

TROPICANA BERHAD

FY14 Result Beats Estimates

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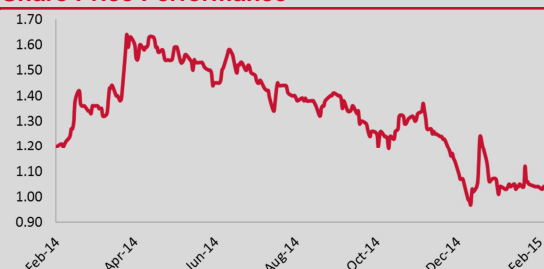
MARKET PERFORM ↔

Price: **RM1.04**

Target Price: **RM1.15** ↔

Period	4Q14/FY14
Actual vs. Expectations	Tropicana Bhd (TROP)'s recorded a strong set of FY14 core earnings of RM304.5m, which was well ahead of ours and consensus expectations by 31% and 49%, respectively. Topline came within our expectations. So the better than expected results were due to higher than expected land sale recognitions in FY14, i.e. Jalan Kia Peng land (at an associate level) and reclassification of interest expense. In terms of property sales, TROP registered RM1.5b of sales for FY14 that was within with our full-year sales estimates of RM1.5b.
Dividends	No dividend was declared for in 4Q14. However, TROP has paid out a first interim dividend of 4sen in 2Q14 implying a net dividend yield of 3.8% for FY14, and it was within our full-year estimates of 4.2sen.
Key Results Highlights	<p>YoY, FY14 core earnings saw a substantial increase by 109% to RM304.5m underpinned by a strong revenue growth (+34%). The growth in revenue was well supported by its on-going projects, i.e. Tropicana Metropark, Tropicana Heights, and Tropicana Danga Bay. However, the surge in core earnings was mainly driven by i) several parcels of land sales (i.e. Jalan Kia Peng, Canal City, Serdang, KK City and Sadong Jaya in Sabah) recognised amounting to RM231.9, ii) lower effective tax rate of 15.4% (-10ppt), iii) lower financing cost (-26%) due to the reclassification of interest expenses and iv) full contribution from Tenaga Kimia that was acquired back in May-13. Its core earnings without land sales also improve by 30% to RM130.5m.</p> <p>QoQ, its 4Q14 core earnings saw a significant increase by 502% from RM29.5m to RM177.7m, due to the recognition of Canal City land sale that was sold to ECOWLD and unexpected smaller parcel land sales (Serdang, KK City and Sadong Jaya in Sabah). That aside, its interest expense also saw a tremendous drop by -76% due to the reclassification of interest expenses which the group is capitalising on its land financing costs. Its net gearing also improved as it came down to 0.68x vis-à-vis 0.72x levels in 3Q14.</p>
Outlook	<p>Going forward, management has set a sales target of RM2.0b vis-à-vis our estimates of RM1.5b for FY15, on the back of RM2.0b planned launches and RM1.2b worth of unsold projects that was launched previously.</p> <p>Apart from that, management remains highly committed on its de-gearing activities and has already planned at least RM580m worth of assets to be sold in FY15.</p>
Change to Forecasts	<p>While TROP is targeting RM2.0b sales for FY15, we are keeping our sales estimates flat at RM1.5b in view of a challenging market ahead due to the tight lending environment coupled with the run-up to the implementation of GST, which could badly affect buyers' sentiment.</p> <p>There are no changes to our FY15 earnings estimate of RM192m, as we have previously factored in thinner development margins due to the reclassification of its interest expense that is to be capitalised. Furthermore, we are introducing our FY16 earnings estimate of RM133m. Our FY16E earnings are lower (-31%, YoY), as we have yet factored in any land sale recognition for FY16.</p>
Rating	Maintain MARKET PERFORM
Valuation	Although TROP has beat earnings expectations, we note that it was largely driven by non-property development reasons. We reiterate our MARKET PERFORM call on TROP with an unchanged Target Price of RM1.15 based on 71.0% discount (one of the steepest discounts applied under our coverage) to its FD RNAV of RM3.89, due to its large risk exposure in Johor, larger higher-end high-rise components in their developments and also tougher times ahead due to the implementation of GST and also tighter lending criteria imposed by banks.
Risks to Our Call	<p>Failure to meet sales targets.</p> <p>Balance sheet risk should its net gearing persistently stays above 0.5x.</p> <p>Sector risks, including overly negative policies.</p>

