

## Flash Note

# Tropicana

TRCB MK  
RM1.71

**BUY (maintain)**

**Price Target: RM2.50 (↔)**

## Signing LOI on Tropicana City Mall and Office disposal

### Signing LOI with CMMT on Tropicana City Mall and Office disposal

Tropicana announced that its wholly-owned subsidiary, Tropicana City Sdn. Bhd. had on 23 August 2013 entered into a Letter of Intent with AmTrustee Bhd, acting as trustee of Capitalmalls Malaysia Trust ("CMMT") on the possible acquisition of Tropicana City Mall and Tropicana City Office Tower currently owned by Tropicana City Sdn. Bhd. In essence, Tropicana has granted CMMT an exclusive period of 4 weeks from the date of the LOI to undertake due diligence process on the proposal and upon being satisfied with the results, CMMT shall proceed to enter into negotiations on the terms for the proposal.

### Positive on the proposal, disposal price is the key

Both Tropicana and CMMT have not provided any indicative transaction value. *The Edge* reported last Tuesday (20 August 2013) that the properties might be transacted between RM550m to RM650m, quoting sources. We are generally positive on the proposed disposal – it is inline with management's de-gearing initiatives and the disposal (if materialised at the reported price tag of RM550-650m) will lower Tropicana's net gearing from 0.72x (as at end-March 2013) to 0.4-0.45x. At RM550-650m, we estimate the mall to be valued at RM1,100-1,300 psf while the office is priced at RM700-800 psf. The asset has a book value of RM503m and Tropicana may recognise a sizeable gain on disposal of RM47-147m, if the planned disposal exercise materialised. That said, given Tropicana's large asset base, the overall impact to our RNAV-derived TP is relatively muted at only 1-6 sen.

### Maintain BUY with an unchanged TP of RM2.50

No change to our earnings forecast, **BUY** rating and TP of RM2.50 based on a 30% discount to our RNAV estimate. We have applied a 30% discount to the RNAV estimate in view of Tropicana's high concentration in high-rise projects and its above industry net gearing position of 0.7x. That said, we like Tropicana for its proactive management team, extensive business contacts, strategic land bank, established branding, strong FY12-15 EPS CAGR of 20% and attractive valuation at 0.5x P/RNAV and 8.6x CY14 EPS. Key investment risks include: (i) acquisition of sizeable land bank at significant premium to market value; (ii) sharp deceleration in domestic economic growth that affects demand for high-end properties; (iii) unexpected rapid increase in OPR/ further tightening of mortgage standards; (iv) execution risk; and (v) possible stock overhang arising from further new share placements and RCULS conversions.

### Earnings & Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	375.2	630.4	1141.1	1357.8	1654.1
EBITDA	87.2	143.5	356.2	345.0	403.3
Pretax profit	99.2	224.9	293.9	310.9	380.7
Net profit	77.0	171.1	203.6	214.8	261.2
EPS (sen)	16.9	32.5	21.2	19.9	21.8
PER (x)	10.1	5.3	8.1	8.6	7.9
Core net profit	63.0	66.0	203.6	214.8	261.2
Core EPS (sen)	13.8	12.5	21.2	19.9	21.8
Core EPS chg (%)	92.9	-9.3	69.3	-6.0	9.2
Core PER (x)	12.4	13.6	8.1	8.6	7.9
DPS (sen)	2.3	4.8	8.5	8.0	8.7
Dividend Yield (%)	1.3	2.8	5.0	4.7	5.1
EV/EBITDA (x)	18.9	17.5	8.6	9.2	7.9
Consensus profit	-	-	170.0	196.0	243.0
Affin/Consensus (x)	-	-	1.2	1.1	1.1

Isaac Chow  
(603) 2145 0412  
cschow@affininvestmentbank.com.my

## Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	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
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	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
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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 A Participating Organisation of Bursa Malaysia Securities Bhd  
 Chulan Tower Branch,  
 3rd Floor, Chulan Tower,  
 No 3, Jalan Conlay,  
 50450 Kuala Lumpur.

[www.affininvestmentbank.com.my](http://www.affininvestmentbank.com.my)  
 Email: [research@affininvestmentbank.com.my](mailto:research@affininvestmentbank.com.my)  
 Tel : + 603 2143 8668  
 Fax : + 603 2145 3005