

Regal International Group Ltd.

Overweight

Current Price	\$S\$0.108
Fair Value	\$S\$0.382
Up / (downside)	354%

Stock Statistics

Market cap	\$S\$21.6m
52-low	\$S\$0.085
52-high	\$S\$0.485
Avg daily vol	45,221
No of share	200.1m
Free float	29.8%

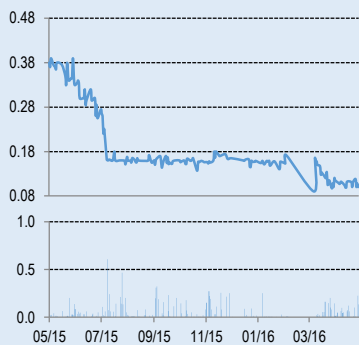
Key Indicators

ROE 16F	12.6%
ROA 16F	3.7%
P/BK	0.75x
Net gearing	45%

Major Shareholders

Su Chung Jye	65.5%
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Historical Chart



Source: Bloomberg

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Property Business Starts to Drive Results

- Core property business delivered profitability.** Regal International Group Ltd. reported its 1Q16 results last Friday. Revenue jumped by 115% from RM37.8m a year ago to RM81.3m in 1Q16. The jump can be attributed to the property business arm whose revenue contribution jumped from RM10.3m in 1Q15 to RM57.5m in 1Q16. In fact, the property business contributed a profit after tax of RM3.8m in 1Q16, which was offset by RM1.3m of net loss incurred by the precision business and higher administrative expenses at the holding company.
- Property business driving results.** The 1Q16 results show that Regal's core business is turning around, following revenue of only RM34.8m and negative operating results before interest and tax of RM23.3m for the whole of 2015. On the other hand, the precision business continues to drag on overall profitability.
- Exploring options for precision business.** In the results commentary, Regal mentioned that it intends to explore options to "minimize" the impact of the precision business on the overall group. Last year, Regal recognized an impairment charge of RM39.33m on goodwill arising from its acquisition of the precision business in 2014. Following this impairment, the precision business's share of group assets has fallen to 23.5% or RM67.42m. Such impairment is unlikely to occur in 2016 as Regal no longer carries any goodwill on its balance sheet.
- Sarawak development – a potential theme.** Infrastructure spending in Sarawak is expected to increase over the next few years as RM180bn has been allocated over a 15-year period to accelerate growth and reduce income disparity in Sarawak. One project is the Pan Borneo Highway which will span 2,083km and reduce travelling time across Sabah and Sarawak. The likely consequence is more extensive urban development in Sarawak, which bodes well for local property companies such as Regal. To capitalise on emerging opportunities, Regal has expanded outside of Kuching and into places such as Bintulu and Samarahan in Sarawak.
- High return/high risk.** In this update, we maintain our valuation at S\$0.382 per share. Pending the finalisation of our model, we see no reason to revise valuation lower given the improved core performance and the addition of new projects. Regal currently trades at S\$0.108. As such, our valuation implies significant upside. However, such upside is conditional upon catalysts such as sustained profitability and measures to either turn around or sell the precision business – which is less synergistic to the core property business today. We are also mindful that Regal has been given an extension to comply with the Minimum Trading Price rule. On balance, we recognise these risks and see Regal as high return/high risk.

Key Financial Data (RM m, FYE Dec)	2014	2015	2016F	2017F	2018F
Sales	95.3	120.7	179.0	200.6	220.4
Gross Profit	32.2	20.8	53.7	62.2	68.3
Net Profit	(17.9)	(72.4)	11.4	18.2	23.7
EPS (cents)	(8.9)	(36.2)	5.7	9.1	11.8
EPS growth (%)	(152.0)	305.3	115.7	60.5	30.0
PER (x)	nm	nm	5.7	3.5	2.7
NAV/share (cents)	52.1	40.3	44.4	52.2	62.5
DPS (cents)	4.0	0.0	0.8	1.0	1.3
Div Yield (%)	12.2	0.0	1.5	2.0	2.5

