Regal International Group

Sights Set High

SINGAPORE | PROPERTY | INITIATION

6 August 2015

Investment Actions

We initiate coverage on Regal with a "BUY" rating and a 0.7x P/RNAV target price of S$0.43.

- Regal is poised to make the jump from a small niche developer to a substantially bigger one. As there is risk to this move, share prices have been weak of late, but a stake acquired now could bear enormous fruit in the medium term.
- Malaysia's macro uncertainties are being played up in the media as dire, but they probably aren't as severe as is popularly believed.
- The Sarawak property market is not well-covered or well-understood, and is stronger than that of West Malaysia.
- Regal has two major projects that will require additional capital to complete. If it's able to realise its ambitions, the intrinsic value of the company increases dramatically.
- An additional fillip to company value would come if it were to divest its precision division and devote itself entirely to property development, which would improve its attractiveness to investors.
- The company is penalised by a short financial history, a confusing income statement and balance sheet, the uncertainties of the property sector and the macro environment. However, doing the required analysis suggests significant hidden upside.

Investment merits

Regal's current price to RNAV is 0.26x compared with an average 0.7-0.8x for Singapore-listed and 0.6-0.7x for Malaysia-listed peers.

Assuming Regal is able to realize its development plans, shares rerating to the approximate peer norm of 0.7x P/RNAV could mean up to 169% upside for investors on a time frame of a couple of years.

So far shares have been weak for reasons mostly related to Malaysia's various macro travails. We believe that these will in time prove to have been solvable, and that the current panic atmosphere prevailing in local media has created a buying opportunity for quality Malaysian names.

That little extra something

In addition to the traditional story of a company beaten down by market forces and now offering exceptional value, Regal is an interesting foray into an unusual market with relatively high and relatively stable growth prospects. It has some innovative project-financing methods, which the company calls part of an "asset-light strategy", that reduce risk to the company. Further, it may be able to raise capital by disposal of the very assets it acquired during its 2014 reverse takeover of listed Hisaka Holdings Ltd.

While certainly shares are illiquid and so far appear not to have found a bottom, they already offer a fascinating buy opportunity. We recommend entering with a sequence of small buys so as not to disturb prices too much. Buy now, hold for a year or two, and reap significant upside.

BUY (INITIATION)

LAST DONE PRICE	SGD 0.16
FORECAST DIV	SGD 0.00
TARGET PRICE	SGD 0.43
TOTAL RETURN	168.8%

COMPANY DATA

O/S SHARES (MN) :	200
MARKET CAP (USD mn / SGD mn) :	23 / 32
52 - WK HI/LO (SGD) :	0.75 / 0.15
3M Average Daily T/O (mn) :	0.04

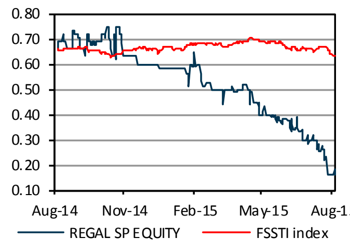
MAJOR SHAREHOLDERS (%)

IKRAM MAHAWANGSA SDN BHD	47.7%
CHUNG JYE SU	8.1%
STRATLAND PROPERTIES SDN BHD	7.69%
PAK KIONG WONG	5.03%
CRESCO INVESTMENTS PTE LTD	4.68%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(39.0)	(58.1)	(69.7)
STI RETURN	(3.85)	(7.30)	(0.85)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

RM mn	FY13	FY14	FY15e	FY16e
Revenue	85.1	95.3	164.9	199.3
EBITDA	2.4	(15.6)	18.7	37.4
NPAT (adj.)	1.0	(17.9)	16.7	33.0
EPS (sen)	1.7	(12.6)	8.4	16.5
PER (x)	88.4	n.a.	5.4	2.7
P/BV (x)	0.8	2.1	0.2	0.2
DPS (sen)	5.63	5.70	0.00	0.00
Div yield (%)	3.9	3.9	0.0	0.0
ROE (%)	0.9	(13.8)	10.4	17.1

Source: Bloomberg, PSR

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Sights set high

Regal is a small fish with some big ambitions. It's in the process of scaling up – first with its 2014 Singapore RTO and listing, and now with some high-profile, big-budget developments. It's at a turning point now with a couple of flagship projects that can make the company a player to reckon with. On balance it seems able to do this despite a soft property market, and it may well be a major player in five years' time. Investors coming in now and tolerating short-term share fluctuations could be dramatically rewarded over the medium term.

