

29 August 2014

# Tropicana Corporation

## Anticipating a Better 2H14

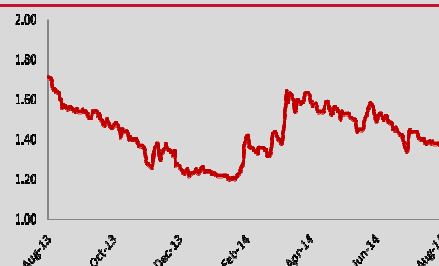
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# MARKET PERFORM ↔

**Price:** RM1.36  
**Target Price:** RM1.40 ↓

<b>Period</b>	<ul style="list-style-type: none"> <li>2Q14/1H14</li> </ul>
<b>Actual vs. Expectations</b>	<ul style="list-style-type: none"> <li>Tropicana Corporation's (TROP) reported 1H14 core earnings of RM41.6m, accounting 18% and 19% of our forecast and consensus full-year estimates, respectively. However, we deem the results as broadly inline as we are expecting 2H14 to be stronger, underpinned by the completion of the Canal City land (308.7ac) sale to EcoWorld and also the recognition of Jalan Kia Peng land sale in 3Q14 as the deal was completed on July-14.</li> <li>For 1H14, TROP registered total property sales of RM935m which makes up 46% of management target and our full-year sales forecast of RM2.0b.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>No dividend was proposed during this quarter, but a 4 sen dividend was paid on May-14 in relation to FY14.</li> </ul>
<b>Key Results Highlights</b>	<ul style="list-style-type: none"> <li><b>YoY</b>, 1H14 core earnings declined by 36% to RM41.6m after stripping out the gains from the disposals of investment properties and a subsidiary of a jointly controlled entity as TROP did not manage to recognise any land sale as compared to 1H13. However, should we exclude the land sale gains of RM60.4m in 1H13, TROP's core earnings without the land disposal impact would have seen an increase of 108% from RM20.0m previously which indicated major improvements in operating efficiencies.</li> <li><b>QoQ</b>, its 2Q14 core earnings improved significantly from RM7.8m to RM33.8m (+332%) after stripping out the one-offs driven by improvements in revenue (+19%) from its property development (+25%) and investment holding division (+24%) due to better progressive billings from its existing development projects i.e. Tropicana Garden, Metropark, Tropez and Bora coupled with the contribution from the consolidation of a newly acquired subsidiary, Tenaga Kimia Sdn Bhd in its investment holdings division.</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>Looking ahead, management remains focused with their de-gearing exercise in which they are still actively looking to dispose of their non-core assets i.e. Mall and Office Towers.</li> <li>Apart from that, management is also maintaining its sales target of RM2.0b for FY14 with another RM2.6b launches in 2H14 which we believe is achievable given that TROP are launching more landed residential products in the Central Region.</li> <li>However, we highlight that there could be a potential earnings deferment risks as the Ecoworld deal may take longer to complete implying recognition in FY15, rather than our assumption that it will take place in 2H14. This could lower our FY14E earnings by 37% if the deal is not completed by year end, while FY15E net profit will be higher by 42%.</li> </ul>
<b>Change to Forecasts</b>	<ul style="list-style-type: none"> <li>No changes to our earnings estimates at this juncture as we are still expecting its Canal City land deal to be completed by year-end.</li> </ul>
<b>Rating</b>	<b>Maintain MARKET PERFORM</b>
<b>Valuations</b>	<ul style="list-style-type: none"> <li>Lower TP to RM1.40 based on a wider discount of 64% on our FD RNAV RM3.89 (TP of RM1.65 @ 58% discount previously). TROP's share price has corrected sharply since 20<sup>th</sup> June 2014 from RM1.56 to the current levels of RM1.36 largely due to risk exposure issues in Johor and possible delay in the conclusion of the Ecoworld deal, which may affect FY14 earnings. Additionally, the group does have significant higher-end high-rise property exposures in Johor, which is viewed negatively. Hence, we widen our RNAV discount to 64% or closer to its historical high levels (67%). At these levels, downside risks should be minimal while property sales indicators, which are on track, offer some assurance to investors. The group is also highly committed to further divesting its non-core assets as part of their de-gearing exercise.</li> </ul>
<b>Risks to Our Call</b>	<ul style="list-style-type: none"> <li>Execution risks (i.e. shortage of labours). Later-than-expected land sale recognition timeline.</li> </ul>

