

Tropicana Corp (TRCB MK)

Property - Real Estate

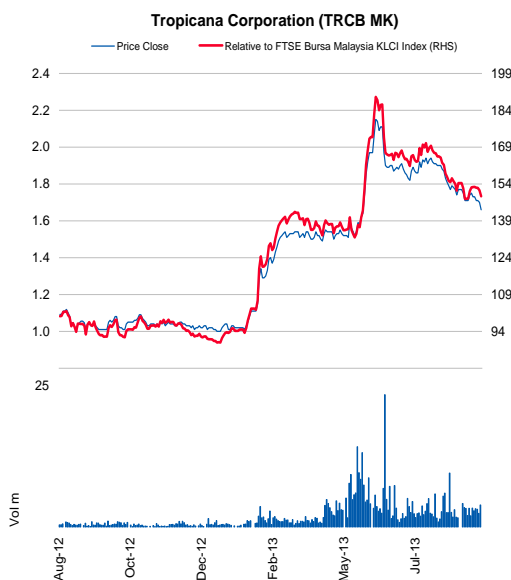
Market Cap: USD538m

Buy (Maintained)

Target Price: MYR2.19

Price: MYR1.66

Improved Sales Bump Up Earnings

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	6.36m/2.01m
Cons. Upside (%)	17.5
Upside (%)	32.0
52-wk Price low/high (MYR)	1.00 - 2.15
Free float (%)	28

Shareholders (%)	
Tan Sri Dato' Danny Tan	71.4

Shariah compliant

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Tropicana's 1H13 net profit was in line with estimates. Net profit more than doubled y-o-y, driven by higher contribution from its property development segment and aggressive landbank sales. We believe that Tropicana is still on track to meet our FY13 sales target of MYR2.0bn. Maintain BUY, with a lower FV of MYR2.19 (from MYR2.34), after adjusting its RNAV given the proposed new placement exercise.

- ◆ **Within expectations.** Tropicana's 2Q13 net profit of MYR38.3m (+139.0% y-o-y; -12.5% q-o-q) brought 1HFY13 net profit to MYR82.1m (+189.5% y-o-y), in line with estimates at 48.3% of our and consensus full-year forecast. Y-o-y growth was driven by higher progress billings from its ongoing projects, aggressive landbank sales in FY13, as well as incremental revenue from its investment assets that were acquired in 3Q12. The weaker sequential growth was mostly due to the one-off gain of MYR58.1m recognised in 1Q13 from its land sales. The company has achieved new sales of MYR1.1bn thus far. This is on track to meet our FY13 sales target of MYR2.0bn, underpinned by more project launches in the Klang Valley and Iskandar, as well as its maiden launches in Penang in 2H13. Meanwhile, a fair value gain of MYR11.5m was recognised in 2Q13 after revaluing some investment assets.
- ◆ **Business updates.** Last Friday, Tropicana presented CapitaMalls Malaysia Trust (CMMT MK; SELL, FV: MYR1.35) with a Letter of Intent (LOI) for the disposal of Tropicana City Mall and Tropicana City Office Tower. With the signing of the LOI, CMMT now has four weeks to undergo a due diligence exercise on the assets before proceeding with negotiations. The news came as no surprise, as Tropicana has indicated previously that it is looking to sell off its non-core assets as part of its de-gearing exercise (current net gearing is at 0.64x). It has also received a conditional approval from the SC for its proposed private placement of up to 129.2m new shares, to be used for future landbank acquisitions. This will be its second placement this year, after successfully raising MYR154m through the placement of 86.3m new shares back in June.
- ◆ **Maintain BUY.** No changes to our forecasts, pending a briefing tomorrow. We maintain our BUY call, but revise our fair value lower to MYR2.19 (from MYR2.34), after adjusting for the larger share base as a result of the new placement exercise.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	289	375	630	1,340	1,624
Reported net profit (MYRm)	42	93	187	165	192
Recurring net profit (MYRm)	38	57	60	170	198
Recurring net profit growth (%)	(24.8)	50.0	4.6	185.4	16.5
EPS (MYR)	0.05	0.15	0.30	0.20	0.22
DPS (MYR)	0.02	0.02	0.05	0.04	0.04
Dividend Yield (%)	1.3	1.4	2.9	2.4	2.5
Return on average assets (%)	2.8	4.6	5.3	3.5	3.8
Return on average equity (%)	4.8	9.6	12.0	7.7	8.2
P/E (x)	32.6	11.3	5.6	8.3	7.7
P/B (x)	1.51	0.73	0.64	0.63	0.63
Net debt to equity (%)	(7.0)	73.1	75.0	55.9	44.4

