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RM2.6bn property launches slate for this month

In addition to solid 9M14 property sales of RM1.2bn, Tropicana plans to launch properties worth RM2.6bn this month (focusing on Klang Valley). We expect a strong take-up for its landed offerings. We expect the sale of Canal City land by end-14 to keep net gearing below 0.6x. Maintain BUY and TP of RM1.83 based on a 50% discount to RNAV.

Strong 9M14 property sales of RM1.2bn

Tropicana has locked in an estimated RM1.2bn in property sales in 9M14 (Fig 1). Although this was 37% lower yoy, it is notable in view of the weak prevailing property market. As only RM590m in new properties were launched in 9M14, earlier launches and completed stocks were the main sales contributors. We view this positively as it indicates Tropicana's competitiveness despite a weakening market.

Launching properties worth RM2.6bn in Oct14

Tropicana plans to launch properties totalling RM2.6bn in 2H14 (Fig 2), all in this month (Oct14). The group mainly focuses on Klang Valley (83% of its 2H14 launch value) and Penang (9%) where demand is more resilient. The remaining 8% would be in Johor.

Asset disposal plan is on track...

Tropicana has signed sales and purchase agreements to dispose of 3 plots of land worth RM951m (Fig 3). We expect the sale of Canal City land to be completed by end-2014 while the sales of Bukit Bintang and Kota Kinabalu lands are expected to be completed by mid-2015.

...indicating that net gearing has probably peaked

Assuming timely completion of the Canal City land disposal, we expect the group's net gearing to stay below 0.6x in 2014E. We believe Tropicana's net gearing has peaked (Fig 4). Further asset monetisation initiatives and improving project cash flow from ongoing property developments could further lower its net gearing ratio in 2015E-16E.

Maintain BUY and RM1.83 target price

Our 12-month RM1.83 target price is based on a 50% discount to RNAV. We like Tropicana for its strategic landbank, proactive management, undemanding valuation and its ongoing asset monetisation exercise.

Earnings & Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	630.4	1475.5	1267.7	1266.0	1456.3
EBITDA (RMm)	143.5	318.1	493.7	419.4	364.6
Pretax profit (RMm)	224.9	503.6	441.5	383.6	337.0
Net profit (RMm)	171.1	362.3	312.0	288.1	242.4
EPS (sen)	32.5	35.2	22.5	20.1	16.9
PER (x)	3.8	3.5	5.5	6.2	7.3
Core net profit (RMm)	66.0	177.0	312.0	288.1	242.4
Core EPS (sen)	12.5	17.2	22.5	20.1	16.9
Core EPS growth (%)	-9.3	37.3	30.9	-10.9	-15.8
Core PER (x)	9.9	7.2	5.5	6.2	7.3
Net DPS (sen)	4.8	7.4	7.0	7.0	7.5
Dividend Yield (%)	3.9	5.9	5.6	5.6	6.0
EV/EBITDA (x)	15.8	8.5	6.7	7.7	8.7
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.4	1.3	1.2

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

RM1.24 @ 2 Oct 2014

BUY (maintain)

Upside 48%

Price Target: RM1.83



Price Performance

	1M	3M	12M
Absolute	-9.4%	-17.2%	-17.2%
Rel to KLCI	-8.4%	-15.7%	-20.6%

Stock Data

Issued shares (m)	1,369.9
Mkt cap (RMm)/(US\$m)	1,698.7/522.7
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	1.19-1.66
Est free float	30%
BV per share (RM)	1.92
P/BV (x)	0.65
Net cash/ (debt) (RMm) (2Q14)	(1,611.5)
ROE (2014E)	11.7%
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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Expecting landed units to do well among key launches in Oct14

Key launches include: i) the RM381m Tropicana Aman, the maiden launch of Tropicana's Canal City project; ii) the third residential tower in Tropicana Gardens (GDV of RM474m); and iii) the RM832m The Residences at KL City Centre, part of a mixed development featuring the W Hotel. Based on the current property market trends, we expect a strong take up for Tropicana Aman but modest take-ups for Tropicana Gardens and The Residences.

Market may have overlooked the positives

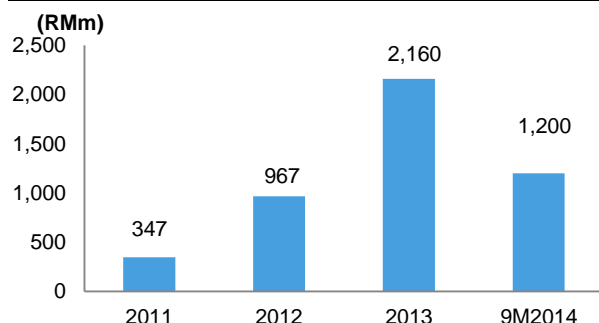
Tropicana is currently trading at an undemanding valuations of 6x 2015E PER and 0.3x P/RNAV. At its current valuation, we believe the market has largely priced in the negatives (high net gearing, weak property market, high concentration in high rise projects) but has overlooked its positive attributes (strategic landbank, good assets, improving balance sheet).

