nra capital

Regal International Group Ltd.

2Q16 results update
25 August 2016

Overweight

Current Price	**S$0.140**
Fair Value	S$0.330
Up / (downside)	136%

Stock Statistics

Market cap	S$28.0m
52-low	S$0.082
52-high	S$0.188
Avg daily vol	69,167
No of share	200.1m
Free float	32.2%

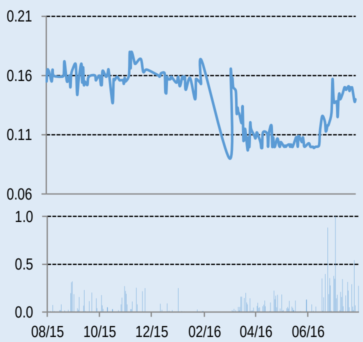
Key Indicators

ROE 16F	12.6%
ROA 16F	3.7%
RNAV	RM307.8m
P/BK	1.4
Net gearing	46%

Major Shareholders

Su Chung Jye	69.72%

Historical Chart



Source: Bloomberg

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Catalysts to Come in 2H 2016

- **Project completion to boost 2H 2016 profitability**. Regal International Group Ltd's revenue fell from RM57.5m in 1Q16 to RM18.7m in 2Q16 owing to lump sum revenue recognition from Tondong Heights Phases 1 and 3 in 1Q16. Revenue was lower in 2Q16 as revenue from 72 Residences Block 1 (est. GDV of >RM30m) and Regal Corporate Park Phase 1 (est. GDV of >RM40m) will only be recognized on completion in 4Q16 or latest 1Q17. Hence, we are unfazed about the loss from continuing operation of RM1.3m in 2Q16. Regal will likely swing to profitability once revenue from these two projects are recognized.
- **Airtrollis Phase 1 and Tropics City to drive revenue.** In 2Q16, revenue was mainly derived from the completion of Haziq Ria (est. gross profit of RM1.7m) and contribution from higher percentage of completion at Airtrollis Phase 1 and Tropics City SOHO units. Revenue is recognized on a percentage of completion basis only for residential projects that commenced after 1 November 2014. We understand that contribution from Tropics City is relatively low due to the project being in the initial stages of contribution. Airtrollis Phase 1 on the other hand is expected to contribute about RM20m to RM30m of revenue over the next two quarters, with a substantial portion of revenue already recognized earlier in 2015 and 2016.
- **Making forays into hospitality and tourism sectors.** As part of Regal's strategy to leverage on its local knowledge and network in Sarawak, Regal has been entering into various MOUs with overseas partners such as ONG&ONG Pte Ltd, Kingsmen Exhibits Pte Ltd, SINAD Sports Pte Ltd, XY Hotel Holdings Pt Ltd and Ariva Hospitality Pte Ltd to explore various hospitality and tourism related projects. Some ideas being explored include the development of resorts and tourist attractions, as well as new hospitality service platforms such as an online portal for the ordering of services from partner providers. Strategically, these forays will help Regal in the funding and sale of future hotel and resort property development projects.
- **Pending disposal of legacy precision business.** In this update, we revised our valuation by removing the projects that have been completed from our list and arrived at a valuation of S$0.330 per share. A lower valuation is also reasonable in light of losses in 2Q that have reduced the company's book value. Nonetheless, we maintain that Regal is deserving of the high upside implied by our valuation given the scale of its projects. Key catalysts include the disposal of the legacy precision business which is pending approval from SGX. While we have updated our valuation, we maintain our forecasts, pending the completion of the disposal of the legacy business. Maintain Overweight (high return / high risk).

Key Financial Data (RM m, FYE Dec)	2014	2015	2016F	2017F	2018F
Sales	95.3	120.7	179	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 (sen)	-12.6	-36.2	5.7	9.1	11.8
EPS growth (%)	nm	187.8	-115.8	60.5	30
PER (x)	nm	nm	7.37	4.62	3.56
NTA/share (sen)	71.8	40.3	44.9	53.1	63.9
DPS (sen)	NA	0	0.5	0.7	0.9
Div Yield (%)	NA	0	1.2	1.7	2.1

