

27 January 2015

# TROPICANA BERHAD

## Unloading Tropicana City Mall

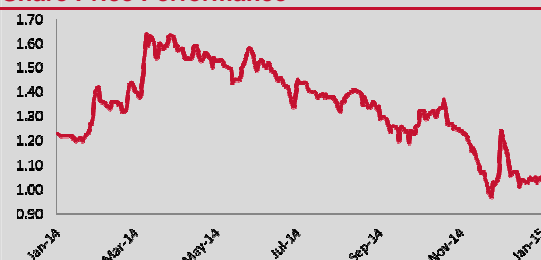
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- News**
- Yesterday, Tropicana Berhad (TROP) announced that they had entered into a conditional sale and purchase agreement with AMT, acting solely as trustee for CMMT, for the disposal of the Tropicana City Mall (TCM) for a total disposal consideration of RM540.0m.
- Comments**
- While we were not surprised by the disposal of their non-core assets like investment properties, which we have highlighted in our previous report dated 28-Nov-14, we were surprised by the sale of TCM to CMMT as the last attempt fell through back in 29-Oct-13. This is part of TROP's de-gearing exercise.
  - TROP is expected to register a one-off income statement net FV gain of RM13.5m from the disposal. However, the actual gain from investment cost amounted to RM223.6m. While there will be a loss in recurring income stream (estimated FY15E RM27.6m EBIT assuming 71% margin), the impact will be cushioned by interest savings (RM23.5m p.a.) as TCM-related debt would be settled.
  - Upon completion of the disposal of TCM for the total disposal consideration of RM540.0m, TROP is expected to utilise RM460.0m to repay bank borrowings immediately while the remaining RM80.0m utilised as working capital and disposal expenses. Its net gearing (as of 9M14) of 0.72x is expected to come down to 0.52x. On this front, we are also unlikely to see special dividends arising from the disposal.
  - While there is no major earnings impact from this sale, we are glad to see that net gearing has been pared down to more manageable levels. We hope to see debts being pare down further given the challenging property market outlook.
- Outlook**
- The disposal of Tropicana City Mall is expected to be completed closer to 3Q15. That aside, we are banking on TROP to be able to recognise gains on its Tropicana Aman land sale (to ECOWLD) in the upcoming 4Q14 results; failure to do so would result in further deferment to 1Q15 whereby its gains can only be recognised in FY15.
- Forecast**
- Our FY15E core net profit was not materially affected after taking into account: (i) lower FY15E revenue by 1.8% due to the loss of income from TCM, (ii) reduced finance cost by 33.0%. However, our FY15E earnings estimate was raised by 7.0% to account for the income statement disposal gain which we regard as non-core.
- Rating**      **Maintain MARKET PERFORM**
- Valuation**
- We reiterate our MARKET PERFORM call on TROP with an unchanged Target Price of RM1.15 based on 71.0% discount (one of the steepest discounts applied under our coverage) to its FD RNAV of RM3.89, due to its large risk exposure in Johor, larger higher-end high-rise components in their developments and also tougher times ahead due to the implementation of GST and also tighter lending criteria imposed by banks.
- Risks to Our Call**
- Execution risks (i.e. shortage of labour). Later-than expected land sale recognition timeline.

## MARKET PERFORM ↔

**Price: RM1.04**  
**Target Price: RM1.15** ↔

### Share Price Performance



KLCI	1,796.44
YTD KLCI chg	2.0%
YTD stock price chg	-1.9%

### Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,428.4
Issued shares	1,373.5
52-week range (H)	1.66
52-week range (L)	0.95
3-mth avg daily vol:	1,192,889
Free Float	41%
Beta	1.1

### Major Shareholders

CHEE SING TAN	29.2%
ALIRAN FIRASAT	17.5%
GOLDEN DIVERSITY	12.1%

### Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	1,476	1,976	1,818
EBIT	489	432	372
PBT	495	360	325
<b>Net Profit</b>	<b>353</b>	<b>233</b>	<b>205</b>
<b>Core Net Profit (NP)</b>	<b>145</b>	<b>233</b>	<b>192</b>
Consensus (CNP)	n.a.	216	216
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	13.1	21.0	17.3
Core EPS growth (%)	146%	60%	-18%
NDPS (sen)	3.4	4.2	3.5
NTA/Share (RM)	2.25	2.68	2.83
PER (x)	7.9	4.9	6.0
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.55	0.52	0.43
Dividend Yield (%)	3.3%	4.0%	3.3%

