nra capital

Regal International Group Ltd.

1Q17 results update
19 June 2017

Overweight

Current Price	**S$0.143**
Fair Value	S$0.300
Up / (downside)	109.8%

Stock Statistics

Market cap	S$28.6m
52-low	S$0.073
52-high	S$0.188
Avg daily vol	83,550
No of share	200.1m
Free float	29%

Key Indicators

ROE 17F	7.9%
ROA 17F	1.7%
RNAV	RM291.4m
P/BK	1.60
Net gearing	122%

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Major Shareholders

Su Chung Jye	62.75%

Historical Chart

Source: Bloomberg

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Delivers on Growth as Profitability Improves

- **Second consecutive quarter of positive profitability.** Regal's 1Q17 results were better than expected. While 1Q17 revenue was equivalent to about 22.5% of our prior forecast, PATMI grew to RM1.77m or 70.8% of our full year forecast. The improved profitability came about as gross margin grew to 31.5% in 1Q17 from 26.8% in 2016. While we were correct to deem 4Q16's gross margin of 46.4% as excessive, we are impressed that Regal managed to maintain gross margin at more than 30% for two quarters.
- **Regal Corporate Park Phase 1 (RCP1) drove 1Q17 results**. RCP1 was completed during 1Q17 and probably contributed for the bulk of revenue recognized during the quarter. Inventories comprising of mainly completed properties and construction materials rose by RM19.5m to RM50.7m during the same period. Given that RCP1 has an estimated GDV of RM49.4m, we reckon that RCP1 was about 60% sold when completed.
- **Remaining units at RCP1 to be progressively sold.** RCP is in the vicinity of the Bandar Samariang township being developed by Cahya Mata Sarawak and Sentoria Group Berhad. The township will host a water theme park to be developed by 2017 to 2018 and ongoing terrace and semi-detached projects by Sentoria in the township have sold well, experiencing take-up rates of 77% to 97%. The entire RCP project differentiates itself by being the key industrial/commercial development in the area. We reckon that RCP will continue to benefit from the development of Bandar Samariang and experience positive sales post-completion.
- **New round of investment to support growth in 2017**. Last month, Regal secured another RM10m of funding from KOJADI, following a RM15m loan in January. Both loans are at an interest rate of 8% and have a term of 3.5 years. The funds will help fund construction and facilitate revenue recognition from sold units. Most of the remaining projects such as Airtrollis will continue to contribute revenue on an ongoing basis, based on their percentages of completion. Phase 3 of Airtrollis has already obtained a sales commitment of RM90m.
- **Maintain Overweight (high return / high risk).** We revised forecast revenue growth in 2017 from 20% to 10% as 1Q17 revenue grew at a rate of only 8% over the 2016 quarterly average, but raised gross margin assumption from 22.5% to 26.8%, matching that of 2016. We keep our valuation unchanged, but caution that some time will still be needed to sell the completed properties. That said, Regal's trailing 12-month revenue of RM132m is similar to that of other Sarawak developers such as Ibraco Berhad which has a market capitalisation of S$144m. Conversely, Regal trades at a significantly lower market capitalisation of S$28.6m.

Key Financial Data (RM m, FYE Dec)	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Sales	34.8	149.0	163.9	180.3	198.3
Gross Profit	1.1	40.0	44.0	48.4	53.2
Net Profit	-72.4	-21.3*	4.5	4.7	5.7
EPS (sen)	-35.5	0.2	2.2	2.4	2.9
EPS growth (%)	nm	nm	1080.4	5.3	21.5
PER (x)	nm	231.81	19.64	18.66	15.35
NTA/share (sen)	40.3	27.2	29.5	31.8	34.7
DPS (sen)	0	0	0	0	0
Div Yield (%)	0	0	0	0	0

*includes loss on disposal of discontinued operation. *Source: Company, NRA Capital forecasts*

