

## Regal International Group

## Overweight

Current Price	S\$0.30
Fair Value	S\$0.52
Up / (downside)	73%

## Stock Statistics

Market cap	S\$62.0m
52-low	S\$0.31
52-high	S\$0.75
Avg daily vol	73,586
No of share	200.1m
Free float	30%

## Key Indicators

ROE 15F	15%
ROA 15F	7%
P/BK	1.1x
Net gearing	9%

## Major Shareholders

Su Chung Jye	65.5%
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## Historical Chart



Source: Bloomberg

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## An unique Sarawak property developer

- **Initiate coverage with Overweight recommendation** given its relatively strong fundamentals with 73% potential upside. Our S\$0.52 fair value is based on a 30% discount on RNAV or about 10x FY16 PER. However, short-term share price performance could be limited as Cresco Investments Pte Ltd (the RTO arranger) is reducing its stake when its moratorium ends last month.
- **Unusual property developer business model.** Unlike developers in Singapore and Malaysia, Regal develops properties without first acquiring the land in Sarawak. Instead, Regal enters into Development Agreements with the existing land owner, whereby in consideration of the group undertaking and completing the development project at its own costs and expenses, Regal is entitled to a major portion of the sales proceeds from units developed on the land parcels, and the remaining minority portion allocated to the land owners. The benefit from this business model is Regal does not need to gear up heavily to acquire land, the development and construction costs is also mainly funded by the proceeds from the presales launched.
- **Property Outlook for Sarawak in 2015 remains bright.** Sarawak has Malaysia's second highest state GDP per capita of RM41,115 in 2013, after Kuala Lumpur topping with RM79,752. The state aims to achieve gross domestic product (GDP) growth of up to 5% in 2015 compared with 4.7% in 2013 and around 5% in 2014. Sarawak has seen GDP rise in the past two decades and now contributes around 10% of Malaysia's total GDP.
- **Familiar with the business operations and strategies in Sarawak.** Regal's main operations are based in Kuching, Sarawak, which has seen constant growth in the property sector over the last few decades. The group's model is generally to launch its development projects for sale as soon as the group obtains the sales permit. In line with its marketing strategy, the group does not over-build and usually aims to sell at least 20% of the development first before it proceeds to the construction phase.
- **Outlook for another core business, precision engineering, remains positive.** After strong growth of 12.9% in 2014, worldwide semiconductor capital spending is projected to grow only 0.8% in 2015, according to Gartner, Inc. However, equipment spending will increase 5.6% in 2015, down from the 11.3% forecast in 3Q14, as the largest spenders adopt conservative investment strategies. Equipment spending outperformed capital spending in 2014 and will continue to do so in 2015.

Key Financial Data (RM m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	125.7	95.3	205.0	225.5	248.1
Gross Profit	39.8	32.2	59.5	65.4	71.9
Net Profit	22.3	(17.9)	24.2	27.1	30.6
EPS (sen)	11.2	(8.9)	12.1	13.6	15.3
EPS growth (%)	-	(180.0)	235.3	12.3	12.8
PER (x)	7.5	nm	6.9	6.2	5.5
NTA/share (sen)	14.7	52.1	60.9	70.5	81.9
DPS (sen)	2.3	4.0	4.0	4.0	4.0
Div Yield (%)	2.7	4.7	4.7	4.7	4.7

Source: Company, NRA Capital forecasts

# Regal International Group

## Company Background

The group is the result of a reverse takeover (RTO) on 29 October 2014. The purchase consideration was satisfied by cash S\$20.0m and the issuance of 130,000,000 new shares to the shareholders of Regal International. The issued shares capital of the group was increased from 58,447,392 (after 3-into-1 share consolidation) ordinary shares as at 30 September 2013 to 200,114,059 ordinary shares on 29 October 2014 upon completion of the RTO and the issuance of the ordinary shares consisting of 130,000,000 consideration shares and 11,666,667 professional fee shares to the arranger (Cresco Investments).

Hisaka Holdings Ltd was renamed Regal International Group Ltd on 31 October 2014. The group now comprises 2 core business divisions: Property and Precision Business Divisions.

Since its inception in 2004 with the establishment of Regal Advantage Sdn Bhd, the Regal Group has embraced changes within the industry and thrived on innovation, continuous improvement and best practice to evolve into a dynamic and forward thinking Company. In addition, the group offers the entire development package from land acquisition, design, construction and sales through to completion.

Currently, Regal is an upcoming player in East Malaysia property development market, and is actively involved in both the residential, commercial and industrial segments of the property sector.

From 2005 to 2013, the group successfully completed 17 projects with a total of 508 units, which includes 122 units of shophouses, 197 units of terrace houses, 28 units of semidetached houses, 160 condominium units and one unit of detached house.

Regal Group has received the SME100 Award 2014, an annual Recognition Award programme organised by SME & Entrepreneurship Magazine. This award identifies and recognises Malaysia's fast moving small and medium enterprises (SMEs) with a focus on growth pertaining to turnover, profit and market share, resilience, best practices, sustainability and vision.

# Regal International Group

## Business Segmentation

### Property Division

The property division refers to the business of property development, investment and construction by the associates under Regal's direct subsidiary, Regal International Holdings Pte Ltd. The group's property development arm has built a track record of more than 20 property development projects and constructed many property units in Kuching and Kota Samarahan area of East Malaysia over the past 10 years. Its diverse property portfolio includes shophouses, terrace houses, landed properties, condominiums, commercial and industrial units. Temasek Regal Capital Sdn Bhd is the Malaysian investment holding company that strings together over 17 other subsidiaries and associate companies involved in various aspects of the property development and related business activities.

