21 February 2014

AFFIN INVESTMENT BANK
KDN: PP 10251/07/2013(032736)

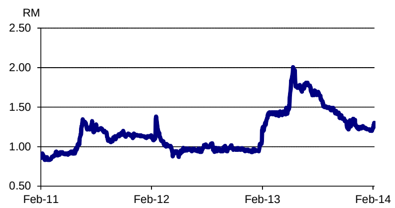
Results Note

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

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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. Nothwithstanding 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

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