Source: Company data, RHB estimates

Figure 1: Tropicana's quarterly results

FYE Dec (MYR)	2QFY12	1QFY13	2QFY13	QoQ (%)	YoY (%)	1HFY12	1HFY13	YoY (%)	Comments
Turnover	117.1	305.3	362.1	18.6	209.3	234.9	667.4	184.1	Higher revenue was mainly contributed by higher progress billings from key ongoing projects such as Tropicana Danga Bay and Tropicana Grande.
Prop Dev	106.7	270.1	312.4	15.7	192.8	214.4	582.5	171.8	
Prop Invnt	10.4	35.1	33.9	(3.6)	226.2	20.5	69.0	235.9	
Others	0.0	0.0	15.8	n.m.	n.m.	0.0	15.8	n.m.	
EBIT	153.3	82.1	76.0	(7.4)	(50.4)	177.5	158.2	(10.9)	
Net interest	(3.4)	(15.3)	(13.7)	(10.5)	303.4	(6.6)	(29.0)	337.7	
Pretax profit	58.7	66.8	62.3	(6.7)	6.2	79.7	129.1	62.0	
Prop Dev	19.6	64.2	45.6	(28.9)	132.7	32.9	109.8	233.6	
Prop Invnt	46.2	14.0	25.5	82.6	(44.7)	49.4	39.5	(20.0)	
Others	(7.1)	(11.4)	(8.8)	(22.3)	24.4	(2.6)	(20.2)	661.9	
Taxation	(39.8)	(24.5)	(15.6)	(36.3)	(60.8)	(44.5)	(40.1)	(9.7)	
Minority interest	(2.8)	1.5	(8.4)	(642.3)	197.8	(6.8)	(6.8)	0.2	
Net profit	16.0	43.8	38.3	(12.5)	139.0	28.4	82.1	189.5	Within expectations.
EPS (sen)	23.3	5.5	4.3	(21.6)	(81.5)	26.0	9.8	(62.2)	
Gross DPS (sen)	0.0	0.0	0.0			0.0	0.0		
NTA/share (MYR)	2.3	2.5	2.5			2.3	2.5		
EBIT margin (%)	130.9	26.9	21.0			75.5	23.7		
Pretax margin (%)	50.1	21.9	17.2			33.9	19.3		
Tax rate (%)	67.9	36.7	25.1			55.8	31.1		

