

# Tropicana

Sector: Property

TRCB MK

RM1.43 @ 19 Mar 2014

BUY (maintain)

Price Target: RM1.80 (↑)



## Price Performance

	1M	3M	12M
Absolute	+12.6%	+12.6%	-0.3%
Rel to KLCI	+10.6%	+13.0%	-16.6%

## Stock Data

Issued shares (m)	1,365.6
Mkt cap (RMm)/(US\$m)	1,952.8/595.7
Avg daily vol – 6 mth (m)	1.44
52-wk range (RM)	1.19-2.20
Est free float	30%
BV per share (RM)	2.32
P/BV (x)	0.62
Net cash/ (debt) (RMm) (4Q13)	(1,420.3)
ROE (FY14F)	11.0%
Derivatives	
Warr 2019 (WP:RM0.74, SP:RM1.00)	
Shariah Compliant	No

## Key Shareholders

Tan Sri Dato' Danny Tan	70.5%
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## Earnings & Valuation Revisions

	14E	15E	16E
Prev EPS (sen)	18.1	16.1	18.8
Curr EPS (sen)	24.5	13.7	17.9
Chg (%)	+35.2	-15.2	-4.9
Prev target price (RM)		1.64	
Curr target price (RM)		1.80	

Isaac Chow  
(603) 2145 0412  
cschow@affininvestmentbank.com.my

## Selling 309 acres of Canal City land to Eco World

### Selling 309 acres of Canal City land to Eco World for RM471m (RM35 psf)

Tropicana announced that its wholly-owned subsidiary, Sapphire Index Sdn Bhd had on 19 March 2014 entered into a sale and purchase agreement with Eco World Development Group Berhad for the disposal of 308.7 acres of leasehold land in Canal City for a total cash consideration of RM470.7m (RM35 psf).

### Information on the land

The 308.7-acre land is part of Tropicana's total Canal City land bank of 1,172 acres (net developable area is approximately 749 acres). To recap, Tropicana had on 15 April 2013 executed a sale and purchase cum development agreement with Permodalan Negeri Selangor Berhad to purchase 11 parcels of leasehold land in Canal City, Selangor measuring 1,172 acres for RM1.3bn via deferred payment method over a period of up to 20 years. The purchase consideration comprised land purchase price of RM587m, interest cost, share of GDV (5%) and profit entitlement (3%) from the development of the land. The sale and purchase of the original land has become unconditional with effect from 13 February 2014 pursuant to the satisfaction of its conditions precedents.

### Positive on the land disposal

We are positive on the proposed land disposal: (i) Tropicana will recognise a net gain on disposal of RM170m; (ii) the RM260m estimated net proceeds from disposal, coupled with higher shareholder funds (after booking in RM170m gain on disposal) will help to reduce Tropicana's net gearing ratio; (iii) the disposal affirms management's commitment to monetise asset and de-gear. The asset monetisation and de-gearing initiative is, in our view, a key re-rating catalyst for Tropicana's share price; and (iv) the emergence of Eco World as its neighbour / development partner will raise the profile of its Canal City project (now called Tropicana Aman). After the disposal, Tropicana still owns 440 acres of net developable area in Tropicana Aman with a potential GDV of RM13bn. Tropicana plans to launch phase 1 of the project in 2H2014 comprising landed properties with an estimated GDV of RM770m.

### Raising 2014E earnings on disposal gain but cutting 2015-16 EPS on dilution from RCULS conversion

We have imputed the disposal gain and raised our 2014E net profit forecast by 74%. On a per share basis, we raised our 2014E EPS forecast by a lower 35.2% but cut our 2015-16E EPS forecast by 15.2% and 4.9% respectively due to a 25.6% increase in issued shares following the conversion of RM361m RCULS into 278m new shares by Tan Sri Dato' Danny Tan in early March 2014. After the conversion, the total RCULS outstanding has declined to RM76.3m, convertible to 50.9m or 58.7m shares depending on the timing of conversion. We have revised our RNAV estimate to RM3.61 (from RM3.64) to reflect the gain on disposal and the recent conversion of RCULS by Tan Sri Dato' Danny Tan.

