

# Tropicana

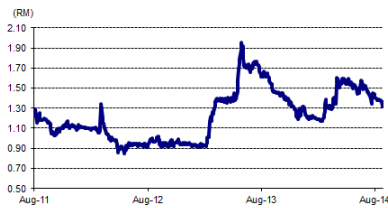
Sector: Property

TRCB MK

RM1.36 @ 28 August 2014

BUY (maintain)

Price Target: RM1.83 (↔)



## Price Performance

	1M	3M	12M
Absolute	-5.6%	-11.1%	-17.6%
Rel to KLCI	-5.5%	-11.3%	-25.9%

## Stock Data

Issued shares (m)	1,369.9
Mkt cap (RMm)/(US\$m)	1,863/592
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	1.19-1.69
Est free float	30%
BV per share (RM)	1.92
P/BV (x)	0.7
Net cash/ (debt) (RMm) (2Q14)	(1,611.5)
ROE (2014F)	11.7%
Derivatives	
Warr 2019 (WP: RM0.61, SP: RM1.00)	
Shariah Compliant	Yes

## Key Shareholders

Tan Sri Dato' Danny Tan	69.5%
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## Earnings & Valuation Revisions

	14E	15E	16E
Prev EPS (sen)	22.5	20.1	16.9
Curr EPS (sen)	22.5	20.1	16.9
Chg (%)	-	-	-
Prev target price (RM)			1.83
Curr target price (RM)			1.83

Source: Affin, Bloomberg

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## Results inline, land sales to boost 2H14 earnings

### 1H14 core net profit of RM97m (+32% yoy), within our expectations

Tropicana's 1H14 core net profit grew by 32% yoy to RM97.3m on higher earnings from the property development business and larger gains from land disposal. Notwithstanding a lower property development revenue (-19.6% yoy), the group's adjusted 1H14 property development EBIT grew by 16.5% yoy to RM71.1m on higher margins recognised from its ongoing property projects. Tropicana booked in RM58.6m gain from disposal of land in Jalan Ampang and Jalan Kia Peng. Overall, the results are broadly within our expectations but ahead of consensus forecast. While the 1H14 earnings only accounts for 31% of our full year earnings forecast (46% of consensus), we expect higher property development profit and gain from disposal of Canal City land to Eco World (estimated gain is RM170m) to lift 2H14 earnings.

### 2Q14 earnings is sequentially stronger

Sequentially, the group's 2Q14 core net profit increased by 10 fold to RM89.5m on higher property development profit and RM58.6m gain from disposal of land.

### RM935m property sales in 1H14

Tropicana booked in a strong RM935m property sales in 1H14 (vs FY13 full year property sales of RM2.2bn). Key contributors to the strong 1H14 sales are Tropicana Heights (RM206m), Tropicana Metropark (RM185m), Tropicana Danga Bay (RM172m) and 218 Macalister (RM127m). Tropicana has a record unbilled sales of RM2.7bn as at 30 June 2014. The group has signed SPAs for 3 ongoing land disposals, pending completion. The sales of these land - Canal City land, Jalan Bukit Bintang land and Kota Kinabalu land may raise up to RM951m of gross proceeds and contribute RM316m of net gain upon completion of the transactions in end-2014 / 1H 2015.

### Maintain BUY with an unchanged TP of RM1.83

We maintain our earnings forecast, **BUY** rating and TP of RM1.83 based on a 50% discount to RNAV per share. We continue to like Tropicana for its strategic land bank, undemanding valuation and its ongoing asset monetisation and de-gearing exercise. Key risks to our positive view on Tropicana include: (i) acquisition of sizeable land bank that will stretch its balance sheet; (ii) a sharper-than-expected slowdown in domestic property market; (iii) execution risk; and (iv) delays/ hiccups in its asset monetisation and de-gearing exercise (ie. possible delay in completion of Canal City land sales to Eco World).

## Earnings & Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	630.4	1475.5	1267.7	1266.0	1456.3
EBITDA (RMm)	143.5	304.6	493.7	419.4	364.6
Pretax profit (RMm)	224.9	503.6	441.5	383.6	337.0
Net profit (RMm)	171.1	362.3	312.0	288.1	242.4
EPS (sen)	32.5	35.2	22.5	20.1	16.9
PER (x)	4.2	3.9	6.0	6.8	8.1
Core net profit (RMm)	66.0	177.0	312.0	288.1	242.4
Core EPS (sen)	12.5	17.2	22.5	20.1	16.9
Core EPS growth (%)	-9.3	37.3	30.9	-10.9	-15.8
Core PER (x)	10.9	7.9	6.0	6.8	8.1
Net DPS (sen)	4.8	7.4	7.0	7.0	7.5
Dividend Yield (%)	3.5	5.4	5.1	5.1	5.5
EV/EBITDA (x)	16.3	9.3	7.0	8.1	9.2
Consensus profit (RMm)	-	-	212.8	217.3	210.0
Affin/Consensus (x)	-	-	1.5	1.3	1.2