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## RNAV

Projects	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm)	Est. Remaining Net Profit *** (RM'm)	WACC (%)	DCF Value (RM m)***
<b>Central Region</b>						
Tropicana Gardens	70%	7.0	2,043.0	173.4	11%	116.8
Tropicana Metropark	100%	18.0	6,335.0	768.3	11%	328.7
Tropicana Heights	100%	11.0	1,726.0	209.3	11%	118.1
The Residences	100%	4.0	1,150.0	139.5	11%	108.2
Tropicana Aman	100%	20.0	6,634.8	804.6	11%	320.4
Casa Damansara 3	100%	3.0	135.0	16.4	11%	13.3
Jln Bukit Bintang jv with Agile	30%	4.0	1,115.1	40.6	11%	31.5
Others	100%	4.0	430.0	52.1	11%	40.4
<b>Southern Region</b>						
Tropicana Danga Bay	60%	14.0	7,189.0	523.1	11%	260.9
Tropicana Danga Cove	50%	18.0	11,708.0	709.9	11%	303.8
Tropicana City Centre	100%	10.0	3,602.0	436.8	11%	257.3
Tropicana Danga Lagoon	100%	16.0	2,500.0	303.2	11%	145.9
TDB Hotel & Residences	60%	4.0	1,336.0	97.2	11%	75.4
Tropicana Gelang Patah	100%	12.0	6,440.0	781.0	11%	422.6
Senibong Waterfront	70%	12.0	3,670.0	311.6	11%	168.6
<b>Northern Region</b>						
Penang World City	55%	18.0	9,466.0	631.4	11%	270.2
Tropicana 218 Macalister	100%	4.0	314.0	38.1	11%	29.5
<b>Unbilled Sales</b>						
Tropicana Gardens	70%	5.0	443.0	37.6	11%	27.8
Tropicana Metropark	100%	4.0	245.0	29.7	11%	23.0
Tropicana Cheras	100%	1.0	33.0	4.0	11%	3.6
Tropicana Grande	100%	1.0	65.0	7.9	11%	7.1
Tropicana Avenue	100%	4.0	340.0	41.2	11%	32.0
Others	100%	1.0	56.0	6.8	11%	6.1
Tropicana Danga Bay	60%	5.0	463.0	33.7	11%	24.9
Tropicana Danga Cove	50%	1.0	37.0	2.2	11%	2.0
Penang World City	55%	5.0	473.0	31.5	11%	23.3
Tropicana Landmark	100%	1.0	28.0	3.4	11%	3.1
				Market Value	Surplus/Deficit	
Other land banks				141.8	0.0	
Confirmed land sales				1,089.5	355.3	
Investment Properties				693.4	-540.0	
Gain on Sale of Investment Properties					540.0	
<b>Sub-Total</b>					<b>3,519.7</b>	
Shareholders fund as of Dec-13					2,570.0	
<b>RNAV</b>					<b>6,089.7</b>	
<b>Dilution Impact</b>					<b>292.6</b>	
FD RNAV per Share					3.89	
Diluted no. shares					1,641.5	
Applied discount					71%	
Target Price					1.15	