Share Price Performance



KLCI	1,798.95
YTD KLCI chg	2.1%
YTD stock price chg	-1.9%

Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,428.4
Issued shares	1,373.5
52-week range (H)	1.66
52-week range (L)	0.95
3-mth avg daily vol:	1,580,305
Free Float	41%
Beta	1.1

Major Shareholders

CHEE SING TAN	29.2%
ALIRAN FIRASAT SDN B	17.5%
GOLDEN DIVERSITY SDN	12.1%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	1,972	1,929	1,622
EBIT	475	372	286
PBT	444	324	245
Net Profit	326	192	133
Core Net Profit (NP)	304	192	133
Consensus (CNP)	n.a	216	216
Earnings Revision	n.a	-18%	-31%
Core EPS (sen)	27.5	17.3	12.0
Core EPS growth (%)	110%	-37%	-31%
NDPS (sen)	3.8	2.3	1.6
NTA/Share (RM)	2.58	2.73	2.84
PER (x)	3.8	6.0	8.7
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.50	0.49	0.14
Dividend Yield (%)	3.7%	2.2%	1.5%

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Other Points:

- Its unbilled sales remain strong at RM2.8b as of 4Q14, and would easily provide 1-2 years earnings visibility to the group.
- Going forward, management has set a sales target of RM2.0b for FY15, on the back of RM2.0b planned launches and RM1.2b worth of unsold projects that was launched. However, we are maintaining our FY15 sales estimates of RM1.5b, in view of a challenging market ahead due to the tight lending environment coupled with the run-up to the implementation of GST, which could badly affect buyers' sentiment. Hence, we continue to maintain our NEUTRAL to negative bias view on the sector.

2015 Planned New Launches

Planned New Projects	GDV (RM'm)	Targeted Launch Period	Project Type
<u>Central Region:</u>			
The Residence	813	1H15	High-Rise
Tropicana Aman	405	1H15	Landed
Tropicana Heights	502	1H15	Landed
<u>Northern Region:</u>			
Penang World City	172	1H15	High-Rise
<u>Southern Region:</u>			
Tropicana Danga Cove	152	2H15	Landed
Total	2,044		

Source: Company, Kenanga Research

- Apart from that, management remains highly committed on its de-gearing activities and has already planned at least RM580m worth of assets to be sold in FY15. To recap, TROP has already locked in RM1.2b worth of assets to be sold that is pending for completion in FY15 i.e. Jalan Bukit Bintang land and Tropicana City Mall & Office Tower. Upon completion of all these sale of non-core assets, management still expecting its net gearing to hover closer to 0.5x levels.

