26 June 2013

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

Initiate Coverage

Tropicana

TRCB MK
RM1.83

BUY

Price Target: RM2.50

Price Performance

	1M	3M	12M
Absolute	-7.1%	+20.4%	+72.0%
Rel to KLCI	-4.7%	+14.5%	+59.5%

Stock Data

Issued shares (m)	931.2
Mkt cap (RMm)	1,704.1
Avg daily vol - 6mth (m)	2.57
52-wk range (RM)	0.99-2.20
Est free float	39%
BV/share (RM)	2.54
P/BV (x)	0.72
Net cash/(debt) (RMm)(1Q13)	(1,568)
ROE (FY13E)	9.0%
Derivatives	
Warr 2019 (WP: RM0.785, SP: RM1.00)	

Key Shareholders

Tan Sri Dato' Danny Tan	60.7%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	-	-	-
Curr EPS (sen)	21.2	19.9	21.8
Chg (%)	-	-	-
Prev target price (RM)			-
Curr target price (RM)			2.50

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Rebranded and refocused

A fast-growing developer

Tropicana Corporation (formerly known as Dijaya) has undertaken several transformative exercises in 2011-13, including the strengthening of its top management team, acquisition of new land banks, an amalgamation exercise and a corporate rebranding exercise. In our view, these strategies have worked well and Tropicana has since evolved into a mid-cap developer (RM1.7bn market cap) with strategic land bank and strong product launching pipeline.

Sizeable GDV of RM70bn

Tropicana now has a sizeable GDV of RM70bn, well-spread across Malaysia's key property hotspots - Klang Valley (RM34.5bn), Iskandar Malaysia (RM25.2bn) and Penang (RM10.2bn). Tropicana plans to launch RM3bn worth of new properties in 2013, a 250% jump from RM1.2bn in 2012.

FY13 property sales to double, exceeding the RM2bn threshold

We view Tropicana's RM3bn property launches pipeline favourably and expect the group to achieve a strong property sales of RM2.1bn for 2013 (+113% yoy), slightly ahead of management's target of RM2bn. We forecast Klang Valley projects to contribute 42% of FY13 total sales, followed by Penang (30%), Johor (26%) and East Malaysia (2%).

De-gearing initiatives and institutionalisation of shareholders base to further enhance shareholders' value

In addition to growing its earnings, management is also undertaking several initiatives to further enhance shareholders' value. These include a de-gearing exercise via the disposal of land parcels and non-core investment assets, institutionalisation of shareholders base and establishment of an informal policy to payout 40% of earnings.

Initiate coverage with a BUY rating and TP of RM2.50

We initiate coverage on Tropicana with a **BUY** rating and TP of RM2.50 based on a 30% discount to RNAV. We apply a 30% discount in view of Tropicana's high concentration in high-rise projects and its above average net gearing of 0.8x. 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, 9.2x CY14 EPS.

Key investment risks

Key investment risks include: (i) sharp deceleration in domestic economic growth that affects demand for high-end properties; (ii) unexpected increase in OPR/ further tightening of mortgage standards; (iii) execution risk; and (iv) possible stock overhang arising from 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)	10.8	5.6	8.6	9.2	8.4
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)	13.2	14.6	8.6	9.2	8.4
DPS (sen)	2.3	4.8	8.5	8.0	8.7
Dividend Yield (%)	1.2	2.6	4.6	4.4	4.8
EV/EBITDA (x)	19.6	18.0	9.0	9.6	8.3
Consensus profit	-	-	158.7	189.7	225.0
Affin/Consensus (x)	-	-	1.3	1.1	1.2

Investment highlights

A fast-growing developer

Tropicana Corporation (formerly known as Dijaya) was previously a relatively quiet developer focusing on niche property projects in the Tropicana enclave in Petaling Jaya. Tropicana markets its key projects under the "Tropicana" brand name. Its flaghip projects include Tropicana Golf & Country Club and Tropicana City. Starting in late 2010, Tropicana embarked on an aggressive expansion program by growing its land bank and earnings - funded by additional capital injection, and along with that, market capitalisation (and hence, investability). Key initiatives undertaken include:

(i) Strengthening of top management team – appointments of new executive directors including CEO Dato' Yau Kok Seng (former GMD of Hong Leong Industries Bhd and MD of Sunway Holdings Bhd), Deputy GMD Edmund Kong (former COO of TA Global and project/product planning director of Perdana Parkcity Sdn Bhd), and executive director Dato' Andy Khoo (former ED of Guocoland Malaysia and ED of SunwayMas Sdn Bhd);

(ii) Aggressive land bank acquisitions –Tropicana has acquired/ ventured into JVs with land owners to develop several parcels of strategic land bank across Malaysia. Clearly, these acquisitions had been timely. The recent transacted prices of some of the nearby land parcels (Danga Bay and Penang) have since risen substantially. Importantly, Tropicana has recently completed bulk of its project plannings and is ready to launch its products to capture the inherent strong demand;

(iii) Amalgamation exercise – Tropicana had in Mar-12 undertaken an amalgamation exercise to streamline and consolidate Tan Sri Dato' Danny Tan (major shareholder)'s assets and investment properties under Tropicana. Key merits of the exercise include optimisation of human and financial resources and elimination of potential conflict of interests;

