

12 May 2015

TROPICANA BERHAD

A Slow Start...

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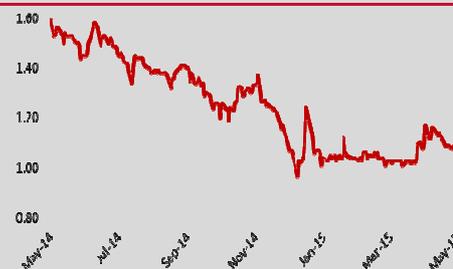
- Period** ■ 1Q15
- Actual vs. Expectations** ■ Tropicana Bhd (TROP)'s 1Q15 core net profit of RM19.3m only made up around 10.0% of both our and consensus full-year estimates of RM190.0m and RM188.0m, respectively. However, we deem the results as broadly within expectations as we are expecting lumpy contribution from the Jalan Bukit Bintang land sale (gains: RM145.0m) to kick in by year-end.
- Property sales of RM177.0m were slower than expected as it only made up 12.0% of our full-year estimate of RM1.5b. We expect sales to pick up as TROP only did a soft launch for Tropicana Aman in 2Q15, which was well received by the market.
- Dividends** ■ No dividend was declared for 1Q15, as expected.
- Key Results Highlights** ■ **YoY**, 1Q15 core net profit saw substantial improvement, increasing 146.0% to RM19.3m, underpinned by strong revenue growth (+31.0%) which was well supported by progressive billings from its on-going projects, i.e. Tropicana Metropark, Tropicana Heights, Tropicana Gardens, Tropicana Danga Bay and land sale from Tropicana Mentari. That aside, TROP also managed to lower its interest cost to RM14.7m (-24.0%) as a result of its on-going de-gearing exercise.
- **QoQ**, TROP saw major decline in its 1Q15 performance, registering core net profit of only RM19.3m, which was down by 89.0% vis-à-vis 4Q14 core net profit of RM177.7m. The sharp decline in earnings was partly due to the higher base from huge land sale profit recognition in 4Q14 i.e. Canal City, Serdang, KK City and Sadong Jaya in Sabah. Its net gearing inched up from 0.68x to 0.70x pending the completion of the sale of its assets, i.e. Tropicana City Mall, Bukit Bintang Land and Tenaga Kimia.
- Outlook** ■ Previously, TROP was targeting RM2.0b worth of sales for FY15. However, management has scaled down its FY15 sales target to RM1.4b during this reporting season, which was quite in line with our full-year sales estimates of RM1.5b.
- We opine management's target is more realistic this time around as its projects like Tropicana Heights (GDV: RM182m) and Tropicana Aman (GDV: RM342m) was well received by house-buyers with indicative take up rates of 66% and 88% as of 5th May 2015.
- Change to Forecasts** ■ No changes to our FY15-16E earnings estimates. Unbilled sales remain strong at RM2.6b which continues to provide 1-1.5 years of visibility.
- Rating Valuation** ■ **Maintain MARKET PERFORM**
- We reiterate our MARKET PERFORM call on TROP with an unchanged Target Price of RM1.10 based on 72.0% discount (one of the steepest discounts applied under our coverage) to its FD RNAV of RM3.91, due to its large risk exposure in Johor, and larger higher-end high-rise components in their developments. At this juncture, downside risks are limited given the steep discount rate, whilst near term re-rating catalyst is lacking.
- Risks to Our Call** ■ Weaker-than-expected property sales
- Higher-than-expected sales and administrative costs
- Negative real estate policies
- Tighter lending environments

MARKET PERFORM ↔

Price: **RM1.10**

Target Price: **RM1.10** ↔

Share Price Performance



KLCI	1,805.49
YTD KLCI chg	2.5%
YTD stock price chg	3.8%

Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,567.1
Issued shares	1,424.6
52-week range (H)	1.59
52-week range (L)	0.95
3-mth avg daily vol:	981,933
Free Float	42%
Beta	1.2

