nra capital

Regal International Group Ltd.

Company update
11 January 2016

Overweight

Current Price	**S$0.160**
Fair Value	S$0.32
Up / (downside)	97.8%

Stock Statistics

Market cap	S$33m
52-low	S$0.121
52-high	S$0.65
Avg vol (1 yr)	58,034
No of share	200.1m
Free float	29.8%

Key Indicators

ROE 15F	-3.5%
ROA 15F	-1.9%
P/BK	0.69x
Net gearing	9.6%

Major Shareholders

Su Chung Jye	65.5%

Historical Chart

Source: Bloomberg

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Offers High Market Potential.

- **Site visit shows business acumen.** We recently had the chance to visit Regal International Group Ltd.'s (Regal) projects in Sarawak. We like how Regal positions its projects to achieve product differentiation and generate demand. For instance, the popular Jalan Song area is characterized by mostly landed housing. However, Regal chose to develop condominium apartments in the area, thus offering smaller quantum choices for buyers. In addition, the condominium estate boasts a complete full service set of amenities such as a swimming pool and gym. Again, such community services are rare in landed or old housing estates.

- **Repeats proven formula.** Following the Tropics in the Jalan Song area, Regal currently has another two projects in the vicinity and is eyeing at least one more plot of land in the area. From this perspective, we can see that Regal's management is shrewd to focus on repeatable and proven success factors, such as location. Further away, the Orchard Residences is another modern condominium by Regal. In this case, we noticed that the company has likewise reserved generous space for community facilities, akin to the layout at Tropics.

- **Sarawak has potential, but near term upside hampered by risks.** Given Sarawak's income level in Malaysia, we see that there is potential for more urban, high-rise living, suggesting that urbanization will continue to absorb supply of flat and apartments, which is also indicated by rising prices. However, recent moves by the Federal government to curb household leverage and to implement GST has affect demand in the near term.

- **3Q15 earnings below expectation.** Regal's 3Q15 net loss of RM6.1m came in below our RM0.8m net profit estimate due to fewer units sold and higher costs. The completion of several projects over the next 12 months are expected to improve Regal's performance in FY16.

- **Cutting forecasts but maintain Overweight recommendation.** We revised our forecasts to factor in the 3Q15 results, while maintaining our fair value S$0.32, based on 50% discount on RNAV now. There may be some upside if Regal incorporates percentage-of-completion revenue recognition for its projects, given relevant accounting standard changes in Malaysia. However the precision business may continue to underperform in 2016 due to industry weakness. As was the case in 2014, there may still be some impairment of the S$39.3m goodwill that was incurred during the RTO of Hisaka Group. However, this impairment is non–cash in nature and it will not have any effect on its core business. On the whole, we see that Regal continues to promise upside with its wide portfolio of well differentiated projects.

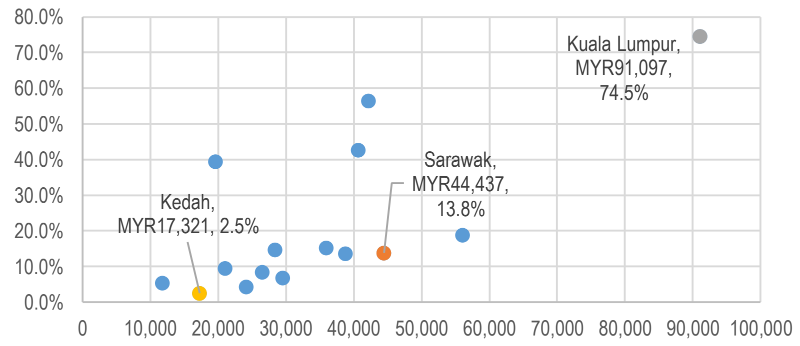
Key Financial Data (RM m, FYE Dec)	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Sales	125.7	95.3	127.5	163.0	192.5
Gross Profit	39.8	32.2	33.1	53.0	65.1
Net Profit	22.3	(17.9)	(6.9)	10.2	17.1
EPS (cents)	17.2	(8.9)	(3.4)	5.1	8.6
EPS growth (%)	-	(152.0)	(61.5)	248.4	67.4
PER (x)	2.9	nm	nm	9.8	5.9
NTA/share (sents)	22.7	52.1	45.4	46.6	51.2
DPS (sents)	3.5	4.0	4.0	4.0	4.0
Div Yield (%)	6.9	7.9	7.9	7.9	7.9