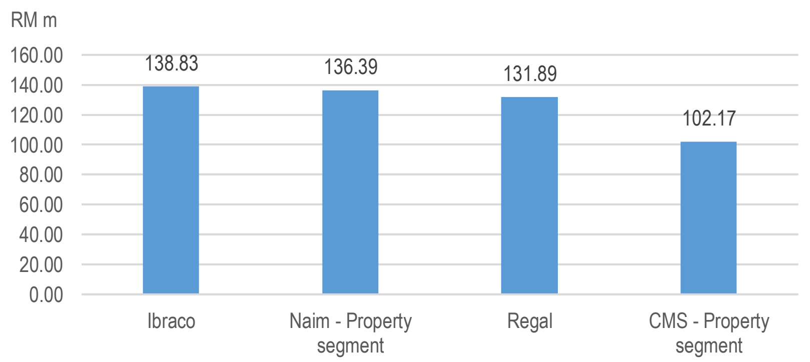
Results Comparison

FYE Dec (RM m)	1Q17	1Q16	yoy % chg	4Q16	QoQ % chg	Remarks
Revenue	40.4	57.5	*-30*	35.6	*13*	In-line. RM40.4m = 23% of prior forecast
Operating costs	(34.3)	(54.5)	*-37*	(29.7)	*15*	
EBITDA	6.1	3.0	*102*	5.9	*3*	Better than expected. Prior FY17 forecast=RM10.9m
EBITDA margin (%)	*15.1*	*5.2*	*10*	*16.5*	*-1*	
Depn & amort.	(1.0)	(1.4)	*-25*	(1.0)	*2*	
EBIT	5.1	1.6	*209*	4.9	*4*	
Interest expense	(0.9)	(0.6)	*40*	(1.2)	*-29*	
Interest & invt inc	(0.2)	0.6	*-124*	(0.2)	*3*	
Associates' contrib	0.2	0.6	*-72*	(1.1)	*NM*	
Exceptionals	0.0	0.0	*NM*	0.0	*NM*	
Pretax profit	4.2	2.2	*88*	2.4	*78*	
Tax	(1.5)	(0.5)	*235*	(1.9)	*-19*	
Tax rate (%)	36.2	20.3	*16*	78.9	*-43*	
Profit from continuing operations	**2.7**	**1.8**	***51***	**0.5**	***436***	
Profit from discontinued operations	0.0	(1.5)	*NM*	(0.8)	*NM*	
Minority interests	(0.9)	(0.2)	*325*	0.5	*NM*	
Net profit	**1.8**	**0.1**	*NM*	**0.2**	*635*	
EPS - continuing operation (cts)	0.89	0.88	*1*	0.52	*71*	

Source: Company, NRA Capital

Comparable in scale to leading Sarawak developers. On a trailing 12-month basis, Regal's revenue amounted to RM131.9m which is similar to that of other Sarawak developers such as Ibraco Berhad, Naim Holdings Berhad's property segment and Cahya Mata Sarawak's (CMS) property segment. Naim and CMS are diversified companies with interests in other businesses such as construction in the case of Naim and construction materials for CMS.

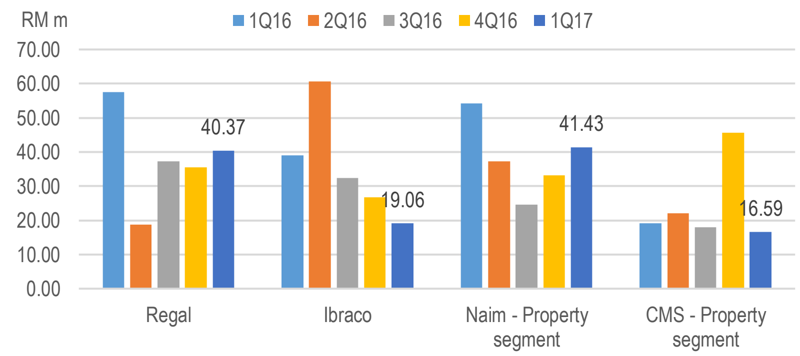
Figure 1: Trailing 12-month revenue



Source: Respective companies' exchange filings, NRA Capital

Steady revenue growth suggests market share gains ahead of established names. In fact, the quarterly revenue of the four companies suggest that Regal and Naim have been steadily growing ahead of Ibraco and CMS. Regal's 1Q16's revenue reached RM57.5m in 1Q16 owing to the completion of Tondong Heights Phases 1 and 3. Thereafter, Regal's revenue has been growing steadily from RM18.69m in 2Q16 to RM40.37m in 1Q17, averaging at approximately RM32.97m per quarter. Regal' growth in turn vindicates its strategy of having a portfolio of large and diversified projects.

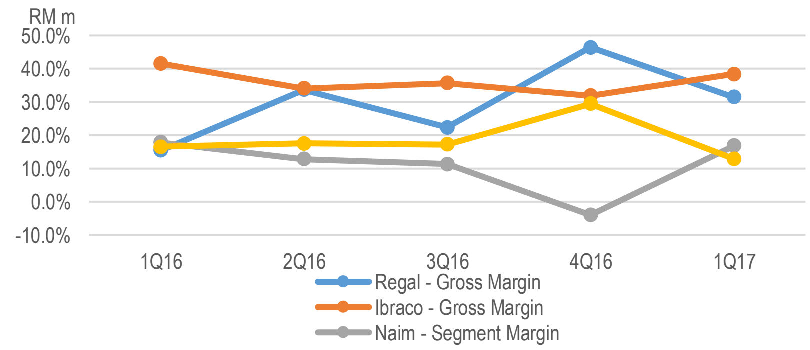
Figure 2: Quarterly Revenue



Source: NAPIC, NRA Capital

Gross margins are in line with the industry. We also noted the steady improvement in Regal's gross margins, but noted that they are broadly in line with that of Ibraco the only pure play developer in our basket. In fact, Regal's gross margins previously were too low. Regal's net margins are relatively weaker, whereas the industry average is about 10% to 20%. We reckon that this is in part due to higher corporate costs, especially with Regal's listing in Singapore and exchange differences.