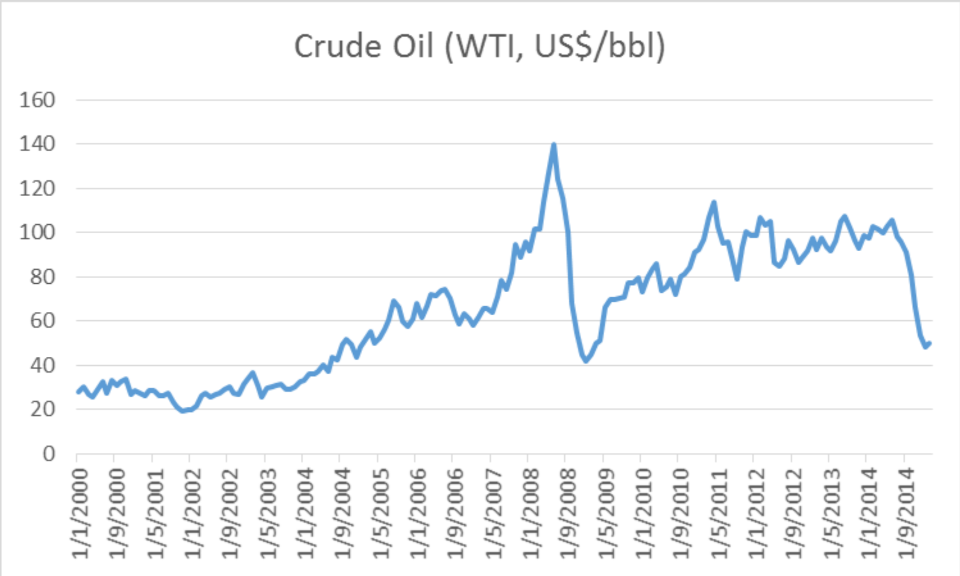
Macro: a time of challenges

Many of the opportunities in Regal shares are a result of adverse macro factors beyond the company's control. The big picture is clouded but, as we will see, actually is stronger than it looks.

The Malaysian economy faces some challenges at the moment. Most visibly, the impact of weak commodities prices is felt on both public and private sectors, macro and micro. In fact, the impacts potentially are not as serious as they look, though plainly they are adverse when taken as a whole. It is our view that overall the economy should continue along the trajectory it has printed in the past few years – that is, with growth somewhere in the 4-6% range.

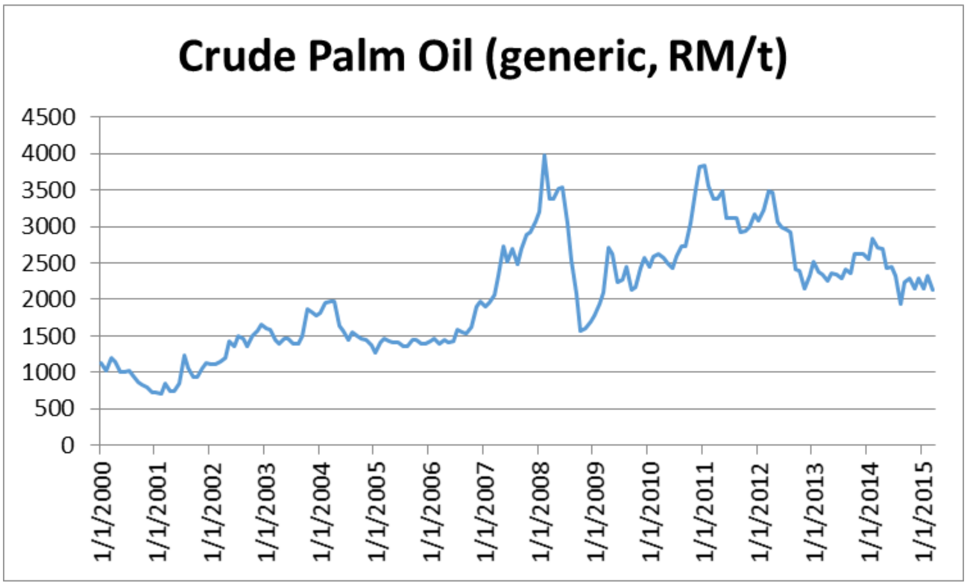
(Source: CEIC)

Oil prices have fallen by half in the past year in USD terms. Oil and gas contributed 31% of Malaysian GDP in 2014, and 24% of total export value. While the country has in fact been a slight net importer of oil since 2011, it's a large net exporter of natural gas, and the impact of falling gas prices (also on the order of 50% in the past year) is estimated by local sources to have reduced export revenues by around RM30bn, annualized. This is not a fatally large number – it's about 4% of GDP – and it is more the perception than the reality that Malaysia is excessively 'long' oil and gas. For what it's worth, the decline in revenues is also partially offset by the roughly 20% weakening in the ringgit over the same period.



(Source: Bloomberg)

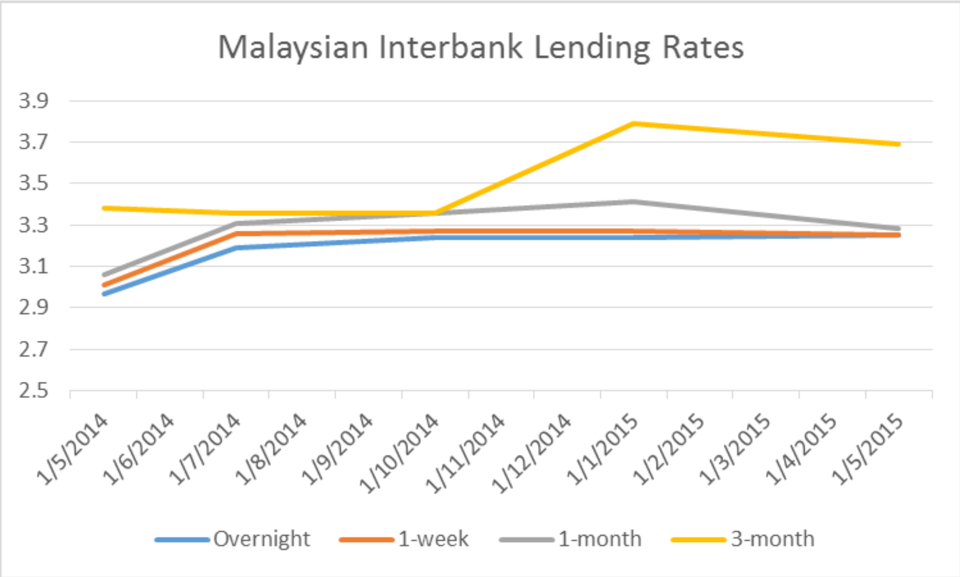
Palm oil is another significant contributor to exports, making up 7% of the total in 2014. Prices here have been soft for several years. However, to a great extent this is because of an adverse supply/demand situation created by several successive years of bumper crops in the key substitute commodity, soybean oil, in the Americas. El Nino, taking place this year, appears to be limiting the potential of these American crops and the outlook for palm oil is accordingly more positive.



