

Regal International Group Ltd.

Overweight

| | |
|-----------------|----------|
| Current Price | \$S0.130 |
| Fair Value | \$S0.300 |
| Up / (downside) | 131% |

Stock Statistics

| | |
|---------------|----------|
| Market cap | \$S29.2m |
| 52-low | \$S0.099 |
| 52-high | \$S0.150 |
| Avg daily vol | 10,605 |
| No of share | 224.9m |
| Free float | 23.6% |

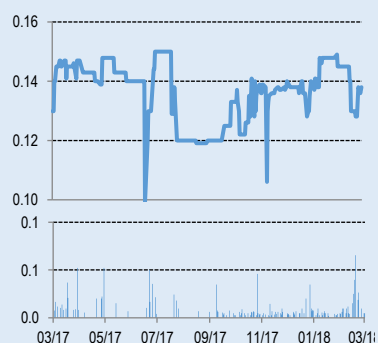
Key Indicators

| | |
|-------------|----------|
| ROE 18F | 5.0% |
| ROA 18F | 1.1% |
| RNAV | RM312.6m |
| P/BK | 1.36 |
| Net gearing | 114% |

Major Shareholders

| | |
|--------------|-------|
| Su Chung Jye | 55.8% |
|--------------|-------|

Historical Chart



Source: Bloomberg

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Cost Savings to Drive Profit Growth in 2018

- Revenue grew strongly in 2017.** For the whole of FY17, Regal reported a 13% increase in revenue to RM168.6m. Growth was mainly driven by an increase in construction revenue, arising from project management work undertaken by the group. Due to local statutory reasons, Regal would undertake project management contracts to design, construct and sell properties at some projects and construction revenue refers to the value of building activity performed. As a result, construction revenue rose from RM12.7m in 2016 to RM46.7m in 2017.
- Higher construction revenue weighed on gross margin.** However, construction revenue has lower margin and group gross margin dropped from 46.4% in 4Q16 to 17.0% in 4Q17 and 25.5% in 2017 (9M17: 30.5%). Had Regal maintained its gross margin at 25% in 4Q17, the group's gross profit would have been higher by RM5.3m and resulted in positive profitability in 4Q17. Conversely, the group reported a net loss attributable to shareholders of RM3.24m in 4Q17.
- Completed properties continue to weigh on balance sheet.** Regal's balance sheet included RM71.8m of inventories and RM17.8m of investment properties as at 31 December 2017. Cumulatively, these assets grew by RM52.7m in 2017. In contrast, development properties fell from RM107.6m to RM63.7m (-RM43.9m). Regal has performed comparatively well in 2017, recognising RM110m of property development revenue while its peers' property development revenue fell by 24% to 29% year-on-year. Nonetheless, it will help to boost confidence if Regal can demonstrate higher balance sheet liquidity, e.g. by lowering receivables or inventories.
- Business diversification to provide upside.** We noticed that Regal has been looking beyond its traditional markets to grow. New ventures include a MOU to explore the development of education properties in Perlis and, within Sarawak, a MOU to develop and manage communal land within the Bako National Park. These niche projects will provide opportunities beyond the residential and commercial markets in Sarawak.
- Valuation unchanged.** In this update, we continue to value Regal at \$S0.300 per share, based on the respective projects' GDV and estimated profitability and excluding projects completed in 2017, e.g. Airtrollis Phase 1. However, the realisation of such value will depend on the group's ability to sell these projects and realise cash flows from them, which will likely take some time. So far, Tondong Heights Phase 2 (GDV of RM23m) is about 70% sold, while Tropics City (SOHO and apartments GDV of RM199m) is about 50% sold. These projects will continue to contribute revenue in 2018. **(High-return and high-risk classification)**

| Key Financial Data (RM m, FYE Dec) | 2015 | 2016 | 2017 | 2018F | 2019F |
|---------------------------------------|-------|--------|-------|--------|-------|
| Sales | 34.8 | 149.0 | 168.6 | 185.5 | 204.0 |
| Gross Profit | 1.1 | 40.0 | 43.1 | 47.4 | 52.1 |
| Net Profit | -72.4 | -21.3 | 0.0 | 3.3 | 4.9 |
| EPS (sen)* | -35.5 | 0.2 | 0.0 | 1.5 | 2.2 |
| EPS growth (%) | nm | nm | -90.9 | 9431.8 | 48.5 |
| PER (x) | nm | 230.94 | nm | 26.52 | 17.86 |
| NAV/share (sen) | 40.3 | 26.4 | 28.9 | 30.3 | 32.5 |
| DPS (sen) | 0 | 0 | 0 | 0 | 0 |
| Div Yield (%) | 0 | 0 | 0 | 0 | 0 |

