

UOBKH HIGHLIGHTS

Tropicana Corporation (TRCB MK/HOLD/RM1.10/Target: RM1.25)

1Q15: Below Expectations

Year to 31 Dec	1Q15 (RMm)	4Q14 (RMm)	qoq % chg	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	390.9	964.3	-59.5	30.7	2015F	11.1	10.0
Property development & resort operations	337.4	851.0	-60.3	61.8	2016F	12.1	9.1
Property investment	35.8	34.7	3.1	-8.8	2017F	12.6	8.8
Operating profit	51.2	245.3	-79.2	24.1			
Property development & resort operations	48.5	212.0	-77.1	163.9			
Property investment	2.7	33.2	-91.9	-87.2			
Pretax profit	41.1	246.2	-83.3	65.3			
PATAMI	19.3	212.2	-90.9	146.3			
Core PATAMI	33.3	39.9	-16.6	326.6			
PAT Margins	16.2%	5.5%					

Source: UOB Kay Hian, Bursa

RESULTS

- **Broadly in line.** Tropicana Corp (Tropicana) reported 1Q15 revenue of RM390.9m (-59.5% qoq, +30.7% yoy) and a PATAMI of RM19.3m (-90.9% qoq, +146.3% yoy). The large qoq dip was due to the presence of revaluation gains in the previous quarter. After adjusting for one off items totaling RM14m, Tropicana recorded core PATAMI of RM33.3m (-0.2% qoq, +>100% yoy) which represents about 20% of our 2015 full-year estimates. However, we expect full-year earnings to improve in the following quarters as initial quarters would have been seasonally slower.
- **Net profit and PAT margins seeing improvements.** Net margin rose to 16.2% in 1Q15 (1Q14: 10.2%) 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 its developments going through to more advanced stages and hence the improvement in margins.

COMMENT

- **Clinches property sales worth RM177m in 1Q15.** Ytd in 1Q15, the group managed to clinch about RM177m worth of sales which represents about 13% of its full-year sales target of RM1.4b. Its high-rise mixed development Tropicana Gardens (RM45m), and landed property development Tropicana Heights in Kajang (RM32m) were key sales drivers. However, including products that have been soft launched, ytd sales would breach RM749m.
- **Made RM735m divestments so far.** Ytd, the group sold non-core assets worth RM735m (vs RM1.1b in 2014), which have yet to be recognised. Assets that the company is disposing include: a) The 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 be completed by 2H15, and b) its explosives arm, Tenaga Kimia for RM195m.
- **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 has 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.

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.

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UOB Kay Hian (Malaysia) Holdings Sdn Bhd (210102-T)

Suite 19-02, 19th Floor, Menara Keck Seng, 203 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.
Tel: (603) 2147 1988, Fax: (603) 2147 1983

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