(Source: Bloomberg)

Also affecting perceptions of Malaysia are the implications of the debt defaults at 1MDB, the investment fund wholly owned by the Finance Ministry, with large stakes in underperforming power and property assets. Several of the large local banks have loans and/or syndications to 1MDB. The most recent reported quantification of its debts is RM42bn. The aggregate quantifiable impact of a worst-case scenario – total assets under management are approximately RM52bn – could be 20-40% of total, depending on the competence with which they are sold or otherwise transferred to other parties. What remains unknown at present is the extent to which 1MDB's true exposure is not carried on its balance sheet, such as with special purpose vehicles. Most lately, allegations by the *Wall Street Journal* concerning the Prime Minister's involvement in some questionable transactions has splashed across the media globally.

The ringgit has depreciated ~20% against the US dollar and ~21% against the Chinese yuan since 30 May 2014. Malaysia is China's largest ASEAN trading partner, with bilateral trade in excess of US$100bn, and it runs a trade surplus with the US of over RM17bn a year. Its overall trade balance was RM7.8bn in March and RM69bn in the twelve months to March. A weak currency, then, benefits exporting industries and the economy in general, though of course it may exert upward pressure on borrowing rates.



(Source: Bank Negara Malaysia)

The country's fiscal budget typically depends on tax receipts from commodity exports. Falling prices in the past year have thus cut growth, widened the budget deficit and meant that an initial target of a deficit of 3% of GDP or less was not met. The Prime Minister has announced cuts in Budget 2015 to account for lower projections of government revenue. Accordingly a deficit of 4% of GDP is to be targeted, with current projections of receipts and expenditures pointing at an actual end figure of 3.9%.

The last major macro impact is from the implementation on 1 April 2015 of a 6% GST hike. This tax replaces a service tax and a VAT, but the net impact is of an increase in government receipts. The GST will impact the lower- and middle-income segments of the population more than it will the rich, so the income tax system has also been slightly restructured to offset this effect. Q1 Malaysian GDP rose 5.6% y/y (compared with a consensus forecast of 5.5%) on the back of front-loaded purchases on good and services in order to avoid GST shock. Accordingly it's likely that the April-June and possibly July-September quarters may see depressed economic activity as demand has already been satisfied. (January-March 2016 will likewise be down year-on-year given unfavorable comparison with the frontloaded spending in Q1 this year.)

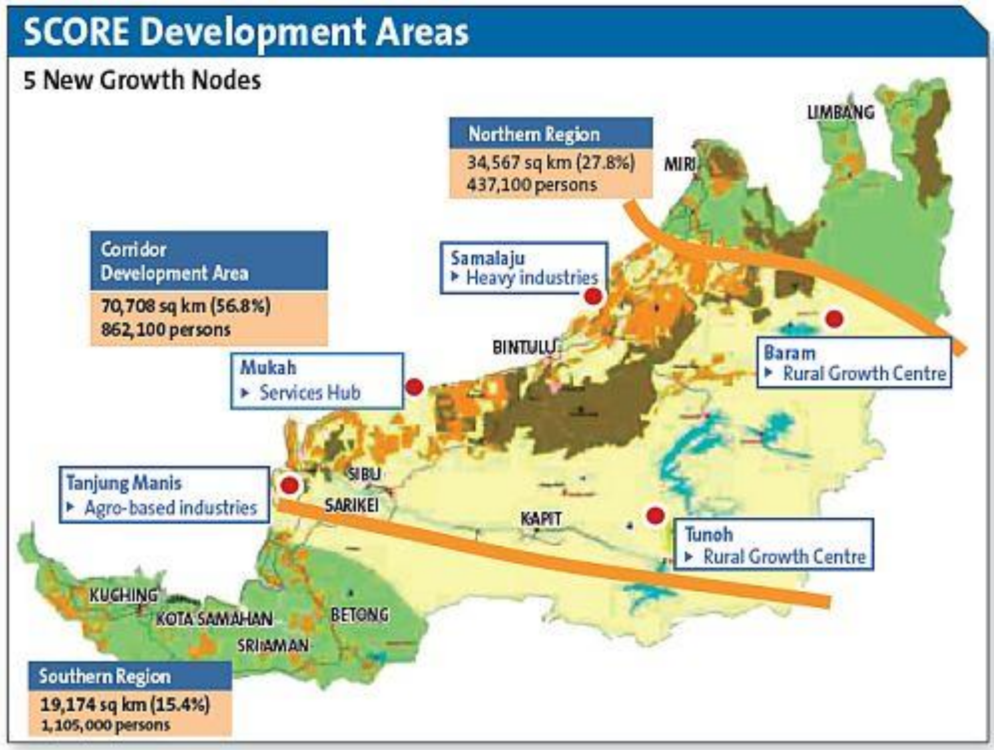
Thus we see that Malaysia has numerous challenges in its outlook. Falling commodities prices impact export revenues and fiscal revenues. 1MDB may be a continued source of political and fiscal trouble. And changes in the tax code will overall take money out of consumers' hands. Nonetheless, mitigating factors probably mean the worst-case scenarios won't play out.

Sarawak: the same, but different

Sarawak is subject to these same forces but has others impacting it as well. Many of these are more positive in tone if considered in some depth.

