

UOBKH HIGHLIGHTS

Tropicana Corp (TRCB MK/HOLD/RM1.23/Target: RM1.58)

3Q14: Earnings In Line With Expectations

Year to 31 Dec	3Q14	2Q14	qoq	yoy	9M14	yoy	Year	EPS	PE
	(RMm)	(RMm)	% chg	% chg	(RMm)	% chg		(sen)	(x)
Revenue	353.1	355.9	-0.8	-2.9	1,008.1	-2.2	2014F	9.7	12.7
Property development & resort operations	250.2	259.5	-3.6	-7.0	718.3	-15.7	2015F	10.0	12.3
Property investment	36.7	32.8	12.2	-0.3	108.7	2.7	2016F	11.0	11.2
Operating profit	66.5	121.0	-45.1	-8.5	228.7	0.4			
Property development & resort operations	36.2	52.8	-31.4	-27.2	107.3	-37.3			
Property investment	21.8	68.4	-68.2	5.7	111.3	77.3			
Pretax profit	50.9	121.0	-57.9	3.2	196.8	10.2			
Net Profit	29.5	89.5	-67.0	24.5	126.8	19.8			
Core net profit	24.6	20.2	21.9	3.8	52.6	-30.7			
EBIT margin (%)	11.1	9.0			6.0				

Source: Tropicana Corp, UOB Kay Hian

RESULTS

- **Within expectations.** Tropicana Corp (Tropicana) reported 3Q14 revenue of RM353.1m (-0.8% qoq, -2.9% yoy) and net profit of RM29.5m (-67.0% qoq, +24.5% yoy), which included land sale gains of RM5m. Earnings fell qoq basis as more land sales were recognised in 2Q14. 9M14 net profit was RM126.8m, or 74.5% of our full-year estimate (which included 9M14 land sale gains of RM75m). Earnings were driven by construction progress at ongoing projects in Tropiaca Danga Bay, Tropicana Metropark and Tropicana Heights.
- **Net margin improved as a result of lower finance charges.** Net margin rose to 8.4% in 3Q14 (2Q14: 6.5%) as a result of lower finance charges, which came about after the company's move to capitalise interest expenses incurred based on progress billings of projects.

COMMENTS

- **Property sales of RM1.2b in 9M14.** Year-to-date, Tropicana managed to clinch about RM1.155b of property sales, or about 77% of its revised 2014 sales target of RM1.5b (from RM2b). Key drivers came from its high-rise mixed developments - Tropicana Metropark (GDV: RM830m; take-up: 75%) and Tropicana Danga Bay (GDV: RM1.2b; rake-up: 76%) in down south, landed development Tropicana Heights in Kajang (GDV: RM270m; rake-up: 81%) and Tropicana Cheras (GDV: RM240m; rake-up: 99%). Sales were underpinned by the successful aggressive marketing for these projects.
- **Strong unbilled sales of RM2.7b,** or 2.2x of its 2013 property revenue. Given the significant unbilled sales secured, we believe Tropicana can weather though the slowdown in the property market as earnings visibility is secured for the next three years. Margin-wise, we are expecting the company's gross property development margin at 18-20%. The outstanding unbilled sales are mainly from the Penang World City (RM524m), Tropicana Metropark (RM495m) and Tropicana Gardens (RM458m).
- **De-gearing initiatives ongoing but timing still uncertain.** Year-to-date, Tropicana managed to sell about RM996m (of which RM29m of revenue has been recognised) worth of lands, which included the recently sold 2.5-acre plot of land in Subang Jaya for RM38m. Also, we understand the company plans to dispose off another RM700m-800m worth of assets within the next 12 months. Net gearing rose to 0.72x (from 0.54x in 1Q14), mainly due to the drawdown of loans for the Gelang Patah land which it acquired last year as well as deferred payments for the Canal City land due to the Selangor State Development within the next 12 years.
- **Outlook for 2015.** In terms of launches planned for 2015, we understand the company is targeting to launch some RM2b worth of properties, including some of the launches that were planned for this year, such as Tropicana Aman and Phase 2 of Tropicana Heights. In terms of products, the company is awaiting the clarity of the GST implementation before setting its decision on products to be launched.

RECOMMENDATION

- **Maintain HOLD and target price of RM1.58,** which represents a 50% discount to our fully-diluted RNAV of RM3.16/share. Although Tropicana's fundamentals remain intact with an ongoing asset monetisation strategy, we believe cash flow requirements from ongoing projects are still high. Nevertheless, chunky asset monetisation would be positive to its share price as it will narrow the current steep discount to RNAV. Currently, our target price implies 13x 2015F PE. A good entry price is RM1.20.

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