

Regal International Group Ltd.

Overweight

Current Price	S\$0.135
Fair Value	S\$0.300
Up / (downside)	122%

Stock Statistics

Market cap	S\$29.2m
52-low	S\$0.073
52-high	S\$0.165
Avg daily vol	18,701
No of share	224.9m
Free float	29%

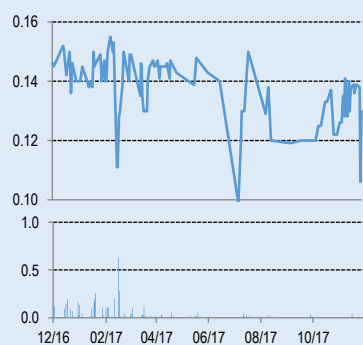
Key Indicators

ROE 17F	6.0%
ROA 17F	1.4%
RNAV	RM311.0m
P/BK	1.35
Net gearing	136%

Major Shareholders

Su Chung Jye	55.83%
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Historical Chart



Source: Bloomberg

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Maintains Profitability with Tight Cost Control

- **Commendable 9M17 performance.** Year-to-date, Regal performed commendably as gross profit rose from RM23.5m in 9M16 to RM32.4m in 9M17 (+38%), despite revenue dropping by 7%. The lower revenue could be due to fewer completed projects in 2017, whilst the company maintained tight cost control which raised gross margin from 20.7% in 9M16 to 30.5% in 9M17. For 3Q17, gross margin was still a respectable 27.5%, versus 31.5% in 1Q17 and 32.8% in 2Q17 (averaging out to 30.5%).
- **But finance costs dragged on 3Q17 profitability.** 9M17 PATMI of RM3.3m was equivalent to 73% of our previous forecast of RM4.5m for the full year and can be said to be within expectations. However, the company's performance in 4Q17 may be affected by higher finance costs. Profit from continuing operations fell from RM1.05m in 2Q17 to RM0.27m in 3Q17 partly due to higher finance costs which rose from RM0.9m to RM1.5m during the same period and the absence of RM0.3m of foreign currency gains. On the other hand, we expect the company to perform better in 4Q17 compared to 3Q17, as the RM has appreciated by about 2% to 3% against the SGD from the end of September to-date, leading to potential translation gains.
- **Launched new Tropics City block in November.** Regal recently launched block D of its large project Tropics City – a mixed development comprising of SOHO, residential and commercial units. Tropics City is notable for its location at Jalan Song – a mature residential and lifestyle vicinity within Kuching. Therefore, we can expect healthy demand for Tropics City. Blocks A, C and E are currently under varying stages of construction.
- **Acquisition of new project with the issue of 24.8m new shares.** In October, Regal completed the acquisition of Wisma Majuniaga Sdn Bhd for RM11.5m via the issue of 24.8m new shares at S\$0.15 each. Wisma owns the development rights to build two blocks of residential/retail units with a total of 515 units in the Samrahan District, near Kuching. Construction is expected to commence from 2017 to 2020. The acquisition cost works out to about RM22,330 per unit, compared to an expected average selling price of about RM340,000 per unit. We estimate that this project has a gross development value of RM174m and net development value of RM19.6m.
- **Beneficiary of inherent potential of Sarawak.** Sarawak is rich in natural resources, land and labour – which explains why Regal has been traversing the region on trade missions, e.g. it organised a three-day festival in Nanning, China in November, which was attended by 165,000 people. Looking ahead, we expect Regal Corporate Park and Tondong Heights to remain as key revenue drivers while the group accumulates pre-sales from the Tropics City and Treetops@Kemena projects.

Key Financial Data (RM m, FYE Dec)	2015	2016	2017F	2018F	2019F
Sales	34.8	149.0	141.3	155.4	171.0
Gross Profit	1.1	40.0	42.4	46.6	51.3
Net Profit	-72.4	-21.3	3.6	3.9	5.0
EPS (sen)*	-35.5	0.2	1.7	1.7	2.2
EPS growth (%)	nm	nm	899.3	1.3	28.0
PER (x)	nm	239.82	24.00	23.70	18.52
NAV/share (sen)	40.3	26.4	30.2	31.9	34.1
DPS (sen)	0	0	0	0	0
Div Yield (%)	0	0	0	0	0

