Property

2 December 2013

AFFIN INVESTMENT BANK
KDN: PP 10251/07/2013(032736)

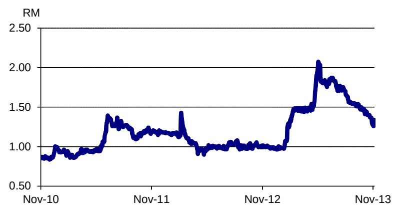
Results Note

Tropicana

TRCB MK
RM1.34

BUY (upgrade)

Price Target: RM1.80 (↔)



Price Performance

	1M	3M	12M
Absolute	-6.9%	-17.8%	+28.8%
Rel to KLCI	-7.1%	-22.1%	+14.5%

Stock Data

Issued shares (m)	1,083.8
Mkt cap (RMm)	1,452.3
Avg daily vol - 6mth (m)	2.39
52-wk range (RM)	0.99-2.20
Est free float	34.3%
BV/share (RM)	2.12
P/BV (x)	0.8
Net cash/(debt) (RMm)(3Q13)	(1,539.8)
ROE (FY13E)	8.5%
Derivatives	
Warr 2019 (WP: RM0.56, SP: RM1.00)	

Key Shareholders

Tan Sri Dato' Danny Tan	65.7%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	21.2	18.7	18.1
Curr EPS (sen)	21.2	18.7	18.1
Chg (%)	-	-	-
Prev target price (RM)			1.80
Curr target price (RM)			1.80

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Gains from land sales to boost 4Q earnings

Higher 9M13 core net profit of RM97m, broadly within expectations

Tropicana reported a significantly stronger 9M13 core net profit of RM97.4m (+178% yoy) on the back of higher revenue from property sales, higher progress billings as well as substantial gains from the disposal of property development land. The group's 9M13 EBIT almost tripled from RM77.1m in 9M12 to RM216.5m in 9M13 on higher property development EBIT as well as higher gains on disposal of development land (RM66.4m in 9M13 vs nil in 9M12). We view the land disposal gains as part of Tropicana's core earnings given the group's strategy to actively trade its land bank as well as its intention to payout at least 40% of earnings (including gains on disposal) as dividend. Overall, we deem the results as inline. While Tropicana's 9M13 core net profit only accounts for 48% of our full year earnings forecast, we believe further gains on land disposal will boost the group's 4Q13 earnings (Tropicana has signed separate SPAs to dispose 5 parcels of land worth a total of RM337m). Tropicana has declared a surprise 4.5 sen of gross dividend (less 25% tax) for 9M13 (vs nil. in 9M12).

3Q13 core net profit weaker qoq

Sequentially, Tropicana reported a higher EBIT of RM72.6m (+17% qoq) on higher property development EBIT margin as well as higher gains from land disposal. Notwithstanding the higher EBIT, the group's 3Q13 core net profit fell by 18.9% qoq to RM23.7m due to higher interest expenses (+RM12.1m) and a higher effective tax rate (40% in 3Q13 vs 25% in 2Q13).

Record property sales of RM1.85bn in 9M13

Tropicana achieved an impressive property sales of RM1.85bn in 9M13 (vs RM1bn in full year FY12), on track to achieve our full year sales assumption of RM2.1bn. Notably, Tropicana has booked in two consecutive quarters of strong sales at approximately RM800m per quarter (vs RM254m in 1Q13). As at end-June 2013, Tropicana's unbilled sales was at an all-time high of RM2.2bn.

Selling a 1.4-acre Kia Peng land for RM132m (RM2,100 psf)

Tropicana had on 29 November 2013 entered into a SPA with GSH Corporation to sell a parcel of leasehold land in Jalan Kia Peng measuring 1.4 acres for RM132.4m (RM2,100 psf). Tropicana acquired the land through the group's amalgamation exercise in April 2012 with a cost of RM79.8m. We estimate the completion of the disposal will translate to a gain of over RM50m in FY14. The group's other land sales pending completion are: (i) 6.4-acre land in Tropicana (gross proceeds is RM116m); (ii) a 4.05-acre land in Senibong, Johor (RM44m); (iii) a 0.9-acre land in Jalan Ampang (RM35m); and (iv) a 1.1-acre land in Jalan Selangor, PJ (RM10m).

Earnings & Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	375.2	630.4	1141.1	1277.9	1392.7
EBITDA	87.2	143.5	356.2	328.6	349.1
Pretax profit	99.2	224.9	306.0	292.4	319.8
Net profit	77.0	171.1	212.6	201.6	217.1
EPS (sen)	16.9	32.5	22.2	18.7	18.1
PER (x)	7.9	4.1	6.0	7.2	7.4
Core net profit	63.0	66.0	203.6	201.6	217.1
Core EPS (sen)	13.8	12.5	21.2	18.7	18.1
Core EPS chg (%)	92.9	-9.3	69.3	-11.8	-3.3
Core PER (x)	9.7	10.7	6.3	7.2	7.4
DPS (sen)	2.3	4.8	8.9	7.5	7.2
Dividend Yield (%)	1.7	3.6	6.6	5.6	5.4
EV/EBITDA (x)	17.0	16.2	7.7	8.4	7.7
Consensus profit	-	-	173.0	196.0	243.0
Affin/Consensus (x)	-	-	1.2	1.0	0.9

Upgrade to BUY with an unchanged TP of RM1.80

No change to our core earnings forecast and TP of RM1.80 based on a steep 50% discount to RNAV. Following the 18% decline in share price over the past 3 months, the stock now offers an attractive upside of 34%. Hence, we are upgrading our rating to **BUY** (from ADD). We like Tropicana for its attractive valuation of 7.2x CY14 PER and 0.4x P/RNAV. Key re-rating catalysts are stronger-than-expected earnings and timely execution of its de-gearing initiatives - management has identified possible assets disposal worth RM1.5bn comprising Dijaya Plaza, Tropicana Mall & Office Tower, En bloc sale of The Residences and W Hotel, sale of partial land in Canal City and sale of inventories and near-completion stocks.