## Earnings & Valuation Summary

FYE Dec (RMm)	2012	2013	2014E	2015E	2016E
Revenue	630.4	1475.5	1267.7	1266.0	1456.3
EBITDA	143.5	304.6	510.8	319.4	387.4
Pretax profit	224.9	503.6	476.5	288.0	360.8
Net profit	171.1	362.3	339.2	196.6	256.4
EPS (sen)	32.5	35.2	24.5	13.7	17.9
PER (x)	4.4	4.1	5.8	10.4	8.0
Core net profit	66.0	177.0	339.2	196.6	256.4
Core EPS (sen)	12.5	17.2	24.5	13.7	17.9
Core EPS chg (%)	-9.3	37.3	42.3	-44.1	30.4
Core PER (x)	11.4	8.3	5.8	10.4	8.0
DPS (sen)	4.8	3.4	7.0	6.5	7.5
Dividend Yield (%)	3.4	2.4	4.9	4.5	5.2
EV/EBITDA (x)	16.5	9.5	7.0	11.2	9.0
Consensus profit	-	-	185.3	200.7	226.5
Affin/Consensus (x)	-	-	1.8	1.0	1.1

**Maintain BUY with a higher TP of RM1.80**

Notwithstanding our lower 2015-16E EPS forecast, we continue to like Tropicana for its strategic land bank, undemanding valuation of 0.4x P/RNAV and its ongoing asset monetisation and de-gearing exercise. The disposal of Canal City land to Eco World (along with RM170m gains) is a good start for 2014. We view the disposal favourably and raise our TP to RM1.80 (from RM1.64), based on a lower 50% discount to RNAV (from 55%). Maintain **BUY**.

**Key investment risks**

Key risks to our positive view on Tropicana includes: (i) acquisition of sizeable land bank that will further stretch its balance sheet; (ii) a sharper-than-expected slowdown in the domestic property market; (iii) execution risk; and (iv) delays/hiccups in its asset monetisation and de-gearing exercise.

**Fig 1: Tropicana's RNAV**

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
<b>Central</b>					
Tropicana Gardens	Leasehold	18	2,043	70%	175
Tropicana Metropark	Freehold	89	6,800	100%	377
Tropicana Heights	Freehold	199	1,726	100%	139
W KL Hotel & Residences	Freehold	1	1,150	100%	52
Tropicana Aman (Canal City)	Leasehold	440	13,000	100%	508
Others (Klang Valley)	Mixed	15	1,705	100%	143
<b>Southern</b>					
Tropicana Danga Bay	Freehold	37	7,189	60%	217
Tropicana Danga Cove	Freehold	227	12,007	50%	291
Tropicana City Centre	Freehold	22	3,602	100%	129
Tropicana Danga Lagoon	Mixed	62	2,500	100%	128
TDB Hotel & Residences	Freehold	6	1,336	60%	49
Tropicana Gelang Patah	Freehold	257	6,440	100%	-
Senibong Land	Leasehold	60	3,670	70%	-
<b>Northern</b>					
Penang World City	Freehold	103	9,466	55%	315
Tropicana 218 MacAlister	Freehold	2	314	100%	38
<b>Subtotal</b>		<b>1,536</b>	<b>72,948</b>		<b>2,560</b>
Unbilled sales					<b>210</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>2,775</b>
Shareholders' fund (as at Dec 31, 2013)					2,570
Add: cash from warrants conversion					154
Add: net gain from disposal of 309-acre Canal City land					170
Add: valuation surplus					2,775
RNAV (RMm)					5,669
Share outstanding (as at March 19, 2014)					1,366
Add: warrants and RCULS conversions					205
Enlarged share base (m)					1,570
Fully diluted RNAV per share (RM)					3.61
<b>Target price based on 50% discount to RNAV per share (RM)</b>					<b>1.80</b>