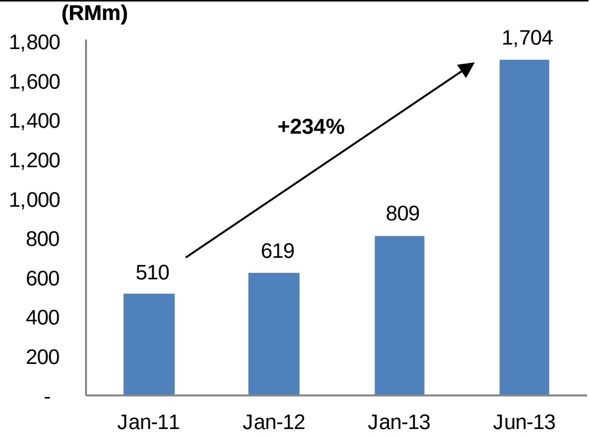
(iv) Rights issue and placement of new shares – Tropicana undertook a rights issue exercise in Mar-12 and thereafter placement of new shares in May-13 to raise working capital, reduce borrowings and increase shares trading liquidity. To recap, Tropicana had in Mar-12 raised RM441m via a 4-for-5 rights issue exercise (right share priced at RM1.20, 1 bonus shares for 4 right shares) and in May-13 raised RM154m via the placement of 86.3m new shares (10% of shares outstanding) at RM1.78 per share;

(v) Rebranding exercise – the group recently rebranded itself as Tropicana Corporation Berhad (from Dijaya Corporation) to enhance its corporate identity. All its current and future projects will carry a common Tropicana brandname. Tropicana, in our view, has a better brand equity, thereby enabling the group to command premium product pricings.

In our view, the abovementioned initiatives and strategies have largely worked well. Tropicana has since evolved into a mid-cap developer with RM1.7bn market value (from RM510m in Jan-2011), owing 1,990 acres of land bank with RM70bn of potential GDV straddling across key real estate growth segments in Malaysia.

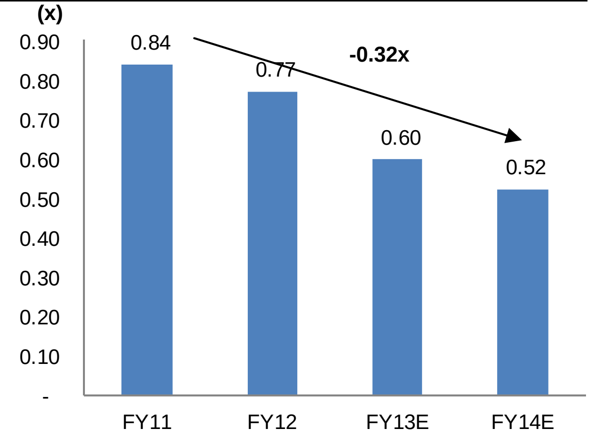
Focus Charts: Benefits from Tropicana's transformation roadmap