Source: Affin estimates, Bloomberg

**Fig 1: Quarterly results comparison**

FYE 31 Dec (RMm)	2Q13	1Q14	2Q14	QoQ % chg	YoY % chg	Comment
Revenue	362.1	299.1	355.9	19.0	(1.7)	Higher qoq driven by higher contribution from property development business (+24.4% qoq).
Op costs	(300.1)	(257.9)	(234.9)	(8.9)	(21.7)	
EBIT	62.0	41.2	121.0	>100	95.1	Higher qoq driven by higher property development earnings and RM58.6m gain from disposal of land.
<i>EBIT margin (%)</i>	<i>17.1</i>	<i>13.8</i>	<i>34.0</i>	<i>+20.2 ppt</i>	<i>+16.9 ppt</i>	
Int expense	(15.6)	(19.5)	(15.6)	(19.8)	0.6	
Int and other inc	1.9	2.2	2.1	(4.2)	10.1	
Associates	1.8	0.9	13.5	>100	>100	
Exceptional gain/losses	12.1	0.0	0.0	nm	nm	
<b>Pretax</b>	<b>62.3</b>	<b>24.8</b>	<b>121.0</b>	<b>&gt;100</b>	<b>94.1</b>	
Tax	(15.6)	(5.2)	(15.9)	>100	1.5	
<i>Tax rate (%)</i>	<i>25.1</i>	<i>20.8</i>	<i>13.1</i>	<i>-7.7 ppt</i>	<i>-11.9 ppt</i>	Lower than the statutory tax rate because RM58.6m gain from disposal of land attracted lower tax rate of zero to 5%.
MI	(8.4)	(11.8)	(15.7)	32.3	86.7	
<b>Net profit</b>	<b>38.3</b>	<b>7.8</b>	<b>89.5</b>	<b>&gt;100</b>	<b>&gt;100</b>	
EPS (sen)	4.3	0.7	6.4	>100	49.2	
<b>Core net profit</b>	<b>29.3</b>	<b>7.8</b>	<b>89.5</b>	<b>&gt;100</b>	<b>&gt;100</b>	

Source: Company, Affin

**Fig 2: Cumulative results comparison**

FYE 31 Dec (RMm)	1H13	1H14	YoY % chg	Comment
Revenue	667.4	655.0	(1.9)	Lower yoy due to lower sales of completed / near completion properties, partly cushioned by higher revenue from investment holding following the consolidation of Tenaga Kimia S/B as a subsidiary effective May 2013.
Op costs	(524.3)	(492.8)	(6.0)	
EBIT	143.0	162.2	13.4	1H14 EBIT is partly boosted by RM58.6m gain on disposal of land (vs RM60.4m gains from land sales in 1H13).
<i>EBIT margin (%)</i>	<i>21.4</i>	<i>24.8</i>	<i>+3.4 ppt</i>	
Int expense	(32.1)	(35.1)	9.6	
Int and other inc	3.0	4.3	43.9	
Associates	3.0	14.4	>100	
Exceptional gain/losses	12.1	0.0	>(100)	
<b>Pretax</b>	<b>129.1</b>	<b>145.8</b>	<b>12.9</b>	
Tax	(40.1)	(21.0)	(47.6)	
<i>Tax rate (%)</i>	<i>31.1</i>	<i>14.4</i>	<i>-16.7 ppt</i>	Lower than the statutory tax rate because RM58.6m gain from disposal of land attracted lower tax rate of zero to 5%.
MI	(6.8)	(27.5)	>100	
<b>Net profit</b>	<b>82.1</b>	<b>97.3</b>	<b>18.4</b>	
EPS (sen)	9.7	7.5	(22.8)	
<b>Core net profit</b>	<b>73.7</b>	<b>97.3</b>	<b>32.0</b>	Broadly within our expectations.