Source: Company

Figure 2: RNAV estimate for Tropicana

Projects	Acres	GDV (MYR mil)	Stake	NPV @ 11%
Tropicana Cheras	26.7	275.8	100%	20.1
Tropicana Avenue	5.6	412.3	100%	28.3
Tropicana Danga Bay	31.0	6,800.0	60%	274.2
Tropicana Danga Bay H&R	6.0	1,060.0	70%	31.2
Tropicana Gardens	17.6	2,000.0	70%	87.3
W Hotel @ The Residences	1.3	900.0	100%	47.8
Dijaya Trop. Plaza	1.1	105.0	100%	5.4
Tropicana Metropark (Subang)	88.5	6,800.0	100%	337.8
Tropicana Danga Cove (Permas Jaya Johor)	227.0	10,000.0	50%	286.4
Tropicana Heights Kajang	198.5	2,163.5	100%	141.5
Jalan Sultan Ismail	1.2	650.0	100%	39.9
Penang World City	102.6	9,802.4	55%	208.0
Canal City	1,172.0	8,600.0	100%	231.0
<u>Injected landbanks</u>				
Sunway Kenari	5.6	634.5	100%	34.5
Jalan Harapan PJ	2.8	218.1	100%	11.9
Lot 914-916 Jalan Macalister Penang	2.1	294.0	100%	16.0
Lot 184-186 Jalan Selangor PJ	1.1	83.3	100%	4.5
Lot 4271 Jalan Tun Razak JB	21.9	5,000.0	100%	245.5
Jalan Kia Peng	1.5	331.8	100%	18.3
Jalan Bukit Bintang	3.3	684.5	100%	37.8
Jalan Ampang	0.9	99.5	100%	5.5
Rahang land (Neg. Sembilan)	2.4	127.1	100%	2.7
Pekan Bkt Kepayang, Neg. Sembilan)	2.0	130.3	100%	2.8
SS13 Subang Jaya	2.5	197.4	100%	10.2
Lot 2480 Jln Kepong Besar	0.8	66.7	100%	3.6
Lot 1982 Jln Sungei Besi	3.0	248.7	100%	12.8
The Landmark, Jalan Bundusan KK	1.3	100.9	100%	5.6
Double Up, Off Jln Lintas KK	1.2	112.7	100%	5.8
Sadong Jaya, KK	1.0	120.2	100%	6.2
Jalan Albert Kwok, KK	0.9	63.7	100%	3.3
Lido Junction, Penampang	1.7	186.8	100%	7.5
Jalan Segama, Lahad Datu	1.3	27.4	100%	1.2
Tawau City land	0.8	35.6	100%	1.3
Taman Tshun Ngen, Sandakan	1.5	64.0	100%	2.2
Unbilled sales				95.1
Subtotal				2,273.1
<u>Investment properties</u>				
Tropicana City Mall & Office	<u>Location</u>	<u>BV (MYR mil)</u>	<u>MV (MYR mil)</u>	<u>Net surplus (MYR mil)</u>
Dijaya Plaza, KL	Klang Valley	503.1	648.7	145.6
Bangunan Metro, Klang	City Centre	125.4	131.1	5.7
Jaya Square, Petaling Jaya	Klang Valley	17.0	17.0	0.0
Intan Square, Petaling Jaya	Klang Valley	18.0	18.0	0.0
Wisma TT, Petaling Jaya	Klang Valley	23.0	23.0	0.0
Casa Klang, Jalan Meru	Klang Valley	25.0	25.0	0.0
Casa Square, Puchong	Klang Valley	30.0	30.0	0.0
Coliseum Square, Ipoh	Klang Valley	45.0	45.0	0.0
Bangunan Keningau	Perak	23.0	23.0	0.0
Bangunan Magma, Off Jalan Damai, KK	Sabah	5.5	5.5	0.0
New Pantai Building, Tanjung Aru, KK	Sabah	5.8	5.8	0.0
Bangunan Moretune	Sabah	7.8	7.8	0.0
Bangunan Tiara, Sandakan	Sabah	11.0	11.0	0.0
Bangunan D. Junction	Sabah	12.2	12.2	0.0
Penampang Point	Sabah	21.0	21.0	0.0
Bangunan Blue 7, Penampang	Sabah	19.5	19.5	0.0
	Sabah	26.5	26.5	0.0
NTA (adjusted for RCULS)				2,186.2
Warrants & ESOS				217.6
Placement proceeds				366.8
Total RNAV				5,043.7
Share base (mil)				951.2
No. of warrants & ESOS (mil)				217.6
Enlarged share base (mil) - incl. RCULS				1,725.9
RNAV per share				2.92
Discount				25%
Fair value				2.19

Source: RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	289	375	630	1,340	1,624
Cost of sales	(193)	(217)	(351)	(771)	(1,006)
Gross profit	96	158	279	569	617
Gen & admin expenses	(57)	(76)	(150)	(337)	(406)
Other operating costs	19	33	130	27	30
Operating profit	58	115	260	259	242
Operating EBITDA	73	132	277	276	256
Depreciation of fixed assets	(15)	(16)	(17)	(17)	(14)
Operating EBIT	58	115	260	259	242
Net income from investments	-	6	6	18	69
Interest income	5	5	4	5	5
Interest expense	(11)	(11)	(32)	(48)	(43)
Pre-tax profit	52	116	238	234	273
Taxation	(6)	(15)	(42)	(50)	(59)
Minority interests	(4)	(8)	(9)	(19)	(22)
Profit after tax & minorities	42	93	187	165	192
Reported net profit	42	93	187	165	192
Recurring net profit	38	57	60	170	198