Key re-rating catalysts would be timely execution of its de-gearing initiatives and stronger-than-expected take-up for upcoming launches.

Key risks

Key risks to our positive view include: (i) the acquisition of a sizeable landbank that will stretch its balance sheet; (ii) a sharper-than-expected slowdown in the domestic property market; (iii) execution risk; (iv) delays or hiccups in its asset monetisation and de-gearing exercise; and (v) possible share overhang arising from RCULS conversions.

Fig 1: Tropicana's property sales



Source: Company

Fig 2: Tropicana's 2H14 property launch plan

Development	2H14 Launches (RMm)	Project Type	No. of Units	Project Details
Tropicana Aman	381	Terrace	432	Maiden launch
Tropicana Heights	472	Terrace & Cluster	396	Phase 2 of Fairfield Residences
Tropicana Gardens	474	Serviced Apartments	454	RT3; after Arnica and Bayberry
The Residences	832	Serviced Apartments	350	At KL City Centre. Part of mixed development featuring W Hotel
Tropicana Danga Bay	216	Serviced Apartments	118	Tower 2 of Bora Residences
Penang World City	235	Condominiums	437	Block E & F, Tropicana Bay Residences
Grand Total	2,610			

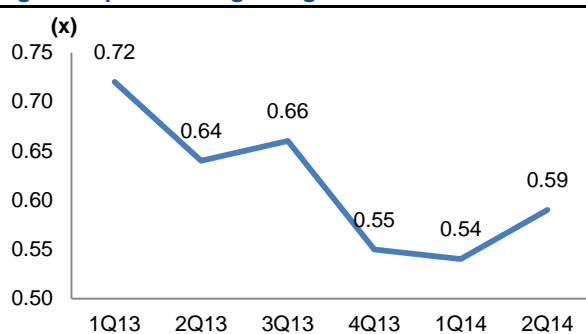
Source: Company

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Fig 3: Land disposals signed and pending completion

Land Sold	Acquired	Acres	Book Value (RM psf)	Sale Price (RM psf)	Status	Gross Proceeds (RMm)	Net Gain (RMm)
Canal City land (partial disposal)	2013	308.7	18	35	SPA signed, 19-Mar-14	471	170
Jalan Bukit Bintang, KL	2012	3.1	1,609	3,280	SPA signed, 8-May-14	448	145
Kota Kinabalu, Sabah	2012	1.9	303	380	SPA signed, 18-Jun-14	32	1

Source: Company

Fig 4: Tropicana net gearing ratio

Source: Company

Fig 5: Peer comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x) CY14	Core PE (x) CY15	EPS growth (%) CY14	EPS growth (%) CY15	P/RNAV (x)	P/B (x)	ROE (%) CY14	ROE (%) CY15	Div Yield (%) FY14	Div Yield (%) FY15
SP Setia	REDUCE	3.44	2.80	8,731	Oct	20.3	15.6	-3.9	29.7	0.7	1.5	7.2	9.0	3.8	4.1
IOIPG	ADD	2.57	2.55	8,324	June	15.7	10.8	12.8	45.3	0.6	0.7	5.6	7.5	3.1	3.3
Sunway	ADD	3.37	3.60	5,809	Dec	11.7	11.4	-9.7	2.4	0.7	1.0	9.1	8.7	3.0	3.0
IJMLand	NR	3.26	NA	5,082	Mar	12.8	12.3	14.8	4.6	0.7	1.6	11.6	11.3	2.1	2.3
UOA Dev	ADD	2.11	2.22	3,019	Dec	12.0	8.4	-31.9	42.6	0.7	1.2	9.5	12.7	4.0	5.7
Tropicana	BUY	1.24	1.83	1,697	Dec	5.5	6.2	30.8	-10.7	0.3	0.6	11.7	10.0	5.6	5.6