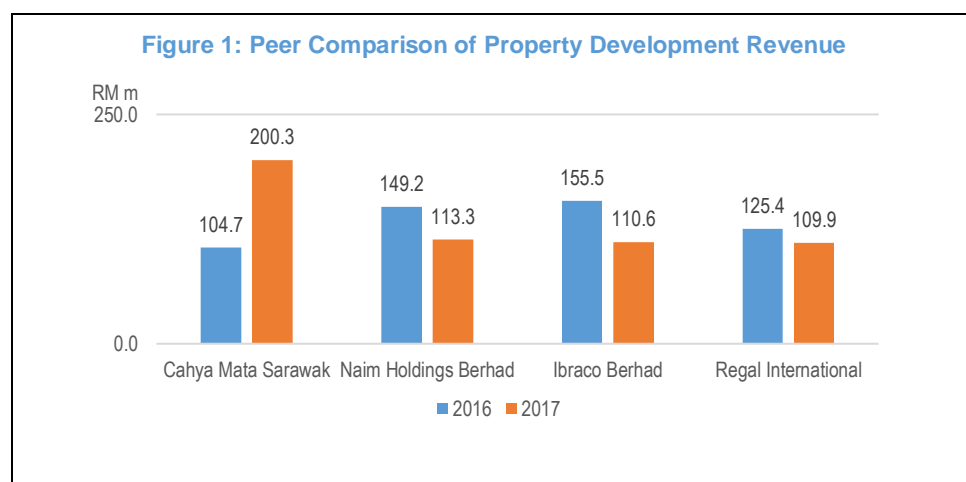
*excludes loss on disposal of discontinued operation. Source: Company, NRA Capital forecasts

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Results Comparison

| FYE Dec (RM m) | 4Q17 | 4Q16 | yoy % | 3Q17 | QoQ % | Remarks |
|--|---------------|-------------|------------|-------------|------------|---------|
| | | | chg | | chg | |
| Revenue | 62.55 | 35.59 | 76 | 35.24 | 77 | |
| Operating costs | (62.28) | (29.42) | 112 | (31.61) | 97 | |
| EBITDA | 0.27 | 6.16 | -96 | 3.63 | -93 | |
| EBITDA margin (%) | 0.43 | 17.32 | | 10.31 | | |
| Depn & amort. | (0.73) | (1.29) | -43 | (1.42) | -49 | |
| EBIT | (0.46) | 4.88 | -109 | 2.21 | -121 | |
| Interest expense | 0.05 | (1.24) | -104 | (1.48) | -104 | |
| Interest & invt inc | 0.84 | (0.15) | -657 | (0.13) | -762 | |
| Associates' contrib | (0.19) | (1.18) | -84 | 0.49 | -138 | |
| Exceptionals | 0.00 | 0.00 | | 0.00 | | |
| Pretax profit | 0.25 | 2.30 | -89 | 1.10 | -77 | |
| Tax | (3.46) | (1.85) | 86 | (0.83) | 319 | |
| Tax rate (%) | (1,382.00) | (80.46) | | (75.27) | | |
| Profit from continuing operations | (3.21) | 0.45 | NM | 0.27 | NM | |
| Profit from discontinued operations | NA | (0.80) | NM | NA | NM | |
| Minority interests | (0.03) | 0.54 | NM | (0.15) | -79 | |
| Net profit | (3.24) | 0.19 | NM | 0.12 | NM | |
| EPS - continuing operation (cts) | (1.44) | 0.10 | NM | 0.14 | NM | |

