

# Tropicana Berhad

## 2Q15 Broadly Within

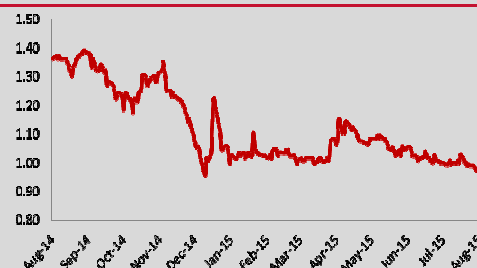
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<b>Period</b>	<ul style="list-style-type: none"> <li>2Q15/1H15</li> </ul>
<b>Actual vs. Expectations</b>	<ul style="list-style-type: none"> <li>1H15 core net profit (CNP) of RM42.4m only made up 22.3% and 22.8% of our and consensus FY15E estimates, respectively. Nonetheless, we consider this as broadly within expectation as we are expecting a lumpy 2H15 mainly from contributions of Jalan Bukit Bintang land sale gains (RM145.0m).</li> <li>1H15 sales of RM790.0m caught up in 2Q15, making up 52.0% of our FY15 estimate of RM1.5b. 1H15 sales was driven mainly by Tropicana Aman in 2Q15 Tropicana Gardens, Tropicana Metropark and Tropicana Heights.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>None, as expected.</li> </ul>
<b>Key Results Highlights</b>	<ul style="list-style-type: none"> <li>YoY, 1H15 topline was up by 7% to RM703.3m, driven by revenue growth from Klang Valley projects, Tropicana Gardens, Tropicana Heights, Tropicana Metropark and Tropicana Danga Bay, and a land disposal of RM106.8m. However, 1H15 PBT declined by 54% to the RM67.0m on gains on disposal in 1H14 (i.e. Canal City, Serdang, KK City and Sadong Jaya in Sabah). As a result of the lumpy disposal gain in 1H14, bottomline was also down by 56% to RM42.4m.</li> <li>QoQ, 2Q15 earnings improved by 20% to RM23.2m boosted by stronger sales mainly from; (i) Tropicana Aman, (ii) Tropicana Heights, and (iii) Tropicana Gardens. However, net gearing inched down to 0.58x (from 0.70x) on receiving proceeds from Canal City land sale, while equity increased from the conversion of RCULS.</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>Management maintains FY15 sales target at RM1.4b, which is quite in line with our full-year sales estimates of RM1.5b.</li> <li>As part of its de-gearing exercise, TROP is planning on reducing net gearing to 0.40x by 4Q15 (from 0.58x currently) via proceeds from land sales and inventory to pare down borrowings.</li> </ul>
<b>Change to Forecasts</b>	<ul style="list-style-type: none"> <li>We make no changes to our FY15-16E earnings.</li> <li>Unbilled sales remain strong at RM3.0b which continues to provide 2.5-3.0 years of visibility.</li> </ul>
<b>Rating Valuation</b>	<p style="text-align: center;"><b>Maintain MARKET PERFORM</b></p> <ul style="list-style-type: none"> <li>We reiterate our MARKET PERFORM call on TROP with a lower TP of RM0.98 (from RM1.10*) as we revert to its historical low Fwd P/NTA 0.45x on FY16E NTA/share of RM2.18 as we believe investors will be less enticed by the challenging property market and the company's relatively high net gearing and thus, we opt to look at its historical low valuations as a base point. Although the group is trading at its historical low with FY16E P/NTA of 0.4x based on current prices, we maintain our MP call as there are no promising re-rating catalyst while sector dynamics remains weak.</li> </ul>
<b>Risks to Our Call</b>	<ul style="list-style-type: none"> <li>Weaker-than-expected property sales</li> <li>Higher-than-expected sales and administrative costs</li> <li>Negative real estate policies</li> <li>Tighter lending environments</li> </ul>

## MARKET PERFORM ↔

**Price:** RM0.92  
**Target Price:** RM0.98 ↓

### Share Price Performance



KLCI	1,621.62
YTD KLCI chg	-7.9%
YTD stock price chg	-12.1%

### Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,327.7
Issued shares	1,443.2
52-week range (H)	1.39
52-week range (L)	0.90
3-mth avg daily vol:	350,475
Free Float	39%
Beta	1.1

