

## Regal International Group Ltd.

## Overweight

Current Price	S\$0.149
Fair Value	S\$0.300
Up / (downside)	101.3%

## Stock Statistics

Market cap	S\$29.8m
52-low	S\$0.078
52-high	S\$0.188
Avg daily vol	123,140
No of share	200.1m
Free float	31%

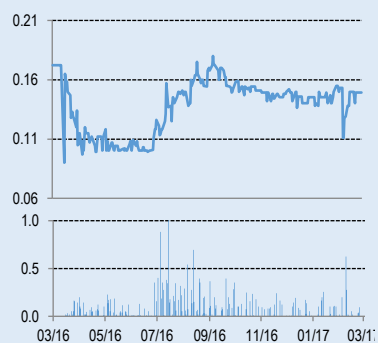
## Key Indicators

ROE 17F	4.6%
ROA 17F	0.9%
RNAV	RM295.7m
P/BK	1.75
Net gearing	80%

## Major Shareholders

Su Chung Jye	62.75%
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## Historical Chart



Source: Bloomberg

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## Turnaround Remains on Track

- Margin improvements led to positive 4Q16 results.** Regal recently announced its 4Q16 results. Revenue was constant quarter-on-quarter at RM35.6m, but net profit from continuing operations swung from a net loss of RM0.4m in 3Q16 to a net profit of RM0.5m in 4Q16. The gains were driven by improved gross margin which rose to 46.4% in 4Q16 or 26.8% in FY16 versus 3.15% in FY15. We reckon that the high gross margin was due to the finalization of costs for some of the completed projects and greater mix of revenue from property development.
- Strong pipeline of projects to be completed in 2017.** In 2016, seven projects with an estimated GDV of RM138.8m were completed. Since our the 3Q16 results update, 72 Residences Block 1 and Ashraf Avenue 2 worth approximately RM63.4m were completed. Heading into 2017, we can expect Regal Corporate Park Phase 1, Airtrollis Phase 1 and 72 Residences Block 2 to be completed. Large projects Tropics City and Kemena Heights will also contribute towards revenue. These projects have a total GDV of RM 525.6m based on our previous estimates.
- Sarawak residential transactions rose 8.1% in 3Q16.** According to the National Property Information Centre, residential property prices in Sarawak rose by 3.6% year-on-year in 3Q16. Volume was flat or lower by 1.4% year-on-year, but the value of residential properties transacted rose by 8.1% year-on-year in 3Q16. Therefore, growth in the market was mainly driven by price inflation over volume growth. Against this context, Regal may take some time to fully sell its launched properties. Nonetheless, buyers will eventually take up units from earlier launches as bargains, compared to the higher priced new launches in the future. Regal is mitigating this risk by entering into "underwriting" arrangements with partners e.g. ANGKASA who will purchase all unsold units upon project completion for a fixed sum.
- Maintaining conservative growth forecasts.** Hence, we have forecasted revenue of only RM178.8m (20% revenue growth) and PATMI of RM2.5m in FY17. Administrative expenses rose by RM5.4m in FY16 partly due to additional professional and advisory expenses incurred to explore new business ventures and to strengthen capabilities and capacity of Regal's property portfolio. We expect administrative expenses to normalize by 5% in FY17 to RM31.1m. We also raised gross margin from 20% to 22.5% (mid-point of 20% to 25%) across our forecast horizon of FY17 to FY19 given the higher than expected gross margin in FY16 of 26.8%.
- Maintain Overweight (high return / high risk).** We continue to like Regal for its growth potential as major projects near completion over the next 12 months, which should be conducive for sales. In this update, we removed the completed projects from our model and yield a valuation of S\$0.300.

