

## Company Update

## Tropicana

TRCB MK  
RM1.23

**BUY (maintain)**

**Price Target: RM1.60 (↔)**



## Price Performance

	1M	3M	12M
Absolute	-9.6%	-19.6%	+21.8%
Rel to KLCI	-8.9%	-22.2%	+12.6%

## Stock Data

Issued shares (m)	1,084.4
Mkt cap (RMm)	1,333.8
Avg daily vol - 6mth (m)	1.91
52-wk range (RM)	0.99-2.20
Est free float	36.8%
BV/share (RM)	2.12
P/BV (x)	0.6
Net cash/(debt) (RMm)(3Q13)	(1,539.8)
ROE (FY14E)	7.9%
Derivatives	
Warr 2019 (WP: RM0.51, SP: RM1.00)	

## Key Shareholders

Tan Sri Dato' Danny Tan	63.2%
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## Earnings &amp; Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	21.2	18.2	16.2
Curr EPS (sen)	21.2	18.2	16.2
Chg (%)	-	-	-
Prev target price (RM)		1.60	
Curr target price (RM)		1.60	

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## Asset monetisation is the key re-rating catalyst

## Market is still conducive for asset monetisation

While sentiments on the property market is generally weaker following the recent announcement of new tightening measures, the demand for prime land bank has remained strong, partly fuelled by the recent entrance of Singapore and China developers in a large way. We believe that the relatively attractive land prices, higher Chinese/Singaporean interest in Malaysia properties and the property tightening measures in their home countries will continue to drive Singapore and China developers into the Malaysian property market. There were a slew of newsflow on land bank acquisitions by foreign developers in recent months - three China-based developers acquiring Iskandar land banks at record setting prices of up to RM998 psf while two Singapore-developers (Oxley Holdings, GSH Corporation) acquiring land banks in KLCC at high prices of RM2,100-3,300 psf. Generally, we opine that it is still a sellers market for prime land bank and the market is still conducive for Tropicana to unlock the value of some of its land.

## De-gearing initiatives to pick up pace in 2014

Tropicana sold RM506m worth of land bank in 2013. Moving into 2014, management has identified RM1.8bn worth of assets that has good potential to be monetised, including the Tropicana City Mall & Office, Dijaya Plaza, W KL Hotel & Residences and some land bank. We understand that the monetisation plans are in various stages and some could be materialised as early as 1H2014. That said, we note that management has not provided any specific targets and the assets monetisation will depend on market condition, which in our view, is still conducive.

## High unbilled sales of RM2.2bn to anchor 2014-15 earnings

Tropicana booked in RM1.9bn property sales in 9M2013 and on track to achieve our FY13 property sales forecast of RM2.1bn. Moving into 2014-15, we expect the group to achieve lower property sales of RM1.2-1.3bn due to a weaker property market condition. Nonetheless, we project the group to attain a respectable net profit of RM195-196m for 2014-15E, anchored by its current high unbilled sales of RM2.2bn.

## Maintain BUY with an unchanged TP of RM1.60

Tropicana is currently trading at an undemanding valuation of 6.8x CY14 EPS, 66% discount to its RNAV. At its current valuation, we believe the market has largely priced in the negatives (high net gearing, weak property market, high concentration in integrated high rise project) but overlooked its positive attributes (strategic land bank, good assets). We believe that timely execution of its de-gearing initiatives will re-rate Tropicana share price in 2014. Maintain **BUY** with an unchanged TP of RM1.60 based on a 55% discount to its RNAV.

## Earnings &amp; Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	375.2	630.4	1141.1	1267.7	1266.0
EBITDA	87.2	143.5	356.2	326.6	321.8
Pretax profit	99.2	224.9	306.0	285.9	285.2
Net profit	77.0	171.1	212.6	196.2	194.5
EPS (sen)	16.9	32.5	22.2	18.2	16.2
PER (x)	7.3	3.8	5.5	6.8	7.6
Core net profit	63.0	66.0	203.6	196.2	194.5
Core EPS (sen)	13.8	12.5	21.2	18.2	16.2
Core EPS chg (%)	92.9	-9.3	69.3	-14.2	-11.0
Core PER (x)	8.9	9.8	5.8	6.8	7.6
DPS (sen)	2.3	4.8	8.9	7.3	6.5
Dividend Yield (%)	1.8	3.9	7.2	5.9	5.3
EV/EBITDA (x)	16.4	15.8	7.4	8.0	7.7
Consensus profit	-	-	173.0	192.8	221.0
Affin/Consensus (x)	-	-	1.2	1.0	0.9

### Key investment risks

Key risks to our positive view on Tropicana include: (i) a sharper-than-expected slowdown in the domestic property market; (ii) acquisition of sizeable land bank that will further stretch its balance sheet; (iii) execution risk; (iv) further delays/hiccups in its de-gearing exercise; and (v) possible share overhang arising from placements and RCULS conversions.