Fig 1: Market cap



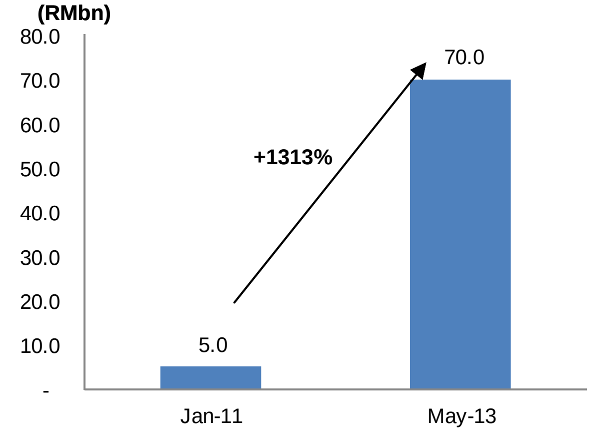
Source: Bloomberg

Fig 2: Net gearing



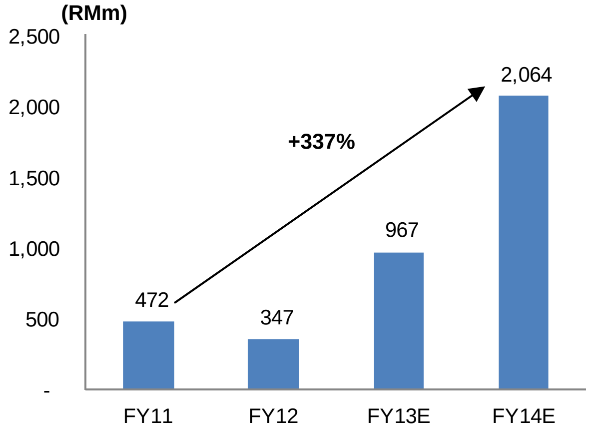
Source: Company, Affin

Fig 3: Remaining projects GDV



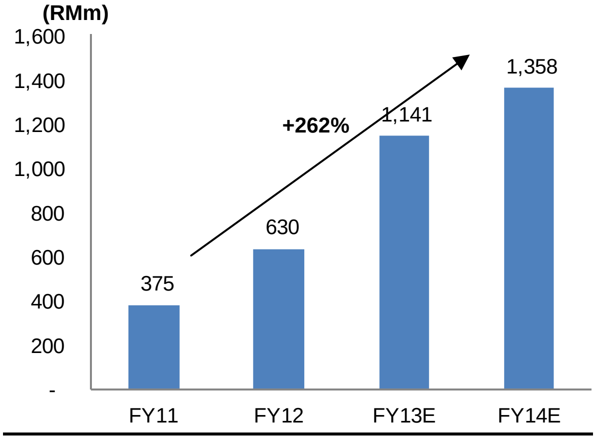
Source: Company

Fig 4: Property sales



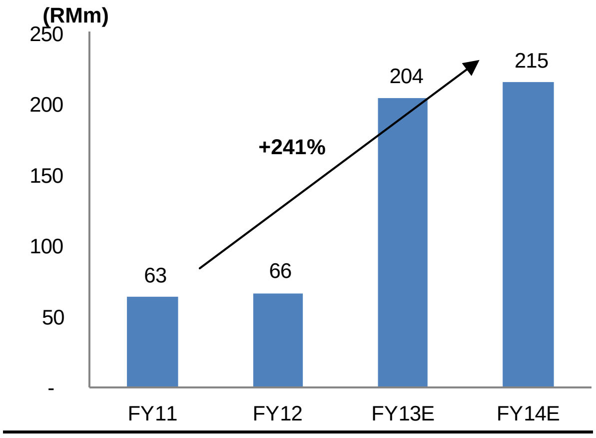
Source: Company, Affin

Fig 5: Revenue



Source: Company, Affin

Fig 6: Core net profit



Source: Company, Affin

Property development highlights

Sizeable GDV of RM70bn

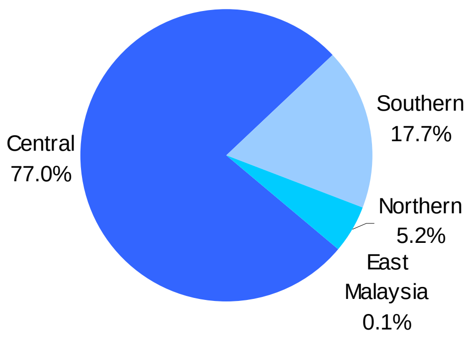
After its 2010-12 assets acquisitions spree and on completion of the recently proposed acquisition of 1,173-acre Canal City land, Tropicana will own 1,990 acres of land bank with a sizeable GDV of RM70bn (effective GDV RM56.2bn). The group's development projects are well spread across Malaysia's key property hotspots - Klang Valley (RM34.5bn), Iskandar Malaysia (RM25.2bn) and Penang (RM10.2bn). Some of these new projects were launched in 2011-12 while others will be launched in 2013/14. All in, management has lined up RM3bn worth of properties to be launched in 2013.

Fig 7: Summary of Tropicana's 2010-13 land bank acquisitions

	Tropicana Danga Bay	Tropicana Metropark	Tropicana Danga Cove	Tropicana Heights	Penang World City	Tropicana City Centre	Tropicana 218 MacAlister	Canal City
Announcement date	Aug-10	Jun-11	Aug-11	Sep-11	Nov-11	Mar-12	Mar-12	Apr-13
Location	Danga Bay, Johor	Subang, Selangor	Danga Cove, Johor	Kajang, Selangor	Timur Laut, Penang	Jln Tun Razak, Johor	Jln Macalister, Penang	Kota Kemuning, Selangor
Land size (acre)	37	89	227	199	103	22	2	1172
Land cost (RMm)	308	385	220	228	1,072	133	42	1,297
Land cost psf (RM)	190	100	22	26	240	140	454	25
Effective stake (%)	60	100	50	100	55	100	100	100
JV partner	Danga Bay SB	na	Iskandar Waterfront	na	Ivory Property	na	na	na
Potential GDV (RMm)	7,433	6,253	10,000	2,163	10,000	5,000	201	20,000
Land cost to GDV (%)	4.1%	6.2%	2.2%	10.5%	10.7%	2.7%	20.6%	6.5%

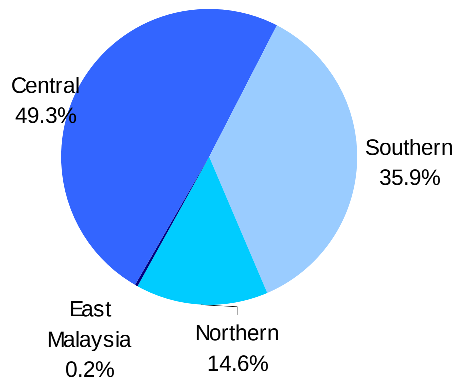
Source: Company, Affin

Fig 8: Geographical location of land bank (1,990 acres)



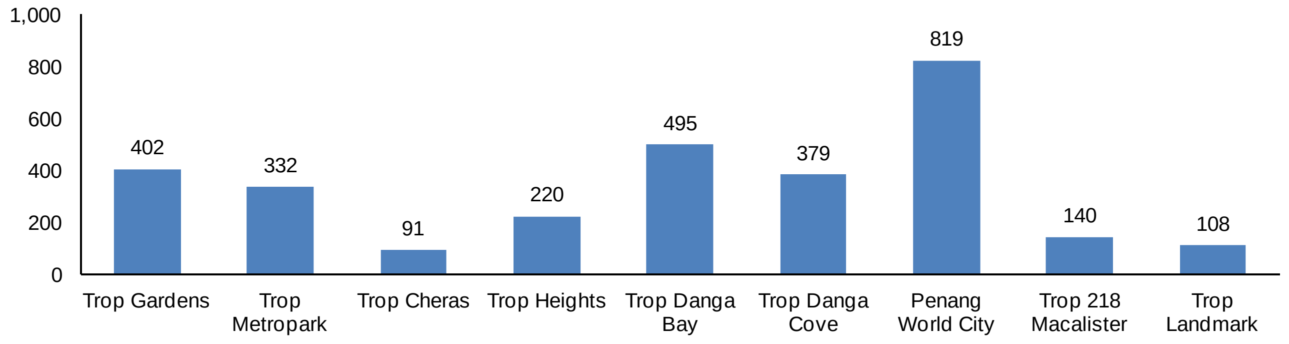
Source: Company

Fig 9: GDV breakdown by location (RM70bn)



Source: Company

Fig 10: 2013 launch plan (RM3bn)