### Share Price Performance



KLCI	1,875.68
YTD KLCI chg	0.5%
YTD stock price chg	11.5%

### Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,863.1
Issued shares	1,369.9
52-week range (H)	1.69
52-week range (L)	1.19
3-mth avg daily vol:	1,262,492
Free Float	42%
Beta	0.7

### Major Shareholders

CHEE SING TAN	29.1%
ALIRAN FIRASAT SDN B	16.5%
IMPECCABLE ACE SDN B	12.4%

### Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	1,476	1,945	1,995
EBIT	489	393	378
PBT	495	361	346
<b>Net Profit</b>	<b>353</b>	<b>233</b>	<b>207</b>
<b>Core Net Profit (NP)</b>	<b>145</b>	<b>233</b>	<b>207</b>
Consensus (CNP)	-	218	219
Earnings Revision (%)	-	-	-
Core EPS (sen)	13.1	21.0	18.7
Core EPS growth (%)	146%	60%	-11%
NDPS (sen)	3.4	4.2	3.7
NTA/Share (RM)	2.25	2.68	2.84
PER (x)	10.4	6.5	7.3
Price/NTA (x)	0.6	0.5	0.5
Net Gearing (x)	0.55	0.40	0.29
Dividend Yield (%)	2.5%	3.1%	2.8%

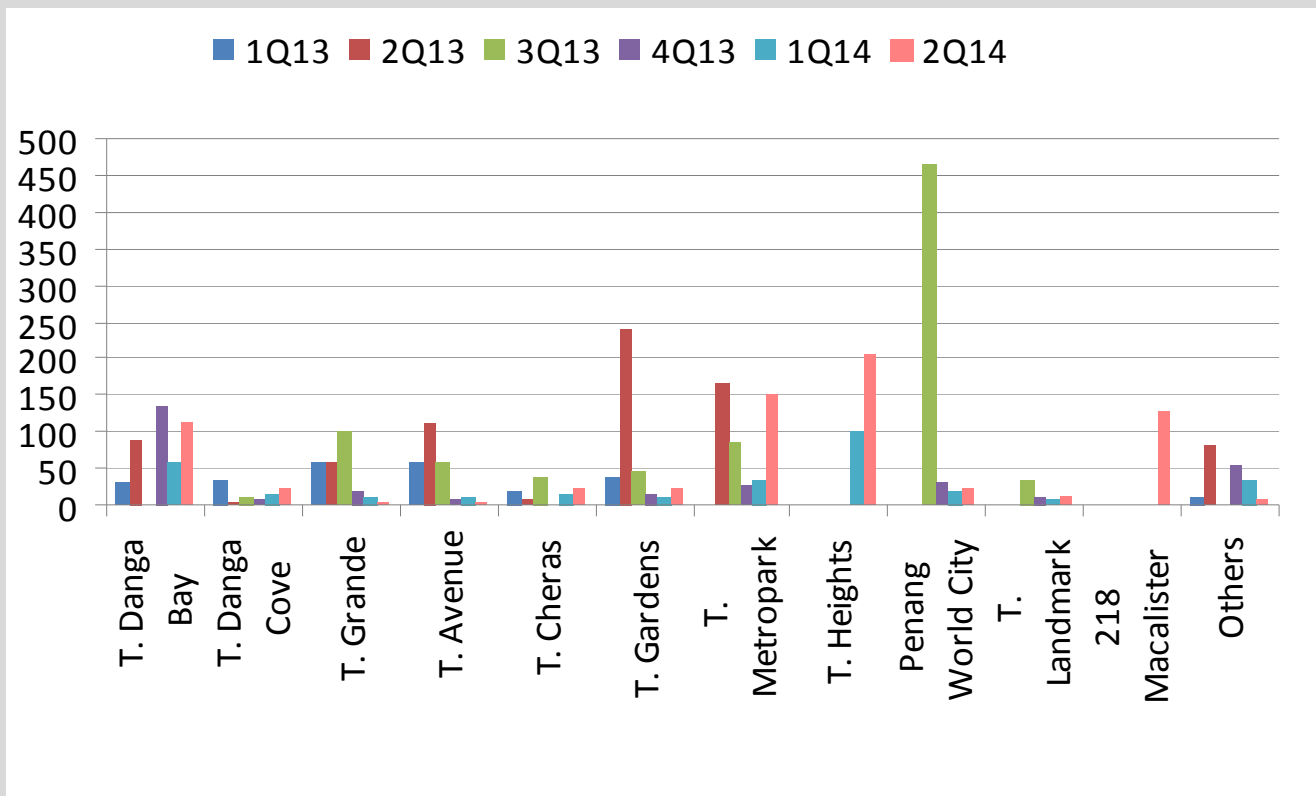
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### Result Highlight