Source: Company, NRA Capital forecasts

Sarawak Property Market Overview

Market has more potential for condominium properties. As of 3Q15, the existing stock of residential units in Malaysia numbered 4.9m across all types. Strata-type dwelling units such as flats, condominiums and apartments accounted for about 30% of stock, with landed properties such as houses making up for the remaining 70%. Sarawak state actually enjoys a relatively high level of income in Malaysia, ranking third in GDP per capita, at current prices, in 2014. However, flats and apartments make up for only 13.8% of its housing stock. We observed that across Malaysia, richer states with higher GDP per capita tend to have a higher proportion of flat/apartment accommodation as its residential stock (Figure 1). As such, we can anticipate higher demand for apartment/flat type properties over time, in line with higher urbanization and income.

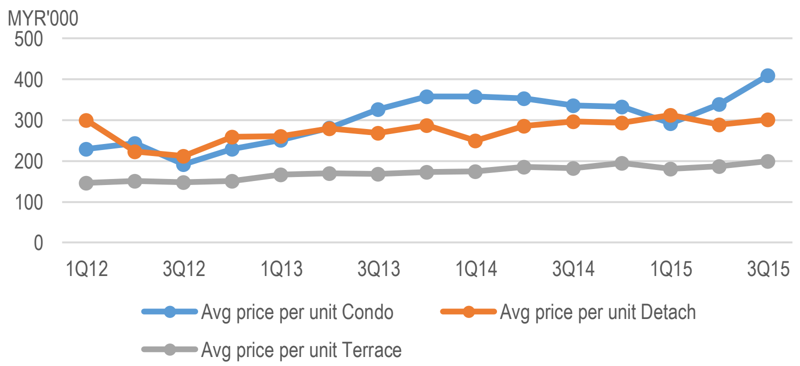
Figure 1: No of condominium, flats and apartments as % of housing stock, versus GDP per capita at current prices



Source: www.epu.gov.my, National Property Information Centre (NAPIC), NRA Capital

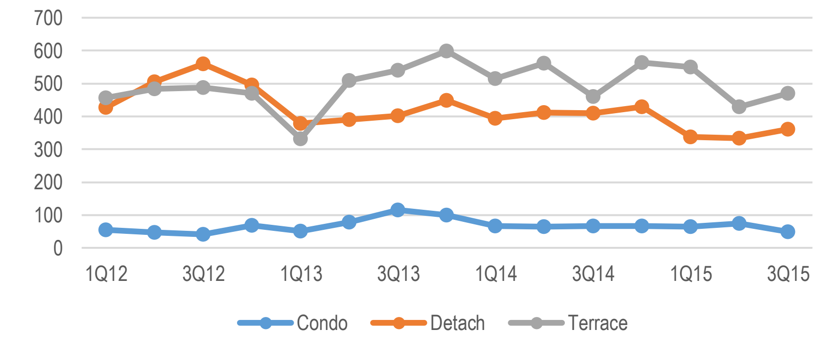
Prices have been rising. Property prices in Sarawak has been growing at an impressive rate of 10% to 15% per annum over the last 5 years in prime residential and commercial areas. Figure 2 shows that the cost of a condominium unit in Kuching, Sarawak has risen from near RM200,000 in 2012 to more than RM400,000 by 3Q15. However, volume has generally declined as prices rose (Figure 3).

Figure 2: Residential Unit Prices in Kuching Sarawak



Source: National Property Information Centre (NAPIC), NRA Capital

Figure 3: No of Residential Units Sold in Kuching Sarawak



Source: National Property Information Centre (NAPIC), NRA Capital

Regulatory risks provide some headwind. The Bank Negara Malaysia started capping mortgage terms in 2013. Maximum tenure was set at 35 years and 10 years for personal loans. The move came amidst rising debt, as household debt-to-income grew from 139% in 2007 to 146% at the end of 2014, with home loans making up to 45.7% of total household debt. The introduction of GST in 2015 will see a 6% levy being imposed on most transactions and the cost of building materials and labour will likely increase. While higher costs may lead to developers raising selling prices, the odds are that margins will be squeezed tighter amidst competition for buyers.

