

Flash Note

Tropicana

TRCB MK
RM1.56

BUY (maintain)

Price Target: RM2.50 (↔)

Acquiring 257 acres of Pulai land for RM367m

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Tropicana announced that its wholly-owned subsidiary, Tropicana Desa Mentari Sdn. Bhd. had on 13 September 2013 entered into a conditional Sale and Purchase Agreement with Lee Pineapple Company (Pte.) Limited to acquire 18 parcels of freehold land measuring approximately 256.6 acres in Mukim of Pulai, Johor Bahru for RM366.6m cash (approximately RM32.80 psf). There are currently a brick factory, structures for nursery and restaurant erected on the land. Tropicana intends to demolish the buildings and structures to facilitate the future development of the land. Tropicana plans to develop the land into an integrated Eco-Lifestyle residential and commercial development with an estimated GDV of RM6.4bn.

Slightly negative on the proposed acquisition

We are slightly negative on the proposed acquisition as: (i) the acquisition price of approximately RM32.80 psf looks expensive vis-à-vis some of the recent transacted price tags of around RM15-25 psf for similar sizeable agricultural/industrial land in Johor; (ii) the acquisition will increase Tropicana's net borrowings to RM1.9bn (or 0.8x net gearing) – substantially above peers' net gearing of 0 to 0.4x.

Maintain BUY with an unchanged TP of RM2.50

No change to our earnings forecast, **BUY** rating and TP of RM2.50 for now. We value Tropicana at a 30% discount to our RNAV estimate. We have applied a 30% discount to the RNAV estimate in view of Tropicana's high concentration in high-rise projects and its above industry net gearing position of 0.7x. That said, we like Tropicana for its proactive management team, extensive business contacts, strategic land bank, established branding, strong FY12-15 EPS CAGR of 20% and attractive valuation at 0.4x P/RNAV and 7.8x CY14 EPS.

Maintain BUY with an unchanged TP of RM2.50

Key investment risks include: (i) acquisition of sizeable land bank at significant premium to market value; (ii) sharp deceleration in domestic economic growth that affects demand for high-end properties; (iii) unexpected rapid increase in OPR/ further tightening of mortgage standards; (iv) execution risk; and (v) possible stock overhang arising from further new share placements and RCULS conversions.

Earnings & Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	375.2	630.4	1141.1	1357.8	1654.1
EBITDA	87.2	143.5	356.2	345.0	403.3
Pretax profit	99.2	224.9	306.0	310.9	380.7
Net profit	77.0	171.1	212.6	214.8	261.2
EPS (sen)	16.9	32.5	22.2	19.9	21.8
PER (x)	9.2	4.8	7.0	7.8	7.2
Core net profit	63.0	66.0	203.6	214.8	261.2
Core EPS (sen)	13.8	12.5	21.2	19.9	21.8
Core EPS chg (%)	92.9	-9.3	69.3	-6.0	9.2
Core PER (x)	11.3	12.4	7.3	7.8	7.2
DPS (sen)	2.3	4.8	8.9	8.0	8.7
Dividend Yield (%)	1.4	3.1	5.7	5.1	5.6
EV/EBITDA (x)	18.2	17.0	8.3	8.8	7.5
Consensus profit	-	-	173.0	196.0	243.0
Affin/Consensus (x)	-	-	1.2	1.1	1.1

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Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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