In contrast with the Peninsula, composition of economic gross product in Sarawak is less service-intensive (32% compared with 50% nationally) and more mining/extraction-intensive (25% compared with 21% nationally). Essentially it's a picture of earlier economic development driven by the state's extensive hydrocarbon reserves, which contribute a major part of Malaysia's exports. Population density is also relatively low and offers substantial room for expansion. Policymakers want to transition the state away from its dependence on extraction, and have plans for substantial infrastructure projects that will incentivize private investment in heavy industry. It's expected these measures will stimulate immigration and population growth – ideally of skilled workers – which in turn will be a long-term plus for most economic bellwethers and particularly for the property sector.

The central development initiative in Sarawak is SCORE, the Sarawak Corridor of Renewable Energy. Infrastructure projects under this banner include an airport, a deep water seaport, access roads to hydroelectric power projects, water and electric utilities projects and telecom networks. Financing will be about 80% made through the private sector, with 20% coming from government. As of May 2015, approximately RM29bn worth of investment through 18 projects has been approved, with an expectation that some 18,000 jobs will be created. Most of this money is directed at a key SCORE project, the Samalaju Industrial Park in Bintulu (several hundred km east and north of Kuching, where the bulk of Regal's developments are located).



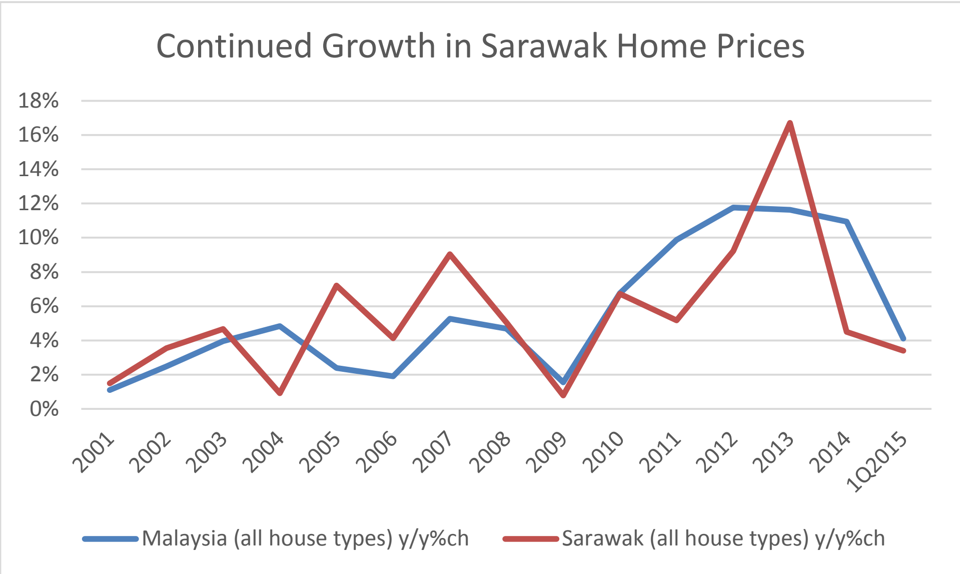
(Source: Recoda http://www.recoda.com.my/)

Other top-down initiatives seeking to raise growth and economic development in Sarawak include the national government's Economic Transformation Plan (ETP), the 10th Malaysia Plan 2011-2015 (10MP), and the SME Masterplan. The latter of these recognizes that small and medium enterprise creates the bulk of jobs (59% of total) and a substantial (33%) percentage of GDP, and aims to raise their metrics even higher through state and federal financial tax and other incentives.

Finally, the RM27bn, 1,663-km Pan-Borneo Highway will run the full lengths of Sarawak and Sabah, will be built in phases starting in western Sarawak, and will be toll-free (at least according to current plans). Construction of the first phase began in March this year and is expected to complete in 2018; the second phase, running through the low-density central part of the state, will complete in 2023. Ultimately the value of the highway will be to accelerate the development of industry and to improve commerce and travel between the state's cities.

Sarawak property: stronger than West Malaysia

Malaysian property prices experienced a bubble of sorts in recent years, approximately doubling since 2000, but this has begun deflating of late. Prime causes are: general oversupply, Bank Negara's cooling measures, and the introduction of the GST, previously described, on 1 April this year. Sarawak price trends have at times been even more torrid than national averages.



(Source: The National Property Information Centre)

Cooling measures were put in place because the government felt affordability had risen beyond the means of prospective buyers. Sales volumes were dropping as housing prices had risen 7.4% a year on average since 2007. As seen in the chart above, the Sarawak bubble was even more extreme than the national averages, with the average annual gain at 7.5% and 2013 prices rising a whopping 17%.

Data has weakened significantly since the implementation of these measures. So far the effect of the GST hike is unclear. Property consultants have estimated that the tax will add about 4% to the average cost of construction. The same consultants forecast that high-rise residential prices will rise by about the same 4%, even though land transactions are not subject to the GST. Thus the developers themselves may not see much improvement in profits even as prices rise.

One potential mitigating factor is that low energy prices may lower the costs of certain construction materials and services. If prices do rise an average of 4%, then, it's possible there will be no growth in developer margins this year. The effect will not persist, however, unless further changes are made to the tax code.