Source: Company, NRA Capital forecasts

Results Comparison

FYE Dec (RM m)	2Q16	2Q15	yoy %	1Q16	QoQ %	
			chg		chg	Comments
Revenue	18.7	6.3	*195*	57.5	*-68*	Higher year-on-year due to 100% contribution from Haziq Ria, and partial contribution from Airtrollis Phase 1 and Tropics City SOHO units
Operating costs	(18.0)	(9.8)	*83*	(55.1)	*-67*	
EBITDA	0.7	(3.5)	*-120*	2.4	*-71*	
EBITDA margin (%)	*3.7*	*(55.3)*		*4.1*		
Depn & amort.	(1.1)	(0.7)	*64*	(0.8)	*30*	
EBIT	(0.4)	(4.2)	*-90*	1.5	*-127*	
Interest expense	(0.6)	(0.5)	*38*	(0.6)	*0*	
Interest & invt inc	(0.3)	0.3	*NM*	0.6	*-146*	
Associates' contrib	0.4	(0.0)	*NM*	0.6	*-34*	
Exceptionals	0.0	0.0		0.0		
Pretax profit	(0.9)	(4.4)	*-79*	2.0	*-146*	
Tax	(0.4)	(0.0)	*NM*	(0.4)	*-9*	
Tax rate (%)	41.0	0.6		(20.7)		
Profit from continuing operations	(1.3)	(4.4)	*-70*	1.6	*-182*	
Profit from discontinued operations	(19.1)	(3.6)	*425*	(1.3)	*NM*	Impairment of RM18.1m to reduce carrying value of assets to fair value less costs to sell.
Minority interests	(0.1)	(0.1)		(0.2)	*-70*	
Net profit / loss	(20.5)	(8.1)	*NM*	0.1	*NM*	
EPS - continuing operation (cts)	(0.69)	(2.23)		0.70		

Source: Company, NRA Capital

One-off loss as part of disposal of legacy precision manufacturing business. On a group basis, Regal's loss amounted to about RM20.5m, mainly due to the impairment loss arising from the re-measurement of the precision business assets to fair value less costs to sell. As for the core property development business, it contributed RM0.7m of net profit after tax in 2Q16, which swung to a loss of RM1.3m after accounting for about RM2.0m of corporate expenses, e.g. Singapore office and recurring listing expenses.

Balance sheet size shows future potential of Regal. With the assets and liabilities of the disposal group segregated from other balance sheet items, we can see that Regal currently has cash of RM5.75m versus financial liabilities of about RM33.4m. Current assets include RM65.75m of trade and other receivables and RM129.5m of development properties against current liabilities including RM79.7m of progress billings and RM78.2m of trade and other payables. Essentially, Regal has been funding the construction of its projects via progress billings and tight working capital management. Ideally, the completion of key projects such as Regal Corporate Park and 72 Residences will help to improve the company's cash flows.

Development properties of RM129.5m also show that Regal has invested RM129.5m in its projects and has yet to recognize the revenue from the work done. Hence, the revenue of RM18.7m recognized in 2Q16 is not reflective of the full scale of the company.

1H FY16 results match expectations. Comparing between our estimates for the projects completed in 1H FY16 against reported revenue and gross profit, we can infer that 1H FY16 results were largely in line with our expectations. The estimated GDV of these projects, regardless of whether revenue is recognized on a completion of construction or percentage of completion basis, amounted to RM61.91m, against revenue of RM76.18m. Gross profit for these projects were estimated to be around RM14.95m against reported gross profit of RM15.15m in 1H FY16. The largest variance came from expected profitability of RM6.58m against reported profit after tax of RM0.29m in 1H FY16.

In our estimates, we have mainly assumed 10% operating and financing expenses for each project. As the revenue base of Regal in 1H FY16 is relatively small compared to the number of projects that the company is currently executing, operating expenses will take up a larger proportion of revenue until contribution from other projects kick in more significantly. Hence, the variance in profitability can be said to be reasonable at this juncture. In any case, we have removed the estimated net development value of RM6.58m from our valuation as these projects have been completed.

Figure 1: Projects Completed in 1H 2016

Projects completed in 1H FY16	Est. GDV	Gross Profit	PAT	Revenue recognition method
Tondong Heights Phase 1 and 3	43.79	11.26	5.16	COC
Tapah Heights	3.85	0.8	0.32	POC
Tapah Residences	6.66	1.18	0.39	POC
Haziq Ria	7.61	1.71	0.71	COC
Total	61.91	14.95	6.58	-->To remove from valuation
	Revenue	Gross Profit	PAT	
Reported 1H FY16 Financials	76.18	15.15	0.29	