Major Shareholders

CHEE SING TAN	29.2%
ALIRAN FIRASAT SDN B	16.4%
IMPECCABLE ACE SDN B	12.4%

Summary Earnings Table

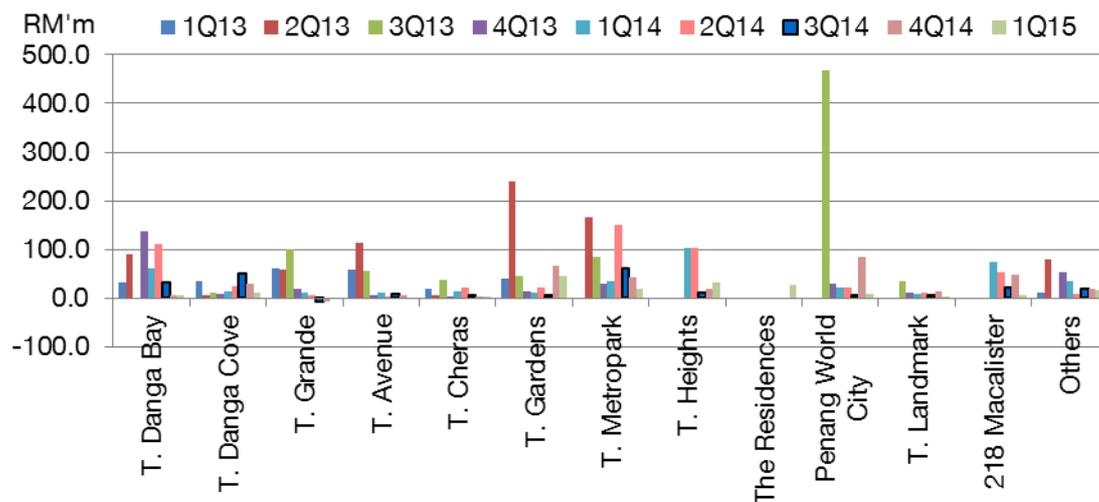
FYE Dec (RM m)	2014A	2015E	2016E
Turnover	1,972	1,895	1,588
EBIT	475	365	281
PBT	444	386	243
Net Profit	326	238	131
Core Net Profit (NP)	304	190	132
Consensus (CNP)	n.a.	188	178
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	27.5	17.1	11.9
Core EPS growth (%)	110%	-38%	-31%
NDPS (sen)	3.2	3.0	3.0
NTA/Share (RM)	2.04	2.11	2.18
PER (x)	4.0	6.4	9.3
Price/NTA (x)	0.5	0.5	0.5
Net Gearing (x)	0.50	0.47	0.13
Dividend Yield (%)	2.9%	2.8%	2.7%

Result Highlight

	1Q15	4Q14	QoQ	1Q14	YoY
FYE' Dec (RM'm)					
Revenue	390.9	964.3	-59%	299.1	31%
Cost of Revenue	(275.8)	(618.2)	-55%	(183.3)	50%
Gross Profit	115.2	346.1	-67%	115.8	-1%
Other Operating Revenue	8.3	24.0	-65%	9.9	-16%
Operating Expenses	(72.3)	(124.7)	-42%	(79.1)	-9%
EBITDA	57.2	258.3	-78%	46.6	23%
Depreciation	(6.0)	(13.0)	-53%	(5.4)	12%
EBIT	51.1	245.4	-79%	41.2	24%
Interest Expense	(14.7)	(4.5)	230%	(19.5)	-24%
Interest Income	1.9	3.9	-51%	2.2	-13%
Associate profits	0.0	0.1	-100%	(0.0)	-100%
JCE profits	2.7	1.4	100%	0.9	190%
Pretax Income	41.1	246.2	-83%	24.8	65%
Income Tax Expense	(19.8)	(34.0)	-42%	(5.2)	283%
Net Profits	27.0	212.2	-87%	19.7	37%
Minority Interests	(7.7)	(13.6)	-43%	(11.8)	-35%
PATAMI	19.3	198.7	-90%	7.8	146%
FV Adjustments	0.0	22.1		0.0	
Core PATAMI	19.3	177.7	-89%	7.8	146%
Gains on disposal of land / investment Prop	5.9	168.0		0.0	
Core PATAMI (w/o disposal gains)	14.9	51.7	-71%	7.8	90%
Net gearing	0.70	0.68		0.54	
EBIT Margins	13.1%	25.4%		13.8%	
PBT Margins	10.5%	25.5%		8.3%	
Core PATAMI Margins	4.9%	18.4%		2.6%	
Effective Tax	-48.1%	-13.8%		-20.8%	