Source: Company, NRA Capital



Source: NRA Capital, Respective company announcements

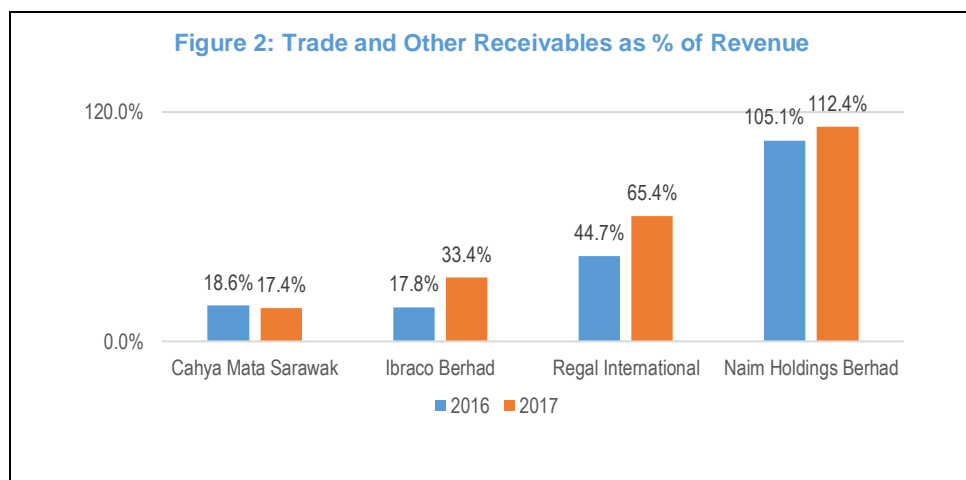
Property development revenue dropped by 24% to 29% at competitors. In contrast, Regal's property development revenue dropped at a slower rate of 12.4% in 2017. Cahya Mata Sarawak's property development revenue doubled in 2017 due to revenue recognition from certain projects.

However, Regal lags on cash collection and efficiency. Comparing between all three competitors, Regal has the third longest turnover for trade and other receivables and the highest administrative expenses when adjusted for differences in revenue. The management has explained that the group has been investing in future capacity and adding headcount to its business development team, which raised costs.

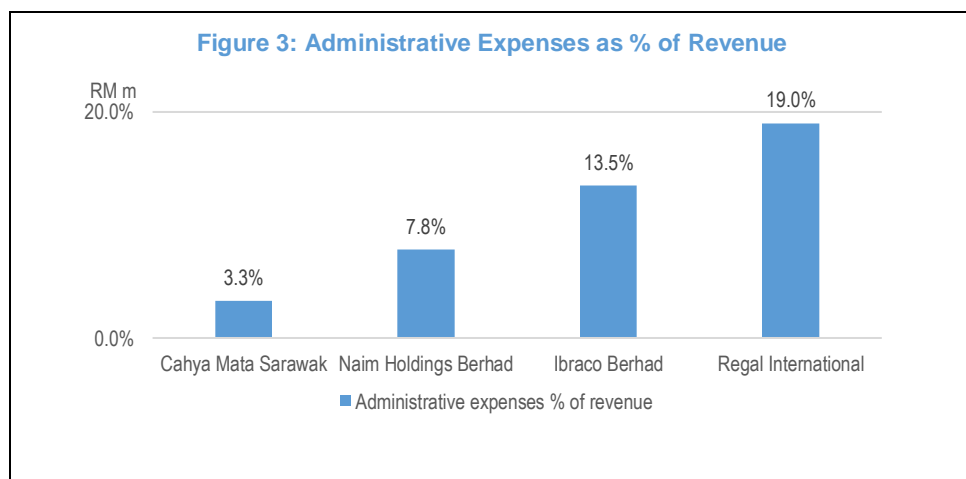
Inventories, comprising of completed properties, rose to 43.6% of property assets (i.e. development rights, development properties, inventories and investment properties), from 21.6% in 2017. While inventories rose at Ibraco, Ibraco's inventories comprise of only 19.1% of its property assets.

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Nonetheless, Regal remains relatively undervalued with Ibraco and Naim trading at market capitalisations of RM359.89m and RM232.2m respectively as at the writing of this report. Conversely, Regal trades at just RM78.6m or S\$29.2m.



