

Tropicana Corporation

Disposal of Subang Land

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News

- Yesterday, Tropicana (TROP) entered into a sale and purchase agreement with Mediaraya Sdn Bhd (MSB or Purchaser) for the disposal of a piece of freehold land measuring approximately 2.46 acres in Subang Jaya for a total cash consideration of RM37.6m.

Comments

- The deal does not surprise us as it is part of a de-gearing exercise to strengthen its balance sheet as the group has quite a large choice of landbanks in its books.
- While that particular piece of land's net book value stands at RM18.6m, TROP is only expecting a net gain of RM3.7m from the disposal, after net of tax and payables due to some development cost incurred on that land previously. To date, the group has sold c.RM956.9m worth of landbanks i.e. Canal City, Jalan Bukit Bintang and Subang Jaya. However, we only factored in the Canal City land sale to ECOWLD and Jalan Bukit Bintang land sale to Agile Property in our FY14 and FY15 earnings estimates, respectively.
- Despite the land sale, we would expect minimal impact its current net gearing of 0.6x. However, we expect its net gearing to ease to 0.4x by year-end should the potential earnings from the ECOWLD land sale (Canal City) is completed within this year. However, TROP and ECOWLD have extended the Approval Period for a period of 6 months to 19 March 2015 to facilitate the completion of the SPA.

Outlook

- Looking ahead, management remains focused on their de-gearing exercise in which they are still actively looking to dispose of their non-core assets i.e. malls and office towers.
- Apart from that, management is also maintaining its sales target of RM2.0b for FY14 with another RM2.6b launches in 2H14 which we believe is achievable given that TROP is launching more landed residential products in the Central Region.

Forecasts

- We maintain our earnings forecasts as the land sale gains result in <2% increase in earnings. Additionally, our FY14E earnings are heavily dependent on the realization of the land sale to ECOWLD. FY15E earnings are not affected.

Rating

Valuation

Maintain MARKET PERFORM

- We are keeping our MARKET PERFORM call on TROP but further lower our TP from to RM1.28 from RM1.40 as we widened our discount to its historical high level of 67% from 64% previously, based on FD RNAV RM3.89 largely due to risk exposure issues in Johor, larger higher-end high-rise components in their launches and possible delay in the conclusion of the ECOWLD deal, which may affect FY14E earnings.

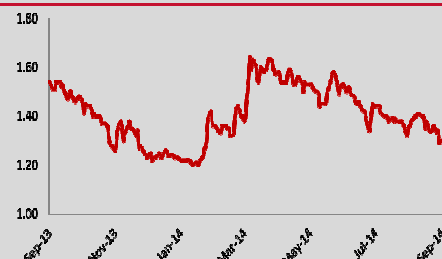
Risks to Our Call

- Execution risks (i.e. shortage of labour). Later-than-expected land sale recognition timeline.

MARKET PERFORM ↔

Price: RM1.24
Target Price: RM1.28 ↓

Share Price Performance



KLCI	1,837.68
YTD KLCI chg	-1.6%
YTD stock price chg	1.6%

Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,698.7
Issued shares	1,369.9
52-week range (H)	1.66
52-week range (L)	1.19
3-mth avg daily vol:	1,600,976
Free Float	42%
Beta	0.7

Major Shareholders

CHEE SING TAN	29.1%
ALIRAN FIRASAT SDN B	16.5%
IMPECCABLE ACE SDN B	12.4%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	1,476	1,982	1,995
EBIT	489	393	378
PBT	495	361	346
Net Profit (NP)	353	233	207
Core NP	145	233	207
Consensus (CNP)	-	218	219
Earnings Revision	-	-	-
EPS (sen)	13.1	21.1	18.7
EPS growth (%)	146.0	60.0	-11.0
NDPS (sen)	3.4	4.2	3.7
BV/Share (RM)	2.25	2.68	2.84
PER (x)	9.4	5.9	6.6
Price/BV (x)	0.5	0.5	0.4
Net Gearing (x)	0.55	0.40	0.29
Dividend Yield (%)	2.8	3.4	3.0