Source: Company, NRA Capital forecasts

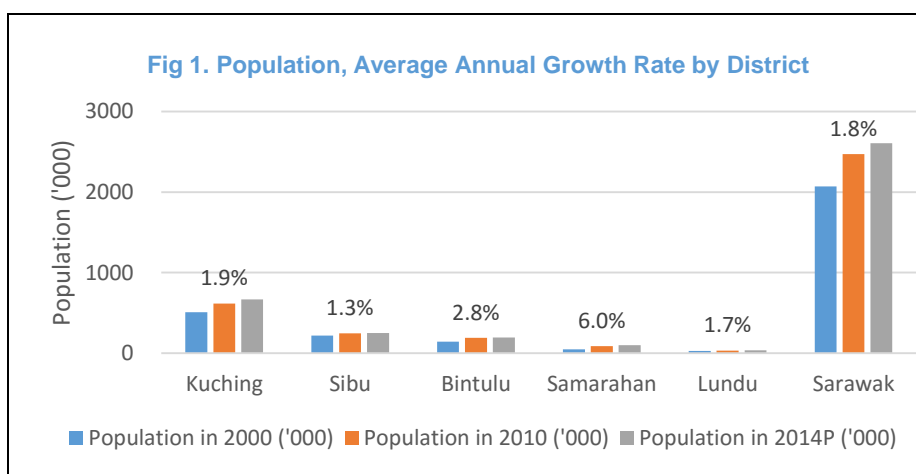
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Results Comparison

FYE Dec (RM m)	1Q16	1Q15	yoy %	4Q15	QoQ %	Prev.	
			chg		chg	1Q16F	Comments
Revenue	81.3	37.8	115	23.7	243	44.7	Above expectation
Operating costs	(78.6)	(34.6)	127	(39.6)	98	(42.8)	Above, due to higher employee benefits expenses
EBITDA	2.7	3.3	-18	(15.9)	117	1.9	
EBITDA margin (%)	3.3	8.6		(67.3)		4.3	
Depn & amort.	(1.4)	(0.7)	nm	(3.0)	-55	(0.7)	
EBIT	1.3	2.6	-50	(19.0)	107	1.2	In line due to higher than expected depreciation
Net interest income/expense	(0.6)	(0.4)	39	(1.0)	-38	(0.8)	
Non-operating income/(expenses)	(0.9)	1.6	-156	(43.6)	-98	1.2	
Associates' contribution	0.6	0.3	90	(2.3)	125	2.4	
Exceptionals	0.0	0.0	0	0.0	nm	0.6	
Pretax profit	0.3	4.1	-92	(65.9)	101	4.5	
Tax	(0.1)	(0.6)	nm	0.8	-109	(0.7)	
Tax rate (%)	21.4	14.7		1.2		16.0	
Minority interests	0.0	0.1	nm	(0.2)	-100	(0.2)	
Net profit	0.3	3.5	-93	(65.3)	100	3.6	Below expectation due to losses at precision business
EPS (cts)	0.1	1.8	-93	(32.6)	100	1.8	