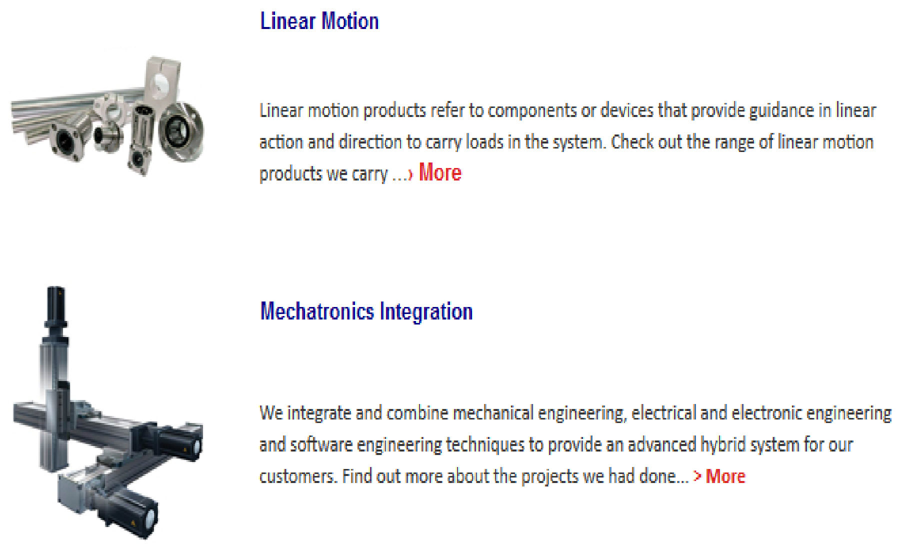
The important thing is this: while the bubble has deflated for prices around the country, with the exception of Iskandar there are no real signs that prices are actually falling, but rather returning to a kind of equilibrium. What's more, the Sarawak markets remain more robust than the national average, and only the Miri market is even showing signs of sideways movement in prices.

Regal: history and where it stands now

In October 2014, Singapore-listed precision machinery company Hisaka Holdings Ltd acquired Regal International Holdings and the latter's assets were injected into Hisaka in a reverse-takeover (RTO). The listco was renamed Regal International Group. The precision business comprises about 39% of assets, 13% of 2014 revenues and RM330k (equivalent) of negative EBITDA. Regal's business mix of precision and property development is confusing to investors and thus less attractive to them.

Precision machinery

The precision machinery business has been adversely impacted by competition and business fluctuations in the technology sector. Products are generally parts in machinery – linear motion products, bearings, tooling products, optical products and the like. These can be vulnerable to severe price competition, and business has been challenging in the past couple of years.



(Source: screen capture of website *http://www.hisaka.com.sg/index.php/en/*)

At present there are no plans to dispose of the business. However, please see our analysis below, discussing the implications to valuation of the company's shares should divestment occur sometime in future.

Regal's major property developments

The main business of the company is property development. Most developments are in Sarawak and specifically Kuching and environs; however, one major project, Airtrollis, is located near KL International Airport (KLIA). The company is in the midst of a major roll-out of projects that began during the property explosion in Sarawak (and Malaysia generally) described above.

A description of the major developments and their economic value follows. This is not an exhaustive list: not all sites are included, though all the large-scale ones are.

Airtrollis – Negri Sembilan, near KL International Airport, West Malaysia

The Airtrollis development targets a specific demographic. Units are small but high-end, and relatively expensive on a per-square-foot basis. We expect a substantial part of the demand to come from young, single professionals working in the area, perhaps at the airport or the Sepang circuit, or in Negri Sembilan about 10km away.

(Source: Company presentation produced by related company Bellanova Sdn Bhd)

The site is close to the KLIA stop on the proposed high-speed rail (HSR) line, connecting KL to Johor Baru in Iskandar (with an extension line into Singapore). The line promises significant advantages in travel time over alternatives, even SIN-KUL flights. As with the Pan-Borneo Highway, the HSR will connect people and boost local economic activity, and it's this growth that Airtrollis targets.

Using information publicly available in late 2014 and estimating the pace of continued development, Airtrollis is approximately 45% complete. Photos of the site, below, generally confirm this.

Recent photographs of the Airtrollis development site. *{Source: Regal Intl Group)*

Company documents give development costs for Airtrollis at RM145 million. With 45% completion, remaining costs should be about RM80m. Gross development value (GDV), estimated by independent appraisers, is RM212m.

72 Residences (aka Tropics II) – Kuching, Sarawak

One of Regal's flagship sites, Tropics in central Kuching, near Jalan Song, was completed in 2013 and is one of a number of developments catering to aspirational lifestyle in a relatively small area of the city. (As of 12 September 2014 it was 83% sold.) A second development or phase is now underway on an adjacent site, originally billed Tropics II but now called 72 Residences. Again the theme is upscale living, with a pool, large common areas, and an 'exclusive' 72 units. Cost and GDV are RM29m and RM69m, respectively, per the October 2014 RTO circular. Currently it's an estimated 20% complete, having been started in 2014, and with a target for 2016 completion.

The Big One: Tropics III – Kuching, Sarawak

(Source: Company website http://www.regalgroup.com.my/projects/project/?i=29)

An even more aspirational plan, in Kuching's Jalan Song area, is Tropics III. It will include residential, retail and office space. This is expected to be another large investment, with gross development value of RM306m, making it the largest project on Regal's current roster. Gross floor area, at 453,000 square feet, is also nearly 50% greater than Airtrollis Phase 1. Project cost is estimated at RM163m.

Getting this project to market would be a major coup for Regal. It will set a new standard in terms of both scale and target demographic. The main challenge facing the company at present is securing the stakeholder commitment and the capital to bring Tropics III to fruition. In our estimation this is possible, and when it happens, the entire nature of the public's perception of this company will change.