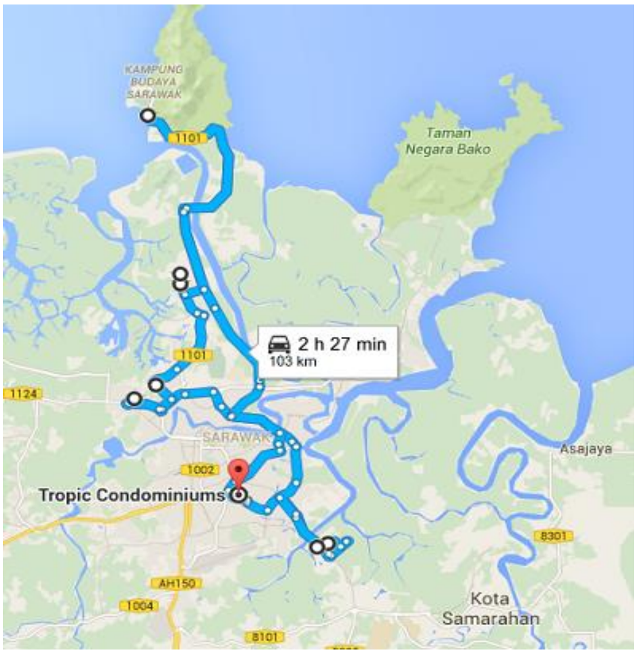
Developers to benefit from changes in accounting standards. The Malaysian Accounting Standards Board will be implementing a new accounting standard that will allow for the accounting of property development revenue using the percentage-of-completion method and early adoption is permitted. The move will reduce the revenue lumpiness of Malaysian developers. That said, it is uncertain how this move will affect the reporting of financial statements in Singapore. Under the Singapore FRS, only local residential projects qualify for revenue recognition on a percentage-of-completion basis.

To conclude…Headwinds do exist for the Sarawak property market. However, developers that focus on high rise projects in the prime Kuching area will continue to benefit from strong demand. In Regal's case, its portfolio of projects are relatively diversified with several condominium projects in the pipeline.

Company Site Visit

We visited Regal in Kuching, Sarawak during late November. Currently, Regal has more than ten ongoing projects that are expected to be completed over the next three years. Travel to Kuching from Singapore by flight takes about one and a half hours. Kuching is the capital and the most populous city in the state of Sarawak with a total population of 705,000 (2010 census). During the two days' visit led by Regal, we visited several completed and ongoing projects in Kuching.

Figure 4: Our Route around Kuching to each of the projects



Source: Google Map, NRA Capital

Figure 4 shows the approximate route that we took around Kuching. On Day 1, we travelled around the Kuching city centre, before going to further away sites on the second day. In reality, travelling time took more than two and a half hours as we stopped to study each site. The Tropic Condominiums or Tropics, also developed by Regal, was where we stayed. Some of the management had acquired units at Tropics, and have been renting or leasing non-owner occupied units out, much alike serviced apartments.

Tropics – Prime Area. Tropics is located around Jalan Song which is a prime area with eateries and mini malls located less than five minutes' drive away. The management remarked that Jalan Song in Kuching is akin to the Bukit Timah/Holland Village area of Singapore. Tropics is a full service condominium, with five apartment blocks, a clubhouse, sheltered carparks and gated security. Travel from Tropics to anywhere within the urban district area will require only 20 minutes' drive or less.

Owner occupancy rate is relatively high, with about 60% of the unit bought for own use, and another 20%- 40% bought for investment purpose. The majority of the owners are in their 30s, suggesting that younger families prefer to stay in apartments rather than traditional landed houses.

We noticed that the Jalan Song area is almost fully defined by landed terrace houses and that Tropics seems to be the almost exclusive condominium property in the area, suggesting higher investment value – and strong site selection by management at the onset of the now completion project.

Figure 5: No of Residential Units Sold in Kuching Sarawak

Source: NRA Capital

Above. The above pictures were taken at Tropics. The swimming pool uses a saltwater sanitization system as opposed to a chlorine based one, to provide a more comfortable experience for swimmers. Amenities include a gym, squash courts, children playroom, a sauna, mini-cinema room etc. The management commented that due to there is a lack of such community facilities in most housing estates in Sarawak, being mostly landed properties. In fact, they have caught outsiders sneaking in to use the amenities at the beginning. Today, visitors can book the facilities for a fee.