Source: Company, NRA Capital

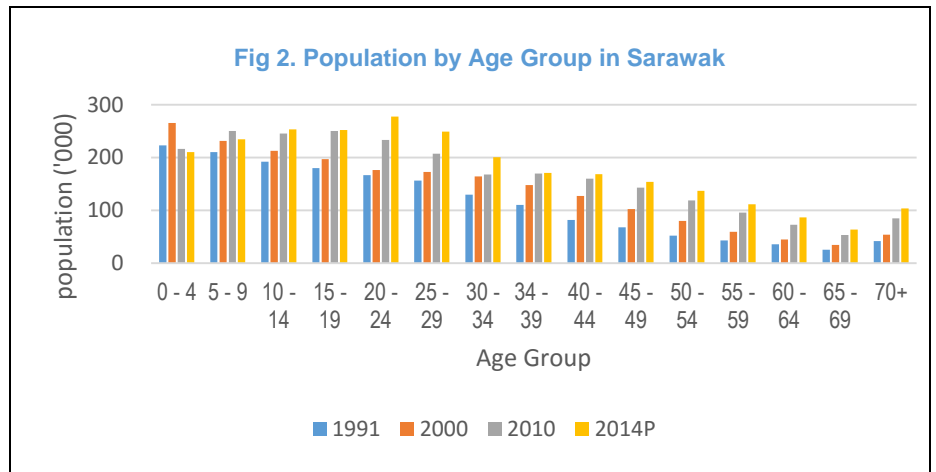
Market Overview



Source: State Planning Unit Sarawak, NRA Capital

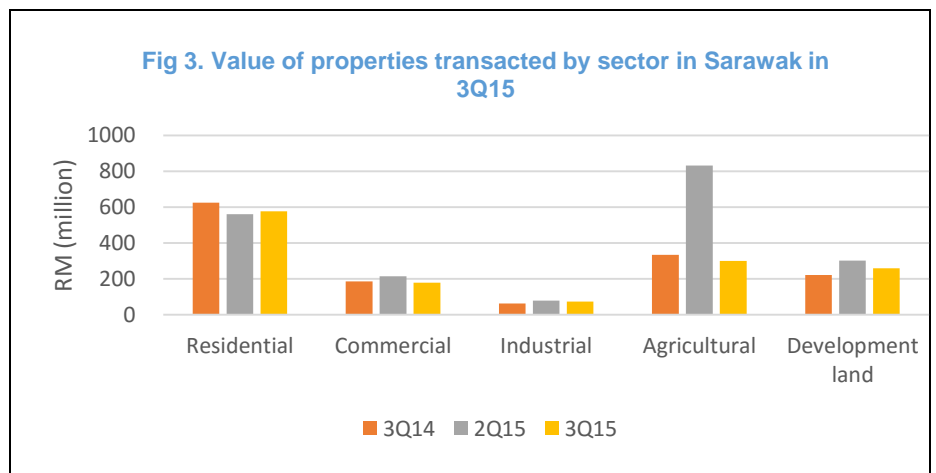
Investing in location with high growth rate. Regal group has expanded geographically in other regions in Sarawak such as Bintulu and Samarahan to boost its revenue base. Those areas have higher population growth potential due to their proximity with Bintulu port and Capital Kuching. Sarawak is also under the Sarawak Corridor of Renewable Energy (SCORE) whereby the focus is to support economic opportunities through the provisioning of infrastructure. A total of RM100m has been allocated for entrepreneur development, RM1.5m for fishmeal and surimi processing and RM16.1m facilitation funds allocated for local companies to provide support serviced to PETRONAS and Bintulu port. Under the previous 10th Malaysia plan, the government has rolled out High Speed Broadband services penetrating cities such as Kuching, Miri and Bintulu as the government saw it as a need for economic growth. Thus Regal group is poised to take advantage of the development of Sarawak under the 11th Malaysia Plan.

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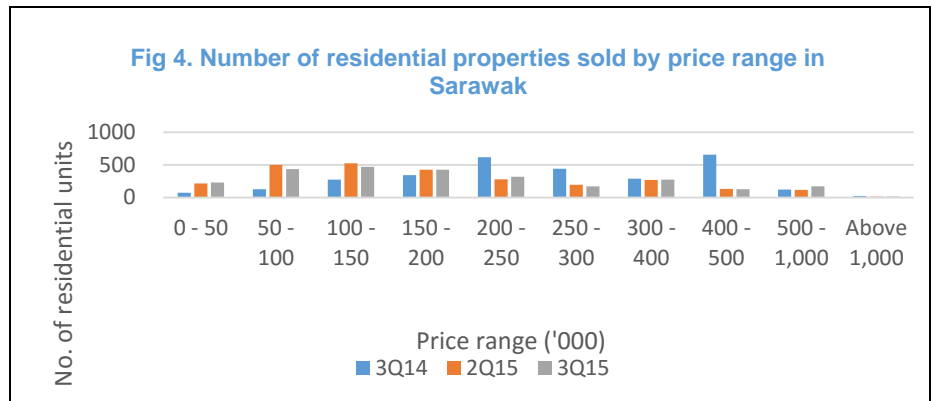


