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## Disposal of 251 acres of land in Johor

We are positive on Tropicana's announcement to dispose 251.6 acres of freehold land in Gelang Patah, as this will reduce its exposure in Johor, as well as lock in a net gain. Tropicana maintains its property sales target of RM1.5bn on the back of RM1.8bn of planned new launches. Maintain BUY but with a lower target price of RM1.73, still based on a 50% discount to RNAV.

### Disposal of Gelang Patah land for RM569.9m

On the 1<sup>st</sup> July 2016, Tropicana announced that its wholly-owned subsidiary Tropicana Desa Mentari has entered into a sale and purchase agreement with Tiarn Overseas Group for the disposal of 251.6 acres of freehold land in Mukim of Pulai, Johor Bahru for a total cash consideration of RM569.9m (approximately RM52 psf). The payment will be made in stages over five years and is expected to be completed in 2H2022.

### Information on the land

Recap that the land was purchased from Lee Pineapple Company (Pte) in September 2013 for RM366.6m (RM33psf). The land was initially planned for an integrated Eco-Lifestyle residential and commercial development (Tropicana Gelang Patah) with an estimated GDV of RM6.4bn. Currently the land is vacant.

### Positive on the disposal – in line with groups' strategy

We are positive on the proposed land disposal premised on: (i) Tropicana will recognise a net gain on disposal of RM55.5m (net of tax payable), (ii) net proceeds of c. RM218.4m (after repayment of bank borrowings, taxes and related expenses from the disposal) will be utilised for working capital and/or repayment of bank borrowings, (iii) reaffirms management's commitment to monetise asset and de-gear.

### Maintain BUY, with lower target price of RM1.73

We have lowered our 2016 EPS by 15.6% on lower margins given the challenging market, as well as updates on 2015 audited figures. However, we expect earnings to improve in 2017 and 2018 on higher margins as well as stronger progress billings. We have lowered our 12-month TP to RM1.73 (still based on 50% discount to RNAV) after updating the remaining GDV of its landbanks as well as 2015 figures.

### Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1758.8	1252.7	1311.9	1339.7	1376.2
EBITDA (RMm)	451.0	319.1	313.5	327.5	337.3
Pretax profit (RMm)	411.6	269.6	282.7	302.8	320.7
Net profit (RMm)	333.9	223.3	198.4	211.2	219.6
EPS (sen)	26.7	15.4	13.7	14.6	15.2
PER (x)	3.8	6.5	7.4	6.9	6.7
Core net profit (RMm)	320.9	226.5	198.4	211.2	219.6
Core EPS (sen)	25.6	15.3	13.7	14.6	15.2
Core EPS growth (%)	49.0	-40.3	-10.4	6.5	4.0
Core PER (x)	3.9	6.5	7.4	6.9	6.7
Net DPS (sen)	4.0	7.0	6.5	6.5	7.5
Dividend Yield (%)	4.0	6.9	6.4	6.4	7.4
EV/EBITDA (x)	7.2	7.5	6.7	6.0	5.4
Chg in EPS (%)			-15.6	+24.3	+21.7
Affin/Consensus (x)			na	na	na

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Company Update

# Tropicana

TRCB MK  
Sector: Property

RM1.01 @ 4 July 2016

**BUY (maintain)**

Upside 71%

**Price Target: RM1.73**

Previous Target: RM1.95



## Price Performance

	1M	3M	12M
Absolute	+1.0%	-1.9%	0.0%
Rel to KLCI	-0.1%	+2.2%	+4.8%

## Stock Data

Issued shares (m)	1,427.9
Mkt cap (RMm)/(US\$m)	1,442/360.9
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	0.83-1.17
Est free float	25%
BV per share (RM)	2.15
P/BV (x)	0.47
Net cash/ (debt) (RMm) (1Q16)	(1,089.7)
ROE (2016E)	6.4%
Derivatives	
Warr 2019 (WP:RM0.54, SP:RM1.00)	
Shariah Compliant	Yes

## Key Shareholders

Tan Sri Danny Tan	69.5%
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Source: Affin Hwang, Bloomberg

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**Post disposal GDV remains high at RM53.5bn.**

Post disposal, Tropicana's landbank will fall to 1,363 acres (1,615 acres as at March 2016), and its landbank in the Southern region will account for 23% of group's total landbank (vs. 35% previously). The disposal will also reduce its remaining GDV to 53.3bn (from RM59.8bn). As at March-2016, group's net gearing level remained manageable at 0.36x.