Source: Company

Fig 11: Location of key development projects

Source: Company

Fig 12: Artist illustrations of key property projects

Tropicana Gardens | Tropicana Metropark (Pandora S.Resi) | Tropicana Metropark

Tropicana Heights (Kajang) | Tropicana Heights (Kajang) | Tropicana Cheras

Tropicana Danga Bay | Tropez Residences @ Danga Bay | Tropicana Danga Cove

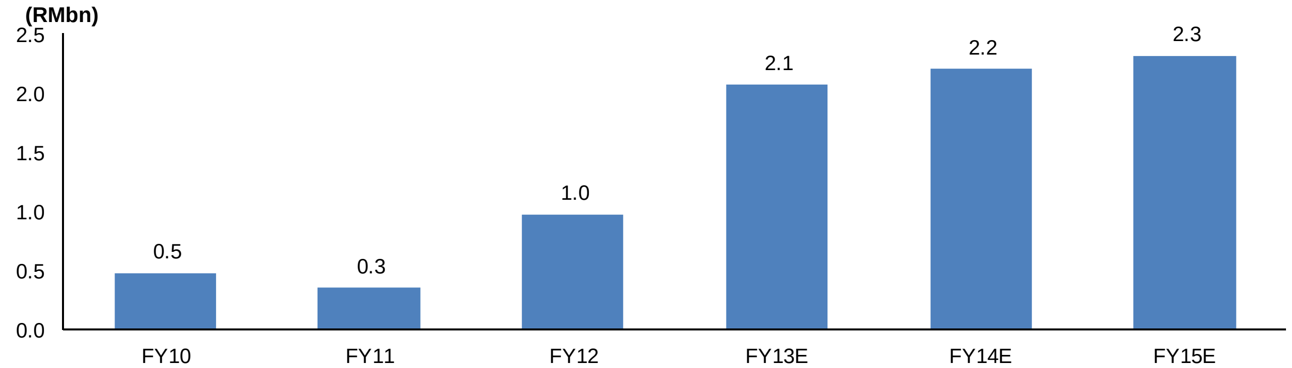
Penang World City | Tropicana Bay Resi (Penang World City) | Tropicana Macalister | Tropicana Landmark

Source: Company

FY13 property sales to double, exceeding the RM2bn threshold

Tropicana has lined up RM3bn worth of property launches for 2013 (please refer to Fig 10 for details). We view the property launches pipeline favourably and expect the group to achieve a strong property take-ups of RM2.1bn for 2013 (+113% yoy), slightly ahead of management's target of RM2bn. We forecast Klang Valley projects to contribute 42% of FY13 total sales, followed by Penang (30%), Johor (26%) and East Malaysia (2%). Moving forward, we expect the launch of new projects (ie. Tropicana City Centre, W Kuala Lumpur Hotel & Residences and Canal City) to further propel Tropicana's annual property sales to RM2.2-2.3bn in FY14-15.

Fig 13: Tropicana's annual property sales (historical and Affin forecast)



Source: Company, Affin

Klang Valley: For FY13, we expect Tropicana to achieve RM870m of property sales, contributed by its existing offerings (Tropicana Grande, Tropicana Avenue, Tropicana Gardens, Tropicana Cheras) as well as new launches (Tropicana Metropark, Tropicana Heights). We are generally positive on the Tropicana Cheras and Tropicana Heights projects in view of the robust demand for landed properties. We expect Tropicana Gardens to continue booking in decent sales (phase 1 is 98% sold, phase 2 achieves a 72% take up rate) given its strategic location next to an upcoming MRT station. Meanwhile, pent-up demand, strong brandings and good project concept will likely translate into encouraging sales for the Tropicana Metropark project (77% take-up as at May-13).

Johor: Tropicana's maiden launch of Tropez Residences @ Danga Bay in 1Q12 was a success (80% take up as at June-13, non-bumi units fully sold). Similarly, the group has achieved strong sales for its Tropicana Danga Cove (Oasis 1 - 112 units of 3-storey shop offices) project, with non-bumi units fully taken up. We believe the warmer Malaysia-Singapore relation, higher buyers/investors interest in its Johor properties as well as the spillover demand from its earlier projects will fuel Tropicana's FY13 Johor property sales.

Penang: We are positive on the Penang property market. We believe that land scarcity, high saving rates as well as the robust local economy will continue to fuel demand for medium/ medium-high end condominiums. We understand that the Tropicana Bay Residences has achieved a strong registration of interests for its first 4 blocks of condominiums, targeted to be launched by 2H2013.

East Malaysia: We however expect only modest take-up for Tropicana's maiden East Malaysia project - The Landmark @ Kota Kinabalu due to the general weakness in Kota Kinabalu's high-end condominium market. We understand that Kota Kinabalu's high-end property demand has weakened lately due to weak commodity prices (palm oil, timber), strong incoming supply and high asking prices.

The de-gearing roadmap

De-gearing initiatives and institutionalisation of shareholders base to further enhance shareholders' value

In addition to growing its earnings, management is also undertaking several initiatives to further enhance shareholders' value. These include the ongoing de-gearing exercise via the targeted disposal of land parcels and non-core investment assets, institutionalisation of shareholders base (foreign shareholdings grew from 0% to 8-10% while EPF was reported to have taken up a 2.2% stake in Tropicana) and establishment of an informal dividend policy to payout 40% of earnings.

The de-gearing exercise, in our view, is of particular importance. Tropicana's net gearing shot up to 0.8x in FY11-12 as a result of its aggressive acquisition spree of new land bank. The high gearing had dampened investors' appetite for the stock and constrained the group's ability to undertake further value-enhancing/ opportunistic acquisitions.

After taking the helm in Jan-13, Tropicana's new CEO, Dato' Yau has crafted a comprehensive plan to de-gear Tropicana's balance sheet. Key initiatives include acceleration of property sales, disposal of land parcels and non-core investment assets.

Up to Jun-2013, Tropicana has disposed 83.5 acres of land parcels, raising gross proceeds of RM336m. These proceeds, together with RM153.6m raised in a recently completed placement of new shares will help to reduce Tropicana's net gearing to a more comfortable level.