Source: State Planning Unit Sarawak, NRA Capital

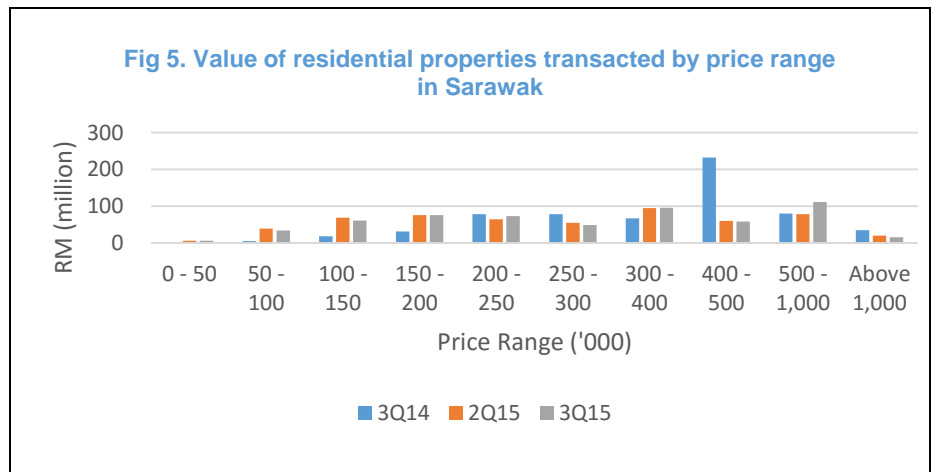
Demand for houses will increase in 5 years' time. 2010 Malaysia census reveal that the mean age of first marriage is 28 for male and 25.7 for female. In Fig 2. It can be seen that the Sarawak population has increased substantially over the last 20 years from 1991 to 2010 and in 5 years, there will be an additional 250,000 people that may want to own their own house and the population is expected to grow for the next 10 years. Therefore, despite the current soft property market outlook, We expect Regal group to tide over the current weak market sentiment and reap the gains of its early investments once the economy recover.



