

UOBKH HIGHLIGHTS

Tropicana Corp (TRCB MK/HOLD/RM1.36/Target: RM1.58)

2Q14: Results Below Expectations

Year to 31 Dec	2Q14 (RMm)	1Q14 (RMm)	qoq % chg	yoy % chg	1H14 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	355.9	299.1	19.0	-1.7	655.0	-1.9	2014F	12.8	10.6
Property development & resort operations	259.5	208.6	24.4	-16.9	468.1	-19.6	2015F	11.5	11.8
Property investment	32.8	39.2	-16.5	-3.3	72.0	4.3	2016F	12.1	11.2
Operating profit	121.0	41.2	193.7	63.3	162.2	4.5			
Property development & resort operations	52.8	18.4	187.5	3.0	71.1	-41.4			
Property investment	68.4	21.1	>100	160.5	89.5	112.3			
Pretax profit	121.0	24.8	>100	94.1	145.8	12.9			
Net Profit	89.5	7.8	>100	133.4	97.3	18.4			
Core Net Profit	20.2	7.8	159.0	-47.3	28.0	-65.9			
Property Development EBIT Margin	15.8%	8.8%			15.2%				

Source: Bursa, UOB Kay Hian

RESULTS

- **Core earnings below expectations.** Tropicana Corp (Tropicana) reported 2Q14 revenue of RM355.9m (+19% qoq, -1.7% yoy) and net profit of RM89.5m (+159% qoq, -47.3% yoy), boosted by land sales gains. This brings 1H14 net profit to RM97.3m, representing about 50% of our full-year estimate. However, if we exclude gains of RM70m arising from land sales, 1H14 core property development earnings of about RM28m accounts for only about 20% of our full-year estimate, mainly due to most of the projects are still at the beginning stages of construction where overheads are higher.

IMPACT

- **Newly-launched projects are starting to contribute.** Large-scale developments such as Tropicana Gardens, Tropicana Metropark, Tropicana Metropark and Tropicana Avenue drove revenue growth for this quarter. For example, works at Tropicana Gardens are still at 25-30% of its construction progress.
- **Property sales worth RM935m in 1H14.** Year-to-date, Tropicana managed to clinch about RM935m in property sales, representing 47% of its 2014 sales target of RM2b. The key driver for its sales this quarter came from its recently-launched landed development, Tropicana Heights, in Kajang (RM206m), high-rise mixed development, Tropicana Metropark (RM185m) and its Tropicana Danga Bay (RM172m) development in Iskandar. The success in sales was mainly due to the successful aggressive marketing works for its projects.
- **Strong unbilled sales of RM2.7b,** representing about 2.2x its 2013 property revenue. We expect property EBIT margin to hover at 18-20% on higher progress billings for Tropicana Gardens (RM469m), Tropicana Danga Bay (RM438m), Penang World City (RM518m) and Tropicana Avenue (RM321m). With headroom of over RM2.7b in unbilled sales, we believe Tropicana would be able to ensure steady earnings delivery within the next 2-3 years.
- **De-gearing initiatives still ongoing, but future exercises remain hazy.** Year-to date, Tropicana managed to sell about RM951m worth of lands, which included the partial disposal of its Canal City land to Eco World Bhd (RM471m), the recently sale of its JV Jalan Bukit Bintang land (RM448m) and the new sale of smaller parcels of lands in Kota Kinabalu (RM32m). With these asset disposals, Tropicana's gross debt could fall to RM1.1m (from RM2b currently) which represents a net gearing of about 0.38x (from 0.59x currently)
- We reduce our 2014-16 net profit forecasts by 5.1%, 7.2% and 5.9% respectively to reflect the shrinking of margins for certain projects after the recent rise in construction materials costs.

RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.58 (from RM1.74) after increasing our fully-diluted RNAV discount to 50% (from 45%).** Although Tropicana's fundamentals remain intact with an ongoing asset monetisation strategy, we believe the cash flow requirements from ongoing projects are still high. Nevertheless, chunky asset monetisation would be positive to share price as it will narrow the current steep discount to RNAV. Currently, our target price implies 13x 2015F PE, and represents a 50% discount to our fully-diluted RNAV of RM3.16/share. A good entry price is RM1.25.

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