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FD RNAV						
Projects	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm)	Remaining Net Profit *** (RM'm)	WACC (%)	DCF Value (RM m)***
Central Region						
Tropicana Grande	100%		0.0			
Tropicana Avenue	100%		0.0			
Tropicana Cheras	100%		0.0			
Tropicana Gardens	70%	7.0	2,043.0	173.4	11%	116.8
Tropicana Metropark	100%	18.0	6,335.0	768.3	11%	328.7
Tropicana Heights	100%	11.0	1,726.0	209.3	11%	118.1
The Residences	100%	4.0	1,150.0	139.5	11%	108.2
Tropicana Aman	100%	20.0	6,634.8	804.6	11%	320.4
Casa Damansara 3	100%	3.0	135.0	16.4	11%	13.3
Jln Bukit Bintang jv with Agile	30%	4.0	1,115.1	40.6	11%	31.5
Others	100%	4.0	430.0	52.1	11%	40.4
Southern Region						
Tropicana Danga Bay	60%	14.0	7,189.0	523.1	11%	260.9
Tropicana Danga Cove	50%	18.0	11,708.0	709.9	11%	303.8
Tropicana City Centre	100%	10.0	3,602.0	436.8	11%	257.3
Tropicana Danga Lagoon	100%	16.0	2,500.0	303.2	11%	145.9
TDB Hotel & Residences	60%	4.0	1,336.0	97.2	11%	75.4
Tropicana Gelang Patah	100%	12.0	6,440.0	781.0	11%	422.6
Senibong Waterfront	70%	12.0	3,670.0	311.6	11%	168.6
Northern Region						
Penang World City	55%	18.0	9,466.0	631.4	11%	270.2
Tropicana 218 Macalister	100%	4.0	314.0	38.1	11%	29.5
Unbilled Sales						
Tropicana Gardens	70%	5.0	443.0	37.6	11%	27.8
Tropicana Metropark	100%	4.0	245.0	29.7	11%	23.0
Tropicana Cheras	100%	1.0	33.0	4.0	11%	3.6
Tropicana Grande	100%	1.0	65.0	7.9	11%	7.1
Tropicana Avenue	100%	4.0	340.0	41.2	11%	32.0
Others	100%	1.0	56.0	6.8	11%	6.1
Tropicana Danga Bay	60%	5.0	463.0	33.7	11%	24.9
Tropicana Danga Cove	50%	1.0	37.0	2.2	11%	2.0
Penang World City	55%	5.0	473.0	31.5	11%	23.3
Tropicana Landmark	100%	1.0	28.0	3.4	11%	3.1
				Market Value	Surplus/Deficit	
Other land banks				141.8	0.0	
Confirmed land sales				1,089.5	355.3	
Investment Properties				1,233.4	0.0	
Sub-Total						3,519.7
Shareholders fund as of Dec-13						2,570.0
RNAV						6,089.7
Dilution Impact						292.6
FD RNAV per Share						3.89
Diluted no. shares						1,641.5
Applied discount						67%
Target Price						1.28

Source: Kenanga Research

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Income Statement

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	375.2	630.1	1475.5	1982.3	1995.4
EBITDA	118.0	263.4	511.5	414.3	398.6
Depreciation	-16.4	-17.3	-22.7	-20.8	-20.8
EBIT	101.6	246.1	488.8	393.5	377.8
Interest Expense	-11.4	-31.7	-77.9	-32.2	-32.0
Investing	5.3	4.2	9.1	0.0	0.0
Associate/JCE	6.3	5.5	83.7	0.0	0.0
Exceptionals/FV	0.0	0.0	0.0	0.0	0.0
PBT	96.5	219.9	494.6	361.2	345.8
Taxation	-14.6	-41.9	-125.3	-89.9	-86.0
Minority Interest	-7.6	-9.5	-16.1	-38.3	-52.4
Net Profit	74.3	168.6	353.2	233.1	207.3
Core net profit	57.0	59.0	145.3	233.1	207.3

Balance Sheet

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Fixed Assets	1702.1	3423.5	3244.4	3678.6	3657.8
Intangibles	4.8	16.6	80.4	80.4	80.4
Other FA	87.7	102.7	346.9	243.0	243.0
Inventories	19.8	20.3	67.1	86.2	80.6
Receivables	58.3	103.5	383.3	514.9	518.3
Other CA	544.7	638.0	806.4	1583.5	1603.2
Cash	120.1	213.7	497.2	683.0	944.6
Total Assets	2537.6	4518.4	5425.7	6869.6	7127.9
Payables	238.5	330.9	474.9	1414.9	1441.0
ST Borrowings	145.7	223.9	350.8	435.7	525.3
Other ST Liability	6.6	8.5	57.4	64.0	61.6
LT Borrowings	845.6	1642.1	1566.8	1462.5	1358.3
Other LT Liability	144.4	124.4	241.8	240.2	260.7
Minority Int.	118.0	127.6	163.8	202.1	254.5
Net Assets	1038.8	2061.1	2570.3	3050.2	3226.4
Share Capital	458.1	793.1	1107.3	1389.0	1389.0
Reserves	580.7	1268.0	1463.0	1661.1	1837.4
Shareholders Equity	1038.8	2061.1	2570.3	3050.2	3226.4