Source: NAPIC, NRA Capital

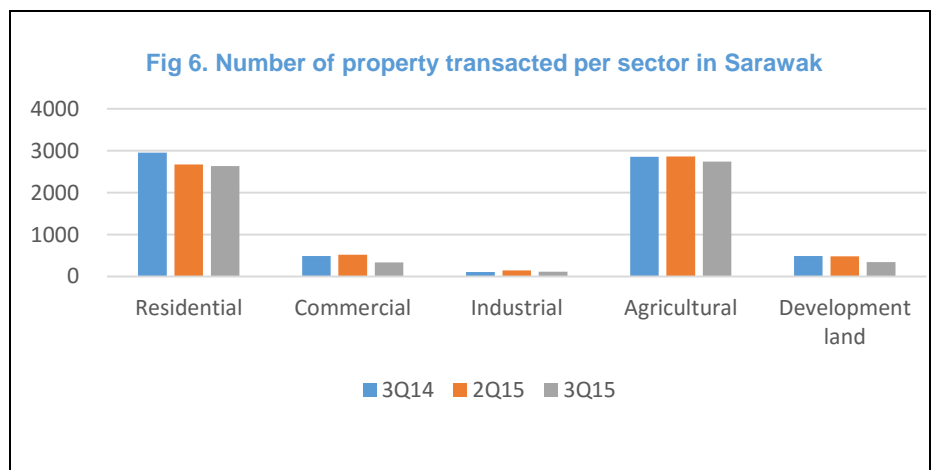


Source: NAPIC, NRA Capital



Source: NAPIC, NRA Capital

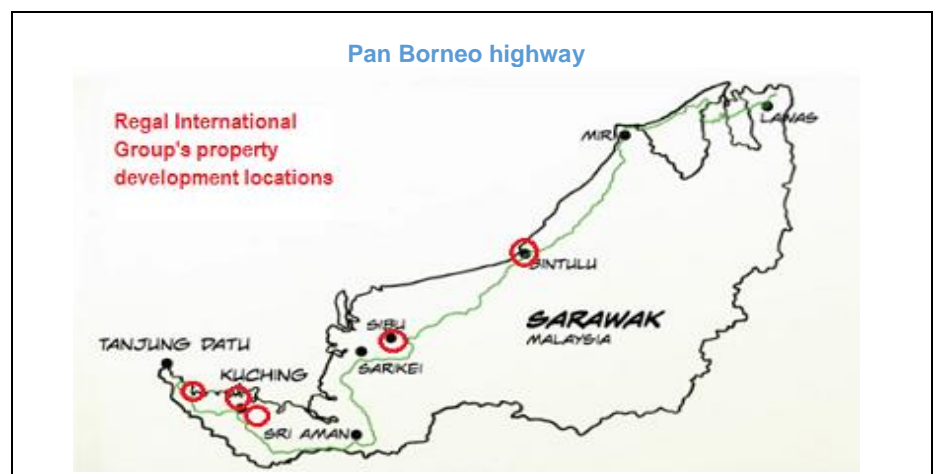
Property prices increases in Sarawak. The recent number of properties transacted in Sarawak has dipped in residential, commercial, industrial, agricultural and development land, however the value of property either stood firm or strengthened. The weakness in the market could be attributed to post-GST blues as buyers are taking a wait and see approach. We do find that buyers have lowered their appetite and are comfortable purchasing properties in a lower range of around price as compared to pre-GST period.



Source: NAPIC, NRA Capital

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Pan Borneo highway a boost for Sarawak connectivity. Pan Borneo Highway Sarawak was officially launched in March 2015 by the prime minister and is expected to complete construction in 2023. This highway will be toll free and span a total of 2083km and is slated to be the transportation backbone between Sarawak and Sabah. Current travelling time between Miri and Sematan takes up to 19 hours currently. The completion of the highway will reduce the time to 13 hours and this will open up economic corridors and opportunities in areas it transverses, adding more value to property prices in those regions. There will also be telecommunication towers will also be built along the highway to ease connectivity and the highway will be able to enjoy internet connection just like in the cities. The prime minister said the government will be building more than 3000km of paved roads in rural areas between 2016 to 2020 so as to increase investment and employment in the economic corridors of the country. Thus the connectivity in Sarawak will be improved significantly in the coming years under the 11th Malaysia Plan as Sarawak and Sabah will be the focus of development in Malaysia. This ties in well with Regal strategy as it seeks to develop properties away from as the areas of investments are located along the Pan Borneo Highway.

