

COMPANY RESULTS

Tropicana Corp (TRCB MK)

2014: Accelerated Billings Boost Earnings

Tropicana's 2014 results came in above expectations as: a) progress billings for its landed property projects (particularly in Kajang) came in faster than expected, and b) it capitalised interest cost based on billings progress. The group closed the year with RM1.5b worth of sales and targets to launch RM2b worth of projects in 2015. Maintain HOLD. Target price: RM1.25. Entry price: RM1.03. Catalysts include disposal of non-core assets to lower gearing.

2014 RESULTS

Year to 31 Dec (RMm)	4Q14	qoq % chg	yoy % chg	2014	yoy % chg
Revenue	964.3	173.1	116.9	1,972.4	33.7
Property development & resort operations	851.0	n.a.	134.2	1,569.3	29.1
Property investment	34.7	-5.6	-5.2	143.4	0.6
Investment holding and others	78.7	19.1	76.2	153.8	30.4
Operating profit	245.4	n.a.	-6.0	474.0	-3.0
Property development & resort operations	212.0	n.a.	66.6	319.3	7.0
Property investment	33.2	52.3	-68.8	144.5	-14.5
Pre-tax profit	246.2	n.a.	-24.3	443.0	-12.0
Net Profit	212.2	n.a.	-17.3	339.0	-6.4
Core net profit	39.9	62.9	n.a.	163.5	n.a.
EBIT margin (%)	10.5			9.6	n.a.

Source: Tropicana Corp, UOB Kay Hian

RESULTS

- Above expectations.** Tropicana Corp (Tropicana) reported 4Q14 revenue of RM964.3m (+173.1% qoq, +>116.9% yoy) and net profit of RM212.2m (+>100% qoq, -17.3% yoy) which included revaluation gains (RM22.1m) and land sale gains (RM170m). For 2014, the group recorded core net profit of RM163.5m (+>100% yoy), which represents 116% of our full-year estimate of RM140m.
- Net profit improved due to lower finance charges and higher progress billings.** Net margin rose to 20.6% in 4Q14 (3Q14: 8.4%) as a result of lower finance charges after the company's move to capitalise the interest expense incurred based on the progress billings of the projects as well as higher-than-expected progress billings of its landed developments launched last year.

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	1,476	1,972	1,593	1,705	1,751
EBITDA	512	503	319	365	357
Operating profit	489	474	289	333	324
Net profit (rep./act.)	362	334	171	187	195
Net profit (adj.)	115	164	171	187	195
EPS (sen)	26.2	22.4	10.2	11.2	11.6
PE (x)	4.0	4.6	10.2	9.3	9.0
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	7.0	7.1	11.2	9.8	10.0
Dividend yield (%)	10.5	3.8	3.8	3.8	3.8
Net margin (%)	39.3	25.6	10.7	11.0	11.1
Net debt/(cash) to equity (%)	55.3	67.7	58.3	54.7	48.1
Interest cover (x)	7.4	12.9	5.9	6.3	10.2
ROE (%)	25.0	18.3	5.7	n.a.	n.a.
Consensus net profit	-	-	204	216	216
UOBKH/Consensus (x)	-	-	0.84	0.87	0.90

Source: Tropicana, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.04
Target Price	RM1.25
Upside	+20.2%

COMPANY DESCRIPTION

Tropicana Corp is one of the leading property developers in Malaysia with vast landbanks in Klang Valley, Penang and Iskandar.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	TRCB MK
Shares issued (m):	1,373.5
Market cap (RMm):	1,428.4
Market cap (US\$m):	396.9
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

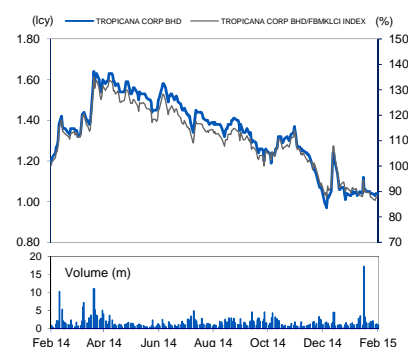
52-week high/low	RM1.64/RM0.970			
1mth	3mth	6mth	1yr	YTD
0.0	(24.1)	(25.2)	(14.0)	(1.9)

Major Shareholders

Tan Sri Danny Tan	70.5%
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FY15 NAV/Share (RM)	1.98
FY15 Net Debt/Share (RM)	1.15

PRICE CHART



Source: Bloomberg

ANALYST

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STOCK IMPACT

- Property sales worth RM1.5b in 2014.** In 2014, Tropicana managed to clinch about RM1.5b worth of sales, vs its target of RM2b. Key drivers came from its high-rise mixed development, Tropicana Metropark (RM290m), and landed property development Tropicana Heights in Kajang (RM237m). Down south, not all was bad as the company clinched RM211m sales from Tropicana Danga Bay and RM119m from Tropicana Danga Cove..
- Strong unbilled sales of RM2.7b**, representing 2.5x of its 2014 property development revenue. Given the significant unbilled sales that the company has secured, we believe it can weather through the slowdown in the property market as earnings visibility is secured for the next three years. Margin-wise, we expect the company's gross property development margin to hover around 18-20%. The outstanding unbilled sales are mainly from its 55%-owned Penang World City development (RM602m), Tropicana Metropark (RM556m) and Tropicana Gardens (RM472m).
- Made RM1.1b divestments in 2014.** In 2014, the group sold non-core assets worth RM1.1b, of which about 45% has been recognised while the balance is expected to be recognised in 2015. The company is also selling its Tropicana City Mall & Office tower to CapitaMalls Malaysia Trust (CMMT MK) for RM540m – a deal that is currently going through due diligence and is expected to complete by 2H15. Going forward, we understand the company is still on the lookout to sell other non-core assets worth about RM200m, land and properties (RM330m) and completed inventories (RM130m). Assuming the company manages to dispose off these assets, its net gearing could fall to about 0.5x from 0.68x currently.
- About RM2b of products planned in 2015.** In terms of launches planned for 2015, we understand the company is targeting to launch RM2b worth of projects - mostly landed developments in the Klang Valley and Iskandar Malaysia. Among the launches planned this year are Canal City land (Tropicana Aman – RM405m, link terraces), Tropicana Heights (RM502m – terraces and semi-Ds), W Hotel & Residences (RM813m, serviced residences) and Tropicana Danga Cove (RM152m, link houses). We understand the company altered development plans for Tropicana Danga Cove to offer landed developments (instead of high-rise) in view of the slowdown in Iskandar high-rise developments.