**Maintains property sales target of RM1.5bn**

Tropicana targets to achieve property sales of RM1.5bn this year, with an anticipated new launches of close to RM1.8bn. The bulk of the launches will be in the central region (73% of planned launches), 18% will be from Southern region (Danga Cove) and the remaining 9% will be from Penang World City. Recap that, Tropicana achieved property sales of RM1.55bn in 2015 (+4.4% yoy).

**Unbilled sales remains high at RM3.0bn**

Group's unbilled sales stood at RM3.0bn as at March 2016, of which 68% are from Central region (Tropicana Gardens, Aman, Metropark), followed by 24% from Northern region and remaining 8% from the Southern region.

**Risk to our recommendation**

We like Tropicana for its strategic landbank, proactive management, undemanding valuation and its ongoing asset monetisation exercise. However, key risks to our view on Tropicana include; (i) prolong slowdown in the domestic property market, (ii) execution risk, and (iii) delays/hiccups in its asset monetisation and de-gearing exercise.

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Fig 1: Tropicana's RNAV

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
<b>Central</b>					
Tropicana Gardens	Leasehold	18	1,837	70%	79
Tropicana Metropark	Freehold	89	5,300	100%	287
Tropicana Heights	Freehold	199	1,389	100%	119
Tropicana Aman (Canal City)	Leasehold	440	12,591	100%	531
Others (Klang Valley)	Mixed	15	566	100%	40
<b>Southern</b>					
Tropicana Danga Bay	Freehold	37	6,347	60%	152
Tropicana Danga Cove	Freehold	227	9,023	50%	213
Tropicana City Centre	Freehold	22	3,602	100%	137
Tropicana Danga Lagoon	Mixed	62	2,177	100%	118
TDB Hotel & Residences	Freehold	6	1,336	60%	64
<b>Northern</b>					
Penang World City	Freehold	103	9,164	55%	282
<b>Subtotal</b>		<b>1,535</b>	<b>53,332</b>		<b>2,022</b>
Unbilled sales					<b>310</b>
<b>Investment properties</b>		<b>Net BV (RMm)</b>	<b>Market Value (RMm)</b>	<b>Equity Interest</b>	<b>Surplus (RMm)</b>
Tropicana City Mall and Office Tower		503	509	100%	5
<b>Total</b>					<b>2,338</b>
Shareholders' fund (as at Dec 31, 2015)					3,087
RNAV (RMm)					5,425
Share outstanding (as at 31st Dec 2015)					1,447
Add: warrants and RCULS conversions					123
Enlarged share base (m)					1,570
Fully diluted RNAV per share (RM)					3.46
<b>Target price based on 50% discount to RNAV per share (RM)</b>					<b>1.73</b>

Source: Company, Affin Hwang estimates

# Tropicana – FINANCIAL SUMMARY

## Profit & Loss Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Revenue	1759	1253	1312	1340	1376
Operating expenses	-1308	-934	-998	-1012	-1039
EBITDA	451	319	313	327	337
Depreciation	-29	-28	-28	-27	-26
EBIT	422	291	286	301	312
Net int income/(expense)	-39	-39	-30	-24	-20
Associates' contribution	11	18	27	26	29
Others	17	0	0	0	0
Pretax profit	412	270	283	303	321
Tax	-60	-61	-64	-66	-70
Minority interest	-49	-25	-20	-25	-31
Net profit	334	223	198	211	220
Core net profit	321	223	198	211	220

## Balance Sheet Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Fixed assets	3,217	3,396	3,297	3,189	3,082
Other long term assets	396	494	521	547	576
<b>Total non-curr assets</b>	<b>3,614</b>	<b>3,890</b>	<b>3,817</b>	<b>3,736</b>	<b>3,658</b>
Cash and equivalents	453	837	972	896	932
Stocks	52	40	43	44	45
Debtors	809	282	295	302	310
Other current assets	2,288	1,751	1,577	1,589	1,613
<b>Total current assets</b>	<b>3,601</b>	<b>2,911</b>	<b>2,888</b>	<b>2,831</b>	<b>2,900</b>
Creditors	820	698	746	756	776
Short term borrowings	765	488	500	400	400
Other current liabilities	25	25	25	25	25
<b>Total curr liabilities</b>	<b>1,610</b>	<b>1,211</b>	<b>1,271</b>	<b>1,181</b>	<b>1,201</b>
Long term borrowings	1,673	1,265	1,100	1,000	900
Other long term liabilities	746	970	976	983	990
<b>Total long term liabilities</b>	<b>2,419</b>	<b>2,235</b>	<b>2,076</b>	<b>1,983</b>	<b>1,890</b>
Shareholders' Funds	2,933	3,087	3,069	3,089	3,123
Minority interest	252	268	288	314	345