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

Figure 2: Summary of Major Projects and Estimates

Major Ongoing Projects	Est. GDV	Gross Profit	PAT	
Serapi Maju	13.51	2.09	0.55	COC, 3Q16 or 4Q16 100% recognition
Regal Corporate Park Phase 1	49.4	16.24	8.47	COC, 4Q16 or 1Q17 100% recognition
72 Residences Block 1	36.9	8.19	3.38	COC, 4Q16 or 1Q17 100% recognition
Airtrollis Phase 1 (est. to be recognized)	51.975	7.43	1.38	POC, substantially recognized in 2015
Treetops@Kemena	202.2	44.93	18.53	Completion in 2018, still in early stage of construction
Tropics City SOHO and apartments	204.9	69.29	36.6	Completion in 2019, still in early stage of construction
Other Projects	Est. GDV	Gross Profit	PAT	
Ashraf Avenue 2	26.51	4.58	1.45	COC, completion in 2016
Tondong Heights Phase 2	22.97	5.91	2.71	COC, completion in 2017
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
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)	247.9	
		Book value of Regal as of 30 June 2016 (RM m)	59.95	
		RNAV (RM m)	307.8	
		Discount (based on 15% discount rate per annum)	35.1%	
		Discounted RNAV (RM m)	199.8	
		Number of shares (m)	200.11	
		Value per share (RM)	0.998	
		Value per share (S$)	0.332	Rounded to S$0.330, based on SGDRM rate of 3.0

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

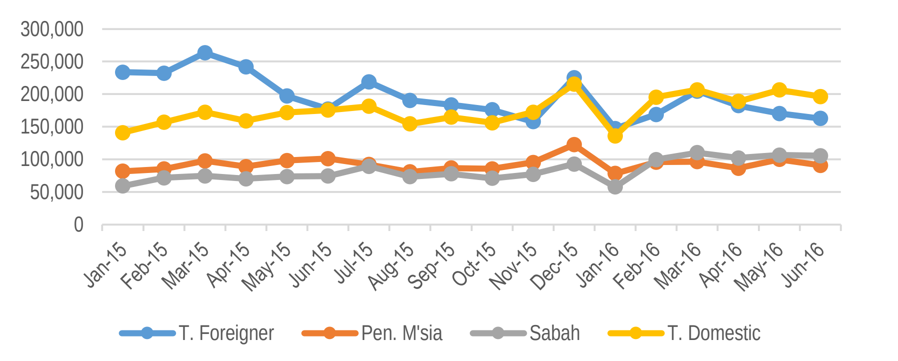
Manager and contractor for new project. Figure 2 above excludes contribution from a new project announced on 21 July. The new project entails the development and construction of 31 units of detached houses, 10 units of semi-detached houses, 19 units of terrace houses and 21 units of low-cost terrace houses on land of 4.103 hectares at Kampong Rampangi, Kuching. We exclude this project from our valuation table as Regal will only be acting as the project manager and contractor with a third party serving as the developer. Moreover, details such as plot ratio, land costs and construction costs are not provided. In previous projects, we have estimated the saleable floor area based on marketing brochures and floor plans.

Regal International Group Ltd.

Eyeing the hospitality and tourism sectors. Recently, Regal has partnered itself with various industry players to explore projects and opportunities in the hospitality and tourism sectors. For instance, Regal has entered into a MOU with XY Hotel Holdings Pte Ltd (XY Hotel) to leverage on XY Hotel's hotel management and online portal systems. Another venture is to leverage on Sarawak's natural environment e.g. rainforests and wildlife to develop and operate so-called "eco-resorts".

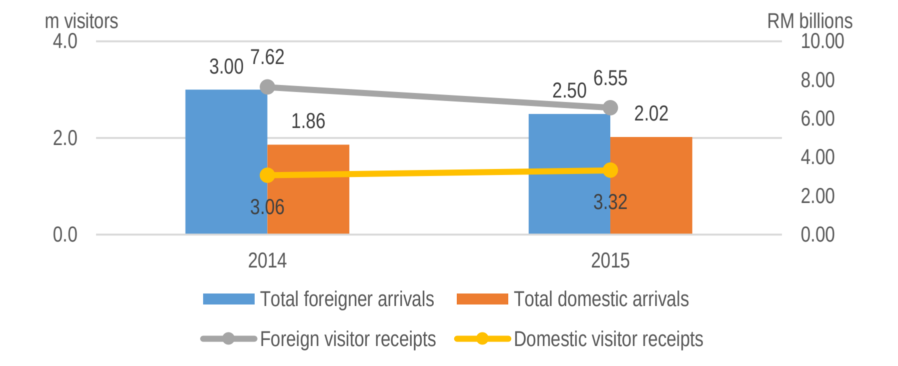
Tourism is third largest contributor to Sarawak's economy and accounts for about 15% of the state's GDP. Hence, there is potential in Regal's efforts. However, growth may very well come from domestic tourism. The number of visitors to Sarawak fell by 6.7% year-on-year to 2.165m in the first six months of 2016. The decline was mainly due to a 23% fall in foreigner arrivals to 1.03m. However, domestic tourists or visitors actually rose by 15.7%, to 1.13m mainly from the neighbouring Sabah state.

