

Tropicana Corp (TRCB MK/HOLD/RM1.66/Target: RM1.99)

2Q13: Results within expectations

| Year to 31 Dec | 2Q13 | 1Q13 | qoq | yoy | 1H13 | yoy | Year | EPS | PE |
|--|--------------|--------------|---------------|--------------|--------------|--------------|-------|-------|------|
| | (RMm) | (RMm) | % chg | % chg | (RMm) | % chg | | (sen) | (x) |
| Revenue | 362.1 | 305.3 | 18.6 | 209.3 | 667.4 | 206.8 | 2013F | 10.8 | 15.4 |
| Property development & resort operations | 312.4 | 270.1 | 15.7 | 190.2 | 582.5 | 166.9 | 2014F | 12.9 | 12.9 |
| Property investment | 33.9 | 35.1 | -3.6 | 233.3 | 69.0 | 147.0 | 2015F | 14.7 | 11.3 |
| Investment holding and others | 15.8 | 0.0 | n.m | n.m | 15.8 | n.m | | | |
| Operating profit | 74.1 | 81.0 | -8.5 | 21.3 | 155.1 | 83.6 | | | |
| Property development & resort operations | 51.2 | 70.2 | (27.1) | 139.4 | 121.5 | 221.4 | | | |
| Property investment | 26.3 | 15.9 | 65.3 | (43.9) | 42.2 | (14.7) | | | |
| Investment holding and others | (3.4) | (5.1) | (33.7) | (142.9) | (8.5) | n.m | | | |
| Pretax profit | 62.3 | 66.8 | (6.7) | 2.5 | 129.1 | 57.8 | | | |
| Net Profit | 38.3 | 43.8 | (12.5) | (1.3) | 82.1 | 48.9 | | | |
| EBIT margin | 16.4% | 26.0% | | | 20.9% | | | | |

Source: Bursa Malaysia, UOB Kay Hian

Results

2Q13 results within expectations. Tropicana Corp (Tropicana) reported 2Q13 revenue of RM362.1m (+18.6% qoq, >+100% yoy) and net profit of RM38.3m (-6.7% qoq, +2.5% yoy). Included in the net profit is RM2m net gain on disposal of lands as well as RM11.5m in fair value gains from revaluations of investment properties. Excluding these items totaling RM13.5m, the group recorded a 2Q13 core PATAMI of RM24.8m (-36.1% yoy). For 1H13, the group recorded a core PATAMI of RM68.6m, which represents 49% of our full-year forecast of RM140m. We will provide more details pending a company briefing on Thursday.

Impact: During the quarter, Tropicana achieved sales of RM798m, which brings total sales in 1H13 to RM1.06b, which represents about 53% of their 2013 sales target of RM2b. Strong sales were driven by the recently unveiled projects such as Tropicana Danga Bay in Iskandar Malaysia, Tropicana Grande and Tropicana Gardens in the Klang Valley. These projects commanded take-up rates of 58-95%. Going forward, the group targets to launch another RM2.1b worth projects for the rest of 2013. Slated to be launched in 2H13 is also the Tropicana Heights mixed development in Kajang. The first phase of the development will comprise terrace houses with a total GDV of RM235m. Also, unbilled sales for the company currently stands at about RM1.65b (vs RM1.1b in 1Q13), which would ensure earnings visibility in the next three years.

Notably, Tropicana's strategy to monetise smaller parcels of land and to concentrate on larger developments is still intact. The group is also embarking on a de-gearing exercise whereby it expects to reduce its gearing levels to 0.5x. As of 2Q13, the group's net gearing stood at about 0.8x. Also, Tropicana recently announced that it has signed a letter of intent (LOI) with CapitaMalls Malaysia Trust (CMMT) to dispose off its Tropicana shopping mall and Tropicana Office tower. Currently, we value the properties at RM560.6m, with the cap rate assumption of 5.5% for the shopping mall and 6.0% for the office tower.

Maintain HOLD with a target price of RM1.99. Our target price represents a 40% to our RNAV/share of RM3.32. Our target price implies a 2014F PE of 15x. While we continue to like Tropicana for its ability to deliver strong sales coupled with a strong development pipeline, we still remain our cautious view on the property market. Entry price is RM1.55.

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