Figure 3: Margin Comparison



Source: NAPIC, NRA Capital

Trading at lower market capitalisation than peers. Despite the similarity in size, gross margins and steady growth, Regal trades at S$28.6m market capitalisation, while its peers trade at S$100.01m to S$144.25m. Regal's low market capitalisation may seem justified as it is trading at a similar P/E with its peers. However, we argue that FY17 earnings will still not reflect the longer-term potential of the company, given its pipeline of projects such as Regal Corporate Park Phases 1 and 2, Tropics City and Airtrollis. Regal has obtained a sales commitment of RM90m for Phase 3 of Airtrollis, which further enhances forward visibility. In other words, Regal may deserve to trade at higher multiples if we factor in upside from its future projects.

Figure 4: Peer Comparison

	Mkt Cap (S$m)	P/S	P/E	P/BV
Ibraco Berhad	144.25	3.20	19.89	1.37
NAIM Holdings Berhad	100.01	0.77	NA	0.24
Cahya Mata Sarawak Berhad	1430.19	2.96	23.07	1.98
Average	**558.15**	**2.31**	**21.48**	**1.19**
Regal International	28.62	0.67	19.64*	1.60
*Based on FY17F EPS				
Valuation – based on respective peer averages (S$m)		**98.85**	**31.30**	**21.42**
			Mean	**50.5**
			Per share	**S$0.252**

Source: Bloomberg (extracted on 11 June), NRA Capital

Figure 5: Summary of Regal's Major Projects and Estimates

Major Ongoing Projects	**Est. GDV**	**Gross Profit**	**PAT**	
Regal Corporate Park Phase 1	19.76	6.50	3.39	Estimated balance units
Airtrollis Phase 1 (est. to be recognized)	46.2	6.60	1.23	POC, substantially recognized in 2015, full GDV = 115.5m
Treetops@Kemena	202.2	44.93	18.53	Completion in 2018
Tropics City SOHO and apartments	198.9	68.09	35.50	Completion in 2019
Other Projects	**Est. GDV**	**Gross Profit**	**PAT**	
Tondong Heights Phase 2	22.97	5.91	2.71	COC, completion in 2018
72 Residences Block 2	28.9	8.67	4.34	COC, completion in 2017
Airtrollis Phases 2 and 3	220.8	31.54	7.1	POC, completion in 2018, 2019
Airtrollis shophouse and malls	25.8	4.77	1.63	COC, completion in 2019 or later
Tropics City Mall	110.64	55.32	33.19	COC, completion in 2019 (held as investment property)
Regal Corporate Park Phase 2 and 3	328.1	173.93	105.83	COC, completion in 2020 onwards
Minor projects				
- COC in 2017	114.12	19.87	6.34	
- POC, completion in 2017	6.88	1.45	0.57	
- COC in 2018	36.31	15.52	8.91	
- POC, completion in 2018	64.77	14.65	6.13	
-POC, completion in 2019	22.78	3.31	0.78	
		Total net development value (RM m)	**236.2**	Exclude completed projects
		Book value of Regal as of 1Q17 (RM m)	55.2	
		RNAV (RM m)	291.4	
		Discount	35.1%	
		Discounted RNAV (RM m)	189.1	
		Number of shares (m)	200.11	
		Value per share (RM)	0.945	
		Value per share (S$)	**0.307**	Previous value per share was S$0.300. The difference is mainly due to the appreciation of the Ringgit versus the SGD. From 3.19 in our last report to 3.08 currently. We decide to maintain our valuation at S$0.300.