Source: Affin

# Tropicana – FINANCIAL SUMMARY

## Profit & Loss Statement

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Revenue	630.4	1475.5	1267.7	1266.0	1456.3
Operating expenses	-486.9	-1170.9	-756.9	-946.5	-1069.0
EBITDA	143.5	304.6	510.8	319.4	387.4
Depreciation	-15.3	-22.7	-15.5	-15.2	-14.9
EBIT	128.1	281.9	495.2	304.2	372.4
Net int income/(expense)	-27.3	-68.9	-50.6	-47.3	-45.8
Associates' contribution	6.3	83.7	31.9	31.1	34.1
Others	117.8	206.9	0.0	0.0	0.0
Pretax profit	224.9	503.6	476.5	288.0	360.8
Tax	-44.4	-125.3	-111.2	-64.2	-81.7
Minority interest	-9.5	-16.1	-26.2	-27.2	-22.7
Net profit	171.1	362.3	339.2	196.6	256.4
Core net profit	66.0	177.0	339.2	196.6	256.4

## Balance Sheet Statement

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Fixed assets	3,287.4	3,244.4	3,477.2	3,578.6	3,538.1
Other long term assets	187.2	323.3	355.3	386.3	420.4
<b>Total non-current assets</b>	<b>3,474.6</b>	<b>3,567.7</b>	<b>3,832.4</b>	<b>3,964.9</b>	<b>3,958.5</b>
Cash and equivalents	210.8	497.2	123.2	139.8	185.9
Stocks	31.1	67.1	47.7	59.6	67.4
Debtors	144.6	383.3	416.8	416.2	478.8
Other current assets	717.9	910.4	1,144.1	1,211.8	1,322.5
<b>Total current assets</b>	<b>1,104.4</b>	<b>1,858.0</b>	<b>1,731.8</b>	<b>1,827.4</b>	<b>2,054.6</b>
Creditors	323.2	487.6	564.1	705.4	796.6
Short term borrowings	231.8	350.8	350.0	350.0	350.0
Other current liabilities	8.1	44.7	44.7	44.7	44.7
<b>Total current liabilities</b>	<b>563.1</b>	<b>883.1</b>	<b>958.8</b>	<b>1,100.1</b>	<b>1,191.3</b>
Long term borrowings	1,596.5	1,566.8	1,350.0	1,300.0	1,250.0
Other long term liabilities	193.1	241.8	253.0	259.4	267.6
<b>Total long term liabilities</b>	<b>1,789.6</b>	<b>1,808.6</b>	<b>1,603.0</b>	<b>1,559.4</b>	<b>1,517.6</b>
<b>Shareholders' Funds</b>	<b>2,098.6</b>	<b>2,570.3</b>	<b>2,812.5</b>	<b>2,915.7</b>	<b>3,064.4</b>
<b>Minority interest</b>	<b>127.6</b>	<b>163.8</b>	<b>190.0</b>	<b>217.1</b>	<b>239.9</b>

## Cash Flow Statement

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Pretax profit	224.9	503.6	476.5	288.0	360.8
Depreciation & amortisation	15.3	22.7	15.5	15.2	14.9
Working capital changes	-327.8	-45.7	-159.7	65.6	-84.2
Cash tax paid	-37.0	-80.2	-100.0	-57.8	-73.5
Others	-162.8	-229.0	-401.0	-84.1	-87.1
<b>Cashflow from operation</b>	<b>-287.3</b>	<b>171.4</b>	<b>-168.6</b>	<b>226.9</b>	<b>130.9</b>
Capex	-269.8	-120.4	-220.0	-220.0	-80.0
Others	-228.6	72.2	329.1	153.0	153.0
<b>Cash flow from investing</b>	<b>-498.3</b>	<b>-48.2</b>	<b>109.1</b>	<b>-67.0</b>	<b>73.0</b>
Debt raised/(repaid)	560.3	72.6	-217.5	-50.0	-50.0
Dividends paid	-10.4	-91.7	-97.0	-93.3	-107.7
Others	309.2	154.9	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>859.1</b>	<b>135.7</b>	<b>-314.5</b>	<b>-143.3</b>	<b>-157.7</b>
<b>Free Cash Flow</b>	<b>-557.0</b>	<b>51.0</b>	<b>-388.6</b>	<b>6.9</b>	<b>50.9</b>

## Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
<b>Growth</b>					
Revenue (%)	68.0	134.1	-14.1	-0.1	15.0
EBITDA (%)	64.6	112.3	67.7	-37.5	21.3
Core net profit (%)	4.8	168.2	91.6	-42.0	30.4
<b>Profitability</b>					
EBITDA margin (%)	22.8	20.6	40.3	25.2	26.6
PBT margin (%)	35.7	34.1	37.6	22.7	24.8
Net profit margin (%)	27.1	24.6	26.8	15.5	17.6
Effective tax rate (%)	19.7	24.9	23.3	22.3	22.6
ROA (%)	4.8	7.2	6.2	3.5	4.3
Core ROE (%)	4.2	7.6	12.6	6.9	8.6
ROCE (%)	4.3	6.7	11.0	6.7	8.1
Dividend payout ratio (%)	14.8	9.6	28.6	47.5	42.0

## Liquidity

Current ratio (x)	2.0	2.1	1.8	1.7	1.7
Op. cash flow (RMm)	-287.3	171.4	-168.6	226.9	130.9
Free cashflow (RMm)	-557.0	51.0	-388.6	6.9	50.9
FCF/share (sen)	-70.2	4.6	-28.1	0.5	3.5

## Asset management

Debtors turnover (days)	83.7	94.8	120.0	120.0	120.0
Stock turnover (days)	23.3	20.9	23.0	23.0	23.0
Creditors turnover (days)	242.3	152.0	272.0	272.0	272.0

## Capital structure

Net gearing (%)	77.1	55.3	56.1	51.8	46.1
Interest cover (x)	4.5	3.9	8.6	6.4	7.9

## Quarterly Profit & Loss

FYE 31 Dec (RMm)	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
Revenue	234.1	305.3	362.1	363.4	444.7
Operating expenses	-174.6	-223.4	-300.1	-290.8	-306.8
EBIT	59.5	81.9	62.0	72.6	137.9
Net int income/(expense)	-12.7	-15.4	-13.6	-25.4	-14.4
Associates' contribution	1.4	1.2	1.8	2.2	78.5
Exceptional Items	12.6	-0.9	12.1	0.0	123.1
Pretax profit	60.8	66.8	62.3	49.3	325.2
Tax	1.0	-24.5	-15.6	-19.7	-65.4
Minority interest	-1.6	1.5	-8.4	-5.9	-3.3
Net profit	60.2	43.8	38.3	23.7	256.5
Core net profit	30.9	44.5	29.3	23.7	79.6
<b>Margins (%)</b>					
EBIT	25.4%	26.8%	17.1%	20.0%	31.0%
PBT	26.0%	21.9%	17.2%	13.6%	73.1%
Net profit	25.7%	14.4%	10.6%	6.5%	57.7%

**Equity Rating Structure and Definitions**

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
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<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 inline with the KLCI benchmark over the next 12 months
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A Participating Organisation of Bursa Malaysia Securities Bhd

Chulan Tower Branch,

3rd Floor, Chulan Tower,

No 3, Jalan Conlay,

50450 Kuala Lumpur.

[www.affininvestmentbank.com.my](http://www.affininvestmentbank.com.my)

Email: [research@affininvestmentbank.com.my](mailto:research@affininvestmentbank.com.my)

Tel : + 603 2143 8668

Fax : + 603 2145 3005