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

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Results Comparison

FYE Dec (RM m)	3Q17	3Q16	yoy %	2Q17	QoQ %	Remarks
			chg		chg	
Revenue	35.2	37.2	-5	30.4	16	
Operating costs	(31.6)	(35.3)	-10	(26.8)	18	
EBITDA	3.6	2.0	86	3.6	-0	
EBITDA margin (%)	10.3	5.3	96	12.0	-14	
Depn & amort.	(1.4)	(1.1)	25	(1.3)	8	
EBIT	2.2	0.8	171	2.3	-5	
Interest expense	(1.5)	(0.7)	123	(0.9)	64	
Interest & invt inc	(0.1)	0.0	NM	0.5	NM	
Associates' contrib	0.5	(0.1)	NM	(0.0)	NM	
Exceptionals	0.0	0.0	NA	0.0	NA	
Pretax profit	1.1	0.1	NM	1.9	-42	
Tax	(0.8)	(0.5)	61	(0.8)	0	
Tax rate (%)	(75.3)	(480.4)	-84	(43.8)	72	
Profit from continuing operations	0.3	(0.4)	-167	1.1	-74	
Profit from discontinued operations	NA	(0.4)	NA	0.0	NA	
Minority interests	(0.1)	(0.3)	-44	0.3	-146	
Net profit	0.1	(1.0)	-112	1.4	-91	
EPS - continuing operation (cts)	0.14	(0.33)	-142	0.69	-80	

Source: Company, NRA Capital

Effective tax rate remains excessively high. For 3Q17, Regal's effective tax rate rose to 75.3% as compared to 43.8% in 2Q17. In 2016, the effective tax rate reached a high of 89% (3.2m of tax expenses against a net profit from continuing operations of RM3.5m). Malaysia's standard corporate tax rate is only 24%. Applying the standard corporate rate, profit after tax would have been 35% higher at RM5.4m rather than the reported RM3.99m for 9M17.

Updated forecasts to reflect higher margins and slower revenue recognition. In this update, we adjusted FY17 revenue to RM141.3m, given 9M17 revenue of RM106m and 3Q17 revenue of RM35.2m. However, we adjusted model gross margin to 30% to reflect the cost control efforts of the company. This yielded a PATMI forecast of RM3.6m, after deducting effective tax of about 44% (9M17 effective tax rate) and estimated minority interest of about RM1.0m.

Adds new project in Kota Samarahan. The Wisma Majuniaga project is in Kota Samarahan, about 25km to 30km south from Kuching. The Kota Samarahan area is known as the educational hub for Sarawak, hosting institutions such as Universiti Malaysia Sarawak (UNIMAS).

Kota Samarahan is also known as a centre for medical services in Sarawak. Recent news about the area include a joint venture between a local developer and a Chinese provincial government owned enterprise to develop a medical hub in Kota Samarahan.¹ Local politicians have also called for the establishment of a cancer centre near the Sarawak Heart Centre in Kota Samarahan.²

Therefore, Regal's project is timely with increased interest in developing the Kota Samarahan area. The Sarawak government is also looking at building a light rail transit project to link Kuching, Samarahan and Serian, with construction expected to start in 2019.³ Most recently, Sarawak government officials visited China in December to study technologies used in building and operating light rail transit networks.⁴

¹ <http://www.theborneopost.com/2017/08/10/upcoming-hub-brings-in-rm4-bln-to-sarawak/>

² <http://www.theborneopost.com/2017/12/08/dr-sim-proposes-for-cancer-centre-to-be-set-up-in-sarawak/>

³ <http://www.theborneopost.com/2017/11/11/lrt-project-to-start-in-early-2019/>

⁴ <http://www.malaysiandigest.com/news/711730-sarawak-cm-on-5-day-working-visit-to-china.html>

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Adjusted valuation to factor in Wisma Majuniaga project. We estimate that the gross development value of this project by assuming plot ratio of 2.0x and an average selling price of RM500 psf for the residential component and RM1,000 psf for the retail component. We assume that about ten percent of the floor area will be allocated for retail use.

Figure 1: Wisma Majuniaga

	hectares	sq. ft.	Retail	Residential
Land area	1.35	145,313		
Plot ratio, assumed		2		
Gross floor area		290,626	29,063	261,563
No of units		515	52	464
GFA per unit		564	564	564
RM millions			Retail	Residential
Average selling price			RM1,000 psf	RM 500 psf
Gross development value (ASP x GFA)			29.1	145.3
Gross margin @ 30%			8.72	43.59
Less misc costs @ 15% of GDV			-4.4	-21.8
Tax @25%			-1.1	-5.4
Net development value			3.27	16.35
			19.62	

Source: NRA Capital

Figure 2: 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
Wisma Majuniaga Sdn Bhd	174.4	52.31	19.62	POC, Completion in 2020
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)			255.8	Exclude completed projects as of 1Q17
Book value of Regal as of 1Q17 (RM m)			55.2	
RNAV (RM m)			311.0	
Discount			35.1%	
Discounted RNAV (RM m)			201.9	
Number of shares (m)			224.9	
Value per share (RM)			0.897	
Value per share (S\$)			0.297	Round to S\$0.300.