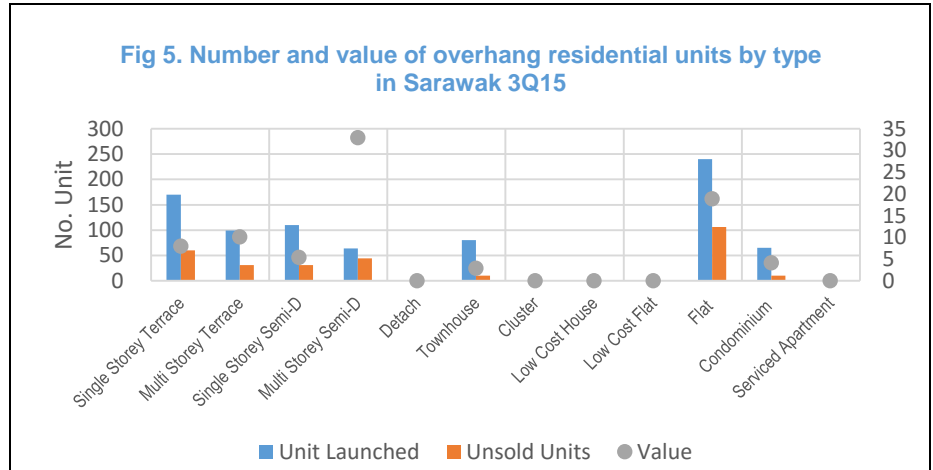


Source: www.panborneo.com.my, NRA Capital

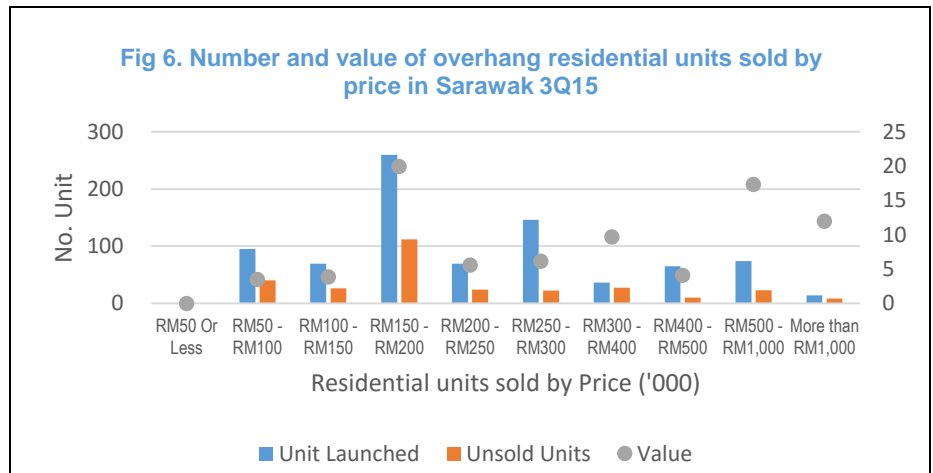
Sarawak to be a developed state in 2020. Sarawak is the biggest state in Malaysia with size as big as the whole Peninsular Malaysia has faced greater challenges in development largely due to its demographics being only a tenth of its population. The new 11th Malaysia plan will focus on investing the rural developments in Sarawak so as to propel Sarawak in becoming a developed state by improving the essential facilities and infrastructure are key to the success of the Sarawak Corridor of Renewable Energy. The government plans to further developed Samalaju Industrial park including the development of a service centre and township to attract investors by expediting the provision of basic infrastructure in the development areas. The overall development of Sarawak bodes well for Regal strategy as it seeks to expand geographical coverage to areas with high growth potential. Regal group has the experience in developing townships and will do well during the transition phase of Sarawak.

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Healthy level of demand. The below graph show the number of units launched and unsold in 3Q15. Property demand in Sarawak is still strong and there is little signs of oversupply with most property types achieving more than 50% sales for the period in 3Q15.