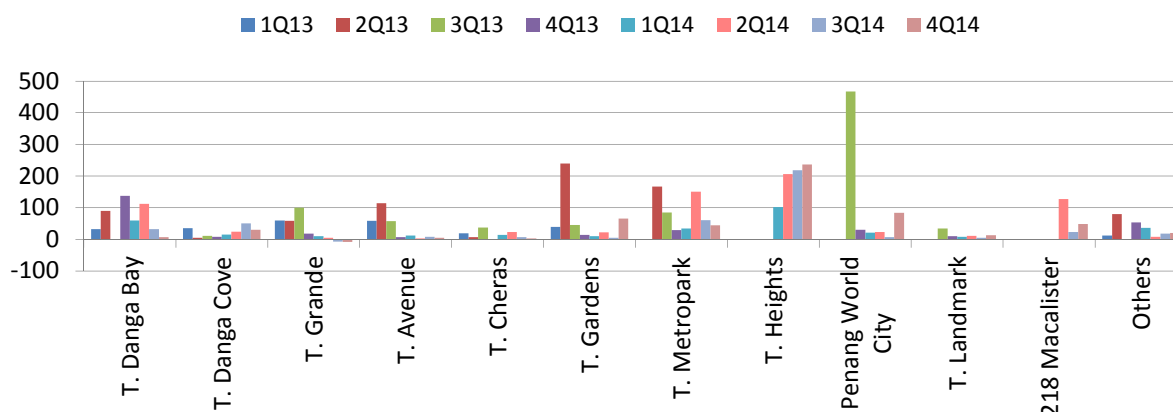
Result Highlight

FYE' Dec (RM'm)	4Q14	3Q14	QoQ	4Q13	YoY	FY14	FY13	YoY
Revenue	964.3	353.1	173%	444.7	117%	1,972.40	1,475.50	34%
Cost of Revenue	-618.2	-219.9	181%	-233.3	165%	-1,241.80	-885.6	40%
Gross Profit	346.1	133.1	160%	211.4	64%	730.6	589.9	24%
Other Operating Revenue	24	15.6	54%	181.4	-87%	110.2	206.9	-47%
Operating Expenses	-124.7	-82.3	52%	-123.7	1%	-361.3	-295.7	22%
EBITDA	258.3	71.7	260%	269.1	-4%	503.1	501.1	0%
Depreciation	-13	-5.2	148%	-8	62%	-29.1	-22.7	28%
EBIT	245.4	66.5	269%	261.1	-6%	474	478.4	-1%
Interest Expense	-4.5	-18.4	-76%	-18.2	-76%	-58	-77.9	-26%
Interest Income	3.9	2.4	62%	3.8	2%	10.6	9.1	17%
Associate profits	0.1	0.7	-90%	0	n.m.	1	4.4	-77%
JCE profits	1.4	-0.2	-833%	78.5	-98%	15.4	79.3	-81%
Pretax Income	246.2	50.9	383%	325.2	-24%	443	493.3	-10%
Income Tax Expense	-34	-13.4	154%	-65.4	-48%	-68.4	-125.3	-45%
Net Profits	212.2	37.6	465%	259.7	-18%	374.6	368	2%
Minority Interests	-13.6	-8.1	68%	-3.3	314%	-49.1	-16.1	206%
PATAMI	198.7	29.5	573%	256.5	-23%	325.5	351.9	-8%
FV Adjustments	22.1	0		204.9		22.1	217	
Core PATAMI	177.7	29.5	502%	61.8	187%	304.5	145.8	109%
Gains on disposal of land / investment Prop	168	5.3		0		231.9	60.4	
Core PATAMI (w/o disposal gains)	51.7	25.5	102%	61.8	-16%	130.5	100.5	30%
Net gearing	0.68	0.72		0.55		0.68	0.55	
EBIT Margins	25.40%	18.80%		58.70%		24.00%	32.40%	
PBT Margins	25.50%	14.40%		73.10%		22.50%	33.40%	
Core PATAMI Margins	18.40%	8.40%		13.90%		15.40%	9.90%	
Effective Tax	-13.80%	-26.20%		-20.10%		-15.40%	-25.40%	

Source: Company, Kenanga Research

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Sales Trends



Source: Company, Kenanga Research

Income Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	630	1476	1972	1929	1622
EBITDA	263	511	504	392	307
Depreciation	-17	-23	-29	-21	-21
EBIT	246	489	475	372	286
Interest Expense	-32	-78	-47	-47	-41
Investing	4	9	0	0	0
Associate/JCE	6	84	16	0	0
Exceptionals/FV	0	0	0	0	0
PBT	220	495	444	324	245
Taxation	-42	-125	-68	-81	-61
Minority Interest	-9	-16	-49	-52	-51
Net Profit	169	353	326	192	133
Core net profit	59	145	304	192	133

Balance Sheet

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	3424	3244	3217	3069	3048
Intangibles	17	80	80	80	80
Other FA	103	347	1140	316	316
Inventories	20	67	52	67	58
Receivables	103	383	809	1057	533
Other CA	638	806	1464	2280	2002
Cash	214	497	453	265	1030
Total Assets	4518	5426	7215	7134	7067
Payables	331	475	820	632	720
ST Borrowings	224	351	765	738	624
Other ST Liability	8	57	25	25	24
LT Borrowings	1642	1567	1673	1569	1376
Other LT Liability	124	242	746	761	740
Minority Int.	128	164	252	304	355
Net Assets	2061	2570	2933	3106	3226
Share Capital	793	1107	1396	1396	1396
Reserves	1268	1463	1537	1710	1830
Shareholders Equity	2061	2570	2933	3106	3226