Corporate Park – Bandar Baru Semariang, near Kuching, Sarawak

The Corporate Park is different from other projects in that it has no residential component. The planned township Bandar Baru Semariang in which it's located, near Kuching, has areas zoned for tourism, finance and commerce, education, residences and industry. The development was begun in 2014, is about 20% completed, will cost RM120m in total and will bring in a hoped-for GDV of RM278m (for a net value to Regal of RM159m). Estimated date of completion is 2018.

(Source: company marketing document at http://www.sarawakprojects.com/regal-corporate-park-kuching/)

Tondong Heights – Jalan Tondong, outskirts of Kuching, Sarawak

(Source: Facebook https://www.facebook.com/pages/Tondong-Heights/145623518922972)

Tondong Heights is a set of 228 single- and double-story terraced houses on the outskirts of Kuching. This is a much more modest project than those discussed so far, with cost set at RM28m and expected gross development value of RM48m. It is located outside of Kuching, possibly closer to the nearby town Bau. As of end-2014, construction was 55% complete.

(Source: Company)

Regal uses a unique strategy that extends grasp without extended leverage

Since before the RTO, it has been a staple of Regal's development strategy to involve stakeholders in the process. This is done by making payment in kind for landholders' development rights and/or (to a smaller extent) contractors' services – giving suppliers rights to completed units which they may then sell. This is Regal's asset-light strategy, which is made possible because of the "financing" by suppliers.

Usually landholders and contractors will not take full payment under this method, but may settle for up to half of the payment owed to them in this way. The typical deal involves parties agreeing on estimated gross development value, and translating the stakeholder contribution into a certain number of units comprising up to half that contribution. The remaining payment is made in cash.

The RTO circular states that in projects over the period 2010-2013, approximately 20% of the cost of development was paid for with this method.

There are a couple of beneficial effects for Regal in this method. First, this method reduces the amount of debt the company needs to borrow to finance the development. On the financial statements the transaction is accounted as a presale. This means there will be an offsetting 'due from buyers' (a receivable) and 'due to buyers' (a payable) item. The receivable is translated into construction in progress as the percentage of completion increases, and then at handover the proceeds of the sale go to the supplier. All of this occurs with financing effectively being provided by the supplier itself.

Another advantage is that the company is able to operate without a land bank. This means that the balance sheet is generally lighter than it would be. The company shifts part of the risk of development to its suppliers and runs leaner, in exchange for some of the potential gains going to them as well. In a tight market this might have the effect of causing its suppliers to effectively compete with the company for sales, though market trends have not caused this to happen so far.

The investment case: hidden potential

While the company's financial records were disrupted by the RTO and there has not yet been a full year under its new structure, Regal has published an annual report (FY2014) and more recently its unaudited Q1-2015 results. The picture is of a profitable property operation, in line with market trends, and a precision division operating in a seasonal, challenging and volatile market. First-quarter profits were RM3.5 million (year-on-year comparison is not meaningful).

Peer comparisons

REGAL SP (SGD)	0.16				
Stock Code	**Share Price**	**Market Cap (S$mn)**	**PB (current price, equity from most recent quarter)**	**Daily Trading Value (converted where necessary to SGD)**	**Net Debt/Equity (most recent quarter)**
(SGD stocks)	SGD				
HONG FOK	0.82	649.0	0.49	307,230	42.3
CHIP ENG SENG	0.725	494.0	0.61	1,169,970	78.0
HIAP HOE LTD	0.80	379.7	0.55	70,285	62.3
LIAN BENG GROUP	0.55	294.0	0.60	469,979	11.1
(SP avg)			**0.56**		**48.4**
(MYR stocks)	*RM*	*S$mn*			
KSL HOLDINGS BHD	1.64	549.1	0.85	1,525,574	3.0
MKH BHD	2.33	354.6	0.93	345,327	47.7
GUOCOLAND MALAYSIA BHD	1.38	344.9	1.01	383,416	120.3
GLOMAC BHD	0.835	216.5	0.65	120,994	36.3
YNH PROPERTY BHD	1.81	267.6	0.89	699,095	82.9
IBRACO BHD	1.80	113.9	1.11	18,000	36.2
(ML avg)			**0.91**		**54.4**
Overall Median (Msia)			**0.91**		**42.0**
Overall Mean			**0.73**		**51.4**
REGAL SP (SGD)	**0.16**	**32.0**	**0.60**	**38,918**	**30.0**

Source: Bloomberg

Regal's shares trade at 0.6x book (NAV) at the moment. The mid-sized Singaporean property developers we listed are currently at an average 0.56x, probably driven down by the depressed sentiment and headwinds surrounding the residential housing sector in Singapore right now. Malaysian developers average 0.91x, with a range from 0.65-1.11. The average for the combined group is 0.73x. Regal's price to book ratio is at the lower end of the range for Malaysian developers. This could be due to its smaller market capitalization, lower trading liquidity and unproven track record. Given that the precision business division is still operating in a challenging and volatile environment and net assets of this division takes up approximately RM120m of the total RM149m in equity as at 31 March 2015, a discount is probably also warranted. Nonetheless, we have reasons to be optimistic, based on our research and discussions with management, that once robust property sales start to materialize for the group, Regal could see a quick re-rating upwards. We next try to project the valuations for Regal's unsold properties.