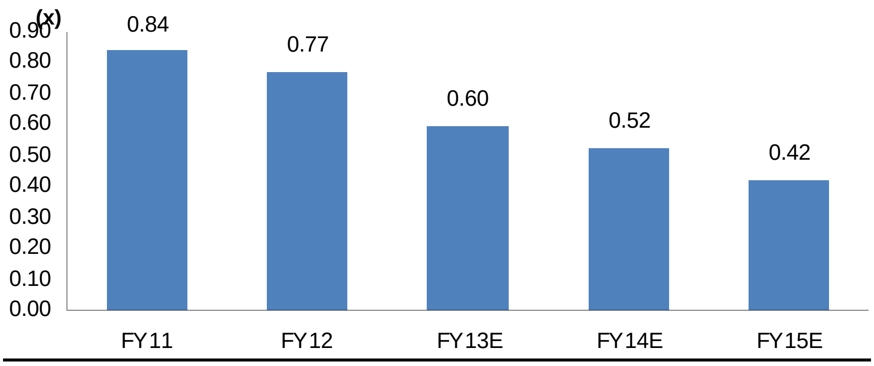
Fig 14: Land sales in 1H2013

Landbank sold	Acquired	Acres	Sale price (RMpsf)	Gross proceeds (RMm)
Persiaran Tropicana	1991	6.4	416	116.1
Bayou, Belakong	Dec-07	66.0	37	106.4
Desa Aman Puri, Kepong	Sep-12	1.8	240	19.2
Desa Mentari, Sunway	Nov-09	1.8	300	23.0
Senibong, Johor	Jun-11	4.1	250	44.1
Sungei Besi	Sep-12	3.4	180	26.7
		83.5		**335.6**

Source: Company

All in, we forecast Tropicana to dispose RM150-400m worth of land bank/ investment assets per year over FY13-15 and thereby further reducing its net gearing ratio from 0.8x in FY12 to 0.6x in FY13, and 0.4x by FY15.

Fig 15: Tropicana's net gearing ratio



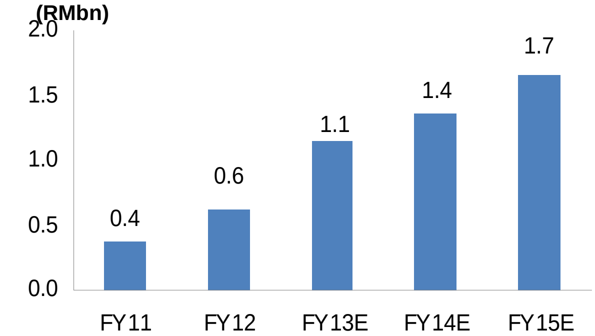
Source: Company, Affin

Earnings outlook

Strong 3-year EPS CAGR of 20%

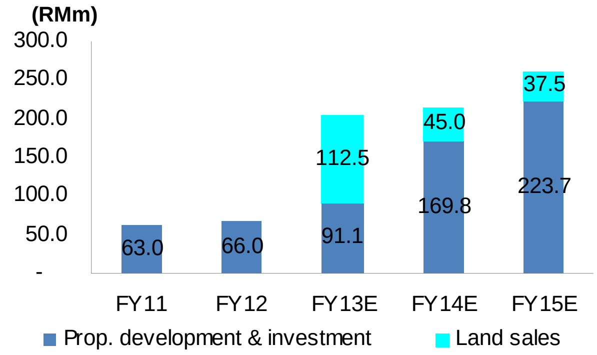
We project Tropicana's core net profit to grow at an explosive 3-year CAGR of 58% from RM66m in FY12 to RM261.2m in FY15, driven by higher profit contribution from its property development business as well as gains from sales of development land (we forecast Tropicana to generate RM113m gains from aggressive land sales in FY13 and subsequently moderate to RM38-45m in FY14-15). Notwithstanding the strong net profit CAGR, the group's core EPS is forecast to grow at a lower but still robust CAGR of 20%, diluted by the enlarged share base. We forecast Tropicana's share base to increase from 793.1m shares as at end-Dec 2012 to 1,259.4m in end-Dec 2015, arising from the issuance of new shares in relation to share placements, conversion of RCULS, ESOS and warrants.

Fig 16: Tropicana's revenue forecast



Source: Company, Affin

Fig 17: Tropicana's core net profit breakdown

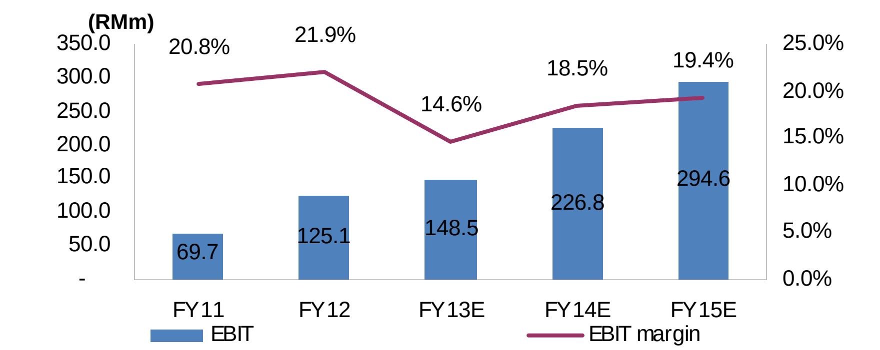


Source: Company, Affin

Stronger property development earnings on higher progress billings

Tropicana's property development EBIT is expected to grow strongly from RM125.1m in FY12 to RM294.6m in FY15E on the back of higher progress billings. We however project a weaker FY13 EBIT margin of 14.6% (from 21.9% in FY12) due to management's strategy to accelerate property sales and clear out slow-selling stocks. The EBIT margin is expected to recover to 19-20% in FY14-15 once the group has managed to cleared out its low margins old products.