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

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Profit & Loss (RM m, FYE Dec)	2015	2016	2017F	2018F	2019F
Revenue	34.8	149.0	141.3	155.4	171.0
Operating expenses	-58.7	-136.7	-126.8	-137.5	-149.3
EBITDA	-24.0	12.3	14.5	17.9	21.7
Depreciation & amortisation	-3.2	-5.7	-2.5	-2.6	-2.7
EBIT	-27.1	6.6	12.0	15.3	19.0
Non-operating income/(expenses)	-42.7	-2.8	-4.3	-7.0	-8.2
Associates' contribution	-1.5	-0.3	0.6	0.6	0.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	-71.3	3.5	8.3	8.9	11.4
Tax	0.4	-3.2	-3.7	-3.9	-5.0
Minority interests	-0.2	0.0	-1.0	-1.1	-1.4
Net profit	-71.1	0.4	3.6	3.9	5.0
Shares at year-end (m)	200.1	200.1	224.9	224.9	224.9
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	16.0	16.6	17.3	17.9
Total non-current assets	40.4	28.4	29.6	30.6	31.6
Cash and equivalents	22.5	15.2	20.1	42.1	38.3
Stocks	36.7	31.2	31.2	31.2	31.2
Trade and other debtors	73.6	66.6	69.7	76.6	84.3
Development properties and others	113.5	109.6	115.5	114.2	125.4
Total current assets	246.3	222.5	236.4	264.1	279.2
Trade and other creditors	61.1	97.7	67.7	74.5	82.0
Short-term borrowings	31.3	24.3	35.5	41.5	41.5
Other current liabilities	96.5	40.6	39.4	41.5	43.7
Total current liabilities	188.9	162.6	142.7	157.5	167.2
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	52.8	67.9	71.8	76.8
Minority interests	0.4	0.4	1.4	2.5	3.9
NTA/share (RM)	0.403	0.264	0.302	0.319	0.341
Total Assets	286.7	251.0	266.0	294.8	310.8
Total Liabilities + S'holders' funds	286.7	251.0	266.0	294.8	310.8
Cash Flow (RM m, FYE Dec)	2015	2016	2017F	2018F	2019F
Pretax profit	-72.3	-18.2	8.3	8.9	11.4
Depreciation & non-cash adjustments	53.5	31.7	6.5	9.0	10.3
Working capital changes	7.2	-49.4	-28.6	3.2	-9.2
Cash tax paid	-0.6	-2.1	-3.7	-3.9	-5.0
Cash flow from operations	-12.2	-38.1	-17.4	17.1	7.5
Capex	-3.2	-2.3	-3.0	-3.0	-3.0
Net investments & sale of FA	-1.4	8.0	0.0	0.0	0.0
Others	3.2	3.3	0.0	0.0	0.0
Cash flow from investing	-1.4	9.0	-3.0	-3.0	-3.0
Debt raised/(repaid)	6.5	27.5	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	-3.3	-4.7	-7.1	-8.3
Cash flow from financing	2.6	24.2	25.3	7.9	-8.3
Change in cash	-11.0	-4.9	4.9	22.1	-3.8
Change in net cash/(debt)	-22.0	-19.2	-25.1	7.1	-3.8
Ending net cash/(debt)	-24.5	-43.6	-68.7	-61.7	-65.5
KEY RATIOS (FYE Dec)	2015	2016	2017F	2018F	2019F
Revenue growth (%)	-63.5	328.7	-5.2	10.0	10.0
EBITDA growth (%)	NM	NM	17.5	23.5	21.1
Pretax margins (%)	-205.2	2.4	5.9	5.7	6.7
Net profit margins (%)	-204.6	0.3	2.6	2.5	2.9
Effective tax rates (%)	NM	89.4	44.2	44.2	44.2
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-63.5	0.6	6.0	5.5	6.7
Free cash flow yield (%)	-16.7	-35.7	-25.0	17.4	5.5

Source: Company, NRA Capital forecasts

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