**Fig 1: Acquisitions of Iskandar land bank by China developers**

Date	Buyer	Seller	Location	Value (RMm)	Size (acre)	Price (RM psf)
Sep-11	Zhuoda Real Estate - IIB JV	IIB	Medini North	158	18	200
Dec-12	Country Garden Holdings	Iskandar Waterfront Holdings	Danga Bay	900	55	376
Dec-13	Guangzhou R&F Properties	Sultan of Johor	Johor Baru	4,500	116	891
Dec-13	Hao Yuan Investment - IWH JV	Iskandar Waterfront Holdings	Danga Bay	1,600	37	998
Jan-14	Macrolink Real Estate Co	Ibzi Development	Johor	162	12	322

Source: Affin

**Fig 2: Tropicana's land sales in 2013**

Landbank sold	Acquired	Acres	Purchase price (RMpsf)	Sale price (RMpsf)	Status (as at Sep 2013)	Gross proceeds (RMm)
Jalan Kia Peng, KL	2012	1.5	1,338	2,100	Pending completion	132
Persiaran Tropicana	1991	6.4	6	415	Pending completion	116
Senibong, Johor	2011	4.1	63	250	Pending completion	44
Jalan Ampang, KL	2012	0.9	429	894	Pending completion	35
Jalan Selangor, KL	2012	1.1	194	230	Pending completion	10
Bayou, Belakong	2007	66.0	17	37	Completed	107
Desa Mentari, Sunway	2009	1.8	254	300	Completed	23
Sungei Besi	2012	3.4	88	180	Completed	20
Desa Aman Puri, Kepong	2012	1.8	100	240	Completed	19
<b>Total</b>		<b>86.9</b>				<b>506</b>

Source: Company

**Fig 3: Tropicana's ongoing de-gearing initiatives**

	(RMm)	Net gearing
Total Debt as at 30 Sep 2013	(1,929)	0.7x
Potential Capex	(600)	
<b>Potential Total Debt</b>	<b>(2,529)</b>	<b>0.9x</b>
<b>Ongoing Asset Monetisation / Degearing initiatives</b>		
a) Sale of raw land		
- Signed and pending completion	337	
- Actively targeted	415	
b) Disposal of investment properties	800	
c) Sale of existing inventories and near completion stocks	200	
d) En bloc sale	350	
<b>Total</b>	<b>2,102</b>	

Source: Company

**Fig 4: Tropicana's 9MFY13 property sales**

Sales (RMm)	FY12	9MFY13
Tropicana Grande	66	219
Tropicana Avenue	172	229
Tropicana Cheras	84	63
Tropicana Gardens	169	324
Tropicana Metropark	-	252
Tropicana Danga Bay	356	122
Tropicana Danga Cove	24	51
Penang World City	-	467
Tropicana Landmark	-	34
Others	96	92
<b>Total</b>	<b>967</b>	<b>1,853</b>

Source: Company

**Fig 5: Tropicana's unbilled sales (as at end-Sep 2013)**

Unbilled sales	(RMm)
Tropicana Grande	156
Tropicana Avenue	334
Tropicana Cheras	63
Tropicana Gardens	454
Tropicana Metropark	246
Tropicana Danga Bay	384
Tropicana Danga Cove	43
Penang World City	444
Tropicana Landmark	27
Others	63
<b>Total</b>	<b>2,214</b>

Source: Company

**Fig 6: Peers comparison**

Stock	Rating	Sh Pr	TP	Mkt Cap	Year End	Core PE (x)		EPS growth (%)		P/RNAV	P/B	ROE (%)		Div Yield (%)	
		(RM)	(RM)	(RMm)		CY13	CY14	CY13	CY14	(x)	(x)	CY13	CY14	CY13	CY14
SP Setia	ADD	2.96	3.33	7,278	Oct	16.0	13.5	-7.8	18.7	0.6	1.3	7.8	9.2	3.6	4.4
Sunway	ADD	2.79	2.80	4,809	Dec	10.0	11.3	2.8	-11.1	0.7	1.0	11.0	9.0	2.5	2.9
IJMLand	BUY	2.58	3.00	4,022	Mar	13.8	11.8	37.8	17.5	0.7	1.4	10.7	10.9	2.3	2.7
UOA Dev	ADD	1.89	2.25	2,532	Dec	7.4	7.2	50.7	2.6	0.6	1.1	14.6	13.1	6.9	7.4
Tropicana	BUY	1.23	1.60	1,333	Dec	5.8	6.8	69.3	-14.2	0.3	0.6	9.0	7.9	7.2	5.9
KSL	ADD	2.43	2.27	939	Dec	4.3	5.4	68.4	-19.9	0.5	0.7	18.5	12.8	1.2	1.2