EARNINGS REVISION/RISK

- We increase our 2015-16 net profit forecasts by 10.8% and 9.3% respectively to reflect the higher progress billings as the company moves to concentrate on landed developments that require shorter period of construction. We also introduce 2017 net profit forecast of RM194m.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising costs of raw materials leading to margin erosion.

VALUATION/RECOMMENDATION

- Maintain HOLD and target price of RM1.25**, based on a 50% discount to our fully-diluted RNAV of RM2.50/share. We believe the ongoing chunky asset monetisation would be positive to its share price as it will narrow the current steep discount to RNAV. A good entry price is RM1.03.

RNAV

	RMm
Undeveloped landbank value	2,341.3
DCF of project profits	1,881.0
NPV of unbilled sales	121.9
Investment properties	1,077.0
Net debt	(1,650.0)
RNAV	3,771.2
Sharebase	1,069.0
RCULS	428.1
Enlarged sharebase	1,497.1
RNAV/share	3.53
RNAV/share ex RCULS	2.50
Discount	50%
Fair value	1.25

Source: UOB Kay Hian

DE-GEARING INITIATIVES

	Ongoing	Potential
a) Land Sale		
- Signed and pending completion	633	
- Actively targeted		150
b) Sale of Dijaya Plaza		180
c) Sale of Mall and Office Tower	540	
d) Disposal of non core assets (Tenaga Kimia)		200
f) Sale of Inventories	130	
Total	1,251	1,585

Source: Tropicana Corp, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Net turnover	1,972	1,593	1,705	1,751
EBITDA	503	319	365	357
Deprec. & amort.	29	30	32	34
EBIT	474	289	333	324
Associate contributions	16	9	0	0
Net interest income/(expense)	(39)	(54)	(58)	(35)
Pre-tax profit	622	245	276	289
Tax	(68)	(59)	(66)	(69)
Minorities	(49)	(15)	(22)	(25)
Net profit	334	171	187	195
Net profit (adj.)	164	171	187	195

BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	576	646	853	781
Other LT assets	3,037	3,047	3,047	3,047
Cash/ST investment	453	655	689	828
Other current assets	3,149	2,991	2,927	3,083
Total assets	7,215	7,339	7,516	7,740
ST debt	765	765	765	765
Other current liabilities	845	556	593	609
LT debt	1,673	1,673	1,673	1,673
Other LT liabilities	746	931	911	959
Shareholders' equity	2,933	3,058	3,198	3,347
Minority interest	252	356	375	387
Total liabilities & equity	7,215	7,339	7,516	7,740

CASH FLOW

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Operating	(607)	349	180	286
Pre-tax profit	622	245	276	289
Tax	(97)	(59)	(66)	(69)
Deprec. & amort.	33	30	32	34
Associates	(66)	0	0	0
Working capital changes	(862)	88	(119)	(2)
Other operating cashflows	(237)	44	58	35
Investing	26	(100)	(100)	(100)
Capex (growth)	(119)	(100)	(100)	(100)
Investments	(66)	0	0	0
Proceeds from sale of assets	197	0	0	0
Others	13	0	0	0
Financing	526	(46)	(46)	(46)
Dividend payments	(59)	(46)	(46)	(46)
Issue of shares	12	0	0	0
Loan repayment	585	0	0	0
Others/interest paid	(12)	0	0	0
Net cash inflow (outflow)	(55)	202	34	140
Beginning cash & cash equivalent	447	453	655	689
Changes due to forex impact	61	0	0	0
Ending cash & cash equivalent	453	655	689	828

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	25.5	20.0	21.4	20.4
Pre-tax margin	31.5	15.4	16.2	16.5
Net margin	25.6	10.7	11.0	11.1
ROA	8.0	2.3	n.a.	n.a.
ROE	18.3	5.7	n.a.	n.a.
Growth				
Turnover	33.7	(19.2)	n.a.	n.a.
EBITDA	(1.6)	(36.6)	n.a.	n.a.
Pre-tax profit	(13.8)	(60.7)	n.a.	n.a.
Net profit	(13.0)	(66.1)	n.a.	n.a.
Net profit (adj.)	(7.8)	(48.8)	9.5	3.9
EPS	(14.5)	(54.6)	n.a.	n.a.
Leverage				
Debt to total capital	43.4	41.7	40.6	39.5
Debt to equity	83.1	79.7	76.2	72.9
Net debt/(cash) to equity	67.7	58.3	54.7	48.1
Interest cover (x)	12.9	5.9	6.3	10.2

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