Key Financial Data (RM m, FYE Dec)	2015	2016	2017F	2018F	2019F
Sales	34.8	149.0	178.8	214.6	236.0
Gross Profit	1.1	40.0	40.2	48.3	53.1
Net Profit	-72.4	-21.3*	2.5	5.6	7.1
EPS (sen)	-35.5	0.2	1.3	2.8	3.5
EPS growth (%)	nm	nm	nm	nm	26.3
PER (x)	nm	nm	37.40	17.03	13.48
NTA/share (sen)	40.3	27.2	28.5	31.3	34.8
DPS (sen)	0	0	0	0	0
Div Yield (%)	0	0	0	0	0

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

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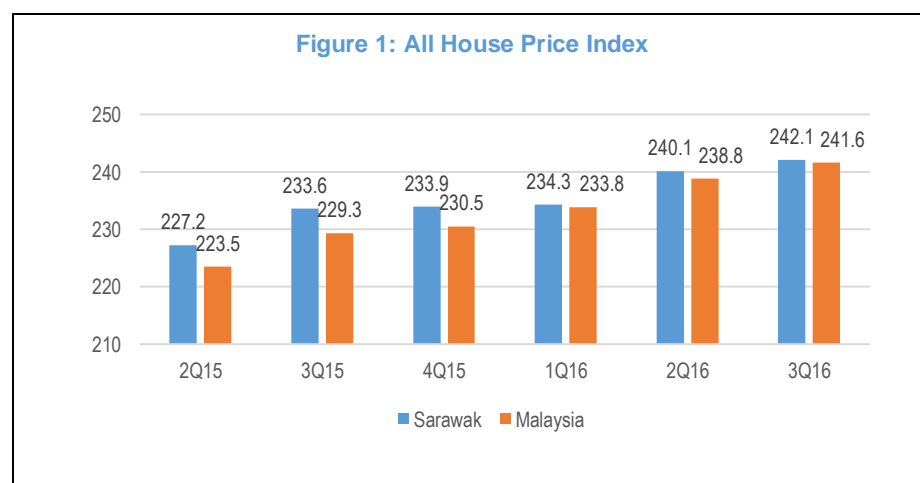
## Results Comparison

FYE Dec (RM m)	4Q16	4Q15	yoy %	3Q16	QoQ %	Remarks
			chg		chg	
Revenue	35.6	6.9	416	37.2	-4	In-line. Full year revenue of RM149.0m versus forecast of RM160.1m.
Operating costs	(29.7)	(22.7)	31	(35.3)	-16	
EBITDA	5.9	(15.8)	-137	2.0	201	Better than expected. Full year EBITDA of RM10.7m versus forecast of RM7.6m.
EBITDA margin (%)	16.5	(229.0)	NM	5.3	11	
Depn & amort.	(1.0)	(1.1)	-6	(1.1)	-12	
EBIT	4.9	(16.9)	-129	0.8	498	
Interest expense	(1.2)	(1.0)	28	(0.7)	87	
Interest & invt inc	(0.2)	(1.4)	NM	0.0	-939	
Associates' contrib	(1.1)	(2.2)	NM	(0.1)	1,680	
Exceptionals	0.0	(39.3)	NM	0.0	NM	
Pretax profit	2.4	(60.8)	-104	0.1	2,096	
Tax	(1.9)	0.2	NM	(0.5)	261	
Tax rate (%)	78.9	0.3	NM	480.4	NM	
<b>Profit from continuing operations</b>	<b>0.5</b>	<b>(60.6)</b>	<b>-101</b>	<b>(0.4)</b>	<b>-222</b>	
Profit from discontinued operations	(0.8)	(0.9)	-13	(0.4)	NM	
Minority interests	0.5	(0.2)	-402	(0.3)	-306	
<b>Net profit</b>	<b>0.2</b>	<b>(61.7)</b>	<b>NM</b>	<b>(1.0)</b>	<b>NM</b>	
EPS - continuing operation (cts)	0.52	(30.38)	NM	(0.33)	NM	

Source: Company, NRA Capital

**Results met expectations and pave the way for growth in 2017.** Regal's FY16 results met our expectations at various levels. For instance, full year revenue of RM149.0m was within only 7% variance of our expectation of RM160.1m. EBITDA of RM10.7m, of which RM5.9m was achieved in 4Q16, was 40% higher than our forecast of RM7.6m for the whole year, mainly due to higher than expected gross margin. Profit before tax of RM3.5m was also within our expectation of RM2.4m for the whole year.