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	58	115	260	259	242
Depreciation & amortisation	15	16	17	17	14
Change in working capital	25	(250)	(59)	(225)	(215)
Other operating cash flow	(0)	(27)	(165)	62	107
Operating cash flow	98	(146)	53	113	148
Interest received	5	5	4	5	5
Interest paid	(11)	(11)	(32)	(48)	(43)
Tax paid	(6)	(15)	(42)	(50)	(59)
Cash flow from operations	86	(166)	(17)	19	52
Capex	(177)	(734)	(895)	-	(83)
Other investing cash flow	(13)	41	-	223	200
Cash flow from investing activities	(189)	(692)	(895)	223	117
Dividends paid	(10)	(17)	(10)	(38)	(34)
Proceeds from issue of shares	34	57	874	-	-
Increase in debt	60	781	875	-	-
Other financing cash flow	(41)	(83)	(733)	(194)	(59)
Cash flow from financing activities	44	738	1,005	(232)	(92)
Cash at beginning of period	301	241	120	214	224
Total cash generated	(60)	(121)	94	10	77
Implied cash at end of period	241	120	214	224	301

Source: Company data, RHB estimates

Financial Exhibits

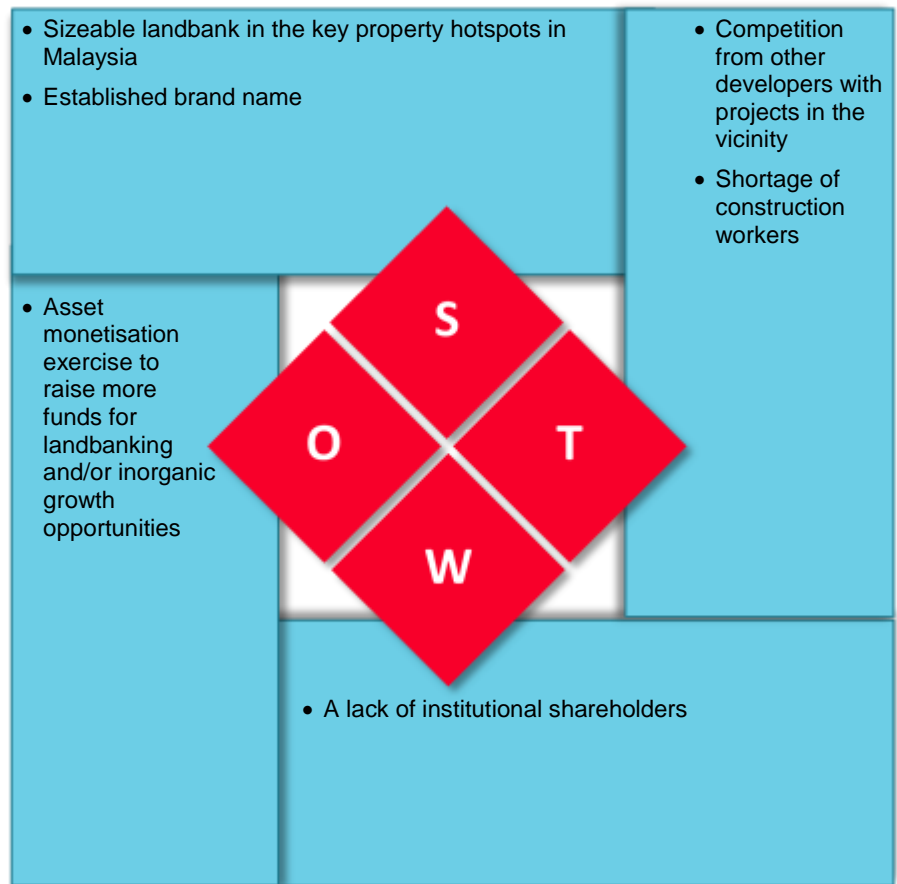
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	277	146	225	235	312
Inventories	215	343	437	1,056	1,271
Accounts receivable	22	58	164	323	437
Other current assets	74	195	149	149	149
Total current assets	588	743	975	1,763	2,169
Total investments	57	1,303	2,492	2,492	2,292
Tangible fixed assets	841	451	1,030	685	753
Intangible assets	3	5	17	17	17
Total other assets	51	35	4	7	13
Total non-current assets	952	1,795	3,543	3,201	3,075
Total assets	1,540	2,538	4,518	4,964	5,244
Short-term debt	3	146	224	174	174
Accounts payable	106	239	331	883	997
Other current liabilities	103	7	8	8	8
Total current liabilities	212	391	563	1,066	1,179
Total long-term debt	208	846	1,642	1,392	1,308
Other liabilities	161	144	124	124	124
Total non-current liabilities	369	990	1,766	1,516	1,432
Total liabilities	581	1,381	2,330	2,582	2,611
Share capital	819	458	793	843	927
Retained earnings reserve	34	171	321	445	589
Other reserves	46	410	947	947	947
Shareholders' equity	899	1,039	2,061	2,235	2,463
Minority interests	61	118	128	147	169
Total equity	960	1,157	2,189	2,382	2,632
Total liabilities & equity	1,540	2,538	4,518	4,964	5,244