The group currently has the following major on-going projects that include all such developments as well as lifestyles homes which consists of residential developments in exotic or scenic developments:-

- (i) The Orchard Residences, a development comprising 120 units of three blocks of six-storey condominium at Kota Samarahan;
- (ii) Airtrollis, a development of six blocks of apartments consisting 624 units, 16 shophouses, one mall and 400 affordable apartments at Mukim Labu, Nilai, Negri Sembilan;
- (iii) Unipark, comprising a development of 71 units of terrace houses and 12 units of semidetached houses at Muara Tuang Land District, Samarahan;
- (iv) Tondong Heights, a development comprising 70 units of single storey terrace houses and 158 units of double storey terrace houses at Jalan Tondong;
- (v) 72 Residences, a development comprising two blocks of apartments with 72 units condominium at Jalan Song, Kuching;
- (vi) Tropics III, a development comprising 262 strata title apartment units, 184 strata title retail units, 68 strata title office units and 90 strata title Segu units at Jalan Song, Kuching;
- (vii) Bandar Baru Semariang, a development comprising 66 detached industrial units and 318 units of semi-detached industrial units at Salak Land District, Bandar Baru Semariang;
- (viii) Unitech, a development comprising 18 units of shophouses at Muara Tuang Land District, Samarahan; and
- (ix) Tapah, a development comprising two units double storey terrace detached houses and 23 units of double storey terrace houses at 22 Mile Kuching Serian Road, Sentah Segu Land District.

# Regal International Group

## Listing of On-going Projects

Project Name	Tenure	Land Area (acres)	Gross Floor Area (sqft)	Percentage Completion	Expected Completion Date
Airtollis (phase 1)	999	9.0	312,828	35%	2015
Tondong Heights (phase 1 & 3)	99	32.8	498,537	55%	2015
72 Residences	60	3.0	128,124	10%	2016
Tropics III	99	5.0	453,273	0%	2018
Regal Corporate Park	99	15.3	140,902	10%	2017
Haziq Ria	60	2.9	33,599	1%	2016
Tapah Heights	60	3.2	70,509	10%	2015

Regal Corporate Park



72 Residences



Orchard Residence



Tropics III



UNITECH



Lot 411



Tapah Heights



Contempo



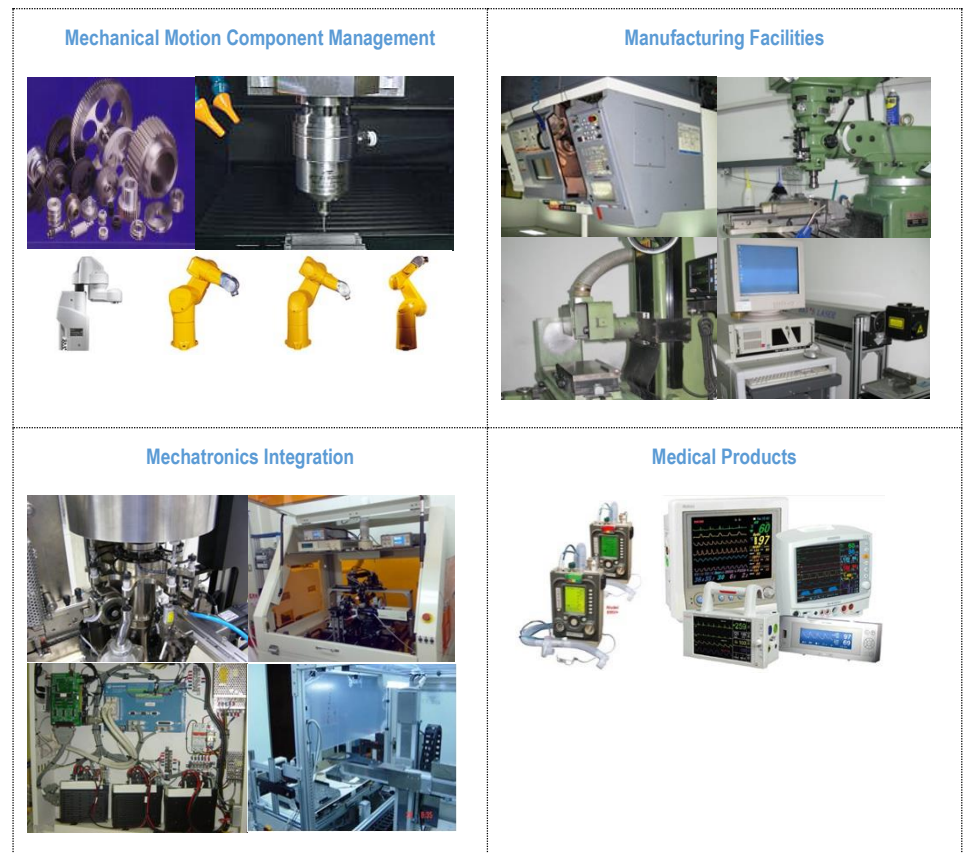
Source: Company

# Regal International Group

## Precision Business Division

The precision business division refers to the business of supplying mechanical motion products and providing automation solutions by Hisaka Holdings. The company's precision business unit has been established since 1992, Hisaka started as a trading firm to provide mechanical parts primarily to Japanese and American MNCs based in Singapore. Since then, the company has expanded their range of products and services to include mechanical motion components management, metallic precision manufacturing and mechatronics integration and the Group's customers are mainly in the semiconductor, electronics manufacturing services, data storage and automation industries. Its customers include major technology companies such as ASM Group, Kinergy Group and Kulicke & Soffa in the semiconductor and EMS industries.

The principal activities can be broadly classified into the following two business segments, with supply Chain Management being an integral part of both segments. The services segment consists of mechanical motion components management while the manufacturing segment consists of metallic precision manufacturing and mechatronics integration.



Source: Company

# Regal International Group

## Regional Offices



### Legends:

#### ■ SINGAPORE

- Regal International Group Ltd
- Regal International Holdings Pte Ltd
- Hisaka International Holdings Pte Ltd
- Hisaka (Singapore) Pte Ltd

#### • MALAYSIA

- Temasek Regal Capital Sdn Bhd
- Regal Advantage Sdn Bhd
- Beaches & Coastline Sdn Bhd
- Tiya Development Sdn Bhd <sup>1</sup>
- Temasek Cartel Sdn Bhd
- Regal Materials Sdn Bhd
- Bellanova Sdn Bhd
- Midas Residences Sdn Bhd

#### • MALAYSIA

- Kota Sarjana Sdn Bhd <sup>2</sup>
- Beneworld Sdn Bhd
- Upright Strategy Sdn Bhd
- Regal Lands Sdn Bhd
- Kenyalang Avenue Sdn Bhd
- Arena Wiramaju Sdn Bhd <sup>3</sup>
- Ocean Megalink Sdn Bhd
- Sang Kanchil Rising Sdn Bhd
- Hisaka Automation Sdn Bhd
- HJ Lai Concrete Cement Sdn Bhd <sup>4</sup>
- Regal Hospitalities Sdn Bhd <sup>5</sup>
- Regal Steelink Sdn Bhd <sup>6</sup>
- Luminous Paints Sdn Bhd <sup>6</sup>
- Regal Concrete Sdn Bhd <sup>7</sup>