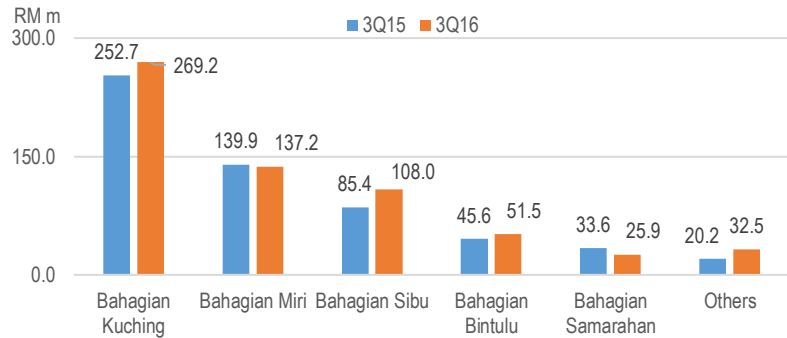
In our view, the key source of uncertainty now is how fast Regal can grow from FY16's revenue base of RM149m. The number of residential property transactions in Sarawak has remained stable in 2016. The positive news is that property prices have continued to climb in Sarawak with the average value per transaction rising by 9.1% year-on-year to RM251,800 per transaction in Kuching during 3Q16. Healthy price appreciation in the market is conducive for sales in the future, as buyers flock to earlier launches in search of bargains over more highly priced new launches.



Source: NAPIC, NRA Capital

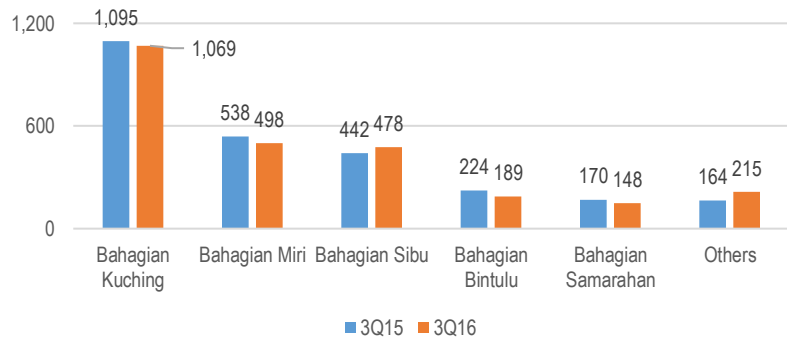
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**Figure 2: Value of Residential Property Transactions in Sarawak, by District**