Source: Company data, RHB estimates

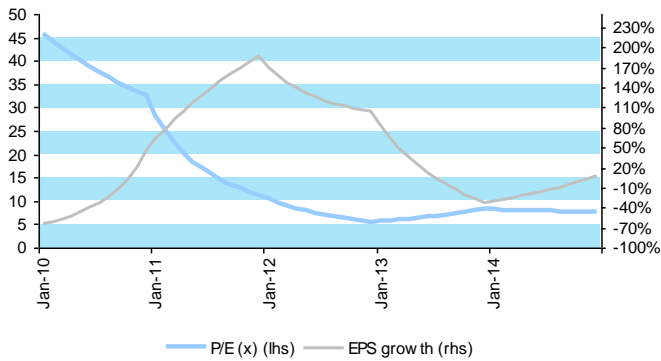
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	(7.3)	29.9	67.9	112.7	21.2
Operating profit growth (%)	5.1	98.3	125.2	(0.4)	(6.6)
Net profit growth (%)	61.8	123.8	99.7	(11.8)	16.7
EPS growth (%)	46.4	186.9	103.8	(32.5)	7.8
Bv per share growth (%)	6.9	106.6	14.6	2.0	0.2
Operating margin (%)	20.1	30.8	41.2	19.3	14.9
Net profit margin (%)	14.4	24.9	29.6	12.3	11.8
Return on average assets (%)	2.8	4.6	5.3	3.5	3.8
Return on average equity (%)	4.8	9.6	12.0	7.7	8.2
Net debt to equity (%)	(7.0)	73.1	75.0	55.9	44.4
DPS	0.02	0.02	0.05	0.04	0.04
Recurrent cash flow per share	0.10	(0.26)	(0.03)	0.02	0.06

Source: Company data, RHB estimates

SWOT Analysis

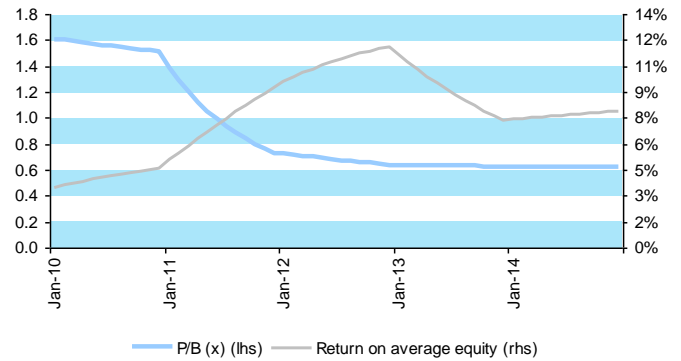


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

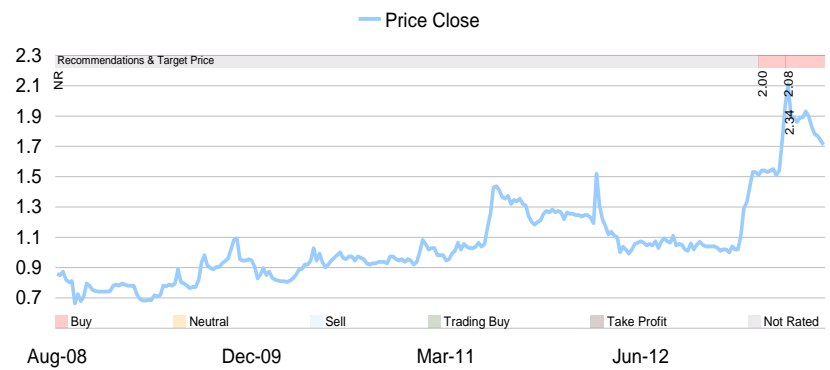


Source: Company data, RHB estimates

Company Profile

Tropicana Corporation Bhd is a developer in Malaysia. The company is known for its flagship development Tropicana Golf and Country Resort and Tropicana Indah at Petaling Jaya.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-22	Buy	2.34	1.97
2013-05-20	Buy	2.08	1.85
2013-03-19	Buy	2.00	1.54

Source : RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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