#### ■ CHINA

- Hisaka (Shanghai) Co., Ltd
- Tech Motion (Shanghai) Co., Ltd
- Hisaka Mechatronics (Suzhou) Co., Ltd

★ Regal Projects in Malaysia

### Remarks:

1. Tiya Development Sdn Bhd is 49% owned by Regal Advantage Sdn Bhd.
2. Kota Sarjana Sdn Bhd is 49% owned by Midas Residences Sdn Bhd.
3. Arena Wiramaju Sdn Bhd is 25% owned by Regal Lands Sdn Bhd and 24% owned by Kenyalang Avenue Sdn Bhd.
4. HJ Lai Concrete Cement is 51% owned by Regal Lands Sdn Bhd.
5. Regal Hospitalities Sdn Bhd is 70% owned by Temasek Regal Capital Sdn Bhd and 30% owned by Temasek Cartel Sdn Bhd.
6. Regal Steelink Sdn Bhd and Luminous Paints Sdn Bhd are both respectively 55% owned by Regal Lands Sdn Bhd.
7. Regal Concrete Sdn Bhd is 75% owned by Regal Lands Sdn Bhd.

Source: Company

# Regal International Group

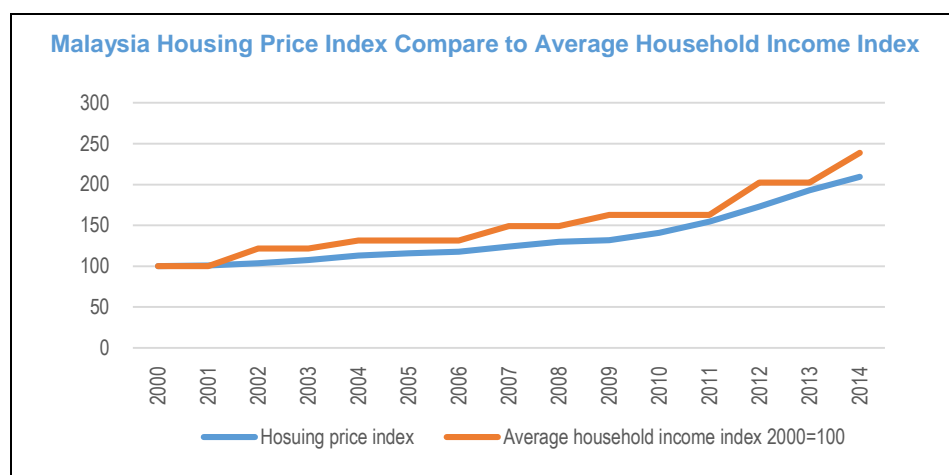
## Outlook Review

### 1) Property:

**Unusual property developer business model.** Unlike developers in Singapore and Malaysia, Regal develops properties in Sarawak without first acquiring the land. Instead, Regal enters into Development Agreements with the existing land owner, whereby in consideration of the group undertaking and completing the development project at its own costs and expenses, Regal is entitled to a major portion of the development on the land parcels, and the remaining portion paid to the land owners. The benefit from this business model is Regal does not need to gear up heavily to acquire land, the development and construction costs is also mainly funded by proceeds from the presales launched. We believe this model also minimises Regal's financial risk in the event of a slowdown on the property market currently given its majority projects are under this models.

**The Development Rights Agreements are legal.** Rights arrangements are in line with the common and recognised practice by property developers in Sarawak, Malaysia for land owners and licensed developers to enter into such development agreements. There are no legal or statutory prohibitions against such agreements between land owners and licensed developers. A development agreement will not contravene the land laws in Sarawak as such development agreement will only give the property developer contractual rights to part of the land which the property developer is authorised to sell to third party buyers.

**Malaysia GDP expanded 5.6% yoy in the first quarter of 2015.** GDP annual growth rate in Malaysia averaged 4.7% from 2000 until 2014. According to Ministry of Finance Malaysia, the performance of overall property market in Malaysia made a marginal rebound from 10.9% contraction recorded in 2013. A total of 384,060 transactions worth RM162.97bn were recorded in 2014, indicating a marginal increase of 0.8% in volume and 7.0% in value. Overall the housing price index is in line with the growth in average household income.



Source: National Property Information Centre (NAPIC), Department of Statistics Malaysia

**The residential sector contributed 30% of the overall property market.** 1Q15 property market showed a 15% yoy growth and 6% qoq growth in the value of projects despite the drop in number of projects. The increase in value of projects was due to developers building high-end properties and condominiums as residential properties are exempted from GST. However GST is charged onto the cost of building materials and services forcing developers to pick up the tab by narrowing their profit margin or moving to develop high-end properties.

# Regal International Group

## Performance of the construction sector

Quarter	No. of projects	Value of construction work done (RM m)	Percentage change (%)	
			(qoq)	(yoy)
1Q15	9,982	28,741	6.1	15.1
4Q14	10,000	27,099	7.1	9.7
1Q14	9,774	24,973	1.1	21.2

Source: Department of Statistics Malaysia (May 2015)

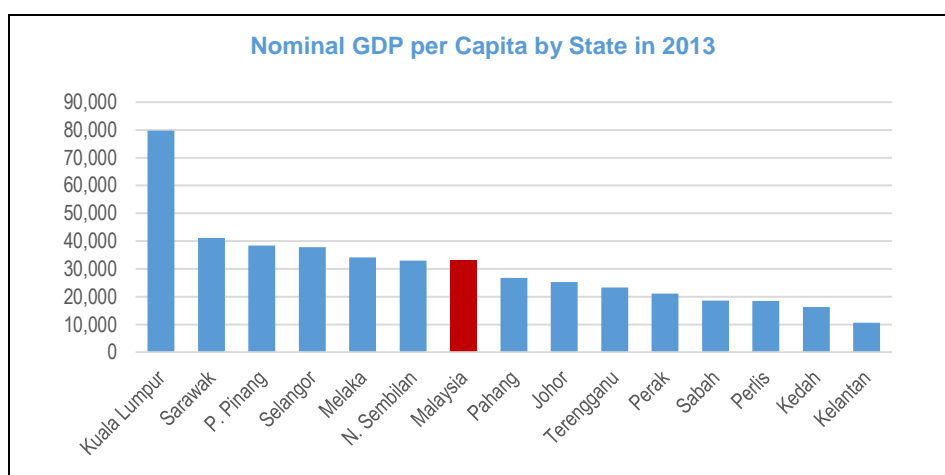
## Value of construction work done by type of activity, 1Q14 – 1Q15