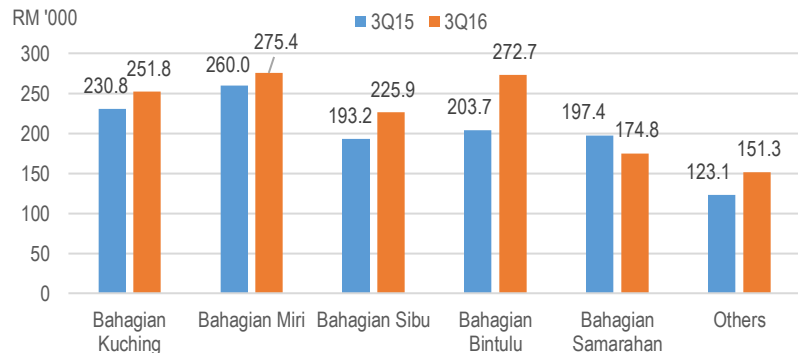
Source: NAPIC, NRA Capital

**Figure 3: Number of Residential Property Transactions in Sarawak, by District**



Source: NAPIC, NRA Capital

**Figure 4: Average Value of Residential Property Transactions in Sarawak**



Source: NAPIC, NRA Capital

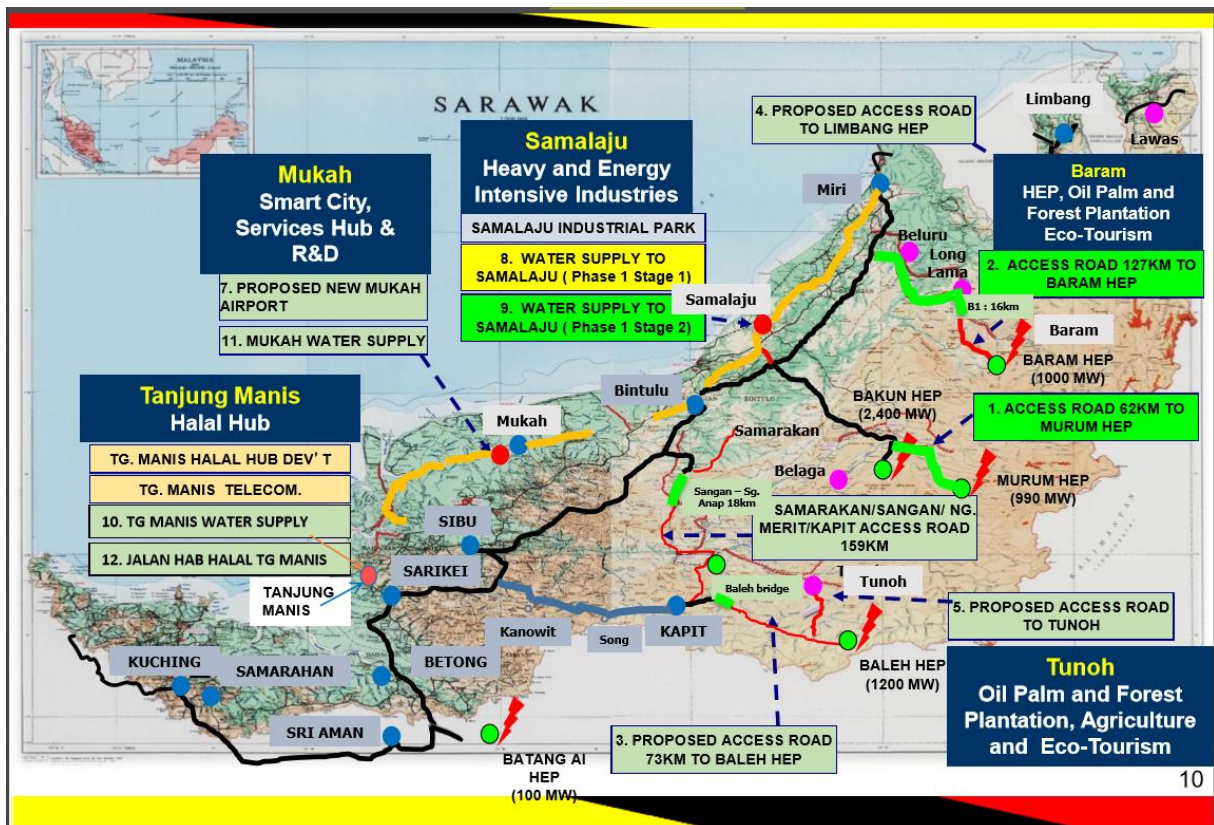
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**Prices may rise further as quantum moderates.** The Sarawak Planning Authority has earlier raised the development density for properties in Sarawak so that developers can build more units on the same acre of land from 2017 onwards. For landed housing, the development density has been raised from eight to ten units per acre, while stratified housing e.g. condominiums can house 30 units per acre of land, up from 24 units previously.

By raising the development density, each unit can be made smaller and hence more affordable to buyers, without lowering the selling price per sq. ft. We reckon that developers will peg the units at a lower sale quantum, while trying to push market boundaries by raising the average selling price per sq. ft. This move is a positive for Regal's future projects. At the same time, its existing projects will be more appealing to value oriented buyers who will prefer older projects with lower price per sq. ft..

**Recommendation.** The long run outlook for Sarawak is still positive as the growth of the state is less reliant on external factors, but underpinned by the Sarawak Corridor of Renewable Energy (SCORE) project, one of the five development corridors by the Federal government, to turn Sarawak into a developed state by 2030. Therefore, we maintain our Overweight rating.

