



Regal International Group Ltd.

Overweight

Current Price	S\$0.110
Fair Value	S\$0.300
Up / (downside)	131%

Stock Statistics

Market cap	S\$24.7m
52-low	S\$0.094
52-high	S\$0.150
Avg daily vol	10,173
No of share	224.9m
Free float	23.6%

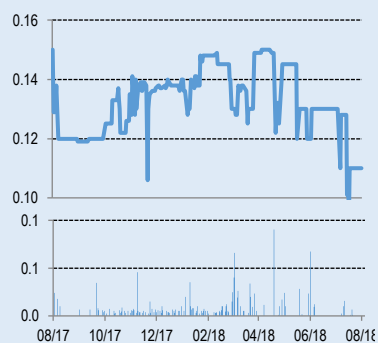
Key Indicators

ROE 18F	2.5%
ROA 18F	0.5%
P/BK	1.12
Net gearing	112%

Major Shareholders

Su Chung Jye	55.8%
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Historical Chart



Source: Bloomberg

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Maintains Profitability Amidst Challenging Environment

- General elections could have affected 2Q18 performance.** Regal reported revenue and PATMI of RM18.06m and RM0.13m respectively for 2Q18. Both sales and profitability fell year-on-year. We reckon that the lower revenue was due to the completion of certain projects in 2017 and, to some extent, the Malaysian General Election held on 9 May 2018. In the run-up to the Election and shortly after Pakatan Harapan's victory, property buyers probably stayed on the side-lines to avoid exposure to political risk.
- Expenses fell following cost reduction efforts.** To compensate for the lacklustre performance of 2Q18, the group further reduced costs with distribution and administrative expenses falling by a combined RM1.4m or 18.3% year-on-year. Share of profit from associates also turned positive, following marginal losses last year. The group's effective tax rate continued to be high at 61.4% of profit before tax.
- New measures may turnaround the situation.** A silver lining is that the Malaysian government may ease loan approvals for prospective home buyers under a new National Housing Policy to be announced in the next few months. In addition, building materials and construction services may be exempted from the new Sales and Services Tax to be implemented in September. If implemented, these initiatives may spur demand and lower costs for developers. The recent removal of Goods and Services Tax may also spur some demand.
- Long term outlook for Sarawak remains intact.** We are mindful of heightened macroeconomic risks currently, with reports of rising financial stress in emerging markets. That said, Sarawak looks set to enjoy more state revenue as the Federal government cedes more oil royalties to the state. According to reports, Sarawak will receive oil royalties of 5% of gross value while being entitled to additional royalties of 20% of net profit from state oil producing activities. Hence, we are somewhat more optimistic of Sarawak's longer-term economic outlook than before.
- More can be done to achieve re-rating of share price.** In this update, we revise our forecasts to factor in the results for 1H18. However, we leave our valuation unchanged at S\$0.300, pending review in 3Q18 or 4Q18. We reckon that the group's results in 2H18 will be more reflective of conditions after the General Elections and it will be more appropriate to update our valuation later. While we maintain our rating at Overweight, we continue to qualify our rating with a high-return and high-risk view. To achieve the return implied by our valuation of S\$0.300, the group has to demonstrate positive sales growth and higher profitability, in line with the more positive outlook on Sarawak as a whole. Other concerns include the group's cash conversion ability which has been affected by longer receivables turnaround.

Key Financial Data (RM m, FYE Dec)	2015	2016	2017	2018F	2019F
Sales	34.8	149.0	168.6	120.0	144.0
Gross Profit	1.1	40.0	43.1	31.2	37.4
Net Profit	-72.4	-21.3	0.0	1.7	3.3
EPS (sen)*	-35.5	0.2	0.0	0.7	1.5
EPS growth (%)	nm	nm	-90.9	4690.2	99.8
PER (x)	nm	193.47	2118.07	44.22	22.13
NAV/share (sen)	40.3	26.4	28.9	29.6	31.1
DPS (sen)	0	0	0	0	0
Div Yield (%)	0	0	0	0	0

*excludes loss on disposal of discontinued operation. Source: Company, Tayrona Financial