New project right next to Tropics. To capitalize on the success of Tropics, Regal has already embarked on several projects in the vicinity. Right next to the Tropics, Regal is building 72 Residences. The work site is separated from Tropics by a fence. 72 Residences with 72 units is currently about 40% sold.

Figure 6: Location of 72 Residences

Source: NRA Capital

Figure 7: Construction Progress at 72 Residences

Source: NRA Capital

Orchard Residences is another project that follows the Tropics and 72 Residences product model. Located about 5km southeast of Jalan Song, Orchard Residences is located in a developing area of Kuching. Like Tropics, it also features amenities such as a saltwater pool and other club house features. As a value-add for owners, Regal offsets the cost of running these facilities by purchasing insurance for the equipment, thus minimizing replacement costs, and by also charging on a pay-per-use basis. This enables the condominium facilities to be self-sustaining on a financial basis, without taxing excessively on the apartment owners.

Bandar Baru Samariang. An interesting site that we visited was the Regal Corporate Park located in Bandar Baru Samariang at the north-western part of Kuching. This project has been approved for industrial use, including most forms of businesses from light industries to F&B outlets. Another visitor at the trip commented that the Regal Corporate Park has the potential to be like the Auto-City in Penang, which started off for light industrial use and ended up today as a lifestyle, entertainment spot for the locals. While the Auto-City is convenienty located about 20 minutes' drive from the local residential area, the Regal

Corporate Park is located within two residential estates and is adjacent to a commercial area.

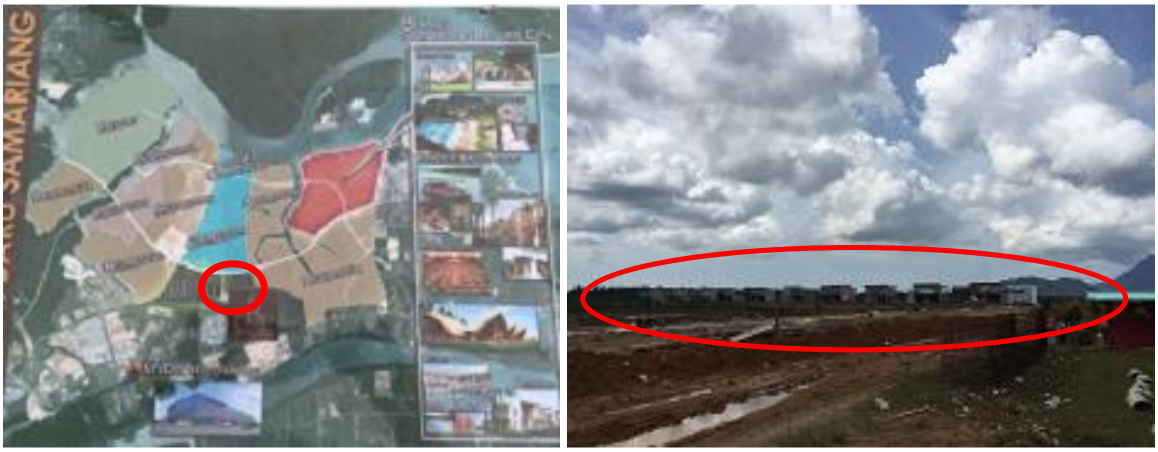
Figure 8: Location Map of Orchard Residences

Source: Google Maps

Figure 9: Orchard Residences

Source: NRA Capital

Figure 10: Snapshot of Regal Corporate Park Locality



Source: NRA Capital

Figure 11: Penang Auto-City

Source: www.itourism.com.my and www.visitpenang.gov.my

Damai Land. A relatively new site that we visited was the plot of land at Damai. The land is currently unused. The interesting feature of this site is that it faces the sea and the Damai area is Sarawak's main beach resort locality, with The One Hotel, Damai Beach Resort and the Damai Puri Resort & Spa in the area. The site is located next to the Mount Santubong National Park just before a fork road into the resorts. Due to the serene environment and untouched nature, possibilities include either a small boutique hotel or a seaside beach house.

