

9M14 property sales reached RM1.15bn

Tropicana's 9M14 core earnings (+19.8% yoy) came within our and street estimates. Strong YTD earnings were underpinned by gain from land sale, as well as lower interest expense. No change to earnings forecast as we expect the disposal of Canal City land to come through in 4Q14. Maintain BUY with a TP of RM1.83.

9M14 core earnings came in within our expectation

Tropicana reported a 9M14 core earnings of RM126.8m (+19.8% yoy), despite a softer revenue of RM1bn (-2.2% yoy). Earnings were lifted by lower interest expenses (-10.4% yoy to RM54m) as well as gain on disposal of investment properties (RM64m). Although 9M14 earnings only accounted for 41% of our 2014 forecast (60% of consensus), we deem it to be within expectation as we expect the gain from disposal of Canal City land to Eco World (estimated at RM170m) to be completed in 4Q14. No dividend was declared during the quarter.

3Q14 earnings up 22% yoy but down qoq on land disposal in 2Q14

On qoq, 3Q14 core net profit fell 67% to RM29m (+22% yoy) due to gain from property disposal (RM59m) that was recognised in 2Q14. Consequently, EBIT margin fell 15.2%-pts to 18.8%.

9M14 property sales reached up to RM1.15bn

For the 9M14, Tropicana achieved RM1.15bn of property sales (Central 55%, Southern 25%) and on track to meet our 2014 target sales of RM1.5bn. The sales were generated from various projects including Tropicana Metropark (22%), Tropicana Heights (19%), Danga Bay (18%) and 218 Macalister (13%). Total unbilled sales stood at RM2.7bn as at end-Sept 2014 provides good earnings visibility for the next two years. Of this, 56% are from the central region, 25% from Northern region and 18% from Southern region.

Maintain BUY with an unchanged TP of RM1.83

No change to our BUY rating and 12-month TP of RM1.83 (based on 50% discount to RNAV). We continue to like Tropicana for its strategic land bank, undemanding valuation and its ongoing asset monetisation exercise. Risk to recommendation include; i) sharper-than- expected slowdown in the domestic property market and ii) delays or hiccups in its asset monetisation exercise.

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	318.1	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)	3.8	3.5	5.5	6.1	7.3
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)	9.8	7.1	5.5	6.1	7.3
Net DPS (sen)	4.8	7.4	7.0	7.0	7.5
Dividend Yield (%)	3.9	6.0	5.7	5.7	6.1
EV/EBITDA (x)	15.8	8.4	6.7	7.7	8.6
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.4	1.3	1.2

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Tropicana

TRCB MK
Sector: Property

RM1.23 @ 25 Nov 2014

BUY (maintain)

Upside 49%

Price Target: RM1.83

Previous Target: RM1.83



Price Performance

	1M	3M	12M
Absolute	-6.8%	-9.6%	-2.4%
Rel to KLCI	-7.2%	-7.5%	-4.1%

Stock Data

Issued shares (m)	1,372.8
Mkt cap (RMm)/(US\$m)	1,688/504.4
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	1.16-1.66
Est free float	27%
BV per share (RM)	1.95
P/BV (x)	0.63
Net cash/ (debt) (RMm) (3Q14)	(1,940)
ROE (2014F)	11.7%
Derivatives	Yes
Warr 2019 (SP:RM1.00)	
Shariah Compliant	Yes

Key Shareholders

Tan Sri Danny Tan	69.5%
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Source: Affin Hwang, Bloomberg

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Out think. Out perform.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q14	QoQ % chg	YoY % chg	9M14	YoY % chg	Comment
Revenue	353.1	(0.8)	(2.9)	1,008.1	(2.2)	Drop in property sales - mainly due to softening of Johor region
Op costs	(286.6)	22.0	(1.5)	(779.4)	(2.9)	
EBIT	66.5	(45.1)	(8.5)	228.7	0.4	Gain from land sale lifted EBIT in 2Q14
<i>EBIT margin (%)</i>	18.8	-15.2%-pts	-1.2%-pts	22.7	-0.4%-pts	Relatively stable in 9M14
Int expense	(18.4)	17.9	(33.5)	(53.5)	(10.4)	Total borrowings stood at RM2.4bn (+25% yoy) Cash balance of RM466m
Int and other income	2.4	14.0	7.1	6.7	28.2	
Associates	0.5	(96.4)	(77.5)	14.9	191.5	
EI	0.0	nm	nm	0.0	nm	
Pretax profit	50.9	(57.9)	3.2	196.8	10.2	
Core pretax	50.9	(57.9)	3.2	196.8	10.2	
Tax	(13.4)	(16.0)	(32.1)	(34.4)	(42.5)	
<i>Tax rate (%)</i>	26.2	+13.2%-pts	-13.7%-pts	17.5	-16.0%-pts	Recognition of deferred tax assets
MI	(8.6)	(45.1)	44.6	(35.6)	178.2	Attributed by Penang World City
Net profit	29.0	(67.6)	22.2	126.8	19.8	Lifted by lower effective tax rate
EPS (sen)	2.1	(67.0)	(3.6)	9.6	(16.3)	
Core net profit	29.0	(67.6)	22.2	126.8	19.8	Accounts for 42% of our full year estimate and 60% of consensus

Source: Affin Hwang, Company data

Out think. Out perform.

Fig 2: Tropicana RNAV

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)	Land Cost (RMm)
Central						
Tropicana Gardens	Leasehold	18	2,043	70%	140	4.2
Tropicana Metropark	Freehold	89	6,800	100%	377	385.5
Tropicana Heights	Freehold	199	1,726	100%	139	228.0
W KL Hotel & Residences	Freehold	1	1,150	100%	52	123.0
Tropicana Aman (Canal City)	Leasehold	440	13,000	100%	508	1,297.3
Others (Klang Valley)	Mixed	15	1,705	100%	143	174.6
Southern						
Tropicana Danga Bay	Freehold	37	7,189	60%	195	308.5
Tropicana Danga Cove	Freehold	227	12,007	50%	271	220.0
Tropicana City Centre	Freehold	22	3,602	100%	120	133.4
Tropicana Danga Lagoon	Mixed	62	2,500	100%	120	130.6
TDB Hotel & Residences	Freehold	6	1,336	60%	49	85.9
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	1,072.2
Tropicana 218 MacAlister	Freehold	2	314	100%	38	41.5
Subtotal		1,536	72,948		2,467	4,205
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					2,682	
Shareholders' fund (as at Dec 31, 2013)					2,570	
Add: cash from warrants 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: warrants and RCULS conversions					205	
Enlarged share base (m)					1,570	
Fully diluted RNAV per share (RM)					3.67	
Target price based on 50% discount to RNAV per share (RM)					1.83	

Source: Affin Hwang

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 Hwang Investment Bank Berhad 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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