(403%)	(383%)	(275%)	(270%)
ROCE (%)	129%	57%	29%	28%	27%
Return On Average Assets	26.3%	18.1%	11.1%	11.2%	11.1%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Unbooked Presales (m) (S$)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (area: m sm)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (units)	N/A	N/A	N/A	N/A	N/A
Unsold attrib. landbank (area: m sm)	N/A	N/A	N/A	N/A	N/A
Gross Margins (%)	10.2%	9.6%	8.7%	8.8%	8.8%
Contracted Sales ASP (per Sm) (S$)	N/A	N/A	N/A	N/A	N/A
Residential EBIT Margin (%)	N/A	N/A	N/A	N/A	N/A
Investment rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Residential rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Invt. properties rental margin (%)	N/A	N/A	N/A	N/A	N/A
SG&A / Sales Ratio (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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	Rating Distribution (%)	Investment Banking clients (%)
Add	57.8%	4.0%
Hold	27.0%	2.1%
Reduce	15.2%	0.4%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** –

Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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- Companies certified by CAC

* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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