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Results Comparison

FYE Dec (RM m)	2Q18	2Q17	yoy %	1Q18	QoQ %	Remarks
			chg		chg	
Revenue	18.06	30.44	-40.7	30.59	-41.0	
Operating costs	-15.77	-26.79	-41.1	-27.69	-43.0	
EBITDA	2.28	3.65	-37.4	2.90	-21.2	
EBITDA margin (%)	12.6	12.0	0.7	9.5	3.2	
Depn & amort.	-0.69	-1.32	-47.4	-0.70	-0.1	
EBIT	1.59	2.33	-31.7	2.20	-27.9	
Interest expense	-0.81	-0.90	-9.6	-1.03	-21.1	
Interest & invt inc	0.28	0.46	-38.7	0.27	2.6	
Associates' contrib	0.07	-0.01	NM	0.00	NM	
Exceptionals	0.00	0.00		0.00		
Pretax profit	1.13	1.88	-40.0	1.44	-22.0	
Tax	-0.69	-0.82	-15.8	-0.76	-9.0	
Tax rate (%)	61.4	43.8	17.6	52.6	8.8	
Minority interests	-0.30	0.319	-194.0	0.039	-869.2	
Net profit	0.13	1.37	-90.2	0.72	-81.5	
EPS -(cts)	0.06	0.69	-91.3	0.32	-81.3	

Source: Company, Tayrona Financial

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Profit & Loss (RM m, FYE Dec)	2015	2016	2017	2018F	2019F
Revenue	34.8	149.0	168.6	120.0	144.0
Operating expenses	-58.7	-136.7	-155.0	-109.1	-127.7
EBITDA	-24.0	12.3	13.6	10.9	16.3
Depreciation & amortisation	-3.2	-5.7	-4.5	-3.7	-3.6
EBIT	-27.1	6.6	9.1	7.2	12.7
Non-operating income/(expenses)	-42.7	-2.8	-2.2	-4.1	-6.6
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	3.6	6.6
Tax	0.4	-3.2	-6.6	-1.4	-2.3
Minority interests	-0.2	0.0	-0.8	-0.5	-0.9
Net profit (excl. discontinued op.)	-71.1	0.3	0.0	1.7	3.3
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	11.3	11.3
Other long-term assets	17.7	16.0	27.1	27.5	28.0
Total non-current assets	40.4	28.4	57.0	56.7	56.6
Cash and equivalents	22.5	15.2	9.4	7.5	15.2
Stocks	36.7	31.2	71.8	71.8	71.8
Trade and other debtors	73.6	66.6	110.3	98.6	118.4
Development properties and others	113.5	109.6	67.5	75.8	90.2
Total current assets	246.3	222.5	259.0	253.7	295.5
Trade and other creditors	61.1	97.7	124.9	73.0	87.6
Short-term borrowings	31.3	24.3	32.5	53.2	61.2
Other current liabilities	96.5	40.6	41.6	35.9	38.7
Total current liabilities	188.9	162.6	199.0	162.1	187.5
Long-term borrowings	15.7	34.5	50.6	79.9	91.9
Other long-term liabilities	1.3	0.7	0.3	0.3	0.3
Total long-term liabilities	16.9	35.2	50.9	80.1	92.1
Shareholders' funds	80.5	52.8	64.9	66.6	69.9
Minority interests	0.4	0.4	1.1	1.6	2.5
NTA/share (RM)	0.403	0.264	0.289	0.296	0.311
Total Assets	286.7	251.0	315.9	310.4	352.1
Total Liabilities + S'holders' funds	286.7	251.0	315.9	310.4	352.1
Cash Flow (RM m, FYE Dec)	2015	2016	2017	2018F	2019F
Pretax profit	-72.3	-18.2	7.4	3.6	6.6
Depreciation & non-cash adjustments	53.5	31.7	7.7	7.4	9.7
Working capital changes	7.2	-49.4	-26.3	-54.3	-16.7
Cash tax paid	-0.6	-2.1	-3.0	-1.4	-2.3
Cash flow from operations	-12.2	-38.1	-14.1	-44.8	-2.7
Capex	-3.2	-2.3	-0.6	8.3	-3.0
Net investments & sale of FA	-1.4	2.3	-12.1	0.0	0.0
Others	3.2	6.9	0.6	0.1	0.1
Cash flow from investing	-1.4	6.8	-12.1	8.3	-2.9
Debt raised/(repaid)	6.5	27.5	25.7	50.0	20.0
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	-4.2	-6.7
Cash flow from financing	2.6	24.2	23.6	45.8	13.3
Change in cash	-11.0	-7.1	-2.7	9.4	7.7
Change in net cash/(debt)	-22.0	-19.2	-30.1	-51.9	-12.3
Ending net cash/(debt)	-24.5	-43.6	-73.7	-125.6	-137.9
KEY RATIOS (FYE Dec)	2015	2016	2017	2018F	2019F
Revenue growth (%)	-63.5	328.7	13.1	-28.8	20.0
EBITDA growth (%)	NM	NM	10.6	-19.7	49.2
Pretax margins (%)	-205.2	2.3	4.4	3.0	4.6
Net profit margins (%)	-204.6	0.2	0.0	1.4	2.3
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	2.5	4.9
Free cash flow yield (%)	-20.7	-47.5	-39.9	-55.4	-8.6

Source: Company, Tayrona Financial

Regal International Group Ltd.

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