Figure 5: Five Growth Nodes of SCORE

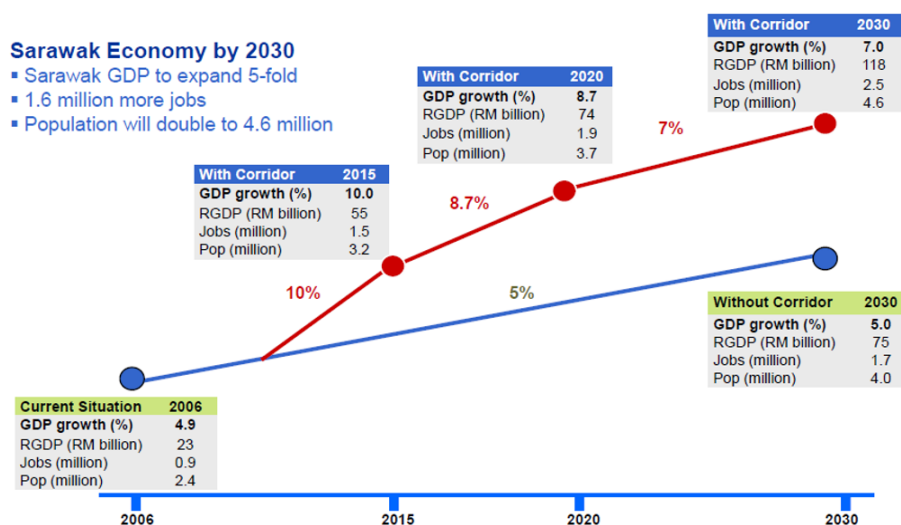


Source: CMS Slides 4QFY16

While we have previously mentioned about SCORE, Figure 5 provides an overview of the key large projects that will drive the development of different parts of Sarawak. In addition, Sarawak has been enjoying growing foreign direct investment, which expanded by 230% to US\$483.7m in 2016, from partners such as China. In turn, the broader growth of Sarawak will provide Regal with opportunities to expand beyond Kuching and into other parts of Sarawak such as Bintulu.

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Figure 6: Economic Projections, by EPU Sarawak



Source: CMS Slides 4QFY16

Figure 7: Summary of Regal's Major Projects and Estimates

Major Ongoing Projects	Est. GDV	Gross Profit	PAT	
Regal Corporate Park Phase 1	49.4	16.24	8.47	COC, 1Q17 100% recognition
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
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	
<b>Total net development value (RM m)</b>			<b>241.3</b>	Exclude completed projects
Book value of Regal as of 30 Dec 2016 (RM m)			54.5	
RNAV (RM m)			295.7	
Discount (based on 15% discount rate per annum)			35.1%	
Discounted RNAV (RM m)			191.9	
Number of shares (m)			200.11	
Value per share (RM)			0.959	
<b>Value per share (S\$)</b>			<b>0.301</b>	<b>Rounded to S\$0.300, based on SGDRM rate of 3.19</b>