FYE' Dec (RM'm)	2Q14	1Q14	QoQ	2Q13	YoY	1H14	1H13	YoY
Revenue	355.9	299.1	19%	362.1	-2%	655.0	667.4	-2%
Cost of Revenue	(220.4)	(183.3)	20%	(244.4)	-10%	(403.6)	(419.0)	-4%
<b>Gross Profit</b>	<b>135.5</b>	<b>115.8</b>	<b>17%</b>	<b>117.7</b>	<b>15%</b>	<b>251.4</b>	<b>248.4</b>	<b>1%</b>
Other Operating Revenue	60.7	9.9	515%	14.6	316%	70.6	16.5	329%
Operating Expenses	(75.2)	(79.1)	-5%	(58.1)	29%	(154.3)	(105.4)	46%
<b>EBITDA</b>	<b>126.4</b>	<b>46.6</b>	<b>171%</b>	<b>74.1</b>	<b>71%</b>	<b>173.1</b>	<b>159.4</b>	<b>9%</b>
Depreciation	(5.4)	(5.4)	1%	(5.3)	3%	(10.8)	(9.6)	13%
<b>EBIT</b>	<b>121.0</b>	<b>41.2</b>	<b>194%</b>	<b>68.8</b>	<b>76%</b>	<b>162.2</b>	<b>149.8</b>	<b>8%</b>
Interest Expense	(15.6)	(19.5)	-20%	(15.6)	1%	(35.1)	(32.1)	10%
Interest Income	2.1	2.2	-4%	1.9	10%	4.3	3.0	44%
Associate profits	0.3	(0.0)	-1470%	2.2	-87%	0.3	4.1	-94%
JCE profits	13.2	0.9	1301%	(0.3)	-4368%	14.2	(1.1)	-1427%
<b>Pretax Income</b>	<b>121.0</b>	<b>24.8</b>	<b>387%</b>	<b>57.0</b>	<b>112%</b>	<b>145.8</b>	<b>123.8</b>	<b>18%</b>
Income Tax Expense	(15.9)	(5.2)	207%	(15.6)	2%	(21.0)	(40.1)	-48%
<b>Net Profits</b>	<b>105.1</b>	<b>19.7</b>	<b>434%</b>	<b>41.4</b>	<b>154%</b>	<b>124.8</b>	<b>83.7</b>	<b>49%</b>
Minority Interests	(15.7)	(3.3)	379%	(8.4)	87%	(27.5)	(6.8)	302%
<b>PATAMI</b>	<b>89.5</b>	<b>7.8</b>	<b>1043%</b>	<b>33.0</b>	<b>171%</b>	<b>97.3</b>	<b>76.8</b>	<b>27%</b>
FV Adjustments / One-offs	58.6	0.0		12.1		58.6	12.1	
<b>Core PATAMI</b>	<b>33.8</b>	<b>7.8</b>	<b>332%</b>	<b>21.5</b>	<b>57%</b>	<b>41.6</b>	<b>65.3</b>	<b>-36%</b>
Gains on disposal of land / investment Prop	0.0	0.0		2.3		0.0	60.4	
<b>Core PATAMI (w/o land disposal gains)</b>	<b>33.8</b>	<b>7.8</b>	<b>332%</b>	<b>19.8</b>	<b>71%</b>	<b>41.6</b>	<b>20.0</b>	<b>108%</b>
Net gearing	0.54	0.55		0.72		0.54	0.72	
EBIT Margins	34.0%	13.8%		19.0%		24.8%	22.5%	
PBT Margins	34.0%	8.3%		15.7%		22.3%	18.6%	
Core PATAMI Margins	9.5%	2.6%		5.9%		6.4%	9.8%	
Effective Tax	-13.1%	-20.8%		-27.4%		-14.4%	-32.4%	