Source: NRA Capital, Respective company announcements



Source: NRA Capital, Respective company announcements

2017 was a slow year, but the outlook for Sarawak remains intact. The preceding analysis shows that 2017 was a challenging year for property developers in Sarawak. Regal has bucked the trend with high revenue growth and positive profitability from 1Q17 to 3Q17. 4Q17 profitability was affected by higher quarter-on-quarter administrative expenses (lower year-on-year) and higher tax expenses.

Longer term, Sarawak offers upside potential. It is the only state in Malaysia with a credit rating of A- by Standard and Poor's and A3 by Moody's and cash reserves of about RM28 billion. In turn, the state government has earmarked RM5.75 billion for development projects, in addition of spending of RM5.9 billion by the Federal government, in 2018.

Key risk. The key risk for Regal is its illiquid balance sheet, which shows significant capital tied up in trade and other receivables and completed projects. It will help boost confidence in the company if Regal could reduce its level of inventories and show faster cash collection. It is possible that some of the receivables could have been due to deferred payment schemes from the sale of properties.

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Updated forecasts and valuation. In this report, we updated our model to factor in the company's 2017 performance, including the creation of a new segment – construction revenue and now lower gross margin of 25.5% at the group level. We generally assume revenue growth of 10% per annum and 3% growth in operating expenses per annum. We expect Regal to report PATMI of RM3.3m in FY18 and RM4.9m in FY19, on the back of cost savings and lower tax expenses, which is reasonable given pre-tax profit of RM7.4m and tax expenses of RM6.6m in FY17.

Figure 4: Summary of Regal's Major Projects and Estimates

| Major Ongoing Projects | Est. GDV | Gross Profit | PAT | |
|---|----------|--------------|--------------|---|
| Regal Corporate Park Phase 1 | 19.76 | 6.50 | 3.39 | Estimated balance units |
| 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 |
| Wisma Majuniaga Sdn Bhd | 174.4 | 52.31 | 19.62 | POC, Completion in 2020 |
| 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 2018 | 36.31 | 15.52 | 8.91 | |
| - POC, completion in 2018 | 64.77 | 14.65 | 6.13 | |
| -POC, completion in 2019 | 22.78 | 3.31 | 0.78 | |
| Total net development value (RM m) | | | 247.7 | |
| Book value of Regal as of 4Q17 (RM m) | | | 64.9 | |
| RNAV (RM m) | | | 312.6 | |
| Discount | | | 35.0% | |
| Discounted RNAV (RM m) | | | 203.2 | |
| Number of shares (m) | | | 224.9 | |
| Value per share (RM) | | | 0.903 | |
| Value per share (S\$) | | | 0.301 | Round to S\$0.300. |

