

Regal International Group

Overweight

Current Price	S\$0.167
Fair Value	S\$0.32
Up / (downside)	93.2%

Stock Statistics

Market cap	S\$33.4m
52-low	S\$0.121
52-high	S\$0.75
Avg vol (1 yr)	86,448
No of share	200.1m
Free float	29.8%

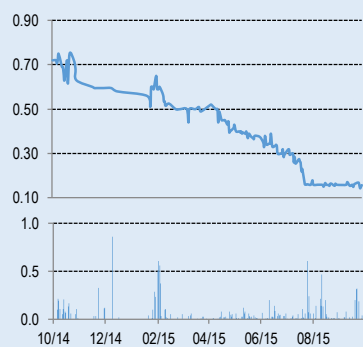
Key Indicators

ROE 15F	8.7%
ROA 15F	4.3%
P/BK	0.64x
Net gearing	11.4%

Major Shareholders

Su Chung Jye	65.5%
Cresco Investments	4.7%

Historical Chart



Source: Bloomberg

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Business environment remains challenging

- **Earnings below expectation.** Regal group's 2Q15 net loss of RM8.1m came in below our RM2.7m net profit estimate due to lower-than-expected revenue and gross profit margin, as well as one time exceptional loss of RM3.5m due to a waiver of the quasi-equity loan to dispose of an associate company in 2Q15 and forex losses of RM0.7m.
- **Cutting forecasts but maintain Overweight recommendation.** Given its unexpected loss in 2Q15 and both business segments remain challenging and volatile, we cut our FY15-FY17 forecasts by 30-46%. As a result, we lower our fair value from S\$0.52 to S\$0.32, based on 50% discount on RNAV now (reduced from 30% discount previously). However, we maintain our Overweight recommendation given its weak share price performance appears to have already priced in the weak results reported.
- **Malaysia economy facing a tough time.** The ringgit stayed near a 17-year low after its foreign-exchange reserves fell below the US\$100bn threshold. The market has doubts over the currency's ability to withstand further political fallout and the continued weakening commodity prices. Over the last five years, Sarawak property has been growing strongly between 10% and 20% per annum, especially for prime residential locations. As the market has been growing at a prolific rate, it seems take-up rates has been slowing down recently. However, prices are still increasing albeit at a lower rate, partially due to the implementation of GST. Overall, we remains positive on the long term outlook, given its abundant energy resources.
- **2Q15 sales decreased by 23% QoQ to RM29.2m.** The decrease was attributed to both property development as well as the precision business. Property sales decreased by 38.8% QoQ to RM6.3m mainly due to lack of completed projects. Precision revenue fell 16.7% QoQ to RM22.9m due to lower demand from customers.
- **2Q15 EBITDA margins reversed from positive 8.6% in 1Q15 to negative 10.7%** due to lower gross profit margins as well as higher SG&A expenses. Including higher net financial, other expenses and RM3.5m waiver of the quasi-equity loan, pretax profit reversed from RM4.1m to a pretax loss of RM7.9m
- **Balance sheet remains healthy.** Despite the RM7.9m pretax loss (mainly non-cash items), Regal generated a negative free cash flow of RM2.3m in the June quarter due to improvement in working capital requirement. As a result, net gearing increased from 9% in 1Q15 to 11%.

Key Financial Data (RM m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	125.7	95.3	187.1	205.9	226.4
Gross Profit	39.8	32.2	54.3	59.7	65.7
Net Profit	22.3	(17.9)	21.7	24.3	27.5
EPS (cents)	11.2	(8.9)	10.8	12.2	13.7
EPS growth (%)	-	(180.0)	221.2	12.3	13.1
PER (x)	4.6	nm	4.8	4.2	3.8
NTA/share (sents)	14.7	52.1	59.7	67.9	77.6
DPS (sents)	2.3	4.0	4.0	4.0	4.0
Div Yield (%)	4.4	7.7	7.7	7.7	7.7

Source: Company, NRA Capital forecasts

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Initiating coverage
6 October 2015