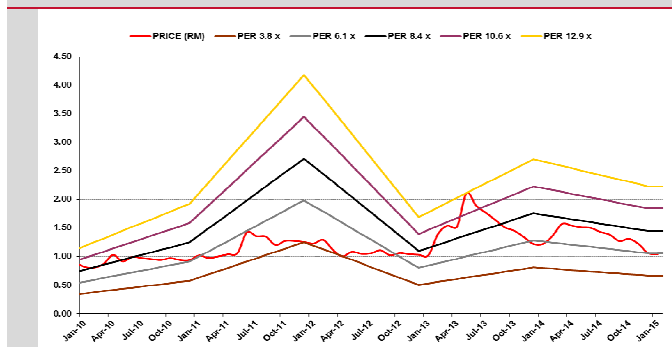
Source: Kenanga Research

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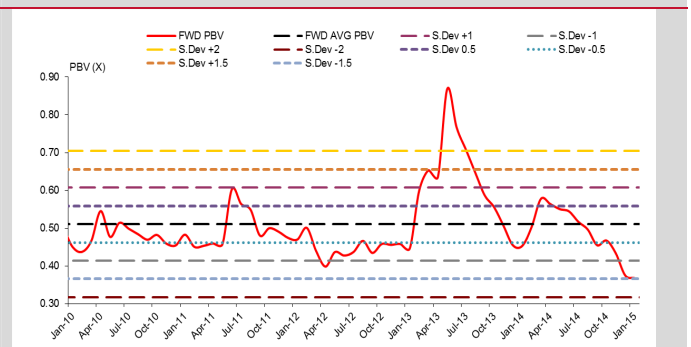
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	375.2	630.1	1475.5	1976.3	1818.0	<b>Growth (%)</b>					
EBITDA	118.0	263.4	511.5	453.1	392.4	Revenue	28.4	67.9	134.2	33.9	-8.0
Depreciation	-16.4	-17.3	-22.7	-20.8	-20.8	EBITDA	89.2	123.2	94.2	-11.4	-13.4
EBIT	101.6	246.1	488.8	432.3	371.6	EBIT	112.6	142.2	98.6	-11.6	-14.0
Interest Expense	-11.4	-31.7	-77.9	-72.1	-47.1	Pre-tax Income	99.5	127.9	124.9	-27.2	-9.9
Investing	5.3	4.2	9.1	0.0	0.0	Core Net Income	50.0	3.5	146.3	60.2	-17.5
Associate/JCE	6.3	5.5	83.7	0.0	0.0	<b>Profitability (%)</b>					
Exceptionals/FV	0.0	0.0	0.0	0.0	0.0	EBITDA Margin	31.5	41.8	34.7	22.9	21.6
PBT	96.5	219.9	494.6	360.1	324.5	EBIT Margin	27.1	39.1	33.1	21.9	20.4
Taxation	-14.6	-41.9	-125.3	-89.6	-80.7	PBT Margin	25.7	34.9	33.5	18.2	17.9
Minority Interest	-7.6	-9.5	-16.1	-37.8	-51.8	Core Net Margin	15.2	9.4	9.8	11.8	10.6
Net Profit	74.3	168.6	353.2	232.8	205.5	Effective Tax Rate	-14.7	-19.0	-24.9	-24.9	-24.9
Core net profit	57.0	59.0	145.3	232.8	192.0	ROE	7.7	10.9	15.3	8.3	6.6
						ROA	3.6	4.8	7.1	3.8	3.0
						<b>DuPont Analysis</b>					
						Net margin (%)	19.8	26.8	23.9	11.8	11.3
						Assets Turnover (x)	0.2	0.2	0.3	0.3	0.3
						Leverage Factor (x)	2.1	2.3	2.1	2.2	2.2
						ROE (%)	7.7	10.9	15.3	8.3	6.6
						<b>Leverage</b>					
						Debt/Asset (x)	0.14	0.39	0.41	0.35	0.28
						Debt/Equity (x)	0.95	0.91	0.75	0.62	0.59
						Net Debt/(Cash)	(0.0)	0.9	1.7	1.4	1.6
						Net Debt/Equity (x)	0.74	0.77	0.55	0.52	0.43
						<b>Valuations</b>					
						Core EPS (sen)	5.1	5.3	13.1	21.0	17.3
						Dil. EPS	5.9	13.3	27.8	14.7	11.6
						Core EPS (sen)	5.1	5.3	13.1	21.0	17.3
						Dil. Core EPS	4.5	4.6	11.4	14.7	10.9
						NDPS (sen)	0.9	4.8	3.4	4.2	3.5
						NTA/share (RM)	0.93	1.85	2.25	2.68	2.83
						Core PER (x)	20.2	19.5	7.9	4.9	6.0
						Dil. Core PER	23.2	22.4	9.1	7.1	9.6
						Net Div. Yield (%)	0.9%	4.6%	3.3%	4.0%	3.3%
						PNTA (x)	1.1	0.6	0.4	0.4	0.4
						EV/EBITDA (x)	17.1	10.6	5.0	6.1	6.4