	Total		Residential buildings		Non-residential buildings	
	Value of construction work done (RM m)	%	Value of construction work done (RM m)	%	Value of construction work done (RM m)	%
1Q15	28,741	100	8,606	29.9	10,006	34.8
4Q14	27,099	100	8,059	29.7	9,382	34.6
3Q14	25,301	100	7,598	30.0	8,724	34.5
2Q14	25,173	100	7,657	30.4	8,157	32.4
1Q14	24,973	100	7,202	28.8	8,052	32.2

Source: Department of Statistics Malaysia (May 2015)

**The mismatch between affordable housing supply and demand in Malaysia** stood at 40%, says Housing Minister, Abdul Rahman Dahlan in 2014. Department of Statistics Household Income survey of 2012 showed approximately 80% Malaysians earn less than RM6,954 per month and are able to afford houses priced at RM300,000 and below. National Property Information Centre (Napic)'s 2012 report stated that only 31.7% of all new housing units launched were priced below RM250,000. Outlook for 1Q15 paint a more optimistic picture as properties below RM250,000 take up 47.3% of total residential housing transaction.

**Sarawak is second highest state in terms of GDP per capita with RM41,115 in Malaysia in 2013** (above average of national GDP per capita of RM32,984), after Kuala Lumpur topping with RM79,752. The state aims to achieve gross domestic product (GDP) growth of up to 5% by 2015 compared with 4.7% in 2013 and around 5% in 2014, driven by energy exports and strong domestic demand. Manufacturing, services and construction sectors all experienced growth during the year. Sarawak has seen GDP rise in the past two decades and now contributes around 10% of Malaysia's total GDP. It is trying to capitalise on its relative political and economic stability to become the richest state in the country by 2030 and a high-income state by 2020.

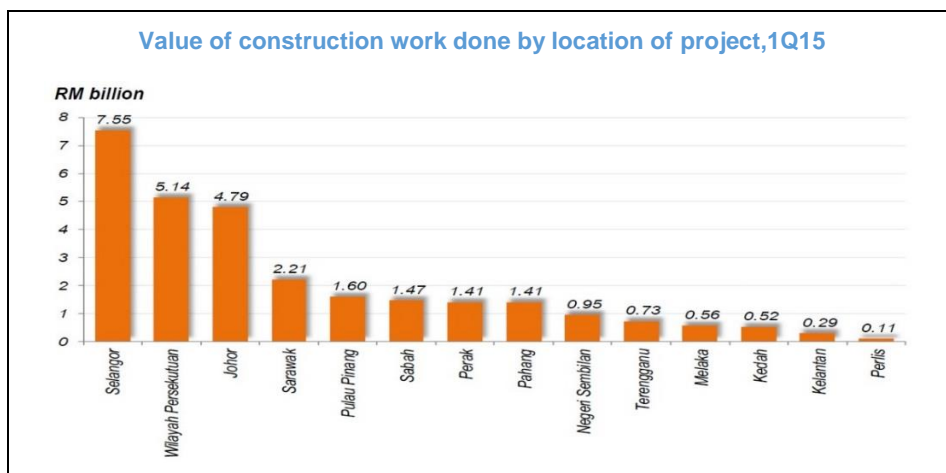


Source: Khazanah Research Institute - November 2014



# Regal International Group

**Room to grow from construction activities.** In 2012, the largest contribution of Sarawak GDP was services sector with a 37% contribution, followed by manufacturing 27%, mining and quarrying 21% and agriculture 12%. Construction only contributed about 3% to the state's economic activities. We believe Sarawak's construction sector can show strong growth in the near future given the Sarawak Corridor of Renewable Energy (SCORE) is now firmly established as one of Malaysia's five economic corridors.



Source: Department of Statistics Malaysia (May 2015)

## Number and Percentage of Transactions by price range in Sarawak

Price range (RM)	Time period	Development					Total
		Residential	Commercial	Industrial	Agriculture	land	
0 - 50,000	1Q14	83	4	0	793	6	886
	4Q14	62	15	1	1141	9	1228
	1Q15	107	3	0	758	51	919
50,001 - 100,000	1Q14	111	31	1	475	14	632
	4Q14	138	19	3	545	18	723
	1Q15	143	25	6	569	52	795
100,001 - 150,000	1Q14	240	29	8	331	37	645
	4Q14	251	51	2	351	32	687
	1Q15	254	42	1	404	46	747
150,001 - 200,000	1Q14	331	22	9	319	56	737
	4Q14	290	57	6	341	44	738
	1Q15	312	42	5	294	74	727
200,001 - 250,000	1Q14	498	75	9	295	76	953
	4Q14	510	73	10	305	65	963
	1Q15	532	91	12	302	40	977
250,001 - 300,000	1Q14	432	70	17	130	70	719
	4Q14	469	68	20	166	60	783
	1Q15	442	64	34	152	41	733
300,001 - 400,000	1Q14	238	26	26	124	46	460
	4Q14	267	51	5	83	33	439
	1Q15	282	62	14	120	31	509
400,001 - 500,000	1Q14	590	109	25	152	115	991
	4Q14	709	134	36	199	134	1212
	1Q15	623	167	50	159	87	1086
500,001 - 1,000,000	1Q14	111	82	39	46	52	330
	4Q14	136	109	36	59	48	388
	1Q15	137	131	40	59	74	441
1,000,001 & Above	1Q14	17	39	8	18	44	126
	4Q14	16	51	17	18	38	140
	1Q15	17	53	16	31	42	159
Breakdown	1Q14	40.9%	7.5%	2.2%	41.4%	8.0%	100%
	4Q14	39.0%	8.6%	1.9%	43.9%	6.6%	100%
	1Q15	40.2%	9.6%	2.5%	40.2%	7.6%	100%

Source: National Property Information Centre (Naptic)

# Regal International Group

**Sarawak property outlook remain optimistic.** Sarawak has seen a steady and gradual uptrend in property prices in the past 20 years, without strong external speculation driving prices sharply up and creating housing bubble. Only in recent years, there has been more buying for investment with rental yields at 3-6% per annum, according to management. Regal has built its track records over the past 10 years with its good understanding of the Sarawak property market. Typically, its projects sell out within 6 to 12 months.