Results comparison

FYE Dec (RM m)	2Q15	2Q14	yoy % chg	1Q15	QoQ % chg	Prev. 2Q15F	Comments
Revenue	29.2	7.2	308	37.8	-23	38.0	23% below expectation due to lower sales from both segment
Operating costs	(32.3)	(8.0)	305	(34.6)	-6	(35.3)	Below, lower-than-expected sales & GPM
EBITDA	(3.1)	(0.8)	277	3.3	-196	2.7	Below, lower-than-expected sales & GPM
EBITDA margin (%)	(10.7)	(11.5)		8.6		7.0	
Deprn & amort.	(0.5)	(0.5)	0	(0.7)	-24	(0.7)	Below
EBIT	(3.6)	(1.3)	171	2.6	-241	2.0	Below, lower-than-expected sales & GPM
Net interest income/expense	(0.5)	(0.1)	339	(0.4)	17	(0.3)	Above, higher-than-expected effective interest rate
Non-operating income/(expenses)	(0.1)	(0.3)	-65	1.6	-106	0.4	Below
Associates' contribution	(0.1)	0.6	-117	0.3	-133	1.0	Losses recognized from Tiya Development Sdn Bhd
Exceptionals	(3.5)	0.0	nm	0.0	nm	0.0	Waiver of the quasi-equity loan to dispose an associate company in 2Q15
Pretax profit	(7.9)	(1.2)	565	4.1	-293	3.1	Below, lower-than-expected sales & GPM
Tax	(0.2)	0.2	-208	(0.6)	-69	(0.5)	Below, lower-than-expected pretax profit
Tax rate (%)	(2.3)	14.3		14.7		16.0	
Minority interests	(0.1)	0.0	nm	0.1	-232	0.1	
Net profit	(8.1)	(1.0)	700	3.5	-330	2.7	Below
EPS (cts)	(4.0)	(0.5)	700	1.8	-330	1.3	

Source: NRA Capital estimates

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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	
Haziq 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 June 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	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

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Profit & Loss (RM m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	125.7	95.3	187.1	205.9	226.4
Operating expenses	(94.0)	(78.9)	(172.6)	(186.8)	(204.5)
EBITDA	31.7	16.4	14.6	19.0	21.9
Depreciation & amortisation	(0.8)	(1.6)	(2.7)	(3.0)	(3.3)
EBIT	30.9	14.8	11.9	16.0	18.7
Non-operating income/(expenses)	0.3	(6.6)	(1.9)	(1.6)	(1.4)
Associates' contribution	(0.4)	8.9	5.3	6.4	7.7
Exceptional items	0.0	(30.1)	0.0	0.0	0.0
Pretax profit	30.8	(12.9)	15.3	20.8	25.0
Tax	(8.5)	(5.0)	(2.4)	(3.3)	(4.0)
Minority interests	0.0	0.0	0.2	0.2	0.2
Net profit	22.3	(17.9)	13.0	17.7	21.2
Shares at year-end (m)	200.1	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	(2.8)	(9.7)	(17.5)
Stocks	19.0	30.3	41.5	45.1	49.6
Trade debtors	56.6	78.9	88.3	99.1	113.5
Development properties and others	20.3	54.0	95.6	104.7	114.8
Total current assets	97.2	190.9	222.7	239.2	260.4
Trade creditors	46.1	55.5	76.2	82.7	90.9
Short-term borrowings	2.2	16.5	18.7	18.5	18.1
Other current liabilities	28.2	39.8	33.4	34.3	35.0
Total current liabilities	76.5	111.8	128.3	135.5	144.0
Long-term borrowings	2.0	13.7	22.5	22.6	22.6
Other long-term liabilities	0.0	1.4	1.4	1.4	1.4
Total long-term liabilities	2.0	15.0	23.8	24.0	24.0
Shareholders' funds	29.5	143.6	150.1	159.9	173.2
Minority interests	0.0	0.1	(0.1)	(0.3)	(0.5)
NTA/share (RM)	0.15	0.52	0.55	0.60	0.67
Total Assets	108.0	270.6	302.2	319.1	340.7
Total Liabilities + S'holders' funds	108.0	270.6	302.2	319.1	340.7
Cash Flow (RM m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	30.8	(12.9)	15.3	20.8	25.0
Depreciation & non-cash adjustments	(0.1)	20.9	9.8	0.9	1.1
Working capital changes	(24.5)	(20.3)	(39.1)	(14.8)	(18.8)
Cash tax paid	(0.6)	0.3	(17.1)	(2.4)	(3.3)
Cash flow from operations	5.6	(12.0)	(31.1)	4.5	4.0
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	11.1	0.0	(0.4)
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)	(2.5)	(2.5)	(2.4)
Cash flow from financing	(6.4)	13.0	0.7	(10.4)	(10.8)
Change in cash	2.3	23.6	(30.5)	(6.9)	(7.8)
Change in net cash/(debt)	7.6	0.5	(41.5)	(6.9)	(7.4)
Ending net cash/(debt)	(2.9)	(2.4)	(43.9)	(50.8)	(58.2)
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	-	(24.2)	96.4	10.0	10.0
EBITDA growth (%)	-	(48.2)	(11.3)	30.4	15.4
Pretax margins (%)	24.5	(13.5)	8.2	10.1	11.0
Net profit margins (%)	17.8	(18.7)	7.0	8.6	9.4
Effective tax rates (%)	27.4	(38.5)	16.0	16.0	16.0
Net dividend payout (%)	20.2	0.0	(60.6)	(89.4)	(111.9)
ROE (%)	72.2	12.7	8.7	11.1	12.2
Free cash flow yield (%)	13.0	(38.9)	(93.2)	10.1	8.7

Source: Company, NRA Capital forecasts

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