

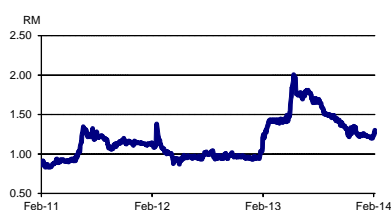
Results Note

Tropicana

TRCB MK
RM1.30

BUY (maintain)

Price Target: RM1.64 (↑)



Price Performance

	1M	3M	12M
Absolute	+5.7%	-1.5%	0.0%
Rel to KLCI	+5.0%	-3.3%	-11.7%

Stock Data

Issued shares (m)	1,084.4
Mkt cap (RMm)	1,409.7
Avg daily vol - 6mth (m)	1.50
52-wk range (RM)	1.19-2.20
Est free float	36.8%
BV/share (RM)	2.32
P/BV (x)	0.6
Net cash/(debt) (RMm)(4Q13)	(1,420.3)
ROE (FY14E)	7.4%
Derivatives	
Warr 2019 (WP: RM0.595, SP: RM1.00)	

Key Shareholders

Tan Sri Dato' Danny Tan	63.2%
-------------------------	-------

Earnings & Valuation Revisions

	14E	15E	16E
Prev EPS (sen)	18.2	16.2	-
Curr EPS (sen)	18.1	16.1	18.8
Chg (%)	-0.6	-0.5	-
Prev target price (RM)	1.60		
Curr target price (RM)	1.64		

Isaac Chow
(603) 2145 0412
cschow@affininvestmentbank.com.my

Earnings below expectation; asset monetisation remains the key re-rating catalysts

Stronger FY13 core net profit of RM177m but short of our expectations

Tropicana reported a stronger FY13 core net profit of RM177m (+168% 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 headline FY13 net profit was higher at RM362.3m (+112% yoy), boosted by RM218m in exceptional gains arising from fair value adjustment of investment properties and re-measurement of an associate. Notwithstanding the strong core net profit growth, results are 13% short of our expectations due to lower-than-expected gains from disposal of development land. The headline net profit is however above consensus forecast due to high fair value gains. Tropicana has yet to finalise the amount (if any) of the second interim or final dividend. Tropicana has declared a 4.5 sen first interim dividend (less 25% tax) and management has earlier guided on their intentions to pay up to 40% of core net profit per annum (FY12 dividend per share was 6.4 sen less 25%).

4Q13 core net profit is higher due to gains from land disposal

Sequentially, Tropicana reported a stronger 4Q13 core net profit of RM79.6m (+236% qoq) on higher gains from land disposal. Meanwhile, headline net profit grew by over 10 fold to RM256.5m (from RM23.7m) due to a RM206m one-off gain from fair value adjustments.

Record property sales of RM2.2bn in FY13, RM339m land sales in FY13

Tropicana achieved impressive property sales of RM2.2bn in FY13 (vs RM1bn in full year FY12). As at end-December 2013, Tropicana's unbilled sales remained strong at RM2.2bn. For FY14, Tropicana plans to launch up to RM3.2bn worth of properties with a sales target of RM2bn. In view of the current weak property market environment, we have imputed a more conservative property sales forecast of RM1.2-1.3bn. On its ongoing de-gearing initiatives, Tropicana has disposed RM339m worth of land bank in FY13. Management has also signed two SPAs to dispose another two pieces of land bank worth RM167m.

Maintain BUY, asset monetisation is key to share price re-rating

We tweaked our FY14-15 EPS by -0.5% to -0.6% after updating for the full year financial statements. No change to our key earnings assumptions for FY14-15 as the disappointment in 4Q13 results is largely due to weaker-than-expected gains on land disposal, which are lumpy in nature. We also tweaked our RNAV estimate (partly to account for the strong fair value gains) and raised our TP to RM1.64 (from RM1.60) based on an unchanged 55% discount to RNAV. We continue to like Tropicana for its attractive valuation of 7.2x CY14 PER and 0.4x P/RNAV.

Earnings & Valuation Summary

FYE Dec (RMm)	2012	2013	2014E	2015E	2016E
Revenue	630.4	1475.5	1267.7	1266.0	1456.3
EBITDA	143.5	304.6	324.1	319.4	387.4
Pretax profit	224.9	503.6	284.2	283.9	358.6
Net profit	171.1	362.3	195.0	193.5	254.8
EPS (sen)	32.5	35.2	18.1	16.1	18.8
PER (x)	4.0	3.7	7.2	8.1	6.9
Core net profit	66.0	177.0	195.0	193.5	254.8
Core EPS (sen)	12.5	17.2	18.1	16.1	18.8
Core EPS chg (%)	-9.3	37.3	5.2	-10.9	16.4
Core PER (x)	10.4	7.6	7.2	8.1	6.9
DPS (sen)	4.8	3.4	7.2	6.5	7.5
Dividend Yield (%)	3.7	2.6	5.6	5.0	5.8
EV/EBITDA (x)	16.0	9.1	8.9	8.7	7.5
Consensus profit	-	-	192.8	221.0	-
Affin/Consensus (x)	-	-	1.0	0.9	-