Fig 18: Tropicana's property development EBIT and EBIT margin



Source: Company, Affin

Valuation and recommendation

Initiate coverage with a BUY rating and TP of RM2.50

We initiate coverage on Tropicana with a **BUY** rating and TP of RM2.50 based on a 30% discount to RNAV. We apply a 30% discount to RNAV (vis-à-vis 0-15% discount for other developers under our coverage) due to Tropicana's high projects concentration in the high-rise/ integrated segment and its above average net gearing of 0.8x. Industry norm (based on our coverage) is between 0 to 0.5x. We like Tropicana for:

(i) Proactive management. Tropicana's management (and its major shareholder Tan Sri Dato' Danny Tan) has been proactively working to grow the group's earnings, land bank, market capitalisation and maximise shareholders value. We are generally positive on the major initiatives taken thus far (amalgamation, land bank acquisitions and active de-gearing initiatives). We believe that these initiatives, together with new strategies (institutionalising shareholders base and rebranding) will help to add shareholders value;

(ii) Strategic land bank. We like Tropicana's strategic land bank. In our view, the past acquisitions (during 2010-12) had been timely and the prices are reasonable. Prices for some of the recently transacted nearby land bank (Danga Bay and Penang) have since appreciated moderately. Importantly, Tropicana's early move enable the group to take advantage of the pent-up demand in some of the property hot spots (Danga Bay and Penang);

(iii) Established branding. We believe Tropicana has a strong brand equity. The group is using Tropicana in all its future products, including the projects under its JV companies;

(iv) Strong FY12-15 EPS CAGR of 20% driven by strong unbilled sales (RM1.1bn as at Mar-13) and higher property sales ahead (over RM2bn); and

(v) Undemanding valuation of 0.5x P/RNAV and 9.2x CY14 EPS, back by a decent FY14 dividend yield of 4.4%.

Fig 19: Peers comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x) CY13	Core PE (x) CY14	EPS growth (%) CY13	EPS growth (%) CY14	P/RNAV (x)	P/B (x)	ROE (%) CY13	ROE (%) CY14	Div Yield (%) CY13	Div Yield (%) CY14
KLCC	ADD	6.52	7.50	11,771	Dec	20.9	17.4	7.6	20.2	1.0	1.0	5.7	5.9	4.3	5.2
UEMS*	NR	2.91	na	12,631	Dec	23.5	21.7	21.0	8.1	na	2.3	9.6	9.6	1.1	1.2
SP Setia	TR BUY	3.32	4.14	8,163	Oct	16.0	13.5	1.4	18.6	0.7	1.6	10.3	10.5	4.8	5.4
Sunway	BUY	3.42	4.66	4,420	Dec	11.7	10.6	7.7	10.4	0.7	1.2	10.2	10.4	2.0	2.3
IJMLand	BUY	2.65	3.77	3,719	Mar	14.2	11.1	37.6	27.9	0.7	1.4	10.6	11.9	2.3	2.6
Mah Sing*	NR	2.79	na	3,154	Dec	11.4	9.2	-0.8	23.3	na	1.8	18.4	18.2	3.4	4.1
UOA Dev	BUY	2.19	3.00	2,783	Dec	8.3	7.6	54.7	9.4	0.7	1.3	15.3	15.4	5.9	6.4
Tropicana	BUY	1.83	2.50	1,746	Dec	8.6	9.2	69.3	-6.0	0.5	0.7	9.0	8.7	4.6	4.4
KSL	BUY	1.91	3.05	738	Dec	4.9	4.3	16.9	14.9	0.4	0.6	13.2	13.4	1.6	1.6

* Consensus estimates

Source: Bloomberg, Affin

Fig 20: Tropicana's RNAV

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
Central					
Tropicana Cheras	Freehold	27	91	100%	14
Tropicana Gardens	Leasehold	16	2,712	70%	232
Tropicana Metropark	Freehold	89	6,253	100%	346
Tropicana Heights	Freehold	199	2,164	100%	174
W KL Hotel & Residences	Freehold	1	1,176	100%	53
Canal City	Leasehold	1,172	20,000	100%	536
Others (Klang Valley)	Mixed	29	2,145	100%	180
Southern					
Tropicana Danga Bay	Freehold	37	6,756	60%	204
Tropicana Danga Cove	Freehold	227	9,867	50%	299
Tropicana City Centre	Freehold	22	5,000	100%	179
Tropicana Danga Lagoon	Mixed	60	2,500	80%	103
TDB Hotel & Residences	Freehold	6	1,060	60%	39
Northern					
Penang World City	Freehold	103	10,000	55%	332
Tropicana 218 MacAlister	Freehold	2	201	100%	24
East Malaysia					
The Landmark, Jln Bundusan	Leasehold	1	108	100%	13
Subtotal		**1,990**	**70,033**		**2,728**
Unbilled sales					**95**
Investment properties		**Net BV (RMm)**	**Market Value (RMm)**	**Equity Interest**	**Surplus (RMm)**
Tropicana City Mall and Office Tower		503	509	100%	5
Total					2,828
Shareholders' fund (as at Mar 31, 2013)					2,174
Add: valuation surplus					2,828
Add: placement of new shares @ RM1.78					154
Adj: warrants, ESOS, RCULS conversions					276
RNAV (RMm)					5,432
Share outstanding (as at Mar 31, 2013))					857
Add: placement of new shares					86
Add: warrants, ESOS and RCULS conversions					581
Enlarged share base (m)					1,524
Fully diluted RNAV per share (RM)					3.56
Target price based on 30% discount to RNAV per share (RM)					**2.50**

Source: Company, Aff*in*

Key investment risks

Economic slowdown, hike in OPR, execution risk and stock overhang

Key risks to our positive view on Tropicana include:

(i) sharp deceleration in domestic economic growth that affects demand for high-end properties;

(ii) unexpected increase in OPR and/or further tightening of domestic mortgage standards;

(iii) execution risk given the group's increasing number of new projects and expansions into new regions (Penang, Kota Kinabalu); and

(iv) possible stock overhang arising from RCULS conversions. That said, we are not overly concern on the share price impact from the RCULS conversions as all RCULS are owned by Tan Sri Dato' Danny Tan and we believe that Tan Sri will unlikely to place out his shares (from RCULS conversion) below the recent placement prices of RM1.60-1.72.