Source: NAPIC, NRA Capital



Source: NAPIC, NRA Capital

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Profit & Loss (RM m, FYE Dec)	2014	2015	2016F	2017F	2018F
Revenue	95.3	120.7	179.0	200.6	220.4
Operating expenses	(78.9)	(142.6)	(166.7)	(182.0)	(197.8)
EBITDA	16.4	(21.9)	12.3	18.6	22.6
Depreciation & amortisation	(1.6)	(4.7)	(5.0)	(5.2)	(5.5)
EBIT	14.8	(26.6)	7.3	13.3	17.1
Non-operating income/(expenses)	(6.6)	(44.2)	(2.9)	(2.6)	(1.5)
Associates' contribution	8.9	(1.5)	9.6	11.5	13.2
Exceptional items	(30.1)	0.0	0.0	0.0	0.0
Pretax profit	(12.9)	(72.3)	13.9	22.2	28.7
Tax	(5.0)	0.1	(2.2)	(3.5)	(4.6)
Minority interests	0.0	(0.2)	(0.3)	(0.4)	(0.4)
Net profit	(17.9)	(72.4)	11.4	18.2	23.7
Shares at year-end (m)	200.1	200.1	200.1	200.1	200.1
Balance Sheet (RM m, as at Dec)	2014	2015	2016F	2017F	2018F
Fixed assets	16.6	22.7	24.7	26.7	28.6
Goodwill and intangible assets	39.3	0.0	0.0	0.0	0.0
Other long-term assets	23.7	17.7	17.7	17.7	17.7
Total non-current assets	79.6	40.4	42.4	44.4	46.3
Cash and equivalents	27.7	22.5	14.7	21.9	26.5
Stocks	30.3	36.7	37.6	38.8	38.0
Trade debtors	78.9	73.6	79.1	78.3	82.6
Development properties and others	54.0	113.5	129.8	142.2	149.1
Total current assets	190.9	246.3	261.2	281.2	296.2
Trade creditors	55.5	61.1	75.2	83.0	91.2
Short-term borrowings	16.5	31.3	35.8	36.1	22.0
Other current liabilities	39.8	96.5	82.2	83.5	88.1
Total current liabilities	111.8	188.9	193.2	202.7	201.4
Long-term borrowings	13.7	15.7	19.7	16.0	13.2
Other long-term liabilities	1.4	1.3	1.3	1.3	1.3
Total long-term liabilities	15.0	16.9	20.9	17.3	14.5
Shareholders' funds	143.6	80.5	88.8	104.5	125.1
Minority interests	0.1	0.4	0.7	1.1	1.5
NTA/share (RM)	0.52	0.40	0.44	0.52	0.63
Total Assets	270.6	286.7	303.7	325.6	342.5
Total Liabilities + S'holders' funds	270.6	286.7	303.7	325.6	342.5
Cash Flow (RM m, FYE Dec)	2014	2015	2016F	2017F	2018F
Pretax profit	(12.9)	(72.3)	13.9	22.2	28.7
Depreciation & non-cash adjustments	19.2	49.6	(3.6)	(1.4)	2.2
Working capital changes	(20.3)	10.9	(5.4)	(1.9)	(0.3)
Cash tax paid	0.3	(0.7)	(16.5)	(2.2)	(3.5)
Cash flow from operations	(13.7)	(12.4)	(11.5)	16.6	27.1
Capex	(1.4)	(3.2)	(3.0)	(3.0)	(3.0)
Net investments & sale of FA	0.0	1.9	0.0	0.0	0.0
Others	24.0	1.7	0.0	0.0	0.0
Cash flow from investing	22.7	0.3	(3.0)	(3.0)	(3.0)
Debt raised/(repaid)	23.1	12.5	8.5	(3.3)	(16.9)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	(1.5)	(2.1)
Cash interest & others	(8.5)	(9.9)	(1.8)	(1.6)	(0.6)
Cash flow from financing	14.6	2.5	6.8	(6.4)	(19.5)
Change in cash	23.6	(9.6)	(7.7)	7.2	4.6
Change in net cash/(debt)	0.5	(22.0)	(16.3)	10.5	21.5
Ending net cash/(debt)	(2.4)	(24.4)	(40.7)	(30.2)	(8.7)
KEY RATIOS (FYE Dec)	2014	2015	2016F	2017F	2018F
Revenue growth (%)	(24.2)	26.7	48.2	12.1	9.9
EBITDA growth (%)	(48.2)	(233.2)	156.0	51.3	21.7
Pretax margins (%)	(13.5)	(59.9)	7.8	11.1	13.0
Net profit margins (%)	(18.7)	(60.0)	6.4	9.1	10.8
Effective tax rates (%)	(38.5)	0.1	16.0	16.0	16.0
Net dividend payout (%)	0.0	0.0	(27.2)	(33.9)	(32.6)
ROE (%)	12.7	(41.8)	12.8	17.5	18.9
Free cash flow yield (%)	(43.8)	(45.4)	(42.1)	39.6	70.1

Source: Company, NRA Capital forecasts

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