Asset monetisation remains the key re-rating catalysts

Key re-rating catalysts are stronger-than-expected earnings and timely execution of its de-gearing initiatives - management has identified possible assets disposal worth RM2.2bn 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)	4QFY12	3QFY13	4QFY13	QoQ % chg	YoY % chg	Comment
Revenue	234.1	363.4	444.7	22.4	90.0	
Op costs	(174.6)	(290.8)	(306.8)	(5.5)	>(100)	
EBIT	59.5	72.6	137.9	90.0	131.9	Higher EBIT qoq due to higher gains from disposal of property development land.
EBIT margin (%)	25.4	20.0	31.0	nm	nm	
Int expense	(13.9)	(27.7)	(18.2)	34.1	(31.6)	
Int and other inc	1.1	2.2	3.8	71.2	>100	
Associates	1.4	2.2	78.5	>100	>100	JCE booked in fair value gains on adjustment of investment propertiess.
Exceptional gain/losses	12.6	0.0	123.1	>100	nm	Exceptional gains are mainly attributable to gains from fair value adjustment of investment properties and re-measurement of an associate.
Pretax	60.8	49.3	325.2	>100	>100	
Tax	1.0	(19.7)	(65.4)	>(100)	>(100)	
Tax rate (%)	(1.6)	39.9	20.1	nm	nm	
MI	(1.6)	(5.9)	(3.3)	44.9	>(100)	
Net profit	60.2	23.7	256.5	>100	>100	
EPS (sen)	8.3	2.2	23.2	>100	>100	
Core net profit	30.9	23.7	79.6	>100	>100	

Fig 2: Cumulative results comparison

FYE 31 Dec (RMm)	FY12	FY13	YTD % chg	Comment
Revenue	630.4	1,475.5	>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	(486.9)	(1,121.0)	>(100)	
EBIT	143.5	354.5	>100	
EBIT margin (%)	22.8	24.0	nm	
Int expense	(31.6)	(77.9)	>(100)	Higher interest expenses due to higher borrowings.
Int and other inc	4.3	9.1	>100	
Associates	2.1	83.7	>100	JCE booked in fair value gains on adjustment of investment propertiess.
Exceptional gain/losses	106.7	134.3	nm	Exceptional gains are mainly attributable to gains from fair value adjustment of investment properties and re-measurement of an associate.
Pretax	224.9	503.6	>100	
Tax	(44.4)	(125.3)	>(100)	
Tax rate (%)	19.7	24.9	nm	
MI	(9.5)	(16.1)	(69.6)	
Net profit	171.1	362.3	>100	Above consensus forecast due to gains from fair value adjustment.
EPS (sen)	32.5	34.3	5.6	
Core net profit	66.0	177.0	>100	Below our expectations.

Fig 3: Tropicana's RNAV per share

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)	
Central						
Tropicana Gardens	Leasehold	18	2,043	70%	175	
Tropicana Metropark	Freehold	89	6,800	100%	377	
Tropicana Heights	Freehold	199	1,726	100%	139	
W KL Hotel & Residences	Freehold	1	1,150	100%	52	
Canal City	Leasehold	1,172	21,859	100%	559	
Others (Klang Valley)	Mixed	15	1,705	100%	143	
Southern						
Tropicana Danga Bay	Freehold	37	7,189	60%	217	
Tropicana Danga Cove	Freehold	227	12,007	50%	291	
Tropicana City Centre	Freehold	22	3,602	100%	129	
Tropicana Danga Lagoon	Mixed	62	2,500	100%	128	
TDB Hotel & Residences	Freehold	6	1,336	60%	49	
Tropicana Gelang Patah	Freehold	257	6,440	100%	-	
Senibong Land	Leasehold	60	3,670	70%	-	
Northern						
Penang World City	Freehold	103	9,466	55%	315	
Tropicana 218 MacAlister	Freehold	2	314	100%	38	
Subtotal		2,268	81,807		2,611	
Unbilled sales					210	
Investment properties			Net BV (RMm)	Market Value (RMm)	Equity Interest	Surplus (RMm)
Tropicana City Mall and Office Tower			503	509	100%	5
Total						2,826
Shareholders' fund (as at Dec 31, 2013)						2,570
Add: cash from warrants conversion						154
Add: valuation surplus						2,826
RNAV (RMm)						5,550
Share outstanding (as at Dec 31, 2013)						1,084
Add: warrants and RCULS conversions						440
Enlarged share base (m)						1,524
Fully diluted RNAV per share (RM)						3.64
Target price based on 55% discount to RNAV per share (RM)						1.64

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

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such, Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinions presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its affiliates and related companies, their directors, associates, connected parties and/or employees be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities.

Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. Further, Affin Investment Bank, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this research report and may from time to time assume an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entities mentioned in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence, an independent evaluation is essential. In addition, this report is general in nature and it is intended for circulation for Affin Investment Bank and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situations and the particular needs of any specific person who may receive this report. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Simulations or model portfolio are prepared on a hypothetical basis and are for illustrations only.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, transmitted to, photocopied or reproduced in any form - sold or redistributed, directly or indirectly in whole or in part without the prior written express consent of Affin Investment Bank.

This report is printed and published by:
Affin Investment Bank Bhd (9999-V)
 A Participating Organisation of Bursa Malaysia Securities Bhd
 Chulan Tower Branch,
 3rd Floor, Chulan Tower,
 No 3, Jalan Conlay,
 50450 Kuala Lumpur.

www.affininvestmentbank.com.my
 Email: research@affininvestmentbank.com.my
 Tel : + 603 2143 8668
 Fax : + 603 2145 3005