Fig 21: Salient Terms of the RCULS (fully owned by Tan Sri Dato' Danny Tan)

<table>
<tr><th>Terms</th><th>Description</th></tr>
<tr><td>Issuer</td><td>Tropicana</td></tr>
<tr><td>Nominal value</td><td>RM684.7m (as at end-Dec 2012)</td></tr>
<tr><td>Mode of issuance</td><td>Direct issuance to the shareholders of the targeted companies</td></tr>
<tr><td>Coupon</td><td>3%</td></tr>
<tr><td>Tenure</td><td>10 years</td></tr>
<tr><td>Security</td><td>Not secured</td></tr>
<tr><td>Convertibility</td><td>- Convertible at any time into new Tropicana shares at the option of the holders in accordance to the following conversion schedule and prices which the amount of RCULS to be converted would be subjected to the announced preceding financial year's net profits recorded by Tropicana Group:-
<table>
<tr><th>Years from Issuance Date</th><th>Indicative Conversion Price</th></tr>
<tr><td>1 - 2</td><td>RM1.30</td></tr>
<tr><td>3 - 5</td><td>RM1.50</td></tr>
<tr><td>6 - 8</td><td>RM1.80</td></tr>
<tr><td>9 - 10</td><td>RM2.50</td></tr>
</table>
- RCULS not redeemed will be automatically converted by end of tenure</td></tr>
<tr><td>Redeemability</td><td>Redeemable at any time at the option of the issuer subject to all the covenant for the CP/MTN are complied</td></tr>
<tr><td>Transferability</td><td>Non transferable</td></tr>
</table>

Source: Company

Appendix I: Amalgamation, equity and debt raising exercises in 2012

Killing several birds with one stone

In Mar-12, Tropicana undertook a series of corporate exercises including: (i) the amalgamation of Tan Sri Dato' Danny Tan's property development and investment assets under Tropicana; (ii) a rights issue; and (iii) issuance of CP/MTN with detachable warrants. These exercises had since completed in 3Q12. We are generally positive on these exercises. In our view, these exercises have several merits and is positive to both minority shareholders and Tan Sri Dato' Danny Tan, as it helps to: (i) streamline and rationalise Tan Sri's assets and investment properties under 1 vehicle, thereby optimising human and financial resources, giving Tropicana a larger capital and manpower to undertake large scale development projects; (ii) address the potential conflict of interest; (iii) address Tropicana's high gearing issue; and (iv) increase Tropicana's share base and enhance trading liquidity.

Fig 22: Summary of the proposed amalgamation, equity and debt raising exercises in 2012

Step 1: Proposed acquisitions	
Acquisition Target:	RM720m worth of land (63.7 acres) RM384m worth of investment properties with NLA of 826,000
Total Indicative OMV	RM1.1bn
Total Indicative Net Purchase Consideration	RM935m
Payment Mode	Cash of RM250m (to be used for subscription of right shares) Dijaya 10-year RCULS (3% coupon) for the remaining sum
Step 2: Proposed equity fund raising	
Rights Entitlement Basis	4 new rights share for every 5 existing shares held: and 1 bonus share for every 4 rights shares subscribed for
Issue Price	RM1.20
Proposed Utilisation	Cash payment for the proposed acquisition: RM250m Remaining balance for working capital, defray expenses & repay borrowings
Step 3: Proposed Debt Fund Exercise	
Debt fund raising (CP / MTN) with Detachable Warrants of up to RM500m	
Guarantors	RHB Bank (RM300m) and Ambank (RM200m)

Source: Company

Fig 23: Land and investment properties acquired from Tan Sri Dato' Danny Tan under amalgamation exercise

Land held for development			Investment Properties	
Klang Valley	**Johor, Penang and NS**	**Sabah**	**Klang Valley**	**Sabah**
Jln Selangor, PJ	Mt Austin, Johor	The Landmark, KK	Dijaya Plaza, KL	Bgn Moretune
SS2 PJ	Jln Tun Razak, Johor	Jln Segama, Lahad Datu	Bgn Metro, Klang	Bgn Tiara, Sandakan
Desa Aman Puri, Kepong	Rahang Land, NS	Tawau City	Jaya Square, PJ	Bgn D. Junction
Jln Kepong Besar	Bkt Kepayang, NS	Tmn Tshun Ngen, Sandakan	Intan Square, PJ	Penampang Point
SS13, Subang Jaya	Jln Macalister, Penang	Off Jln Lintas, KK	Wisma TT, PJ	Bgn Blue 7, Penampang
Jln Harapan, PJ		Sadong Jaya	Casa Klang, Meru	Magma Sports Centre, KK
Jln Sungei Besi		Jln Albert Kwok, KK	Cash Sq, Puchong	Bgn Keningau
Sunway Kenari		Lido Junc., Penampang		New Pantai Building, Tg Aru
Jln Kia Peng			**Others**	
Jln Bukit Bintang			Coliseum Sq, Ipoh	
Jln Ampang				

Source: Company data

Tropicana Corporation – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	375.2	630.4	1141.1	1357.8	1654.1
Operating expenses	-288.1	-486.9	-784.9	-1012.8	-1250.8
EBITDA	87.2	143.5	356.2	345.0	403.3
Depreciation	-10.6	-15.3	-18.4	-18.0	-17.6
EBIT	76.6	128.1	337.8	327.0	385.7
Net int income/(expense)	-6.0	-27.3	-60.5	-54.6	-50.0
Associates' contribution	6.5	6.3	16.5	38.5	45.1
Others	22.1	117.8	0.0	0.0	0.0
Pretax profit	99.2	224.9	293.9	310.9	380.7
Tax	-14.6	-44.4	-69.3	-68.1	-83.9
Minority interest	-7.6	-9.5	-21.0	-28.0	-35.6
Net profit	77.0	171.1	203.6	214.8	261.2
Core net profit	63.0	66.0	203.6	214.8	261.2