Source: Company, Kenanga Research

Sales Trends

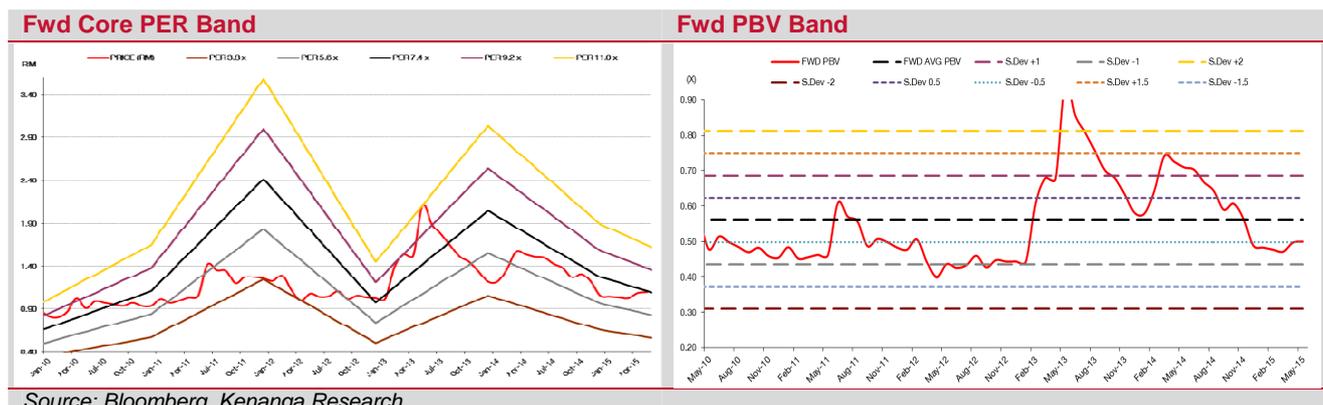


Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2012A	2013A	2014E	2015E	2016E	FY Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue	630	1476	1972	1895	1588	Growth (%)					
EBITDA	263	511	504	386	302	Revenue	67.9	134.2	33.7	-3.9	-16.2
Depreciation	-17	-23	-29	-21	-21	EBITDA	123.2	94.2	-1.4	-23.4	-21.8
EBIT	246	489	475	365	281	EBIT	142.2	98.6	-2.8	-23.1	-23.1
Interest Expense	-32	-78	-47	-44	-38	Pre-tax Income	127.9	124.9	-10.2	-13.1	-36.9
Investing	4	9	0	0	0	Core Net Income	3.5	146.3	109.5	-37.7	-30.6
Associate/JCE	6	84	16	0	0						
Exceptionals/FV	0	0	0	65	0	Profitability (%)					
PBT	220	495	444	386	243	EBITDA Margin	41.8	34.7	25.6	20.4	19.0
Taxation	-42	-125	-68	-96	-61	EBIT Margin	39.1	33.1	24.1	19.3	17.7
Minority Interest	-9	-16	-49	-52	-51	PBT Margin	34.9	33.5	22.5	20.4	15.3
Net Profit	169	353	326	238	131	Core Net Margin	9.4	9.8	15.4	10.0	8.3
Core net profit	59	145	304	190	132	Effective Tax Rate	-19.0	-24.9	-15.4	-24.9	-24.9
						ROE	10.9	15.3	11.9	7.8	4.1
						ROA	4.8	7.1	5.2	3.4	1.9
						DuPont Analysis					
						Net margin (%)	26.8	23.9	16.6	12.6	8.3
						Assets Turnover (x)	0.2	0.3	0.3	0.3	0.2
						Leverage Factor (x)	2.3	2.1	2.3	2.3	2.2
						ROE (%)	10.9	15.3	11.9	7.8	4.1
						Leverage					
						Debt/Asset (x)	0.39	0.41	0.35	0.34	0.31
						Debt/Equity (x)	0.91	0.75	0.83	0.68	0.57
						Net Debt/(Cash)	0.9	1.7	1.4	2.0	2.0
						Net Debt/Equity (x)	0.77	0.55	0.50	0.47	0.13
						Valuations					
						Core EPS (sen)	5.3	13.1	27.5	17.1	11.9
						Dil. EPS	13.3	27.8	20.7	13.0	6.5
						Core EPS (sen)	5.3	13.1	27.5	17.1	11.9
						Dil. Core EPS	4.6	11.4	19.3	10.4	6.5
						NDPS (sen)	4.8	4.4	3.2	3.0	3.0
						NTA/share (RM)	1.85	2.25	2.04	2.11	2.18
						Core PER (x)	20.6	8.4	4.0	6.4	9.3
						Dil. Core PER	23.7	9.6	5.7	10.6	16.9
						Net Div. Yield (%)	4.4%	4.0%	2.9%	2.8%	2.7%
						PNTA (x)	0.6	0.5	0.5	0.5	0.5
						EV/EBITDA (x)	10.9	5.2	7.0	9.2	8.4