RNAV Estimation

Development	Gross Devt Value (GDV)	% contra	% sold	Realisable %	Revised Realisable GDV	Dev Cost	% Completed	Remaining Cost	RNAV
Airtrollis Phase 1	212	14%	30%	95%	138	145	45%	80	58
Tondong Heights Phase 1&3	48	12%	27%	95%	33	28	65%	10	23
72 Residences (aka Tropics II)	69	8%	25%	95%	48	29	20%	23	25
Tropics III	306	11%	20%	95%	230	163	20%	130	99
Corporate Park (Phase 1)	278	9%	10%	95%	236	120	20%	96	140
Others and Adjustments	41				2	22		7	-5
Totals (RM m)	954				687	507		346	**340**
								Less: Financing costs for 1.5 years	33
								Post tax RNAV	230
								In SGD m	**83**

(Source: Regal, PSR)

The relevant assumptions for RNAV surplus calculation are as follows:

1. Corporate tax rate at 25% (Malaysia)
2. Financing interest rates at 8% (Mid-range of existing bank overdraft interest rates of 7.6%-8.6%), as disclosed in Annual Report 2014
3. Financing period for 1.5 years
4. Pre-sales will cover 20% of costs remaining to completion, with the rest of costs financed
5. MYR to SGD conversion at 1SGD-2.79MYR

RNAV calculation showing the surplus of revised, realizable development value over remaining development costs, for existing planned projects, is about RM340m in gross profits. The ultimate contribution to earnings (and therefore equity) will depend on how the developments are paid for.

Of equal importance are cash flow considerations. Depending on the health of the market, it’s normal that some part of development costs will be offset with presales. Note the columns in the table above showing ‘% sold’, ‘Revised Realizable GDV’ and ‘Remaining Cost’, and it should be clear that the main issue is timing. While market conditions might result in enough early take-up that the company can avoid financing, this is not a foregone conclusion.

In our scenario, 80% of the remaining capital requirements, or about RM277m, must be financed with capital of some sort. If it’s by debt, there is borrowing cost; if it’s by equity issuance, there’s dilution. For simplity’s sake we assume the company will issue debt, and that the going interest rate is 8%. If we assume the debt is held for 1.5 years, total interest expense would be RM33m, lowering net RNAV surplus to about RM307m, before taxes.

Before moving on, please take note that if realized according to our projections, this RNAV, adjusted for taxes, could nearly treble the company’s equity. Shares, which trade at 0.6x book value now, could see huge upside once sales start to materialize. The numerous conversations we had with management have reinforced our optimism on project sales and that investors should start to see accelerating sales in the quarters ahead. At 0.7x RNAV, though, the implied company valuation would be:

Equity @31/3/2015 (Net of Goodwill)	RM110m
+RNAV Surplus	RM230m
	RM340m
X Sector Discount	0.7x
Target Market Cap	**RM238m or SGD85m or S$0.43/share**

This SGD85m compares with SGD32m at last trade, a 169% upside. Put in more commonly expressed terms, **Regal's current price to RNAV is 0.26x, compared with the typical 0.7-0.8x for Singapore developers and 0.6-0.7x for Malaysia developers. Potential upside, then, is pretty significant. If we assume P/RNAV of 0.7x, the derived target price is SGD0.43 per share (as mentioned, a 169% upside from the last traded price).**

As mentioned, there is also a liquidity discount to be considered. Even if we apply an additional 10% discount to RNAV, at 0.6x P/RNAV, we arrive at a target price of S$0.365, an upside of 128% from current price. As well, our assumptions on take-up, contra sales, prices, etc., have a fair degree of sensitivity and could result in a lower ultimate realization of RNAV. The upside to shares is such, though, that some minor negative revisions in such factors would not impact a generally (and rather) bullish view on the shares.

What if they sold the precision business?

Regal must find approximately RM130m to finance Tropics III, and about RM350m for all of its works in progress. As mentioned, some part of this can be expected to come from revenues from presales, but that still leaves a hole of uncertain proportions. This in all likelihood will be financed by debt or other capital-raising. If so it would result in increased leverage, or shareholder dilution, or both, which might reduce the company's theoretical share price target.

However another intriguing possibility is worth considering. Should the company divest its precision business's assets, its need to tap capital markets would be substantially reduced.

Since the company's direction is to eventually become a pure property play, it would make sense to sell the precision business assets sooner rather than later. Doing so would also make it easier for investors to understand the company and for peer comparison. Moreover, the financial performance of these net assets in recent years has been seasonal, volatile and challenging, which is why Hisaka's owners entertained the prospect of an RTO in the first place. Should the means be found whereby Regal can divest those assets – ideally around book value – the proceeds would reduce Regal's need for outside financing dramatically.

As mentioned, Tropics III requires RM130m, of which 20% is assumed to come from presales. Airtrollis needs RM80m, and we can apply the same assumption. So Regal's capital requirements for these two major projects come to roughly RM168m. Supposing it can sell the precision business at a 20% discount to book, or approximately RM80m, the remainder to be financed becomes a rather small problem indeed. Even straight bank debt would not raise the company's leverage beyond normal tolerance levels for property developers (more than half the peer group in the table above have higher net gearing than Regal's), and more creative options such as securitised or convertible debt could keep borrowing costs down.

Singapore investors are exposed to currency risk

Investors should take note that with earnings in MYR and share prices in SGD, shares contain an implicit currency risk. Should the ringgit depreciate against the Singapore dollar, this would adversely affect valuations and could impact share prices.