Source: Affin

**Fig 7: Tropicana's RNAV per share**

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
<b>Central</b>					
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
<b>Southern</b>					
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	100%	128
TDB Hotel & Residences	Freehold	6	1,060	60%	39
Tropicana Gelang Patah	Freehold	257	6,440	100%	-
Senibong Land	Leasehold	60	3,700	70%	-
<b>Northern</b>					
Penang World City	Freehold	103	10,000	55%	332
Tropicana 218 MacAlister	Freehold	2	201	100%	24
<b>East Malaysia</b>					
The Landmark, Jln Bundusan	Leasehold	1	108	100%	13
<b>Subtotal</b>		<b>2,306</b>	<b>80,173</b>		<b>2,753</b>
Unbilled sales					<b>95</b>
<b>Investment properties</b>		<b>Net BV (RMm)</b>	<b>Market Value (RMm)</b>	<b>Equity Interest</b>	<b>Surplus (RMm)</b>
Tropicana City Mall and Office Tower		503	509	100%	5
<b>Total</b>					<b>2,854</b>
Shareholders' fund (as at Mar 31, 2013)					2,174
Add: valuation surplus					2,854
Adj: placement, w arrants, ESOS, RCULS conversions					429
RNAV (RMm)					5,458
Share outstanding (as at Mar 31, 2013)					857
Add: placement, w arrants, ESOS and RCULS conversions					667
Enlarged share base (m)					1,524
Fully diluted RNAV per share (RM)					3.58
<b>Target price based on 55% discount to RNAV per share (RM)</b>					<b>1.60</b>

Source: Company, Affin

## Tropicana – FINANCIAL SUMMARY

### Profit & Loss Statement

FYE31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	375.2	630.4	1141.1	1267.7	1266.0
Operating expenses	-288.1	-486.9	-784.9	-941.1	-944.1
EBITDA	87.2	143.5	356.2	326.6	321.8
Depreciation	-10.6	-15.3	-18.4	-18.0	-17.6
EBIT	76.6	128.1	337.8	308.6	304.2
Net int income/(expense)	-6.0	-27.3	-60.5	-54.6	-50.0
Associates' contribution	6.5	6.3	16.5	31.9	31.1
Others	22.1	117.8	12.1	0.0	0.0
Pretax profit	99.2	224.9	306.0	285.9	285.2
Tax	-14.6	-44.4	-72.4	-63.5	-63.5
Minority interest	-7.6	-9.5	-21.0	-26.2	-27.2
Net profit	77.0	171.1	212.6	196.2	194.5
Core net profit	63.0	66.0	203.6	196.2	194.5

### Balance Sheet Statement

FYE31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Fixed assets	1,702.1	3,287.4	3,136.0	3,072.0	3,060.7
Other long term assets	118.8	187.2	223.8	255.7	286.7
<b>Total non-current assets</b>	<b>1,820.9</b>	<b>3,474.6</b>	<b>3,359.8</b>	<b>3,327.7</b>	<b>3,347.4</b>
Cash and equivalents	120.1	210.8	137.6	225.6	321.1
Stocks	19.8	31.1	50.1	60.1	60.3
Debtors	156.5	144.6	375.2	416.8	416.2
Other current assets	446.6	717.9	1,009.9	1,129.5	1,003.3
<b>Total current assets</b>	<b>742.9</b>	<b>1,104.4</b>	<b>1,572.7</b>	<b>1,832.0</b>	<b>1,800.9</b>
Creditors	238.5	323.2	585.5	702.1	704.3
Short term borrowings	145.7	231.8	180.0	170.0	140.0
Other current liabilities	6.6	8.1	8.1	8.1	8.1
<b>Total current liabilities</b>	<b>390.8</b>	<b>563.1</b>	<b>773.6</b>	<b>880.2</b>	<b>852.4</b>
Long term borrowings	845.6	1,596.5	1,400.0	1,350.0	1,200.0
Other long term liabilities	170.7	193.1	200.3	206.6	213.0
<b>Total long term liabilities</b>	<b>1,016.3</b>	<b>1,789.6</b>	<b>1,600.3</b>	<b>1,556.6</b>	<b>1,413.0</b>
<b>Shareholders' Funds</b>	<b>1,038.8</b>	<b>2,098.6</b>	<b>2,409.9</b>	<b>2,548.1</b>	<b>2,680.9</b>
Minority interest	118.0	127.6	148.6	174.8	202.0