## 2) Precision Engineering:

**Stable outlook for semiconductor markets in 2015.** Gartner projected worldwide semiconductor sales to reach US\$354bn in 2015 which is an increase of 4% yoy over 2014. Smartphones, solid-state drives (SSDs) and ultramobiles will be the largest supporters for semiconductor growth. From a device point of view, DRAM is the primary growth driver of the overall industry and revenue is expected to increase 7.9% yoy in 2015, following an increase of 32% yoy in 2014. Even after factoring in China's financial vulnerabilities and structural constraints, World Bank is projecting China growth to moderate to 7% in 2015 and 2016 on its April statement.

**Opportunities opens up for Singapore equipment maker.** India Electronics and Semiconductor Association (IESA) signed an MoU with Singapore Semiconductor Industry Association (SSIA) on 3 Feb 2015 to establish and develop trade and technical cooperation links. India and Singapore are two countries with varied strengths and opportunities in their respective Electronic System Design and Manufacturing (ESDM) industries. India has a huge domestic ESDM market, but lacks adequate manufacturing capacity. The ESDM Industry size is expected to reach US\$400bn by 2020 (US\$45bn in 2009).

**Equipment spending remains robust despite Gartner cutting its forecasts.** After strong growth of 12.9% in 2014, worldwide semiconductor capital spending is projected to grow only 0.8% in 2015, according to Gartner, Inc. However, equipment spending will increase 5.6% in 2015, down from the 11.3% forecast in 3Q14, as the largest spenders adopt conservative investment strategies. Equipment spending outperformed capital spending in 2014 and will continue to do so in 2015.

### Worldwide semiconductor capital spending and equipment spending forecast, 2013-2018 (millions of dollars)

	2013	2014	2015F	2016F	2017F
Semiconductor Capital Spending (\$m)	57,840	65,290	65,785	65,545	70,184
Growth (%)	-1.5%	12.9%	0.8%	-0.4%	7.1%
Capital Equipment (\$m)	33,452	38,928	41,108	40,182	44,616
Growth (%)	-11.6%	16.4%	5.6%	-4.2%	11.2%
Wafer Fab Equipment (\$m)	27,278	31,633	33,746	33,637	36,943
Growth (%)	-8.0%	16.0%	6.7%	-2.7%	10.1%
Wafer-Level Manufacturing Equipment (\$m)	28,758	33,401	35,671	35,538	39,281
Growth (%)	-8.5%	16.1%	6.8%	-2.6%	10.8%
Wafer-Level Packaging and Assembly Equipment (\$m)	1,480	1,767	1,925	1,901	2,339
Growth (%)	-17.8%	19.4%	8.9%	-1.2%	23.0%
Die-Level Packaging and Assembly Equipment (\$m)	2,869	3,264	3,136	2,628	2,954
Growth (%)	-25.8%	13.8%	-3.9%	-16.2%	12.4%
Automated Test Equipment (\$m)	1,825	2,263	2,302	2,016	2,381
Growth (%)	-27.6%	24.0%	1.7%	-12.4%	18.1%

Source: Gartner (January 2015)

# Regal International Group

**SEMI forecasts are even more aggressive.** According to SEMI, Semiconductor fabrication equipment spending will increase 15% yoy to US\$40.5bn in 2015 following a strong 20% yoy growth in 2014. Most of the large semiconductor companies are expected to increase capital expenditure by 8% in 2015 and grow another 3% in 2016, according to the association. The projected increases are driven by new fabrication construction projects and the ramp up to new technology nodes.

## SEMI spending forecast

	2013	2014	2015	2016
Fab equipment (US\$bn)	29.4	35.2	40.5	41 to 42
% change yoy	-10%	20%	15%	2% to 4%
Fab construction (US\$bn)	8.8	7.7	5.2	6.9
% change yoy	14%	-11%	-32%	32%

Source: SEMI, March 2015

**Outlook view is in line with its two major customers.** ASM Pacific Technology and Kulicke & Soffa (K&S) both posted strong 1Q15 revenue performance. ASM 1Q15 revenue of US\$394.1m jumped 23% yoy, the group expects billings to achieve a double digit growth improvement in the 2Q15 over the same period of last year, and to produce a moderate-to-strong double digit growth over 1Q15. While K&S revenue of US\$145.2m in 2QFY09/15 was up 27% yoy, the group currently expects revenue in the 3QFY09/15 to be in the range of approximately US\$160m to US\$170m (increase by between 10% and 17% qoq).

# Regal International Group

## Management

**Su Chung Jye - Chairman and CEO.** Mr Su Chung Jye is the Executive Chairman and CEO of Regal International Group Ltd. He was appointed to the Board on 29 October 2014, following the successful reverse takeover of Hisaka Holdings Ltd. With over 20 years of work experience in the construction and property development business, Mr Su is involved in all key aspects of the Group's operations, including setting corporate direction and strategic business developments. Mr Su holds a Degree of Master of Science in Building Science from the National University of Singapore, and a Double Degree of Bachelor of Engineering (Electrical Engineering) and a Bachelor of Science from The University of Sydney, Australia. He also holds a Diploma in Investment Analysis from the Research Institute of Investment Analysts Malaysia in collaboration with the Royal Melbourne Institute of Technology (RMIT), Australia.

**Wong Pak Kiong - Executive Director and Director of Sales and Marketing.** Mr Wong Pak Kiong is the Executive Director and Director of Sales and Marketing of the Regal International Group. He was appointed to the Board on 29 October 2014, following the successful reverse takeover of Hisaka Holdings Ltd. Mr Wong's main responsibilities include establishing, managing and executing all sales and marketing strategies for the Group, especially for the Property Division. With over 19 years of experience, Mr Wong is entrusted with developing and conducting all sales, marketing and promotion campaigns, as well as managing and developing sales teams.