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



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<b>Profit &amp; Loss (RM m, FYE Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Revenue	34.8	149.0	178.8	214.6	236.0
Operating expenses	-57.1	-138.3	-167.9	-197.1	-215.3
EBITDA	-22.4	10.7	10.9	17.5	20.7
Depreciation & amortisation	-4.7	-4.1	-2.5	-2.6	-2.7
EBIT	-27.1	6.6	8.4	14.9	18.0
Non-operating income/(expenses)	-42.7	-2.8	-5.0	-7.4	-8.6
Associates' contribution	-1.5	-0.3	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>-71.3</b>	<b>3.5</b>	<b>3.4</b>	<b>7.4</b>	<b>9.4</b>
Tax	0.4	-3.2	-0.8	-1.9	-2.4
Minority interests	-0.2	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>-71.1</b>	<b>0.4</b>	<b>2.5</b>	<b>5.6</b>	<b>7.1</b>
Shares at year-end (m)	200.1	200.1	200.1	200.1	200.1
<b>Balance Sheet (RM m, as at Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
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	16.1	16.1	16.1	16.1
<b>Total non-current assets</b>	<b>40.4</b>	<b>28.5</b>	<b>29.0</b>	<b>29.5</b>	<b>29.8</b>
Cash and equivalents	22.5	15.2	16.0	18.6	14.8
Stocks	36.7	31.2	31.2	31.2	31.2
Trade and other debtors	73.6	66.4	88.2	105.8	116.4
Development properties and others	113.5	109.6	131.1	156.9	172.4
<b>Total current assets</b>	<b>246.3</b>	<b>222.3</b>	<b>266.4</b>	<b>312.5</b>	<b>334.8</b>
Trade and other creditors	61.1	88.6	94.9	113.9	125.3
Short-term borrowings	31.3	24.3	35.5	41.5	41.5
Other current liabilities	96.5	47.9	53.7	60.6	64.8
<b>Total current liabilities</b>	<b>188.9</b>	<b>160.8</b>	<b>184.1</b>	<b>216.0</b>	<b>231.6</b>
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
<b>Total long-term liabilities</b>	<b>16.9</b>	<b>35.2</b>	<b>54.0</b>	<b>63.0</b>	<b>63.0</b>
<b>Shareholders' funds</b>	<b>80.5</b>	<b>54.5</b>	<b>57.0</b>	<b>62.6</b>	<b>69.7</b>
Minority interests	0.4	0.4	0.4	0.4	0.4
NTA/share (RM)	0.40	0.272	0.285	0.313	0.348
<b>Total Assets</b>	<b>286.7</b>	<b>250.8</b>	<b>295.5</b>	<b>342.0</b>	<b>364.6</b>
<b>Total Liabilities + S'holders' funds</b>	<b>286.7</b>	<b>250.8</b>	<b>295.5</b>	<b>342.0</b>	<b>364.6</b>
<b>Cash Flow (RM m, FYE Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Pretax profit (w/o exceptional items)	-72.3	-18.1	3.4	7.4	9.4
Depreciation & non-cash adjustments	53.5	31.1	7.2	9.7	10.9
Working capital changes	7.2	-32.4	-31.2	-17.5	-10.5
Cash tax paid	-0.6	-2.6	-0.8	-1.9	-2.4
<b>Cash flow from operations</b>	<b>-12.2</b>	<b>-22.1</b>	<b>-21.5</b>	<b>-2.3</b>	<b>7.5</b>
Capex	-3.2	-2.6	-3.0	-3.0	-3.0
Net investments & sale of FA	-1.4	11.3	0.0	0.0	0.0
Others	3.2	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>-1.4</b>	<b>8.8</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>
Debt raised/(repaid)	6.5	10.6	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	-2.2	-4.7	-7.1	-8.3
<b>Cash flow from financing</b>	<b>2.6</b>	<b>8.4</b>	<b>25.3</b>	<b>7.9</b>	<b>-8.3</b>
<b>Change in cash</b>	<b>-11.0</b>	<b>-4.9</b>	<b>0.8</b>	<b>2.6</b>	<b>-3.8</b>
<b>Change in net cash/(debt)</b>	<b>-22.0</b>	<b>-19.2</b>	<b>-29.2</b>	<b>-12.4</b>	<b>-3.8</b>
<b>Ending net cash/(debt)</b>	<b>-24.5</b>	<b>-43.6</b>	<b>-72.8</b>	<b>-85.2</b>	<b>-89.0</b>
<b>KEY RATIOS (FYE Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Revenue growth (%)	-63.5	328.7	20.0	20.0	10.0
EBITDA growth (%)	NM	NM	2.2	60.1	18.5
Pretax margins (%)	NM	2.4	1.9	3.5	4.0
Net profit margins (%)	NM	0.3	1.4	2.6	3.0
Effective tax rates (%)	NM	89.4	25.0	25.0	25.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-63.5	0.6	4.6	9.3	10.7
Free cash flow yield (%)	-14.3	-14.0	-25.8	-5.5	4.7

Source: Company, NRA Capital forecasts

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