Key investment risks

Key investment risks include: (i) sharper-than-expected slowdown in domestic property market; (ii) further tightening of mortgage standards; (iii) execution risk; (iv) further delays/ hiccups in de-gearing exercise; and (v) possible stock overhang arising from placements and RCULS conversions.

Fig 1: Quarterly results comparison

FYE 31 Dec (RMm)	3QFY12	2QFY13	3QFY13	QoQ % chg	YoY % chg	Comment
Revenue	161.1	362.1	363.4	*0.4*	*>100*	
Op costs	(129.2)	(300.1)	(290.8)	*3.1*	*>(100)*	
EBIT	31.9	62.0	72.6	*17.1*	*>100*	Higher EBIT qoq due to higher gains from disposal of property development land.
EBIT margin (%)	*19.8*	*17.1*	*20.0*	*nm*	*nm*	
Int expense	(8.5)	(15.6)	(27.7)	*(77.8)*	*>(100)*	
Int and other inc	1.2	1.9	2.2	*16.2*	*84.2*	
Associates	1.5	1.8	2.2	*16.7*	*46.7*	
Exceptional gain/losses	54.0	12.1	0.0	*nm*	*nm*	
Pretax	**80.1**	**62.3**	**49.3**	*(20.8)*	*(38.4)*	
Tax	(21.2)	(15.6)	(19.7)	*(26.0)*	*7.1*	
Tax rate (%)	*26.5*	*25.1*	*39.9*	*nm*	*nm*	
MI	(1.1)	(8.4)	(5.9)	*29.1*	*>(100)*	
Net profit	**57.8**	**38.3**	**23.7**	*(38.1)*	*(59.0)*	
EPS (sen)	12.6	4.3	2.2	*(49.0)*	*(82.5)*	
Core net profit	**12.9**	**29.3**	**23.7**	*(18.9)*	*84.5*	Lower core net profit qoq on higher interest expense and higher effective tax rate.

Fig 2: Cumulative results comparison

FYE 31 Dec (RMm)	9M12	9M13	YTD % chg	Comment
Revenue	396.0	1,030.8	*>100*	Higher revenue due to higher property sales achieved, higher progress billings and higher revenue from the property investment segment contributed by the new investment properties acquired in 3Q12.
Op costs	(318.9)	(814.3)	*>(100)*	
EBIT	77.1	216.5	*>100*	
EBIT margin (%)	*19.5*	*21.0*	*nm*	
Int expense	(17.8)	(59.7)	*>(100)*	Higher interest expenses due to higher borrowings.
Int and other inc	3.0	5.2	*74.1*	
Associates	4.2	5.2	*24.5*	
Exceptional gain/losses	93.4	11.2	*nm*	Exceptional gains are mainly attributable to gains from fair value adjustment of investment properties.
Pretax	**159.8**	**178.5**	*11.7*	
Tax	(42.9)	(59.8)	*(39.5)*	
Tax rate (%)	*26.8*	*33.5*	*nm*	
MI	(7.9)	(12.8)	*(61.4)*	
Net profit	**109.0**	**105.9**	*(2.9)*	
EPS (sen)	23.7	11.5	*(51.6)*	
Core net profit	**35.1**	**97.4**	*>100*	Broadly within market and our expectations.

Fig 3: Tropicana's RNAV per share

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
Central					
Tropicana Cheras	Freehold	27	91	100%	14
Tropicana Gardens	Leasehold	16	2,712	70%	232
Tropicana Metropark	Freehold	89	6,253	100%	346
Tropicana Heights	Freehold	199	2,164	100%	174
W KL Hotel & Residences	Freehold	1	1,176	100%	53
Canal City	Leasehold	1,172	20,000	100%	536
Others (Klang Valley)	Mixed	29	2,145	100%	180
Southern					
Tropicana Danga Bay	Freehold	37	6,756	60%	204
Tropicana Danga Cove	Freehold	227	9,867	50%	299
Tropicana City Centre	Freehold	22	5,000	100%	179
Tropicana Danga Lagoon	Mixed	60	2,500	80%	103
TDB Hotel & Residences	Freehold	6	1,060	60%	39
Northern					
Penang World City	Freehold	103	10,000	55%	332
Tropicana 218 MacAlister	Freehold	2	201	100%	24
East Malaysia					
The Landmark, Jln Bundusan	Leasehold	1	108	100%	13
Subtotal		**1,990**	**70,033**		**2,728**
Unbilled sales					**95**
Investment properties		**Net BV (RMm)**	**Market Value (RMm)**	**Equity Interest**	**Surplus (RMm)**
Tropicana City Mall and Office Tower		503	509	100%	5
Total					2,828
Shareholders' fund (as at Mar 31, 2013)					2,174
Add: valuation surplus					2,828
Add: placement of new shares @ RM1.78					154
Adj: warrants, ESOS, RCULS conversions					276
RNAV (RMm)					5,432
Share outstanding (as at Mar 31, 2013))					857
Add: placement of new shares					86
Add: warrants, ESOS and RCULS conversions					581
Enlarged share base (m)					1,524
Fully diluted RNAV per share (RM)					3.56
Target price based on 50% discount to RNAV per share (RM)					**1.80**

Source: Company, Affin

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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