Maintain positive outlook. Regal has been able to participate in multiple projects without straining its balance sheet as the company typically enters into Development Rights Agreements with the landowners to develop the land. In turn, the landowners will get a share of the revenue, profits or a pre-determined number of completed units. Hence, Regal's balance sheet does not reflect the land value or land premium of its projects. More recently, Regal has entered into an agreement to develop a plot of land of 3,504sqm into shophouses at Sirenggok, Bau, Sarawak.

Earlier, the company had entered into a memorandum of understanding with a Korean company to acquire and develop certain land parcel lots in Incheon, Korea. Based on our understanding, the target site is a prime piece of land in Incheon, next to several existing or upcoming developments.

On the whole, we generally concur that Regal's long term outlook is positive, based on its strong pipeline of projects. However, key risks include the legacy semiconductor business potentially dragging down on overall group financials. The company acquired this business as part of its RTO exercise and the long term plan is to eventually divest this non-core business. Cash flow is another concern that we are monitoring closely. As Regal takes on new projects, sales at existing projects will help to provide the cash flow needed. Otherwise, the company will have to take on more loans or raise further financing to support its expansion plans.

Figure 12: Damai Land

Source: NRA Capital

Results comparison

FYE Dec (RM m)	3Q15	3Q14	yoy % chg	2Q15	QoQ % chg	Prev. 3Q15F	Comments
Revenue	30.0	11.7	*157*	29.2	*3*	51.4	41.6% below expectation due to lower than expected sales
Operating costs	(36.1)	(14.9)	*143*	(32.3)	*12*	(49.1)	Below, lower-than-expected sales & GPM
EBITDA	(6.1)	(3.2)	*90*	(3.1)	*95*	2.3	Below, lower-than-expected sales & GPM
EBITDA margin (%)	*(20.3)*	*(27.5)*		*(10.7)*		*4.4*	
Depn & amort.	(0.5)	0.0	*nm*	(0.5)	*0*	(0.5)	In line
EBIT	(6.6)	(3.2)	*106*	(3.6)	*82*	1.8	Below, lower-than-expected sales & GPM
Net interest income/expense	(0.5)	(0.2)	*127*	(0.5)	*0*	(0.7)	Below, lower-than-expected effective interest rate
Non-operating income/(expenses)	0.5	0.3	*90*	(0.1)	*577*	0.1	Above
Associates' contribution	0.6	(0.0)	*1,316*	(0.1)	*714*	(0.2)	profits recognised from Tiya Development Sdn Bhd
Exceptionals	0.0	0.0	*0*	(3.5)	*nm*	0.0	
Pretax profit	**(6.0)**	**(3.2)**	*87*	**(7.9)**	*-23*	**1.0**	Below, lower-than-expected sales & GPM
Tax	(0.1)	0.0	*nm*	(0.2)	*-68*	(0.2)	Below, lower-than-expected pretax profit
Tax rate (%)	(1.0)	0.0		(2.3)		16.0	
Minority interests	(0.0)	0.0	*nm*	(0.1)	*-45*	(0.1)	
Net profit	**(6.1)**	**(3.2)**	*90*	**(8.1)**	*-24*	**0.8**	Below, lower-than-expected sales & pretax profit
EPS (cts)	(3.1)	(2.5)	*24*	(4.0)	*-24*	0.4	Below, lower-than-expected sales & pretax profit