Source: Company, Kenanga Research

### Sales Performance



Source: Company, Kenanga Research

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RNAV						
Projects	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm)	Remaining Net Profit *** (RM'm)	WACC (%)	DCF Value (RM m)***
<b>Central Region</b>						
Tropicana Grande	100%		0.0			
Tropicana Avenue	100%		0.0			
Tropicana Cheras	100%		0.0			
Tropicana Gardens	70%	7.0	2,043.0	173.4	11%	116.8
Tropicana Metropark	100%	18.0	6,335.0	768.3	11%	328.7
Tropicana Heights	100%	11.0	1,726.0	209.3	11%	118.1
The Residences	100%	4.0	1,150.0	139.5	11%	108.2
Tropicana Aman	100%	20.0	6,634.8	804.6	11%	320.4
Casa Damansara 3	100%	3.0	135.0	16.4	11%	13.3
Jln Bukit Bintang jv with Agile	30%	4.0	1,115.1	40.6	11%	31.5
Others	100%	4.0	430.0	52.1	11%	40.4
<b>Southern Region</b>						
Tropicana Danga Bay	60%	14.0	7,189.0	523.1	11%	260.9
Tropicana Danga Cove	50%	18.0	11,708.0	709.9	11%	303.8
Tropicana City Centre	100%	10.0	3,602.0	436.8	11%	257.3
Tropicana Danga Lagoon	100%	16.0	2,500.0	303.2	11%	145.9
TDB Hotel & Residences	60%	4.0	1,336.0	97.2	11%	75.4
Tropicana Gelang Patah	100%	12.0	6,440.0	781.0	11%	422.6
Senibong Waterfront	70%	12.0	3,670.0	311.6	11%	168.6
<b>Northern Region</b>						
Penang World City	55%	18.0	9,466.0	631.4	11%	270.2
Tropicana 218 Macalister	100%	4.0	314.0	38.1	11%	29.5
<b>Unbilled Sales</b>						
Tropicana Gardens	70%	5.0	443.0	37.6	11%	27.8
Tropicana Metropark	100%	4.0	245.0	29.7	11%	23.0
Tropicana Cheras	100%	1.0	33.0	4.0	11%	3.6
Tropicana Grande	100%	1.0	65.0	7.9	11%	7.1
Tropicana Avenue	100%	4.0	340.0	41.2	11%	32.0
Others	100%	1.0	56.0	6.8	11%	6.1
Tropicana Danga Bay	60%	5.0	463.0	33.7	11%	24.9
Tropicana Danga Cove	50%	1.0	37.0	2.2	11%	2.0
Penang World City	55%	5.0	473.0	31.5	11%	23.3
Tropicana Landmark	100%	1.0	28.0	3.4	11%	3.1
				Market Value	Surplus/Deficit	
Other land banks	100%			141.8	0.0	
Confirmed land sales	100%			1,051.9	351.5	
Investment Properties	100%			1,233.4	0.0	
<b>Sub-Total</b>						<b>3,515.9</b>
Shareholders fund as of Dec-13						2,570.0
<b>RNAV</b>						<b>6,085.9</b>
<b>Dilution Impact</b>						<b>292.6</b>
FD RNAV per Share						3.89
Diluted no. shares						1,641.5
Applied discount←-						64%
Target Price						1.40