Cashflow Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	838	371	-308	-885	1152
Investing CF	-1873	-194	281	55	-23
Financing CF	1125	207	720	-203	-365
Net Change in Cash	157	-141	90	384	692
Free Cash Flow	-1118	172	136	1	-267

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Growth (%)					
Revenue	67.9	134.2	33.7	-2.2	-15.9
EBITDA	123.2	94.2	-1.4	-22.2	-21.7
EBIT	142.2	98.6	-2.8	-21.8	-22.9
Pre-tax Income	127.9	124.9	-10.2	-27	-24.3
Core Net Income	3.5	146.3	109.5	-37	-30.6

Profitability (%)

EBITDA Margin	41.8	34.7	25.6	20.3	18.9
EBIT Margin	39.1	33.1	24.1	19.3	17.7
PBT Margin	34.9	33.5	22.5	16.8	15.1
Core Net Margin	9.4	9.8	15.4	9.9	8.2
Effective Tax Rate	-19	-24.9	-15.4	-24.9	-24.9
ROE	10.9	15.3	11.9	6.3	4.2
ROA	4.8	7.1	5.2	2.7	1.9

DuPont Analysis

Net margin (%)	26.8	23.9	16.6	9.9	8.2
Assets Turnover (x)	0.2	0.3	0.3	0.3	0.2
Leverage Factor (x)	2.3	2.1	2.3	2.4	2.2
ROE (%)	10.9	15.3	11.9	6.3	4.2

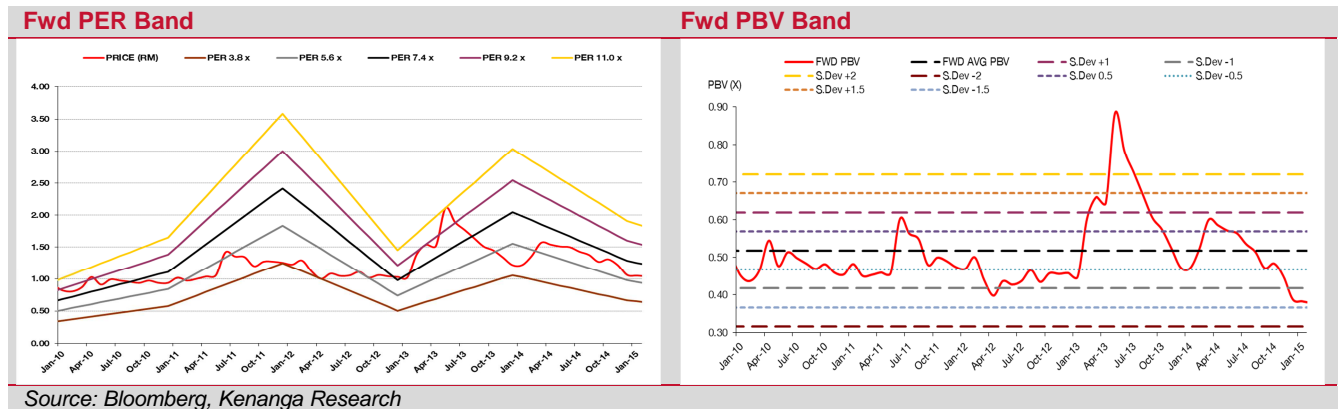
Leverage

Debt/Asset (x)	0.39	0.41	0.35	0.34	0.32
Debt/Equity (x)	0.91	0.75	0.83	0.74	0.62
Net Debt/(Cash)	0.9	1.7	1.4	2	2
Net Debt/Equity (x)	0.77	0.55	0.5	0.49	0.14

Valuations

Core EPS (sen)	5.3	13.1	27.5	17.3	12
Dil. EPS	13.3	27.8	20.7	10.5	6.7
Core EPS (sen)	5.3	13.1	27.5	17.3	12
Dil. Core EPS	4.6	11.4	19.3	10.5	6.7
NDPS (sen)	4.8	3.4	3.8	2.3	1.6
NTA/share (RM)	1.85	2.25	2.58	2.73	2.84
Core PER (x)	19.5	7.9	3.8	6	8.7
Dil. Core PER	22.4	9.1	5.4	9.9	15.6
Net Div. Yield (%)	4.60%	3.30%	3.70%	2.20%	1.50%
PNTA (x)	0.6	0.4	0.4	0.4	0.4
EV/EBITDA (x)	10.6	5	6.2	8.1	6.9