Cashflow Statement

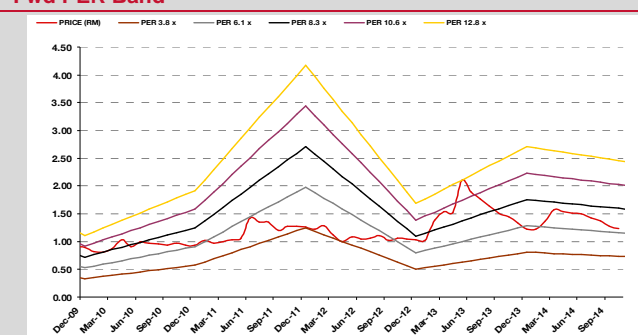
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Operating CF	-265.0	-18.3	838.4	371.3	459.8
Investing CF	-0.2	-821.4	-	-194.3	-561.6
Financing CF	421.7	698.5	1872.7	207.0	183.6
Net Change in Cash	156.6	-141.2	90.4	384.0	81.8
Free Cash Flow	-272.5	-737.6	-14.3	561.2	46.4

Source: Kenanga Research

Financial Data & Ratios

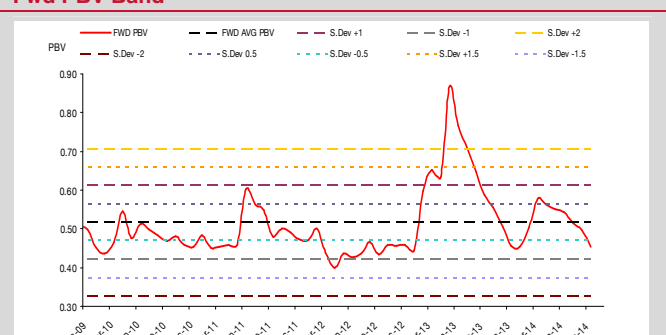
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Growth (%)					
Revenue	28.4	67.9	134.2	34.3	0.7
EBITDA	89.2	123.2	94.2	-19.0	-3.8
EBIT	112.6	142.2	98.6	-19.5	-4.0
Pre-tax Income	99.5	127.9	124.9	-27.0	-4.3
Core Net Income	50.0	3.5	146.3	60.4	-11.1
Profitability (%)					
EBITDA Margin	31.5	41.8	34.7	20.9	20.0
EBIT Margin	27.1	39.1	33.1	19.8	18.9
PBT Margin	25.7	34.9	33.5	18.2	17.3
Core Net Margin	15.2	9.4	9.8	11.8	10.4
Effective Tax Rate	-14.7	-19.0	-24.9	-24.9	-24.9
ROE	7.7	10.9	15.3	8.3	6.6
ROA	3.6	4.8	7.1	3.8	3.0
DuPont Analysis					
Net margin (%)	19.8	26.8	23.9	11.8	10.4
Assets Turnover (x)	0.2	0.2	0.3	0.3	0.3
Leverage Factor (x)	2.1	2.3	2.1	2.2	2.2
ROE (%)	7.7	10.9	15.3	8.3	6.6
Leverage					
Debt/Asset (x)	0.14	0.39	0.41	0.35	0.28
Debt/Equity (x)	0.95	0.91	0.75	0.62	0.58
Net Debt/(Cash)	(0.0)	0.9	1.7	1.4	1.2
Net Debt/Equity (x)	0.74	0.77	0.55	0.40	0.29
Valuations					
Core EPS (sen)	5.1	5.3	13.1	21.1	18.7
Dil. EPS	5.9	13.3	27.8	14.7	11.7
Core EPS (sen)	5.1	5.3	13.1	21.1	18.7
Dil. Core EPS	4.5	4.6	11.4	14.7	11.7
NDPS (sen)	0.9	4.8	3.4	4.2	3.7
NTA/share (RM)	0.93	1.85	2.25	2.68	2.84
Core PER (x)	24.1	23.3	9.4	5.9	6.6
Dil. Core PER	27.6	26.7	10.8	8.4	10.6
Net Div. Yield (%)	0.8%	3.9%	2.8%	3.4%	3.0%
PNTA (x)	1.3	0.7	0.5	0.5	0.4
EV/EBITDA (x)	19.0	11.5	5.5	6.2	5.8