Figure 3: Sarawak Visitor Arrival



Source: Ministry of Tourism, Arts and Cultural Sarawak, NRA Capital

Figure 4: Foreigner and Domestic Visitor Spending in Sarawak



Source: Ministry of Tourism, Arts and Cultural Sarawak, NRA Capital

Figure 5: List of Recent MOUs

Date	Development	Partner
19 April 16	Explore opportunities to develop and commercialise innovation	Malaysia Innovation Hub
18 July 16	Collaborate on implementation of China's beautiful village business model in Malaysia	Hangzhou Ego Group Co. Ltd
28 July 16	Assess potential of 2 properties to own, develop and operate an eco-resort cum master planned vacation community	The Destination Lab LLP Ong & Ong Pte Ltd Kingsmen Exhibits Pte Ltd
3 August 16	Assess feasibility of forming an asset management company to acquire target portfolio of quality real estate projects	SINAD Sports Pte Ltd
16 August 16	Exploring innovative hospitality offerings targeted at "Gen X" and Gen Y" travellers	XY Hotel Holdings Pte Ltd
19 August 16	To bring in Bumbu Cabe restaurant to its First Enrichment Mall for Tropics City project.	Suria Kesturi Abadi Sdn Bhd

Source: Company

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Profit & Loss (RM m, FYE Dec)	2014	2015	2016F	2017F	2018F
Revenue	95.3	120.7	179	200.6	220.4
Operating expenses	-81.1	-142.6	-166.7	-182	-197.8
EBITDA	14.2	-21.9	12.3	18.6	22.6
Depreciation & amortisation	-1.6	-4.7	-5	-5.2	-5.5
EBIT	12.6	-26.6	7.3	13.3	17.1
Non-operating income/(expenses)	-4.4	-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
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
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	16	24.3	30.2
Stocks	30.3	36.7	37.6	38.8	38
Trade and other 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	262.5	283.6	299.9
Trade and other creditors	55.5	61.1	75.2	83	91.2
Short-term borrowings	16.5	31.3	35.8	36.1	22
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	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	90.1	106.9	128.8
Minority interests	0.1	0.4	0.7	1.1	1.5
NTA/share (RM)	0.72	0.40	0.45	0.53	0.64
Total Assets	270.6	286.7	305	328	346.2
Total Liabilities + S'holders' funds	270.6	286.7	305	328	346.2

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	22.4	53.5	-2.3	-1	2.6
Working capital changes	-23.5	7.2	-5.4	-1.9	-0.3
Cash tax paid	0.3	-0.6	-16.5	-2.2	-3.5
Cash flow from operations	-13.7	-12.2	-10.2	17.1	27.6
Capex	-1.4	-3.2	-3	-3	-3
Net investments & sale of FA	26.3	-1.4	0	0	0
Others	-2.2	3.2	0	0	0
Cash flow from investing	22.7	-1.4	-3	-3	-3
Debt raised/(repaid)	19.0	6.5	8.5	-3.3	-16.9
Equity raised/(repaid)	0.0	0.0	0	0	0
Dividends paid	0.0	0.0	0	-0.9	-1.2
Cash interest & others	-6.0	-3.9	-1.8	-1.6	-0.6
Cash flow from financing	13.0	2.6	6.8	-5.8	-18.6
Change in cash	21.9	-11.0	-6.4	8.3	5.9
Change in net cash/(debt)	0.5	-22.0	-15	11.6	22.8
Ending net cash/(debt)	-2.4	-24.5	-39.4	-27.8	-5

KEY RATIOS (FYE Dec)	2014	2015	2016F	2017F	2018F
Revenue growth (%)	-24.2	26.7	48.2	12.1	9.9
EBITDA growth (%)	-55.2	NM	156	51.3	21.7
Pretax margins (%)	-13.5	-59.9	7.8	11.1	13
Net profit margins (%)	-18.7	-60.0	6.4	9.1	10.8
Effective tax rates (%)	NM	NM	16	16	16
Net dividend payout (%)	0.0	0.0	-15.7	-19.6	-18.8
ROE (%)	-20.6	-64.6	12.6	17.1	18.4
Free cash flow yield (%)	10.6	-16.2	-65.3	69.6	121.5

Source: Company, NRA Capital forecasts