### Major Shareholders

CHEE SING TAN	28.9%
ALIRAN FIRASAT SDN B	20.5%
GOLDEN DIVERSITY SDN	11.7%

### Summary Earnings Table

FY Dec (RM'm)	2014A	2015E	2016E
Turnover	1,972	1,895	1,588
EBIT	475	365	281
PBT	444	386	243
<b>Net Profit</b>	<b>326</b>	<b>238</b>	<b>131</b>
<b>Core Net Profit (NP)</b>	<b>304</b>	<b>190</b>	<b>132</b>
Consensus (CNP)	n.a.	186	173
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)	3.3	5.4	7.7
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.50	0.47	0.13
Dividend Yield (%)	3.4%	3.3%	3.3%



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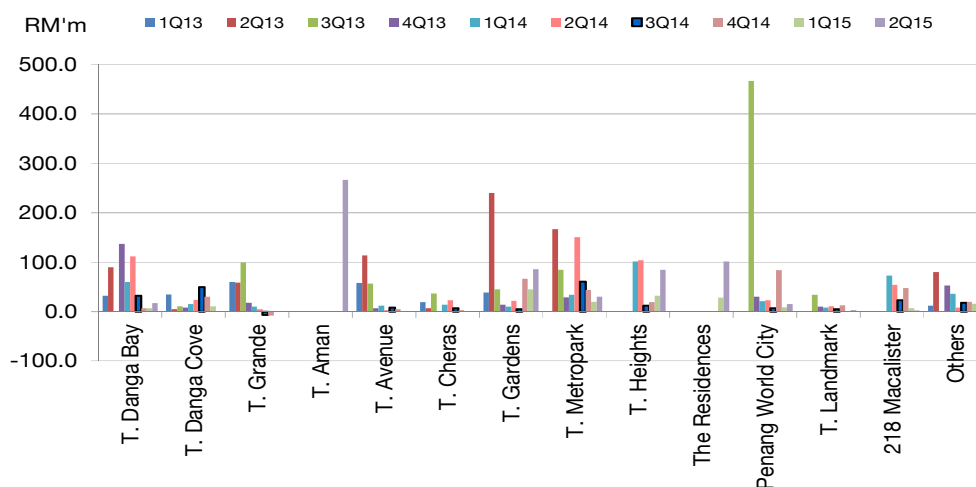
### OTHER POINTS

\*Our previous TP of RM1.10 was based on a 72% discount to its RNAV (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.