### Cash Flow Statement

FYE31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Pretax profit	99.2	224.9	306.0	285.9	285.2
Depreciation & amortisation	10.6	15.3	18.4	18.0	17.6
Working capital changes	-918.5	-327.8	-274.0	-48.7	122.5
Cash tax paid	-11.8	-37.0	-65.1	-57.1	-57.2
Others	-40.0	-162.8	-182.9	-96.2	-85.3
<b>Cashflow from operation</b>	<b>-860.4</b>	<b>-287.3</b>	<b>-197.7</b>	<b>101.8</b>	<b>282.8</b>
Capex	-103.2	-269.8	-120.0	-100.0	-100.0
Others	105.0	-228.6	394.0	204.3	154.3
<b>Cash flow from investing</b>	<b>1.8</b>	<b>-498.3</b>	<b>274.0</b>	<b>104.3</b>	<b>54.3</b>
Debt raised/(repaid)	791.8	560.3	-248.3	-60.0	-180.0
Dividends paid	-17.1	-10.4	-90.0	-83.0	-81.7
Others	-32.5	309.2	188.6	25.0	20.0
<b>Cash flow from financing</b>	<b>742.3</b>	<b>859.1</b>	<b>-149.6</b>	<b>-118.0</b>	<b>-241.7</b>
<b>Free Cash Flow</b>	<b>-963.7</b>	<b>-557.0</b>	<b>-317.7</b>	<b>1.8</b>	<b>182.8</b>

### Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
<b>Growth</b>					
Revenue (%)	28.4	68.0	81.0	11.1	-0.1
EBITDA (%)	70.4	64.6	148.2	-8.3	-1.4
Core net profit (%)	93.2	4.8	208.4	-3.6	-0.9
<b>Profitability</b>					
EBITDA margin (%)	23.2	22.8	31.2	25.8	25.4
PBT margin (%)	26.4	35.7	26.8	22.6	22.5
Net profit margin (%)	20.5	27.1	18.6	15.5	15.4
Effective tax rate (%)	14.7	19.7	23.6	22.2	22.3
ROA (%)	3.8	4.8	4.5	3.9	3.8
Core ROE (%)	6.5	4.2	9.0	7.9	7.4
ROCE (%)	4.9	4.3	8.5	7.7	7.5
Dividend payout ratio (%)	13.3	14.8	40.0	40.0	40.0

### Liquidity

Current ratio (x)	1.9	2.0	2.0	2.1	2.1
Op. cash flow (RMm)	-860.4	-287.3	-197.7	101.8	282.8
Free cashflow (RMm)	-963.7	-557.0	-317.7	1.8	182.8
FCF/share (sen)	-210.4	-70.2	-31.3	0.2	14.5

### Asset management

Debtors turnover (days)	152.3	83.7	120.0	120.0	120.0
Stock turnover (days)	25.1	23.3	23.3	23.3	23.3
Creditors turnover (days)	302.2	242.3	272.3	272.3	272.3

### Capital structure

Net gearing (%)	83.9	77.1	59.9	50.8	38.0
Interest cover (x)	7.7	4.5	5.5	5.5	5.9

### Quarterly Profit & Loss

FYE 31 Dec (RMm)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Revenue	161.1	234.1	305.3	362.1	363.4
Operating expenses	-129.2	-174.6	-223.4	-300.1	-290.8
EBIT	31.9	59.5	81.9	62.0	72.6
Net int income/(expense)	-7.3	-12.7	-15.4	-13.6	-25.4
Associates' contribution	1.5	1.4	1.2	1.8	2.2
Exceptional Items	54.0	12.6	-0.9	12.1	0.0
Pretax profit	80.1	60.8	66.8	62.3	49.3
Tax	-21.2	1.0	-24.5	-15.6	-19.7
Minority interest	-1.1	-1.6	1.5	-8.4	-5.9
Net profit	57.8	60.2	43.8	38.3	23.7
Core net profit	12.9	30.9	44.5	29.3	23.7

### Margins (%)

EBIT	19.8%	25.4%	26.8%	17.1%	20.0%
PBT	49.7%	26.0%	21.9%	17.2%	13.6%
Net profit	35.9%	25.7%	14.4%	10.6%	6.5%

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	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
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	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
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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