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Peer Comparison

NAME	Price (11/2/15) (RM)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY13/14 NP Growth (%)	FY14/15 NP Growth (%)	Target Price (RM)	Rating
			FY13/14	FY14/15	FY15/16				FY13/14	FY14/15	FY15/16				
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.55	9,022	25.0	19.7	17.6	2.8%	6.8%	1.3	361.0	457.0	510.9	26.6%	11.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.05	7,747	16.2	15.0	13.4	3.4%	4.3%	0.6	479.2	516.3	580.2	7.7%	12.4%	2.45	MARKET PERFORM
UEM SUNRISE BHD*	1.35	6,126	13.3	11.6	16.3	1.9%	10.2%	0.9	459.1	528.9	376.2	15.2%	-28.9%	1.60	MARKET PERFORM
SUNWAY BHD	3.35	5,771	12.0	10.7	10.6	3.0%	33.6%	1.0	482.7	540.1	542.6	11.9%	0.5%	3.65	OUTPERFORM
IJM LAND BHD*	3.58	5,581	16.6	16.6	15.8	1.7%	17.7%	1.6	335.2	336.0	352.1	0.2%	4.8%	3.55	ACCEPT OFFER
MAH SING GROUP BHD^	2.00	3,840	17.1	14.3	12.8	2.8%	17.6%	2.1	280.6	334.6	373.7	19.2%	11.7%	2.06	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.09	2,991	8.7	11.2	10.1	6.2%	16.0%	1.1	344.6	266.8	295.7	-22.6%	10.8%	2.00	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.33	2,376	-59.8	25.2	18.4	0.9%	-2.5%	1.4	-36.7	87.1	119.1	-337.1%	36.8%	1.27	MARKET PERFORM
TROPICANA CORP BHD	1.04	1,428	3.8	6.0	8.7	2.2%	11.9%	0.4	304.5	191.7	133.0	-37.0%	-30.6%	1.15	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.81	1,287	8.3	7.6	6.7	5.9%	29.8%	2.0	152.9	167.2	190.2	9.4%	13.7%	3.05	OUTPERFORM
CRESCENDO CORPORATION BHD*	2.54	578	6.9	8.8	7.4	4.6%	18.4%	0.9	84.2	65.7	78.8	-21.9%	19.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.17	573	7.0	5.6	5.6	6.1%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	MARKET PERFORM
CREST BUILDER HOLDINGS BHD	1.17	192	5.9	18.1	11.5	1.4%	8.9%	0.5	32.7	10.6	16.7	-67.5%	57.6%	1.30	MARKET PERFORM
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.81	4,016	122.0	n.a.	n.a.	n.a.	0.6%	0.8	32.9	n.a.	n.a.	n.a.	n.a.	0.93	SELL
IGB CORPORATION BHD	2.82	3,764	18.8	17.1	15.7	2.4%	4.7%	0.8	199.8	220.3	240.3	10.2%	9.1%	4.10	NEUTRAL
YNH PROPERTY BHD	1.99	817	16.8	12.4	10.8	2.6%	5.7%	0.9	48.8	65.7	76.0	34.7%	15.6%	1.88	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.83	684	31.4	n.a.	34.4	n.a.	2.4%	0.7	21.8	n.a.	19.9	n.a.	n.a.	n.a.	NEUTRAL
GLOMAC BHD	1.00	723	9.2	8.0	6.7	4.7%	8.9%	0.8	78.7	90.9	107.6	15.4%	18.4%	0.97	SELL
KSL HOLDINGS BHD	2.10	1,916	8.1	5.4	n.a.	5.7%	14.3%	1.1	235.8	355.8	n.a.	50.8%	n.a.	2.57	BUY
PARAMOUNT CORP BHD	1.51	638	8.4	8.9	8.9	6.0%	8.6%	0.8	76.4	71.8	71.8	-6.0%	0.0%	1.54	NEUTRAL
IVORY PROPERTIES GROUP BHD	0.43	189	8.3	n.a.	n.a.	n.a.	6.0%	0.4	22.8	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	1.93	813	7.7	8.1	6.7	4.8%	30.2%	2.1	105.8	100.3	121.3	-5.2%	21.0%	2.09	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

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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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