Source: Kenanga Research



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Peer Comparison

NAME	Price (11/5/15)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY15/16 NP Growth (%)	FY16/17 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY14/15	FY15/16	FY16/17				FY14/15	FY15/16	FY16/17				
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.45	8,771	24.3	14.7	11.3	3.4%	6.8%	1.3	361.0	595.5	772.8	64.9%	29.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.19	8,276	17.3	19.9	18.9	3.2%	4.3%	0.7	479.2	414.0	439.0	-13.6%	6.0%	2.12	MARKET PERFORM
UEM SUNRISE BHD*	1.31	5,944	13.8	17.2	15.3	1.9%	7.8%	0.9	479.9	385.6	434.3	-19.7%	12.6%	1.47	MARKET PERFORM
SUNWAY BHD	3.40	5,942	9.9	9.7	9.4	3.0%	13.2%	0.9	592.2	606.3	620.5	2.4%	2.3%	3.78	OUTPERFORM
MAH SING GROUP BHD^	1.72	4,129	12.2	11.0	10.3	3.7%	16.1%	1.1	339.2	375.6	399.4	10.7%	6.3%	1.74	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.77	3,487	583.2	112.2	25.3	0.0%	7.9%	1.3	7.2	37.3	165.5	419.8%	343.8%	2.05	OUTPERFORM
UOA DEVELOPMENT BHD*	2.27	3,248	11.6	11.5	10.8	5.7%	12.2%	1.1	279.1	281.7	301.6	0.9%	7.1%	2.10	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.34	2,394	16.4	24.2	30.7	0.9%	2.6%	1.3	41.6	62.1	72.1	49.5%	16.1%	1.27	UNDERPERFORM
KSL HOLDINGS BHD	1.82	1,738	5.7	5.3	4.7	7.6%	15.3%	0.8	252.0	271.5	301.9	7.8%	11.2%	2.48	OUTPERFORM
TROPICANA CORP BHD	1.10	1,567	4.0	6.4	9.3	2.8%	11.9%	0.5	304.5	189.5	131.5	-37.7%	-30.6%	1.10	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD^^	2.80	1,510	8.2	7.9	7.8	5.7%	29.5%	1.9	182.6	190.2	190.5	4.1%	0.2%	2.62	MARKET PERFORM
CRESCENDO CORPORATION BHD*	2.36	537	12.5	12.1	11.8	3.3%	18.4%	0.6	43.3	44.5	45.7	2.7%	2.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.09	552	6.7	5.4	5.4	6.3%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.20	201	10.1	12.6	10.2	2.0%	8.9%	0.5	13.9	15.7	19.5	13.1%	23.8%	1.27	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.89	3,858	17.8	15.8	14.2	2.6%	5.0%	0.9	216.9	244.3	271.0	12.6%	10.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.91	784	17.1	12.3	9.3	2.3%	5.3%	0.9	45.9	63.6	84.2	38.6%	32.3%	1.58	SELL
GLOMAC BHD	0.95	687	8.6	9.6	7.2	4.4%	8.8%	0.7	79.5	71.2	95.9	-10.4%	34.7%	0.96	SELL
PARAMOUNT CORP BHD	1.61	680	9.8	10.1	9.5	5.0%	7.9%	0.8	69.6	67.6	71.8	-3.0%	6.3%	1.54	NEUTRAL
TAMBUN INDAH LAND BHD	1.83	772	7.1	6.5	6.0	5.3%	30.2%	2.0	109.3	118.2	127.9	8.1%	8.2%	2.16	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Last price and TP is Ex-rights and Ex-Bonus.

^^ Last price and TP is Ex-bonus

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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