Results Highlight								
FYE' Dec (RM'm)	2Q15	1Q15	QoQ	2Q14	YoY	1H15	1H14	YoY
Revenue	312.3	390.9	-20%	355.9	-12%	703.3	655.0	7%
Cost of Revenue	(210.2)	(275.8)	-24%	(220.4)	-5%	(485.9)	(403.6)	20%
<b>Gross Profit</b>	<b>102.2</b>	<b>115.2</b>	<b>-11%</b>	<b>135.5</b>	<b>-25%</b>	<b>217.3</b>	<b>251.4</b>	<b>-14%</b>
Other Operating Revenue	2.5	8.3	-70%	60.7	-96%	10.8	70.6	-85%
Operating Expenses	(68.2)	(72.3)	-6%	(75.2)	-9%	(140.5)	(154.3)	-9%
<b>EBITDA</b>	<b>43.2</b>	<b>57.2</b>	<b>-24%</b>	<b>126.4</b>	<b>-66%</b>	<b>100.4</b>	<b>173.1</b>	<b>-42%</b>
Depreciation	(6.7)	(6.0)	11%	(5.4)	24%	(12.8)	(10.8)	18%
<b>EBIT</b>	<b>36.5</b>	<b>51.1</b>	<b>-29%</b>	<b>121.0</b>	<b>-70%</b>	<b>87.6</b>	<b>162.2</b>	<b>-46%</b>
Interest Expense	(24.2)	(14.7)	65%	(15.6)	55%	(38.9)	(35.1)	11%
Interest Income	6.3	1.9	232%	2.1	199%	8.2	4.3	91%
Associate profits	0.0	0.0	n.a.	0.3	-100%	0.0	0.3	-100%
JCE profits	2.2	2.7	-18%	13.2	-83%	5.0	14.2	-65%
<b>Pretax Income</b>	<b>26.0</b>	<b>41.0</b>	<b>-37%</b>	<b>121.0</b>	<b>-79%</b>	<b>67.0</b>	<b>145.8</b>	<b>-54%</b>
Income Tax Expense	(1.0)	(19.8)	-95%	(15.9)	-94%	(20.8)	(21.0)	-1%
<b>Net Profits</b>	<b>31.5</b>	<b>27.0</b>	<b>17%</b>	<b>105.1</b>	<b>-70%</b>	<b>58.4</b>	<b>124.8</b>	<b>-53%</b>
Minority Interests	(8.3)	(7.7)	8%	(15.7)	-47%	(16.0)	(27.5)	-42%
<b>PATAMI</b>	<b>23.2</b>	<b>19.3</b>	<b>20%</b>	<b>89.5</b>	<b>-74%</b>	<b>42.4</b>	<b>97.3</b>	<b>-56%</b>
FV Adjustments	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	
<b>Core PATAMI</b>	<b>23.2</b>	<b>19.3</b>	<b>20%</b>	<b>89.5</b>	<b>-74%</b>	<b>42.4</b>	<b>97.3</b>	<b>-56%</b>
Gains on disposal of land / investment Prop	5.1	5.9	-14%	58.6	-91%	11.0	58.6	-81%
<b>Core PATAMI (w/o disposal gains)</b>	<b>18.1</b>	<b>14.9</b>	<b>22%</b>	<b>30.9</b>	<b>-41%</b>	<b>34.2</b>	<b>53.3</b>	<b>-36%</b>
Net gearing	0.58	0.70		0.60		0.58	0.60	
EBIT Margins	11.7%	13.1%		34.0%		12.5%	24.8%	
PBT Margins	8.3%	10.5%		34.0%		9.6%	22.3%	
Core PATAMI Margins	7.4%	4.9%		25.1%		6.0%	14.9%	
Effective Tax	-3.8%	-48.1%		-13.1%		-30.7%	-14.4%	

Source: Company, Kenanga Research

### Sales Trends

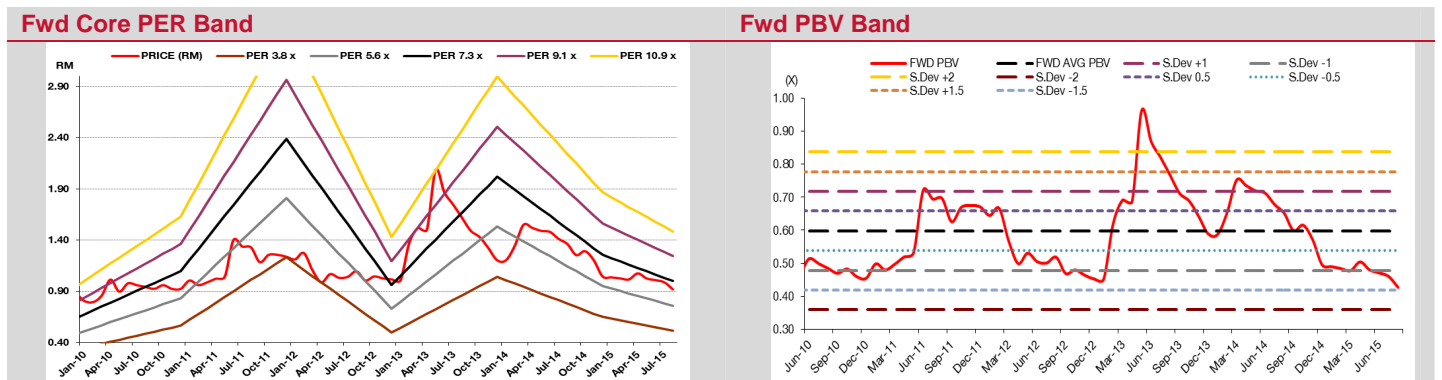


Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	630	1476	1972	1895	1588	<b>Growth (%)</b>					
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	<b>Profitability (%)</b>					
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
						ROA	10.9	15.3	11.9	7.8	4.1
						ROA	4.8	7.1	5.2	3.4	1.9
						<b>DuPont Analysis</b>					
						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
						<b>Leverage</b>					
						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
						<b>Valuations</b>					
						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)	17.3	7.0	3.3	5.4	7.7
						Dil. Core PER	19.8	8.0	4.8	8.9	14.1
						Net Div. Yield (%)	5.2%	4.8%	3.4%	3.3%	3.3%
						P/NTA (x)	0.5	0.4	0.4	0.4	0.4
						EV/EBITDA (x)	10.1	4.8	6.5	8.6	7.5