Source: Company, Kenanga Research



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## Peer Comparison

NAME	Price (28/8/14)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY13/14	FY14/15	FY15/16	(%)	(%)	(x)	FY13/14	FY14/15	FY15/16	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>															
UEM Sunrise*	1.95	8,848	19.3	16.7	22.7	2.1%	10.2%	1.4	459.1	528.8	389.9	15.2%	-26.3%	2.05	MARKET PERFORM
IOI Properties*	2.50	8098	16.9	14.1	13.3	3.2%	4.3%	0.7	479.2	573.0	611.0	19.6%	6.6%	2.80	OUTPERFORM
SP Setia*	3.46	8,738	20.4	22.3	16.2	3.3%	8.7%	1.3	417.9	382.0	527.0	-8.6%	38.0%	3.30	MARKET PERFORM
Sunway Berhad	3.13	5396	11.2	10.0	9.4	2.5%	33.6%	0.9	482.7	540.0	572.2	11.9%	6.0%	3.70	OUTPERFORM
IJM Land*	3.33	5,191	15.5	14.1	13.0	1.8%	17.7%	1.5	335.2	368.0	400.2	9.8%	8.7%	3.55	ACCEPT OFFER
Mah Sing Group	2.44	3,578	12.3	10.3	8.9	3.9%	17.6%	1.6	280.6	334.6	385.5	19.2%	15.2%	3.05	OUTPERFORM
UOA Development*	2.11	3,019	8.2	10.1	8.4	6.6%	16.0%	1.1	344.6	280.8	336.2	-18.5%	19.7%	2.00	MARKET PERFORM
Tropicana	1.36	1,863	10.4	6.5	7.3	3.1%	15.3%	0.5	145.3	233.1	207.3	60.4%	-11.1%	1.40	MARKET PERFORM
Matrix Concepts	3.15	1,438	9.3	8.5	7.5	5.3%	29.8%	2.2	152.9	167.2	190.2	9.4%	13.8%	3.20	OUTPERFORM
Crescendo*	2.82	641	7.7	7.6	6.9	5.4%	18.4%	0.8	84.2	84.4	93.2	0.3%	10.5%	3.15	OUTPERFORM
Hua Yang	2.34	618	7.5	6.0	5.4	5.7%	22.8%	1.3	82.2	102.9	113.7	25.2%	10.5%	2.60	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
<b>CONSENSUS NUMBERS</b>															
BERJAYA LAND BHD	0.84	4,155	41.1	N.A.	N.A.	N.A.	1.9%	0.8	101.0	N.A.	N.A.	N.A.	N.A.	0.93	BUY
IGB CORPORATION BHD	2.86	3,818	17.3	16.8	15.9	2.3%	5.1%	0.9	220.9	226.9	240.3	2.7%	5.9%	3.14	NEUTRAL
YNH PROPERTY BHD	2.08	851	17.8	12.6	11.6	2.2%	5.7%	1.0	47.8	67.5	73.7	41.3%	9.1%	2.22	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.98	808	30.3	57.4	44.3	N.A.	3.2%	0.8	26.7	14.1	18.2	-47.2%	29.4%	N.A.	BUY
GLOMAC BHD	1.13	821	7.6	7.0	6.2	4.5%	12.9%	0.9	108.4	117.7	133.0	8.7%	13.0%	1.23	BUY
KSL HOLDINGS BHD	3.97	1,534	7.7	6.4	5.9	2.4%	14.8%	1.1	198.1	239.6	258.9	20.9%	8.1%	N.A.	BUY
PARAMOUNT CORP BHD	1.60	676	8.8	9.4	9.4	5.6%	9.1%	0.8	77.0	71.8	71.8	-6.8%	0.0%	1.76	BUY
IVORY PROPERTIES GROUP BHD	0.60	265	16.6	N.A.	N.A.	N.A.	1.5%	0.7	15.9	N.A.	N.A.	N.A.	N.A.	N.A.	BUY
TAMBUN INDAH LAND BHD	2.48	1,020	10.3	10.4	8.6	3.9%	30.3%	2.9	99.1	97.9	118.4	-1.3%	21.0%	2.78	BUY

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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