Balance Sheet Statement

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Fixed assets	1,702.1	3,287.4	3,123.9	3,056.2	3,034.7
Other long term assets	118.8	187.2	223.8	262.3	307.4
Total non-current assets	**1,820.9**	**3,474.6**	**3,347.7**	**3,318.5**	**3,342.1**
Cash and equivalents	120.1	210.8	144.1	187.0	187.3
Stocks	19.8	31.1	50.1	64.6	79.8
Debtors	156.5	144.6	375.2	446.4	543.8
Other current assets	446.6	717.9	1,009.9	1,204.1	1,280.6
Total current assets	**742.9**	**1,104.4**	**1,579.3**	**1,902.1**	**2,091.6**
Creditors	238.5	323.2	585.5	755.5	933.1
Short term borrowings	145.7	231.8	180.0	170.0	140.0
Other current liabilities	6.6	8.1	8.1	8.1	8.1
Total current liabilities	**390.8**	**563.1**	**773.6**	**933.6**	**1,081.2**
Long term borrowings	845.6	1,596.5	1,400.0	1,350.0	1,200.0
Other long term liabilities	170.7	193.1	200.0	206.8	215.2
Total long term liabilities	**1,016.3**	**1,789.6**	**1,600.0**	**1,556.8**	**1,415.2**
Shareholders' Funds	**1,038.8**	**2,098.6**	**2,404.7**	**2,553.6**	**2,725.1**
Minority interest	**118.0**	**127.6**	**148.6**	**176.6**	**212.2**

Cash Flow Statement

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Pretax profit	99.2	224.9	293.9	310.9	380.7
Depreciation & amortisation	10.6	15.3	18.4	18.0	17.6
Working capital changes	-918.5	-327.8	-274.0	-100.3	-7.7
Cash tax paid	-11.8	-37.0	-62.4	-61.3	-75.5
Others	-40.0	-162.8	-170.8	-102.8	-99.4
Cashflow from operation	**-860.4**	**-287.3**	**-194.9**	**64.5**	**215.8**
Capex	-103.2	-269.8	-120.0	-100.0	-100.0
Others	105.0	-228.6	394.0	204.3	154.3
Cash flow from investing	**1.8**	**-498.3**	**274.0**	**104.3**	**54.3**
Debt raised/(repaid)	791.8	560.3	-248.3	-60.0	-180.0
Dividends paid	-17.1	-10.4	-86.1	-90.9	-109.7
Others	-32.5	309.2	188.6	25.0	20.0
Cash flow from financing	**742.3**	**859.1**	**-145.8**	**-125.9**	**-269.7**
Free Cash Flow	**-963.7**	**-557.0**	**-314.9**	**-35.5**	**115.8**

Source: Company data, Affin

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Growth					
Revenue (%)	28.4	68.0	81.0	19.0	21.8
EBITDA (%)	70.4	64.6	148.2	-3.1	16.9
Core net profit (%)	93.2	4.8	208.4	5.5	21.6
Profitability					
EBITDA margin (%)	23.2	22.8	31.2	25.4	24.4
PBT margin (%)	26.4	35.7	25.8	22.9	23.0
Net profit margin (%)	20.5	27.1	17.8	15.8	15.8
Effective tax rate (%)	14.7	19.7	23.6	21.9	22.0
ROA (%)	3.8	4.8	4.3	4.2	4.9
Core ROE (%)	6.5	4.2	9.0	8.7	9.9
ROCE (%)	4.9	4.3	8.5	8.1	9.5
Dividend payout ratio (%)	13.3	14.8	40.0	40.0	40.0
Liquidity					
Current ratio (x)	1.9	2.0	2.0	2.0	1.9
Op. cash flow (RMm)	-860.4	-287.3	-194.9	64.5	215.8
Free cashflow (RMm)	-963.7	-557.0	-314.9	-35.5	115.8
FCF/share (sen)	-210.4	-70.2	-31.0	-3.1	9.2
Asset management					
Debtors turnover (days)	152.3	83.7	120.0	120.0	120.0
Stock turnover (days)	25.1	23.3	23.3	23.3	23.3
Creditors turnover (days)	302.2	242.3	272.3	272.3	272.3
Capital structure					
Net gearing (%)	83.9	77.1	59.7	52.2	42.3
Interest cover (x)	7.7	4.5	5.5	5.9	7.4

Quarterly Profit & Loss

FYE 31 Dec (RMm)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13
Revenue	117.8	117.1	161.1	234.1	305.3
Operating expenses	-95.2	-94.6	-129.2	-174.6	-223.4
EBIT	22.7	22.5	31.9	59.5	81.9
Net int income/(expense)	-3.8	-3.7	-7.3	-12.7	-15.4
Associates' contribution	1.4	1.3	1.5	1.4	1.2
Exceptional Items	0.8	38.6	54.0	12.6	-0.9
Pretax profit	21.0	58.7	80.1	60.8	66.8
Tax	-4.6	-17.1	-21.2	1.0	-24.5
Minority interest	-4.0	-2.8	-1.1	-1.6	1.5
Net profit	12.3	38.8	57.8	60.2	43.8
Core net profit	11.6	10.7	12.9	30.9	44.5
Margins (%)					
EBIT	19.2%	19.2%	19.8%	25.4%	26.8%
PBT	17.8%	50.1%	49.7%	26.0%	21.9%
Net profit	10.5%	33.2%	35.9%	25.7%	14.4%

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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