Income statement summary: US-style presentation

FYE Dec (RM mn)	FY12	FY13	FY14	FY15F	FY16F
	Annual				
Revenues	120.8	85.1	95.3	164.9	199.3
COGS	(92.9)	(64.9)	(63.1)	(128.1)	(144.7)
Gross profits	27.8	20.2	32.2	36.8	54.6
Other operating inc.	0.3	0.6	2.7	1.2	1.5
Operating expense	(22.7)	(19.4)	(52.0)	(22.0)	(22.0)
Other operating exp.	(0.0)	(0.0)	0.0	0.0	0.0
Total operating exp	(22.4)	(18.9)	(49.3)	(20.9)	(20.6)
	0.0	0.0	0.0	0.0	0.0
Operating profits	5.4	1.3	(17.1)	15.9	34.0
Financial expense	(0.0)	(0.0)	(0.8)	3.8	4.8
Associates	(1.3)	(0.9)	8.9	0.0	0.0
Other non-oper.	(2.4)	0.3	(3.9)	0.0	0.0
Pre-tax profits	1.7	0.7	(12.9)	19.7	38.9
Tax expense	(0.7)	0.3	(5.0)	(3.0)	(5.8)
Non-controlling	0.0	(0.0)	0.0	0.0	0.0
Exceptional	0.0	0.0	0.0	0.0	0.0
Net profit (as reported)	1.0	1.0	(17.9)	16.7	33.0
Non-recurring items	0.0	0.0	0.0	0.0	0.0
Adjusted net profit	1.0	1.0	(17.9)	16.7	33.0

Per share (Currency of share)	FY12	FY13	FY14	FY15F	FY16F
EPS	0.007	0.007	(0.034)	0.030	0.059
DPS	0.023	0.022	0.022	0.000	0.000
CFPS	(0.102)	0.175	(0.034)	(0.133)	0.021
BVPS	0.808	0.786	0.274	0.668	0.800

Balance Sheet

FYE Dec (RM mn)	FY12	FY13	FY14	FY15F	FY16F
	Annual				
Cash & equivalents	43.6	68.9	27.4	15.7	37.3
Short-term investments	-	-	-	-	-
Trade receivables	40.2	31.6	69.6	44.8	49.8
Inventories	32.7	16.8	80.4	168.5	189.0
Other current assets	6.6	1.3	13.6	19.0	21.4
Current assets	123.1	118.7	190.9	248.0	297.6
Net fixed assets	4.7	3.9	16.6	28.7	34.7
LT Investments	-	-	-	-	-
JVs & Associates	-	-	-	-	-
Other long-term assets	3.3	3.3	63.1	88.1	104.7
LT assets	7.9	7.2	79.6	116.8	139.4
Total assets	131.0	125.9	270.6	364.8	437.0
Trade creditors	12.1	9.8	46.0	55.8	61.6
Short-term debt & leases	1.9	-	39.0	69.8	79.8
Other current liabilities	2.7	0.6	26.8	16.0	27.5
Current liabilities	16.7	10.4	111.8	141.6	169.0
	-	-	-	-	-
LT debt & leases	-	-	13.7	73.7	84.3
Other non-current liab	0.1	0.1	1.4	(0.6)	2.3
Non-current liabilities	0.1	0.1	15.0	73.0	86.6
Non-controlling	(0.0)	-	0.1	0.1	0.1
Preferred Equity	-	-	-	-	-
Common Equity	114.2	115.4	143.6	160.4	193.4
Equity & liabilities	131.0	125.9	270.6	375.1	449.0

Cash flow summary

FYE Dec (RM mn)	FY12	FY13	FY14	FY15F	FY16F
	Annual				
Pretax profits	1.7	0.7	(12.9)	19.7	38.9
Depreciation & amort.	1.1	1.1	1.6	2.8	3.3
Chg in working capital	(20.7)	23.7	(23.5)	(69.7)	(10.7)
Other operating items	2.8	0.2	22.0	0.0	0.0
CF from operating activities	(15.1)	25.7	(12.8)	(47.3)	31.5
Capex	(0.8)	(0.2)	(1.4)	(2.4)	(2.8)
Disposal of PP&E	0.1	0.1	0.0	0.0	0.0
Change in investments	0.0	0.0	0.0	0.0	0.0
Other invest activities	(2.0)	3.5	24.0	(25.1)	(16.6)
CF for investing activities	(2.8)	3.4	22.6	(27.4)	(19.5)
Change in debt, net	1.9	(1.9)	11.7	90.8	20.7
Equity raised/(bought)	(7.1)	0.0	0.0	0.0	0.0
Dividends	(2.3)	(4.4)	0.0	0.0	0.0
Other fin activities	0.0	0.0	2.0	(2.0)	2.9
CF from financing activities	(7.5)	(6.3)	13.8	88.8	23.6
Other adjustments	(0.0)	2.5	(65.1)	(16.8)	(4.9)
Net change in cash & equiv	(25.4)	25.3	(41.5)	(2.8)	30.8

FYE Dec (RM mn)	FY12	FY13	FY14	FY15F	FY16F
Valuation					
P/E	117.4	89.1	n.a.	5.4	2.7
P/B	1.0	0.8	2.1	0.2	0.2
EV/EBITDA	6.4	7.9	n.a.	24.0	12.0
Growth (YoY, %)					
Revenues	(26.6)	(29.5)	12.0	73.0	20.9
Gross profits	(24.7)	(27.5)	59.5	14.2	48.4
Pre-tax profits	(90.5)	(61.1)	n.m.	n.m.	97.3
Net profit (as reported)	(93.4)	(3.6)	n.m.	n.m.	97.2
Margin analysis (%)					
EBITDA margin	5.4	2.8	(16.3)	11.3	18.7
Operating margin	4.5	1.5	(18.0)	9.6	17.1
Adjusted net margin	0.9	1.2	(18.7)	10.2	16.6
Key Ratios (%)					
ROA	0.7	0.8	(9.0)	4.6	7.6
ROE	0.9	0.9	(13.8)	10.4	17.1
Net debt/equity	Net Cash	Net Cash	17.6	79.6	65.6

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