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

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| Profit & Loss (RM m, FYE Dec) | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenue | 34.8 | 149.0 | 168.6 | 185.5 | 204.0 |
| Operating expenses | -58.7 | -136.7 | -155.0 | -169.3 | -184.3 |
| EBITDA | -24.0 | 12.3 | 13.6 | 16.1 | 19.7 |
| Depreciation & amortisation | -3.2 | -5.7 | -4.5 | -3.7 | -3.6 |
| EBIT | -27.1 | 6.6 | 9.1 | 12.4 | 16.1 |
| Non-operating income/(expenses) | -42.7 | -2.8 | -2.2 | -5.8 | -6.8 |
| Associates' contribution | -1.5 | -0.3 | 0.5 | 0.5 | 0.5 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | -71.3 | 3.5 | 7.4 | 7.1 | 9.8 |
| Tax | 0.4 | -3.2 | -6.6 | -2.8 | -3.4 |
| Minority interests | -0.2 | 0.0 | -0.8 | -0.9 | -1.4 |
| Net profit | -71.1 | 0.3 | 0.0 | 3.3 | 4.9 |
| Shares at year-end (m) | 200.1 | 200.1 | 224.9 | 224.9 | 224.9 |
| Balance Sheet (RM m, as at Dec) | 2015 | 2016 | 2017 | 2018F | 2019F |
| Fixed assets | 22.7 | 12.4 | 18.6 | 17.9 | 17.3 |
| Goodwill and intangible assets | 0.0 | 0.0 | 11.3 | 0.0 | 0.0 |
| Other long-term assets | 17.7 | 16.0 | 27.1 | 27.5 | 28.0 |
| Total non-current assets | 40.4 | 28.4 | 57.0 | 45.4 | 45.3 |
| Cash and equivalents | 22.5 | 15.2 | 9.4 | 24.3 | 26.2 |
| Stocks | 36.7 | 31.2 | 71.8 | 71.8 | 71.8 |
| Trade and other debtors | 73.6 | 66.6 | 110.3 | 91.5 | 100.6 |
| Development properties and others | 113.5 | 109.6 | 67.5 | 73.9 | 80.9 |
| Total current assets | 246.3 | 222.5 | 259.0 | 261.4 | 279.5 |
| Trade and other creditors | 61.1 | 97.7 | 124.9 | 94.6 | 104.0 |
| Short-term borrowings | 31.3 | 24.3 | 32.5 | 39.2 | 39.2 |
| Other current liabilities | 96.5 | 40.6 | 41.6 | 43.6 | 45.8 |
| Total current liabilities | 188.9 | 162.6 | 199.0 | 177.4 | 189.1 |
| Long-term borrowings | 15.7 | 34.5 | 50.6 | 58.9 | 58.9 |
| Other long-term liabilities | 1.3 | 0.7 | 0.3 | 0.3 | 0.3 |
| Total long-term liabilities | 16.9 | 35.2 | 50.9 | 59.1 | 59.1 |
| Shareholders' funds | 80.5 | 52.8 | 64.9 | 68.3 | 73.2 |
| Minority interests | 0.4 | 0.4 | 1.1 | 2.0 | 3.4 |
| NTA/share (RM) | 0.403 | 0.264 | 0.289 | 0.303 | 0.325 |
| Total Assets | 286.7 | 251.0 | 315.9 | 306.8 | 324.8 |
| Total Liabilities + S'holders' funds | 286.7 | 251.0 | 315.9 | 306.8 | 324.8 |
| Cash Flow (RM m, FYE Dec) | 2015 | 2016 | 2017 | 2018F | 2019F |
| Pretax profit | -72.3 | -18.2 | 7.4 | 7.1 | 9.8 |
| Depreciation & non-cash adjustments | 53.5 | 31.7 | 7.7 | 9.0 | 9.9 |
| Working capital changes | 7.2 | -49.4 | -26.3 | -15.9 | -4.5 |
| Cash tax paid | -0.6 | -2.1 | -3.0 | -2.8 | -3.4 |
| Cash flow from operations | -12.2 | -38.1 | -14.1 | -2.6 | 11.8 |
| Capex | -3.2 | -2.3 | -0.6 | 8.3 | -3.0 |
| Net investments & sale of FA | -1.4 | 8.0 | 0.0 | 0.0 | 0.0 |
| Others | 3.2 | 3.3 | 0.6 | 0.1 | 0.1 |
| Cash flow from investing | -1.4 | 9.0 | 0.0 | 8.3 | -2.9 |
| Debt raised/(repaid) | 6.5 | 27.5 | 25.7 | 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 | -3.3 | -2.1 | -5.8 | -6.9 |
| Cash flow from financing | 2.6 | 24.2 | 23.6 | 9.2 | -6.9 |
| Change in cash | -11.0 | -4.9 | 9.5 | 14.9 | 1.9 |
| Change in net cash/(debt) | -22.0 | -19.2 | -30.1 | -0.1 | 1.9 |
| Ending net cash/(debt) | -24.5 | -43.6 | -73.7 | -73.8 | -71.9 |
| KEY RATIOS (FYE Dec) | 2015 | 2016 | 2017F | 2018F | 2019F |
| Revenue growth (%) | -63.5 | 328.7 | 13.1 | 10.0 | 10.0 |
| EBITDA growth (%) | NM | NM | 10.6 | 18.4 | 22.0 |
| Pretax margins (%) | -205.2 | 2.3 | 4.4 | 3.8 | 4.8 |
| Net profit margins (%) | -204.6 | 0.2 | 0.0 | 1.8 | 2.4 |
| Effective tax rates (%) | NM | 90.6 | 89.4 | 40.0 | 35.0 |
| Net dividend payout (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROE (%) | -63.5 | 0.5 | 0.1 | 5.0 | 7.0 |
| Free cash flow yield (%) | -17.3 | -37.1 | -18.0 | 7.2 | 11.2 |

Source: Company, NRA Capital forecasts

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