**Lee Mei San - Chief Financial Officer (CFO), Group and Precision Business Division.** Ms Lee Mei San is the Chief Financial Officer (CFO) of Regal International Group, as well as the Precision Business Division under the Group. She is responsible for the Group's financial accounting, financial reporting as well as corporate finance matters of the Group. Her responsibilities also include fund flow management, management reporting and tax planning. Ms Lee also oversees the financial reporting of the Precision Business Division. Ms Lee holds a Bachelor of Accountancy from the Nanyang Technological University and had served as the CFO of a listed company on the SGX-ST, for approximately six (6) years prior to her current appointment.

# Regal International Group

## Key Risks

**Land regulation risk.** Regal's unique business model is subject to National Land Code jurisdiction. A change or restriction in the national land code would disrupt the business model of the group and adversely affect its current and future portfolio of property development projects.

**Variable revenue recognition.** Regal can yield lumpy revenue and profit from year to year due to development projects' revenue recognition procedures differing from project to project, measuring Regal Holdings annual report will see drastic differences in revenue for yoy comparison.

**Substantial goodwill amount sensitive to key assumptions in impairment testing.** Regal carry a goodwill amount of RM39m as at end March 2015 from the reverse acquisition of Hisaka Group. The goodwill is supported by DCF model, any net loss generate from Hisaka Group could lead to significant impairment loss. The group's internal sensitivity to changes in assumption; If the revised growth rate to the discounted cash flows had been reduced by 1 percentage point than management's estimates, there would be a need to reduce the carrying value of goodwill by approximately RM4.1m and If the revised estimated pre-tax discount rate applied to the discounted cash flows had been increased by 1 percentage point, there would be a need to reduce the carrying value of goodwill by approximately RM6.7m.

**Counterparty risk.** Regal might be unable to sign development agreements on favourable terms or might be exposed to unlawful termination of development agreements by counter-parties. The group does not own the title to and is not the registered land owner of the land parcels on which these projects are developed.

**Commodity risk.** Malaysia is susceptible to external headwinds, such as fluctuations in the prices of commodities. Any increase in commodity prices for construction materials and equipment that the Regal International Holdings or their independent sub-contractors procure will increase the Group's costs of development. Its financial performance will be adversely affected.

**Fluctuation of foreign exchange rates.** There is natural hedging in its business foreign currency exposure, its precision business sales and purchases are denominated in Singapore Dollar and property development sales and purchases are denominated in Malaysia Ringgit. However, as more than 50% of the group sales in Singapore Dollar (S\$) mainly from Hisaka precision business, it is exposed to foreign exchange translation risks as the financial statements are denominated in Malaysia Ringgit.

# Regal International Group

## Financial Highlights

FYE Dec (RM m)	1Q15	1Q14	yoy % chg	2014	2013	yoy % chg
Revenue	37.8	4.4	752	95.3	125.7	(24)
Operating costs	(34.6)	(5.7)	504	(78.9)	(94.0)	(16)
EBITDA	3.3	(1.3)	354	16.4	31.7	(48)
EBITDA margin (%)	8.6	(28.9)		17.2	25.3	
Depn & amort.	(0.7)	(0.2)	199	(1.6)	(0.8)	88
EBIT	2.6	(1.5)	271	14.8	30.9	(52)
Net interest income/expense	(0.4)	(0.0)	849	(0.8)	(0.8)	(3)
Non-operating income/(expenses)	1.6	0.1	1,185	(5.8)	1.1	(631)
Associates' contribution	0.3	0.8	(65)	8.9	(0.4)	2,174
Exceptionals	0.0	0.0	nm	(30.1)	0.0	nm
<b>Pretax profit</b>	<b>4.1</b>	<b>(0.6)</b>	<b>789</b>	<b>(12.9)</b>	<b>30.8</b>	<b>(142)</b>
Tax	(0.6)	0.0	nm	(5.0)	(8.5)	(41)
Tax rate (%)	14.7	0.0		(38.5)	27.4	
Minority interests	0.1	(0.0)	nm	0.0	0.0	300
<b>Net profit</b>	<b>3.5</b>	<b>(0.6)</b>	<b>696</b>	<b>(17.9)</b>	<b>22.3</b>	<b>(180)</b>
EPS (cts)	1.8	(0.3)	696	(8.9)	11.2	(180)

Source: NRA Capital

**FY14 earnings hit by non-core items.** Regal FY14 revenue decreased by 24% yoy due to lower sales of development properties recognised, however revenue was partially offset by the contribution of the precision business revenue amounting to RM12.5m (only 2 months contribution) subsequent to the completion of the reverse takeover by the Regal Group. The group recorded a net loss of RM17.9m in FY14 compared to a net profit of RM30.8m in FY13 mainly due to the RM30.1m one-off RTO expenses and impairment of goodwill of the precision business (non-cash items). Excluding the non-core items, Regal FY14 recorded a core net profit of RM18.3m (-19% yoy).

**1Q15 earnings back on track.** 1Q15 revenue improved by 752% yoy from RM4.4m to RM37.8m due mainly to the contributions of the precision business revenue amounting to RM27.5m in 1Q15 subsequent to the completion of the reverse takeover by Regal on 29 October 2014. The revenue in 1Q14 comprises solely on the income from the property business arm. The property business arm recorded an increase in revenue up from RM4.4m on 1Q14 to RM10.3m in 1Q15. Net profit increased to RM3.5m from net loss of RM0.6m in 1Q14 due mainly to the inclusion of precision engineering business.

**Healthy balance sheet.** Regal generated a negative free cash flow of RM13.4m and RM7.7m in its FY14 and 1Q15 respectively due mainly to increasing its development activities. Nevertheless, its 9% net gearing as at March quarter is relatively stronger than its peer competitors of an average 42%.