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison

NAME	Price (2/10/14)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY13/14	FY14/15	FY15/16	(%)	(%)	(x)	FY13/14	FY14/15	FY15/16	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
UEM Sunrise*	1.79	8,122	17.7	15.4	20.8	2.2%	10.2%	1.3	459.1	528.8	389.9	15.2%	-26.3%	1.93	MARKET PERFORM
IOI Properties*	2.57	8324	17.4	14.5	13.6	3.1%	4.3%	0.7	479.2	573.0	611.0	19.6%	6.6%	3.10	OUTPERFORM
SP Setia*	3.44	8,731	20.2	26.0	16.8	2.9%	8.7%	1.3	417.9	325.3	504.6	-22.2%	55.1%	3.30	MARKET PERFORM
Sunway Berhad	3.37	5801	12.0	10.8	10.2	3.0%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.87	OUTPERFORM
IJM Land*	3.26	5,082	15.2	13.8	12.7	1.8%	17.7%	1.4	335.2	368.0	400.2	9.8%	8.7%	3.55	ACCEPT OFFER
Mah Sing Group	2.40	3,542	12.1	10.1	8.8	3.9%	17.6%	1.6	280.6	334.6	385.5	19.2%	15.2%	3.05	OUTPERFORM
UOA Development*	2.11	3,019	8.2	10.1	8.4	6.6%	16.0%	1.1	344.6	280.8	336.2	-18.5%	19.7%	2.00	MARKET PERFORM
Tropicana	1.24	1,699	9.5	5.9	6.6	3.4%	15.3%	0.5	145.3	233.1	207.3	60.4%	-11.1%	1.28	MARKET PERFORM
Matrix Concepts	3.22	1,471	9.5	8.7	7.6	5.2%	29.8%	2.3	152.9	167.2	190.2	9.4%	13.8%	3.48	OUTPERFORM
Crescendo*	2.84	646	7.7	7.7	7.0	5.3%	18.4%	0.8	84.2	84.4	93.2	0.3%	10.5%	2.95	OUTPERFORM
Hua Yang	2.25	594	7.2	5.8	5.2	5.9%	22.8%	1.3	82.2	102.9	113.7	25.2%	10.5%	2.60	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.86	4,280	117.8	N.A.	N.A.	N.A.	0.7%	0.8	36.3	N.A.	N.A.	N.A.	N.A.	0.93	NEUTRAL
IGB CORPORATION BHD	2.87	3,831	17.4	17.4	15.9	2.4%	5.3%	0.9	220.3	220.3	240.3	0.0%	9.1%	3.14	NEUTRAL
YNH PROPERTY BHD	2.08	851	18.0	12.6	11.6	2.3%	5.6%	1.0	47.2	67.5	73.7	43.0%	9.1%	2.22	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.92	763	35.5	N.A.	38.3	N.A.	2.4%	0.8	21.5	N.A.	19.9	N.A.	N.A.	N.A.	BUY
GLOMAC BHD	1.15	836	8.0	7.7	7.7	4.7%	14.1%	0.9	105.0	109.0	109.0	3.9%	0.0%	1.13	SELL
KSL HOLDINGS BHD	4.43	1,722	8.6	5.7	6.6	3.6%	14.9%	1.2	199.3	303.2	260.4	52.1%	-14.1%	N.A.	BUY
PARAMOUNT CORP BHD	1.54	650	8.4	9.1	9.1	5.8%	9.1%	0.7	77.0	71.8	71.8	-6.8%	0.0%	1.76	BUY
IVORY PROPERTIES GROUP BHD	0.58	256	10.7	N.A.	N.A.	N.A.	1.5%	0.6	23.9	N.A.	N.A.	N.A.	N.A.	N.A.	BUY
TAMBUN INDAH LAND BHD	2.47	1,016	10.2	10.4	8.6	3.9%	30.3%	2.9	99.2	97.9	118.5	-1.3%	21.0%	2.78	BUY

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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