Source: Company, NRA Capital *Key costs and ASP assumptions are provided in report dated 14 July 2016

We noted that the peer valuation of Regal ranges from S$21.4m to S$98.85m, or 10.7 to 49.4 cents per share (mean of S$50.5m or S$0.252 per share). Conversely, our RNAV approach yields a value of S$0.307, which is 22% above the peer valuation mean and is not unreasonable. On balance, we decided to keep our valuation of Regal unchanged at S$0.300,

Profit & Loss (RM m, FYE Dec)	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Revenue	34.8	149.0	163.9	180.3	198.3
Operating expenses	-57.1	-138.3	-147.9	-161.4	-176.1
EBITDA	-22.4	10.7	16.0	18.9	22.3
Depreciation & amortisation	-4.7	-4.1	-2.5	-2.6	-2.7
EBIT	-27.1	6.6	13.5	16.4	19.6
Non-operating income/(expenses)	-42.7	-2.8	-4.6	-7.0	-8.2
Associates' contribution	-1.5	-0.3	0.2	0.2	0.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	**-71.3**	**3.5**	**9.0**	**9.5**	**11.5**
Tax	0.4	-3.2	-2.3	-2.4	-2.9
Minority interests	-0.2	0.0	-2.3	-2.4	-2.9
Net profit	**-71.1**	**0.4**	**4.5**	**4.7**	**5.7**
Shares at year-end (m)	200.1	200.1	200.1	200.1	200.1

Balance Sheet (RM m, as at Dec)	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Fixed assets	22.7	12.4	13.0	13.4	13.7
Goodwill and intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	17.7	16.1	16.2	16.4	16.6
Total non-current assets	**40.4**	**28.5**	**29.2**	**29.8**	**30.2**
Cash and equivalents	22.5	15.2	22.4	35.5	34.2
Stocks	36.7	31.2	31.2	31.2	31.2
Trade and other debtors	73.6	66.4	80.8	88.9	97.8
Development properties and others	113.5	109.6	120.3	132.2	145.2
Total current assets	**246.3**	**222.3**	**254.8**	**287.7**	**308.4**
Trade and other creditors	61.1	88.6	82.1	90.3	99.4
Short-term borrowings	31.3	24.3	35.5	41.5	41.5
Other current liabilities	96.5	47.9	50.8	54.0	57.5
Total current liabilities	**188.9**	**160.8**	**168.4**	**185.8**	**198.3**
Long-term borrowings	15.7	34.5	53.3	62.3	62.3
Other long-term liabilities	1.3	0.7	0.7	0.7	0.7
Total long-term liabilities	**16.9**	**35.2**	**54.0**	**63.0**	**63.0**
Shareholders' funds	**80.5**	**54.5**	**59.0**	**63.7**	**69.4**
Minority interests	0.4	0.4	2.6	5.0	7.9
NTA/share (RM)	0.40	0.272	0.295	0.318	0.347
Total Assets	**286.7**	**250.8**	**284.0**	**317.5**	**338.6**
Total Liabilities + S'holders' funds	**286.7**	**250.8**	**284.0**	**317.5**	**338.6**

Cash Flow (RM m, FYE Dec)	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Pretax profit (w/o exceptional items)	-72.3	-18.1	9.0	9.5	11.5
Depreciation & non-cash adjustments	53.5	31.1	7.0	9.5	10.8
Working capital changes	7.2	-32.4	-28.8	-8.5	-9.4
Cash tax paid	-0.6	-2.6	-2.3	-2.4	-2.9
Cash flow from operations	**-12.2**	**-22.1**	**-15.1**	**8.1**	**10.0**
Capex	-3.2	-2.6	-3.0	-3.0	-3.0
Net investments & sale of FA	-1.4	11.3	0.0	0.0	0.0
Others	3.2	0.0	0.0	0.0	0.0
Cash flow from investing	**-1.4**	**8.8**	**-3.0**	**-3.0**	**-3.0**
Debt raised/(repaid)	6.5	10.6	30.0	15.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Cash interest & others	-3.9	-2.2	-4.7	-7.1	-8.3
Cash flow from financing	**2.6**	**8.4**	**25.3**	**7.9**	**-8.3**
Change in cash	**-11.0**	**-4.9**	**7.3**	**13.0**	**-1.2**
Change in net cash/(debt)	**-22.0**	**-19.2**	**-22.7**	**-2.0**	**-1.2**
Ending net cash/(debt)	**-24.5**	**-43.6**	**-66.3**	**-68.3**	**-69.6**

KEY RATIOS (FYE Dec)	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Revenue growth (%)	-63.5	328.7	10.0	10.0	10.0
EBITDA growth (%)	NM	NM	49.5	18.6	17.5
Pretax margins (%)	-205.2	2.4	5.5	5.3	5.8
Net profit margins (%)	-204.6	0.3	2.7	2.6	2.9
Effective tax rates (%)	NM	89.4	25.0	25.0	25.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-63.5	0.6	7.9	7.7	8.6
Free cash flow yield (%)	-15.4	-15.1	-20.5	5.8	8.0

Source: Company, NRA Capital forecasts