Source: Company, Affin

**Fig 3: Segmental results**

	2Q13	1Q14	2Q14	QoQ Chg (%)	YoY Chg (%)	1H13	1H14	YoY Chg (%)
<b>Revenue (RMm)</b>								
Property Development	312.4	208.6	259.5	24.4	(16.9)	582.5	468.1	(19.6)
Property Inv. & Resort	33.9	39.2	32.8	(16.5)	(3.3)	69.0	72.0	4.3
Inv. Holdings & Others	15.8	51.4	63.6	23.8	>100	15.8	115.0	>100
<b>Total revenue</b>	<b>362.1</b>	<b>299.1</b>	<b>355.9</b>	<b>19.0</b>	<b>(1.7)</b>	<b>667.4</b>	<b>655.0</b>	<b>(1.9)</b>
<b>EBIT (RMm)</b>								
Property Development	51.2	18.4	52.8	>100	3.0	121.5	71.1	(41.4)
Property Inv. & Resort	26.3	21.1	68.4	>100	>100	42.2	89.5	>100
Inv. Holdings & Others	(3.4)	1.8	(0.2)	>(100)	(93.3)	(8.5)	1.6	>100
<b>Total EBIT</b>	<b>74.1</b>	<b>41.2</b>	<b>121.0</b>	<b>&gt;100</b>	<b>63.3</b>	<b>155.1</b>	<b>162.2</b>	<b>4.5</b>
<b>Adjusted EBIT*</b>								
Property Development	48.9	18.4	52.8	>100	7.9	61.1	71.1	16.5
Property Inv. & Resort	14.2	21.1	9.8	(53.3)	(30.6)	30.1	30.9	2.8
Inv. Holdings & Others	(3.4)	1.8	(0.2)	>(100)	(93.3)	(8.5)	1.6	>100
<b>Total adjusted EBIT*</b>	<b>59.7</b>	<b>41.2</b>	<b>62.4</b>	<b>51.5</b>	<b>4.5</b>	<b>82.6</b>	<b>103.6</b>	<b>25.4</b>
<b>Adjusted EBIT margin*</b>								
				<b>Qoq chg (ppt)</b>	<b>YoY Chg (ppt)</b>			<b>YoY Chg (ppt)</b>
Property Development	15.7%	8.8%	20.3%	11.5%	4.7%	10.5%	15.2%	4.7%
Property Inv. & Resort	41.8%	53.7%	30.0%	-23.7%	-11.8%	43.6%	42.9%	-0.6%
Inv. Holdings & Others	-21.4%	3.5%	-0.4%	-3.8%	21.0%	-53.6%	1.4%	54.9%
<b>Total adjusted margin*</b>	<b>16.5%</b>	<b>13.8%</b>	<b>17.5%</b>	<b>3.8%</b>	<b>1.0%</b>	<b>12.4%</b>	<b>15.8%</b>	<b>3.4%</b>

\* Excluding gains / (loss) from land sales and fair value adjustments

Source: Company, Affin

**Fig 4: Tropicana's RNAV**

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
<b>Central</b>					
Tropicana Gardens	Leasehold	18	2,043	70%	140
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
Tropicana Aman (Canal City)	Leasehold	440	13,000	100%	508
Others (Klang Valley)	Mixed	15	1,705	100%	143
<b>Southern</b>					
Tropicana Danga Bay	Freehold	37	7,189	60%	195
Tropicana Danga Cove	Freehold	227	12,007	50%	271
Tropicana City Centre	Freehold	22	3,602	100%	120
Tropicana Danga Lagoon	Mixed	62	2,500	100%	120
TDB Hotel & Residences	Freehold	6	1,336	60%	49
Tropicana Gelang Patah	Freehold	257	6,440	100%	-
Senibong Land	Leasehold	60	3,670	70%	-
<b>Northern</b>					
Penang World City	Freehold	103	9,466	55%	315
Tropicana 218 MacAlister	Freehold	2	314	100%	38
<b>Subtotal</b>		<b>1,536</b>	<b>72,948</b>		<b>2,467</b>
Unbilled sales					<b>210</b>
<b>Investment properties</b>		<b>Net BV</b>	<b>Market Value</b>	<b>Equity</b>	<b>Surplus</b>
		<b>(RMm)</b>	<b>(RMm)</b>	<b>Interest</b>	<b>(RMm)</b>
Tropicana City Mall and Office Tower		503	509	100%	5
<b>Total</b>					<b>2,682</b>
Shareholders' fund (as at Dec 31, 2013)					2,570
Add: cash from w arrants conversion					154
Add: net gain from disposal of Kia Peng, Canal City and Bukit Bintang land					357
Add: valuation surplus					2,682
RNAV (RMm)					5,763
Share outstanding (as at March 19, 2014)					1,366
Add: w arrants and RCULS conversions					205
Enlarged share base (m)					1,570
Fully diluted RNAV per share (RM)					3.67
<b>Target price based on 50% discount to RNAV per share (RM)</b>					<b>1.83</b>

Source: Company, Affin

**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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