## Cash Flow Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Pretax profit	412	270	283	303	321
Depreciation & amortisation	29	28	28	27	26
Working capital changes	-867	-328	198	-8	-12
Cash tax paid	-93	-121	-58	-60	-63
Others	-88	37	-47	-47	-50
<b>Cash flow from operation</b>	<b>-607</b>	<b>-114</b>	<b>404</b>	<b>214</b>	<b>221</b>
Capex	-119	-146	-100	-100	-100
Others	144	1169	121	171	171
<b>Cash flow from investing</b>	<b>26</b>	<b>1024</b>	<b>21</b>	<b>71</b>	<b>71</b>
Debt raised/(repaid)	106	-685	-153	-200	-100
Dividends paid	-59	-72	-94	-94	-109
Others	479	20	0	0	0
<b>Cash flow from financing</b>	<b>526</b>	<b>-736</b>	<b>-248</b>	<b>-294</b>	<b>-209</b>
<b>Net Change in Cash flow</b>	<b>-55</b>	<b>174</b>	<b>177</b>	<b>-9</b>	<b>84</b>

<b>Free Cash Flow</b>	<b>-725</b>	<b>-260</b>	<b>304</b>	<b>114</b>	<b>121</b>
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Source: Affin Hwang estimates, Company

## Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
<b>Growth</b>					
Revenue (%)	19.2	-28.8	4.7	2.1	2.7
EBITDA (%)	41.8	-29.3	-1.8	4.5	3.0
Core net profit (%)	81.3	-30.4	-11.1	6.5	4.0
<b>Profitability</b>					
EBITDA margin (%)	25.6	25.5	23.9	24.4	24.5
PBT margin (%)	23.4	21.5	21.5	22.6	23.3
Net profit margin (%)	19.0	17.8	15.1	15.8	16.0
Effective tax rate (%)	14.6	22.5	22.6	21.9	21.8
ROA (%)	5.3	3.2	2.9	3.2	3.3
Core ROE (%)	11.7	7.4	6.4	6.9	7.1
ROCE (%)	8.6	5.7	6.0	6.6	7.0
Dividend payout ratio (%)	15.0	45.4	47.4	44.5	49.4
<b>Liquidity</b>					
Current ratio (x)	2.2	2.4	2.3	2.4	2.4
Op. cash flow (RMm)	-607	-114	404	214	221
Free cashflow (RMm)	-725	-260	304	114	121
FCF/share (sen)	-52.0	-17.9	21.0	7.9	8.4
<b>Asset management</b>					
Debtors turnover (days)	167.8	82.2	82.2	82.2	82.2
Stock turnover (days)	14.6	15.8	15.8	15.8	15.8
Creditors turnover (days)	228.9	272.8	272.8	272.8	272.8
<b>Capital structure</b>					
Net gearing (%)	67.7	29.7	20.4	16.3	11.8
Interest cover (x)	9.1	4.9	6.2	7.3	8.3

## Quarterly Profit & Loss

FYE 31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15	1Q16
Revenue	390.9	312.3	244.6	304.9	286.9
Operating expenses	-339.7	-270.7	-65.3	-258.6	-260.0
EBIT	51.2	41.6	179.3	46.3	26.9
Net int income/(expense)	-12.8	-17.9	-7.8	-0.7	-3.1
Associates' contribution	2.7	2.2	3.9	9.1	6.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.1	26.0	175.4	54.7	29.8
Tax	-19.3	-1.0	-18.7	-18.7	-13.0
Minority interest	-7.7	-8.3	-4.9	-4.3	-1.6
Net profit	19.8	23.2	151.8	31.7	15.2
Core net profit	19.8	23.2	151.8	31.7	15.2
<b>Margins (%)</b>					
EBIT	13.1%	13.3%	73.3%	15.2%	9.4%
PBT	10.5%	8.3%	71.7%	17.9%	10.4%
Net profit	5.1%	7.4%	62.1%	10.4%	5.3%



#### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform in line with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)  
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