Source: Kenanga Research

### Fwd Core PER Band



### Fwd PBV Band



Source: Bloomberg, Kenanga Research

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## Peer Comparison

NAME	Price (26/1/15)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)		(RMm)	FY13/14	FY14/15				FY15/16	(%)	(%)				
<b>DEVELOPERS UNDER COVERAGE</b>															
S P SETIA BHD*	3.47	8,812	24.4	19.3	17.2	2.9%	6.8%	1.3	361.0	457.0	510.9	26.6%	11.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.17	8,200	17.1	15.9	14.1	3.2%	4.3%	0.7	479.2	516.3	580.2	7.7%	12.4%	2.45	MARKET PERFORM
UEM SUNRISE BHD*	1.31	5,944	12.9	11.2	15.8	1.9%	10.2%	0.9	459.1	528.9	376.2	15.2%	-28.9%	1.60	MARKET PERFORM
SUNWAY BHD	3.31	5,701	11.8	10.6	10.5	3.0%	33.6%	1.0	482.7	540.1	542.6	11.9%	0.5%	3.65	OUTPERFORM
IJM LAND BHD*	3.53	5,503	16.4	16.4	15.6	1.7%	17.7%	1.6	335.2	336.0	352.1	0.2%	4.8%	3.55	ACCEPT OFFER
MAH SING GROUP BHD^	2.07	3,975	17.7	14.8	13.3	2.7%	17.6%	2.2	280.6	334.6	373.7	19.2%	11.7%	2.06	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.11	3,019	8.8	11.3	10.2	6.2%	16.0%	1.1	344.6	266.8	295.7	-22.6%	10.8%	2.00	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.30	2,323	-58.4	24.6	18.0	0.9%	-2.5%	1.4	-36.7	87.1	119.1	-337.1%	36.8%	1.27	MARKET PERFORM
TROPICANA CORP BHD	1.04	1,428	7.9	4.9	6.0	4.0%	15.3%	0.4	145.3	232.8	192.0	60.2%	-17.5%	1.15	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.73	1,250	8.1	7.4	6.5	6.1%	29.8%	1.9	152.9	167.2	190.2	9.4%	13.7%	3.05	OUTPERFORM
CRESCENDO CORPORATION BHD*	2.43	553	6.6	8.5	7.0	4.9%	18.4%	0.9	84.2	65.7	78.8	-21.9%	19.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.19	578	7.0	5.6	5.6	6.0%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	MARKET PERFORM
CREST BUILDER HOLDINGS BHD	1.22	200	6.1	18.9	12.0	1.3%	8.9%	0.5	32.7	10.6	16.7	-67.5%	57.6%	1.30	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>															
BERJAYA LAND BHD	0.80	3,992	121.2	n.a.	n.a.	n.a.	0.6%	0.8	32.9	n.a.	n.a.	n.a.	n.a.	0.93	SELL
IGB CORPORATION BHD	2.63	3,511	17.6	15.9	14.6	2.6%	4.7%	0.8	199.8	220.3	240.3	10.2%	9.1%	4.10	NEUTRAL
YNH PROPERTY BHD	1.96	805	16.5	12.3	10.6	2.7%	5.7%	0.9	48.8	65.7	76.0	34.7%	15.6%	1.88	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.84	697	31.9	n.a.	35.0	n.a.	2.4%	0.7	21.8	n.a.	19.9	n.a.	n.a.	n.a.	NEUTRAL
GLOMAC BHD	1.02	741	9.4	8.2	6.9	4.6%	8.9%	0.8	78.7	90.9	107.6	15.4%	18.4%	0.97	SELL
KSL HOLDINGS BHD	2.06	1,878	n.a.	n.a.	n.a.	5.8%	14.3%	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	2.57	BUY
PARAMOUNT CORP BHD	1.46	617	8.1	8.6	8.6	6.2%	8.6%	0.7	76.4	71.8	71.8	-6.0%	0.0%	1.54	NEUTRAL
IVORY PROPERTIES GROUP BHD	0.44	196	8.6	n.a.	n.a.	n.a.	6.0%	0.5	22.8	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	1.94	817	7.7	8.2	6.7	4.7%	30.2%	2.1	105.8	100.3	121.3	-5.2%	21.0%	2.09	BUY
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
^ Ex-rights only															
Source: Kenanga Research															



**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
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**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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