Source: NRA Capital estimates

Property development process

As at 30 Sep 2015

Name of project	Location	Type of development	Est. completion	Land area (acre)	Saleable area (sqft)	Total units	% sold	ASP per sqft (RM)	Valuations (RM m)	Status in relation to the property development Process
Current projects										
Tondong Heights	Kuching, Sarawak	Single and double storey terrace houses	2015 (Phase 1) 2016 (Phase 2)	32.8	498,537	228	53%	96.1	7.9	Stage 4
Airtrollis	Nilai, Negri Sembilan	Apartments, shophouses and mall	2015 (Phase 1) 2016 (Phase 2)	18.0	897,538	1,104	28%	375.0	84.8	Stage 4
Unipark	Samarahan, Sarawak	Terrace houses and semi-detached houses	2014	9.4	239,005	83	100%	89.6	2.1	completed
Tapah Heights	Kuching, Sarawak	Double storey terrace houses	2015	3.2	70,509	25	100%	79.6	1.1	Stage 4
72 Residences	Kuching, Sarawak	Condominium	2017	3.0	128,124	72	45%	535.5	13.2	Stage 4
Tropics III	Kuching, Sarawak	Apartment, retail, office and SoHo units	2018	5.0	453,273	604	28%	675.3	69.4	Stage 2
Bandar Baru Semariang (80%)	Kuching, Sarawak	Detached and semi-detached industrial units	2018 (Phase 1)	134.8	12,377,120	384	5%	22.5	74.1	Stage 4
Unitech	Samarahan, Sarawak	Shophouses	2015	2.0	46,609	18	83%	306.2	0.8	Stage 4
Ashraf Avenue 2	Kuching, Sarawak	Shophouses and 1 foodcourt	2018	2.9	67,703	19	90%	254.0	0.6	Stage 4
Haziiq Ria	Kuching, Sarawak	Semi-detached houses and terrace houses	2015	2.9	33,599	22	95%	432.0	0.3	Stage 4
Matang	Kuching, Sarawak	Terrace and semi-detached houses	2016	7.6	208,302	48	80%	350.0	5.1	Stage 4
Orchard City - 50% own:										
Orchard Residences	Samarahan, Sarawak	3 blocks of 6-storey condominium	2014	6.6	254,097	120	90%	550.0	2.4	completed
Orchard Contempo 3	Samarahan, Sarawak	Three-storey shophouses	2015	1.0	55,039	12	25%	417.0	3.0	Stage 4
Orchard Contempo 1 and 2	Samarahan, Sarawak	Three-storey shophouses	2012	3.9	220,158	48	100%	350.0	0.0	completed
Orchard Mall	Samarahan, Sarawak	Commercial/ Office	2016	2.7	93,566	NA	0%	439.0	7.2	Stage 2
Orchard suites	Samarahan, Sarawak	Commercial and hotel development	2017	5.8	264,187	NA	0%	439.0	20.3	
Upcoming projects										
Lundu	Lundu, Sarawak	Residential landed property	2017	4.0	68,000	34	0%	298.0	7.1	Stage 2

+ NRA's net unsold project valuation (RM m) - assumption 35% operating profit margins		299.5	
+ Development properties held for sale in the process (RM m)		83.4	As at Sept 2015
+ Net cash / (net debt) (RM m)		(43.9)	FY15 forecast
+ Working capital (RM m)		48.5	
NRA's revaluation (RM m)		**387.4**	
Number of share outstanding		200.1	
NRA's RNAV per share (RM m)		1.9	
MYR:SGD exchange		3.0	
NRA's RNAV per share (S$)		0.6	
Fair value on 50% discount	50%	**0.3**	

Stage 1 – Project Origination/Internal Planning and Approval;

Stage 2 – Design, Procurement, Layout Planning and Statutory Approval;

Stage 3 – Sales and Marketing;

Stage 4 – Project Implementation;

Stage 5 – After-Sales Service; and Stage 6 – Delivery.

Sources: NRA Capital

Regal International Group Ltd.

Profit & Loss (RM m, FYE Dec)	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Revenue	125.7	95.3	127.5	163.0	192.5
Operating expenses	(94.0)	(78.9)	(128.3)	(150.2)	(172.2)
EBITDA	31.7	16.4	(0.8)	12.8	20.3
Depreciation & amortisation	(0.8)	(1.6)	(2.7)	(3.0)	(3.3)
EBIT	30.9	14.8	(3.5)	9.8	17.0
Non-operating income/(expenses)	0.3	(6.6)	(1.8)	(3.2)	(3.3)
Associates' contribution	(0.4)	8.9	4.4	5.3	6.4
Exceptional items	0.0	(30.1)	(3.5)	0.0	0.0
Pretax profit	**30.8**	**(12.9)**	**(4.4)**	**12.0**	**20.1**
Tax	(8.5)	(5.0)	(2.6)	(1.9)	(3.2)
Minority interests	0.0	0.0	0.1	0.2	0.2
Net profit	**22.3**	**(17.9)**	**(6.9)**	**10.2**	**17.1**
Shares at year-end (m)	130.0	200.1	200.1	200.1	200.1