Source: Kenanga Research



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## Peer Comparison

NAME	Price (13/8/15)	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				
<b>DEVELOPERS UNDER COVERAGE</b>															
S P SETIA BHD*	3.06	7,941	21.5	11.1	9.8	4.5%	7.1%	1.3	361.0	701.5	795.6	94.3%	13.4%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	1.84	6,930	14.5	16.8	15.9	3.8%	4.3%	0.6	479.2	414.4	438.6	-13.5%	5.8%	2.00	MARKET PERFORM
UEM SUNRISE BHD*	0.93	4,220	9.8	12.2	10.8	2.7%	7.8%	0.6	479.9	385.6	434.3	-19.7%	12.6%	1.10	MARKET PERFORM
SUNWAY BHD	3.40	5,993	9.9	9.7	9.4	3.0%	13.2%	0.9	592.2	606.3	620.5	2.4%	2.3%	3.78	MARKET PERFORM
MAH SING GROUP BHD^	1.50	3,614	10.6	9.6	9.0	4.3%	16.1%	1.2	339.2	375.6	399.4	10.7%	6.3%	1.74	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.35	3,192	444.8	85.6	19.3	0.0%	2.2%	1.0	7.2	37.3	165.5	419.8%	343.8%	2.05	OUTPERFORM
UOA DEVELOPMENT BHD*	1.87	2,842	9.6	9.5	8.9	7.0%	12.2%	0.9	279.1	281.7	301.6	0.9%	7.1%	2.10	MARKET PERFORM
MALYSIAN RESOURCES CORP BHD	1.00	1,787	12.3	18.1	22.9	1.2%	2.6%	1.0	41.6	62.1	72.1	49.5%	16.1%	1.27	MARKET PERFORM
KSL HOLDINGS BHD	1.42	1,357	4.4	5.0	4.5	8.0%	15.3%	0.7	252.0	272.3	300.1	8.1%	10.2%	2.15	OUTPERFORM
TROPICANA CORP BHD	0.92	1,328	3.3	5.4	7.7	3.3%	11.9%	0.4	304.5	189.5	131.5	-37.7%	-30.6%	0.98	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.24	1,211	7.5	7.2	6.9	6.3%	29.5%	1.7	182.6	190.2	198.0	4.1%	4.1%	2.46	MARKET PERFORM
CRESCENDO CORPORATION BHD*	2.10	478	11.1	10.8	10.5	3.7%	18.4%	0.6	43.3	44.5	45.7	2.7%	2.9%	2.46	MARKET PERFORM
HUA YANG BHD	1.74	459	4.2	4.1	4.0	7.5%	25.9%	0.8	110.6	111.6	115.2	0.9%	3.3%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.01	173	8.5	10.6	8.6	2.4%	8.9%	0.4	13.9	15.7	19.5	13.1%	23.8%	1.27	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>															
IGB CORPORATION BHD	2.75	3,671	16.5	15.0	13.5	2.7%	5.2%	0.9	222.9	244.3	271.0	9.6%	10.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.77	706	21.1	10.4	8.6	2.4%	3.9%	0.9	33.5	67.8	81.8	102.3%	20.6%	1.58	SELL
GLOMAC BHD	0.80	578	6.6	6.1	5.4	5.8%	9.5%	0.6	87.0	94.5	106.1	8.6%	12.3%	0.95	BUY
PARAMOUNT CORP BHD	1.71	722	10.3	10.1	9.5	4.7%	8.2%	0.8	69.9	71.8	76.0	2.7%	5.9%	2.30	BUY
TAMBUN INDAH LAND BHD	1.51	640	5.8	5.4	5.0	6.4%	28.0%	1.5	109.7	118.6	128.3	8.1%	8.2%	2.28	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.

Source: Kenanga Research

14 August 2015

**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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