# Regal International Group

## Property development process

As at 30 May 2015

Name of project	Location	Type of development	Est. completion	Land area (acre)	Saleable area (sqft)	Total units	% sold	ASP per sqft (RM)	Valuation (RM m)	Status in relation to the property development Process	
<b>Current projects</b>											
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)	9.0	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	Stage 4 and progress payments to service providers have commenced	
Tapah Heights	Kuching, Sarawak	Double storey terrace houses	2015	3.2	70,509	25	100%	79.6	1.1	Stage 2	
72 Residences	Kuching, Sarawak	Condominium	2015	3.0	128,124	72	25%	535.5	18.0	Stage 4	
Tropics III	Kuching, Sarawak	Apartment, retail, office and SoHo units	2017	5.0	453,273	604	25%	675.3	72.3	Stage 2	
Bandar Baru Semariang (80%)	Kuching, Sarawak	Detached and semi-detached industrial units	2018	134.8	12,377,120	384	5%	22.5	74.1	Stage 2	
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	2016	2.9	67,703	19	94%	254.0	0.4		
Haziq Ria	Kuching, Sarawak	Semi-detached houses and terrace houses	2015	2.9	33,599	22	86%	432.0	0.7		
Matang	Kuching, Sarawak	Terrace and semi-detached houses	2016	7.6	208,302	59	62%	350.0	9.7		
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	Stage 4 and progress payments to service providers have commenced
	Orchard Contempo 3	Samarahan, Sarawak	Three-storey shophouses	2014	1.0	55,039	12	25%	417.0	3.0	Stage 4 and progress payments to service providers have commenced
	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	2016.000	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	This phase of the project is set to commence in 2015
<b>Upcoming projects</b>											
Lundu	Lundu, Sarawak	Residential landed property	2017	4.0	68,000	34	0%	298.0	7.1		

+ NRA's net unsold project valuation (RM m) - assumption 35% operating profit margins	312.0	
+ Development properties held for sale in the process (RM m)	76.2	As at March 2015
+ Net cash / (net debt) (RM m)	(35.9)	FY15 forecast
+ Working capital (RM m)	48.5	
<b>NRA's revaluation (RM m)</b>	<b>400.7</b>	
Number of share outstanding	200.1	
NRA's RNAV per share (RM m)	2.00	
MYR:SGD exchange	2.70	
NRA's RNAV per share (S\$)	0.74	
<b>Fair value on 30% discount</b>	<b>30%</b>	<b>0.52</b>

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

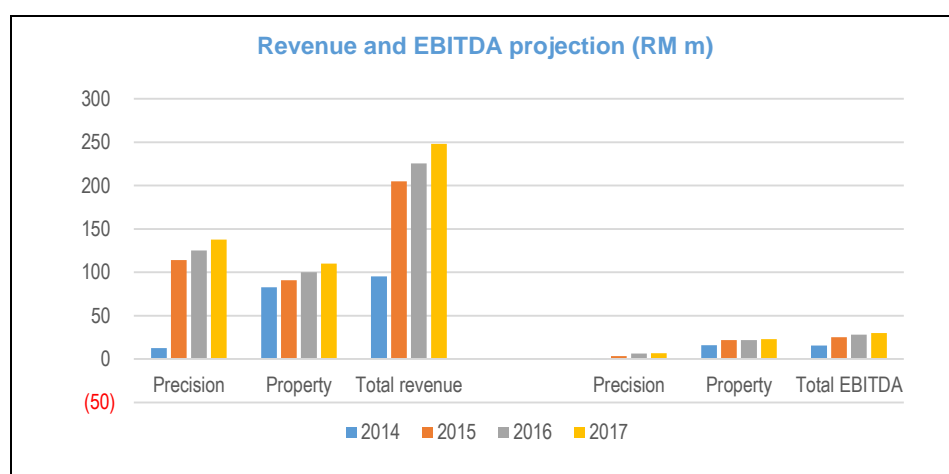
# Regal International Group

## Valuation and Recommendation

**Strong presence in East Malaysia.** Despite Regal's brief financial record as the RTO only completed last year, the group has built a good track record in East Malaysia since 2004. We expect Regal to continue doing well in East Malaysia over the next two years, given its ongoing projects in hand. Despite projections for the property sector to slow down in Malaysia, the group is confident the property market will remain stable in East Malaysia due to strong GDP projections of 4-5% for 2015. We also like its business model in East Malaysia due to the Land Regulation code, Regal has the ability to develop and construct properties without the need to acquire land. It has low capital requirements.

**We expect Sarawak property contribution to remain stable.** Regal's main operations are based in Kuching, Sarawak, which has seen constant growth in the property sector over the last few decades. The group's model is generally to launch its development projects for sale as soon as the group obtains the sales permit. In line with its marketing strategy, the group does not over-build and usually aims to sell at least 20% of the development first before it proceeds to the construction phase. The stable economic growth that has been enjoyed by Sarawak coupled with its resilience due to its abundant natural resources provides a good market for Regal to grow. The promising prospect of growth and the fast expanding Sarawak Corridor of Renewable Energy (SCORE) will also indirectly benefit the group.

**We expect a 37% CAGR growth on revenue for the next three years** due mainly to its new contribution from precision engineering this year. Overall we expect its property division to achieve 10% CAGR growth given its current development properties on hand. We expect its core earnings to grow 29% yoy in FY15 (excluding non-cash items). The group has announced recently to dispose its 33.3%-owned associate, Singapore Synergy Holdings Pte Ltd, we calculate there will be approximately RM1.2m loss on disposal in FY15.



Source: NRA Capital

**We initiate coverage with Overweight recommendation and S\$0.52 fair value.** Our fair value is based on a 30% discount on RNAV or about 10.3x FY16 PER. Given its relatively strong fundamental with 73% potential upside; we initiate coverage with an Overweight recommendation. However, short-term share price performance could meet the overhang by Cresco Investments Pte Ltd (the RTO arranger) which plans to reduce its stake now that its moratorium has ended. As of 28 May announcement, Cresco Investments has reduced its stake from 5.83% to 4.68% via off market transaction.



# Regal International Group

## Comparison

Name	Code	Price (Local)	MktCap (S\$m)	Actual PER (x)	Y1 PER (x)	Y2 PER (x)	PBR (x)	ROE (%)	Net Gearing (%)	Yield (%)
<b>REGAL INTERNATIO</b>	<b>REGAL SP</b>	<b>0.34</b>	<b>68.0</b>	<b>nm</b>	<b>6.9</b>	<b>6.2</b>	<b>1.1</b>	<b>0.9</b>	<b>9.0</b>	<b>4.7</b>
IBRACO BHD	IBRA MK	2.03	92.2	6.5	nm	nm	1.1	10.9	33.4	4.9
HOCK SENG LEE	HSL MK	1.84	362.6	12.6	11.3	10.1	1.6	13.7	net cash	1.5
SP SETIA BHD	SPSB MK	3.38	3136.5	20.7	14.1	11.4	1.4	7.0	37.3	3.4
SENTORIA GROUP	SNT MK	1.05	178.5	15.9	13.5	8.4	1.4	10.2	41.5	1.9
YNH PROPERTY BHD	YNHB MK	1.88	269.0	22.3	11.1	9.2	0.9	5.7	74.6	1.1
TIONG SENG HLDS	TSNG SP	0.14	125.9	nm	19.6	17.1	0.5	-5.1	68.3	1.5
TEE LAND LTD	TEEL SP	0.23	100.5	8.9	6.6	8.0	0.7	9.7	74.2	3.9
MALTON BHD	MALT MK	0.87	139.1	10.5	8.7	6.7	0.6	4.8	43.3	3.5
WING TAI MALAYSI	WING MK	1.54	174.7	5.9	8.3	7.7	0.5	8.5	18.0	4.5
SBC CORPORATION	SBC MK	0.90	75.8	8.2	6.4	4.3	0.6	7.1	20.2	3.5
<b>Average</b>			<b>429.3</b>	<b>12.4</b>	<b>10.6</b>	<b>8.9</b>	<b>0.9</b>	<b>6.7</b>	<b>42.0</b>	<b>3.1</b>