Balance Sheet (RM m, as at Dec)	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Fixed assets	2.8	16.6	17.0	17.4	17.8
Goodwill and intangible assets	0.0	39.3	39.3	39.3	39.3
Other long-term assets	8.1	23.7	23.2	23.2	23.2
Total non-current assets	**10.9**	**79.6**	**79.5**	**79.9**	**80.3**
Cash and equivalents	1.3	27.7	(23.2)	(41.1)	(53.2)
Stocks	19.0	30.3	28.3	33.0	38.2
Trade debtors	56.6	78.9	64.9	83.1	101.5
Development properties and others	20.3	54.0	95.6	104.7	114.8
Total current assets	**97.2**	**190.9**	**165.6**	**179.8**	**201.4**
Trade creditors	46.1	55.5	51.9	60.5	70.1
Short-term borrowings	2.2	16.5	12.7	14.7	15.4
Other current liabilities	28.2	39.8	33.6	32.9	34.2
Total current liabilities	**76.5**	**111.8**	**98.2**	**108.1**	**119.7**
Long-term borrowings	2.0	13.7	15.3	17.9	19.3
Other long-term liabilities	0.0	1.4	1.4	1.4	1.4
Total long-term liabilities	**2.0**	**15.0**	**16.7**	**19.3**	**20.6**
Shareholders' funds	**29.5**	**143.6**	**130.2**	**132.5**	**141.7**
Minority interests	0.0	0.1	0.0	(0.2)	(0.3)
NTA/share (RM)	0.23	0.52	0.45	0.47	0.51
Total Assets	**108.0**	**270.6**	**245.1**	**259.7**	**281.7**
Total Liabilities + S'holders' funds	**108.0**	**270.6**	**245.1**	**259.7**	**281.7**

Cash Flow (RM m, FYE Dec)	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Pretax profit	30.8	(12.9)	(4.4)	12.0	20.1
Depreciation & non-cash adjustments	(0.1)	20.9	9.8	0.9	1.1
Working capital changes	(24.5)	(20.3)	(27.5)	(21.8)	(22.5)
Cash tax paid	(0.6)	0.3	(17.1)	(2.6)	(1.9)
Cash flow from operations	**5.6**	**(12.0)**	**(39.2)**	**(11.5)**	**(3.2)**
Capex	(1.1)	(1.4)	(1.0)	(1.0)	(1.0)
Net investments & sale of FA	0.8	0.0	0.0	0.0	0.0
Others	3.4	24.0	0.9	0.0	0.0
Cash flow from investing	**3.2**	**22.7**	**(0.1)**	**(1.0)**	**(1.0)**
Debt raised/(repaid)	(5.4)	23.1	(2.1)	4.6	2.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	(7.9)	(7.9)	(7.9)
Cash interest & others	(1.1)	(10.2)	(1.7)	(2.0)	(2.1)
Cash flow from financing	**(6.4)**	**13.0**	**(11.7)**	**(5.3)**	**(7.9)**
Change in cash	**2.3**	**23.6**	**(50.9)**	**(17.8)**	**(12.1)**
Change in net cash/(debt)	**7.6**	**0.5**	**(48.9)**	**(22.4)**	**(14.2)**
Ending net cash/(debt)	**(2.9)**	**(2.4)**	**(51.2)**	**(73.6)**	**(87.8)**

KEY RATIOS (FYE Dec)	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Revenue growth (%)	-	(24.2)	33.8	27.9	18.1
EBITDA growth (%)	-	(48.2)	(105.0)	1,659.3	58.7
Pretax margins (%)	24.5	(13.5)	(3.4)	7.3	10.5
Net profit margins (%)	17.8	(18.7)	(5.4)	6.3	8.9
Effective tax rates (%)	27.4	(38.5)	(60.0)	16.0	16.0
Net dividend payout (%)	20.2	0.0	114.8	(154.7)	(138.6)
ROE (%)	72.2	12.7	(3.5)	7.7	12.1
Free cash flow yield (%)	13.4	(40.1)	(120.3)	(37.5)	(12.5)

Source: Company, NRA Capital forecasts

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