Source: Bloomberg, NRA Capital

# Regal International Group

<b>Profit &amp; Loss (RM m, FYE Dec)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Revenue	125.7	95.3	205.0	225.5	248.1
Operating expenses	(94.0)	(78.9)	(178.3)	(195.8)	(215.4)
EBITDA	31.7	16.4	26.7	29.8	32.6
Depreciation & amortisation	(0.8)	(1.6)	(2.7)	(3.0)	(3.3)
EBIT	30.9	14.8	24.0	26.8	29.3
Non-operating income/(expenses)	0.3	(6.6)	(0.8)	(1.1)	(0.9)
Associates' contribution	(0.4)	8.9	5.3	6.4	7.7
Exceptional items	0.0	(30.1)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>30.8</b>	<b>(12.9)</b>	<b>28.5</b>	<b>32.0</b>	<b>36.2</b>
Tax	(8.5)	(5.0)	(4.6)	(5.1)	(5.8)
Minority interests	0.0	0.0	0.2	0.2	0.2
<b>Net profit</b>	<b>22.3</b>	<b>(17.9)</b>	<b>24.2</b>	<b>27.1</b>	<b>30.6</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>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
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
<b>Total non-current assets</b>	<b>10.9</b>	<b>79.6</b>	<b>79.5</b>	<b>79.9</b>	<b>80.3</b>
Cash and equivalents	1.3	27.7	9.2	11.7	13.3
Stocks	19.0	30.3	43.7	48.0	52.8
Trade debtors	56.6	78.9	95.3	106.4	121.1
Development properties and others	20.3	54.0	95.6	104.7	114.8
<b>Total current assets</b>	<b>97.2</b>	<b>190.9</b>	<b>243.7</b>	<b>270.9</b>	<b>302.0</b>
Trade creditors	46.1	55.5	80.1	88.1	96.9
Short-term borrowings	2.2	16.5	20.5	20.3	19.8
Other current liabilities	28.2	39.8	35.5	36.1	36.8
<b>Total current liabilities</b>	<b>76.5</b>	<b>111.8</b>	<b>136.1</b>	<b>144.5</b>	<b>153.5</b>
Long-term borrowings	2.0	13.7	24.6	24.8	24.8
Other long-term liabilities	0.0	1.4	1.4	1.4	1.4
<b>Total long-term liabilities</b>	<b>2.0</b>	<b>15.0</b>	<b>26.0</b>	<b>26.2</b>	<b>26.2</b>
<b>Shareholders' funds</b>	<b>29.5</b>	<b>143.6</b>	<b>161.2</b>	<b>180.5</b>	<b>203.2</b>
Minority interests	0.0	0.1	(0.1)	(0.3)	(0.5)
NTA/share (RM)	0.15	0.52	0.61	0.71	0.82
<b>Total Assets</b>	<b>108.0</b>	<b>270.6</b>	<b>323.3</b>	<b>350.8</b>	<b>382.3</b>
<b>Total Liabilities + S'holders' funds</b>	<b>108.0</b>	<b>270.6</b>	<b>323.3</b>	<b>350.8</b>	<b>382.3</b>
<b>Cash Flow (RM m, FYE Dec)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Pretax profit	30.8	(12.9)	28.5	32.0	36.2
Depreciation & non-cash adjustments	(0.1)	20.9	9.8	0.9	1.1
Working capital changes	(24.5)	(20.3)	(44.5)	(14.7)	(19.0)
Cash tax paid	(0.6)	0.3	(17.1)	(4.6)	(5.1)
<b>Cash flow from operations</b>	<b>5.6</b>	<b>(12.0)</b>	<b>(23.3)</b>	<b>13.7</b>	<b>13.1</b>
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
<b>Cash flow from investing</b>	<b>3.2</b>	<b>22.7</b>	<b>(0.1)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Debt raised/(repaid)	(5.4)	23.1	15.0	0.0	(0.5)
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)	(2.3)	(2.3)	(2.2)
<b>Cash flow from financing</b>	<b>(6.4)</b>	<b>13.0</b>	<b>4.8</b>	<b>(10.2)</b>	<b>(10.6)</b>
<b>Change in cash</b>	<b>2.3</b>	<b>23.6</b>	<b>(18.5)</b>	<b>2.6</b>	<b>1.5</b>
<b>Change in net cash/(debt)</b>	<b>7.6</b>	<b>0.5</b>	<b>(33.5)</b>	<b>2.6</b>	<b>2.0</b>
<b>Ending net cash/(debt)</b>	<b>(2.9)</b>	<b>(2.4)</b>	<b>(35.9)</b>	<b>(33.3)</b>	<b>(31.4)</b>
<b>KEY RATIOS (FYE Dec)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Revenue growth (%)	-	(24.2)	115.1	10.0	10.0
EBITDA growth (%)	-	(48.2)	62.7	11.3	9.6
Pretax margins (%)	24.5	(13.5)	13.9	14.2	14.6
Net profit margins (%)	17.8	(18.7)	11.8	12.0	12.3
Effective tax rates (%)	27.4	(38.5)	16.0	16.0	16.0
Net dividend payout (%)	20.2	0.0	(32.7)	(58.3)	(77.5)
ROE (%)	76.4	12.7	13.9	15.0	15.1
Free cash flow yield (%)	7.2	(21.6)	(39.2)	20.5	19.5

Source: Company, NRA Capital forecasts

# Regal International Group

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