Source: Affin Hwang estimates, Bloomberg

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Fig 6: Tropicana's RNAV

Project	Tenure	Land Area (acre)	Remaining GDV (RMm)	Equity Interest	NPV (RMm)
Central					
Tropicana Gardens	Leasehold	18	2,043	70%	140
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
Southern					
Tropicana Danga Bay	Freehold	37	7,189	60%	195
Tropicana Danga Cove	Freehold	227	12,007	50%	271
Tropicana City Centre	Freehold	22	3,602	100%	120
Tropicana Danga Lagoon	Mixed	62	2,500	100%	120
TDB Hotel & Residences	Freehold	6	1,336	60%	49
Tropicana Gelang Patah	Freehold	257	6,440	100%	-
Senibong Land	Leasehold	60	3,670	70%	-
Northern					
Penang World City	Freehold	103	9,466	55%	315
Tropicana 218 MacAlister	Freehold	2	314	100%	38
Subtotal		1,536	72,948		2,467
Unbilled sales					210
Investment properties		Net BV (RMm)	Market Value (RMm)	Equity Interest	Surplus (RMm)
Tropicana City Mall and Office Tower		503	509	100%	5
Total					2,682
Shareholders' fund (as at Dec 31, 2013)					2,570
Add: cash from warrants conversion					154
Add: net gain from disposal of Kia Peng, Canal City and Bukit Bintang land					357
Add: valuation surplus					2,682
RNAV (RMm)					5,763
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)					3.67
Target price based on 50% discount to RNAV per share (RM)					1.83

Source: Company, Affin Hwang estimates

Tropicana – FINANCIAL SUMMARY

Profit & Loss Statement

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Revenue	630	1476	1268	1266	1456
Operating expenses	-487	-1157	-774	-847	-1092
EBITDA	143	318	494	419	365
Depreciation	-15	-23	-16	-15	-15
EBIT	128	295	478	404	350
Net int income/(expense)	-27	-69	-51	-47	-46
Associates' contribution	6	84	14	27	33
Others	118	193	0	0	0
Pretax profit	225	504	442	384	337
Tax	-44	-125	-107	-72	-76
Minority interest	-9	-16	-23	-24	-19
Net profit	171	362	312	288	242
Core net profit	66	177	312	288	242

Balance Sheet Statement

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Fixed assets	3,287	3,244	3,476	3,607	3,561
Other long term assets	187	323	337	364	397
Total non-curr assets	3,475	3,568	3,814	3,971	3,958
Cash and equivalents	211	497	105	206	213
Stocks	31	67	49	53	69
Debtors	145	383	417	416	479
Other current assets	718	910	1,162	1,121	1,343
Total current assets	1,104	1,858	1,732	1,797	2,104
Creditors	323	488	577	631	814
Short term borrowings	232	351	350	350	350
Other current liabilities	8	45	45	45	45
Total curr liabilities	563	883	971	1,026	1,208
Long term borrowings	1,597	1,567	1,350	1,300	1,250
Other long term liabilities	193	242	253	260	267
Total long term liabilities	1,790	1,809	1,603	1,560	1,517
Shareholders' Funds	2,099	2,570	2,785	2,973	3,108
Minority interest	128	164	186	210	229

Cash Flow Statement

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Pretax profit	225	504	442	384	337
Depreciation & amortisation	15	23	16	15	15
Working capital changes	-328	-46	-165	88	-106
Cash tax paid	-37	-80	-96	-65	-68
Others	-163	-229	-383	-199	-86
Cash flow from operation	-287	171	-187	224	92
Capex	-270	-120	-220	-220	-80
Others	-229	72	329	248	153
Cash flow from investing	-498	-48	109	28	73
Debt raised/(repaid)	560	73	-218	-50	-50
Dividends paid	-10	-92	-97	-101	-108
Others	309	155	0	0	0
Cash flow from financing	859	136	-314	-151	-158
Net Change in Cash flow	74	259	-393	101	7
Free Cash Flow	-557	51	-407	4	12

Source: Affin Hwang estimates, Company

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Growth					
Revenue (%)	68.0	134.1	-14.1	-0.1	15.0
EBITDA (%)	64.6	121.7	55.2	-15.0	-13.1
Core net profit (%)	4.8	168.2	76.3	-7.7	-15.8
Profitability					
EBITDA margin (%)	22.8	21.6	38.9	33.1	25.0
PBT margin (%)	35.7	34.1	34.8	30.3	23.1
Net profit margin (%)	27.1	24.6	24.6	22.8	16.6
Effective tax rate (%)	19.7	24.9	24.2	18.8	22.5
ROA (%)	4.8	7.2	5.7	5.1	4.1
Core ROE (%)	4.2	7.6	11.7	10.0	8.0
ROCE (%)	4.3	7.0	10.7	8.9	7.5
Dividend payout ratio (%)	14.8	20.9	31.1	34.9	44.4
Liquidity					
Current ratio (x)	2.0	2.1	1.8	1.8	1.7
Op. cash flow (RMm)	-287	171	-187	224	92
Free cashflow (RMm)	-557	51	-407	4	12
FCF/share (sen)	-70.2	4.6	-29.4	0.3	0.8
Asset management					
Debtors turnover (days)	83.7	94.8	120.0	120.0	120.0
Stock turnover (days)	23.3	21.2	23.0	23.0	23.0
Creditors turnover (days)	242.3	153.8	272.0	272.0	272.0
Capital structure					
Net gearing (%)	77.1	55.3	57.3	48.6	44.6
Interest cover (x)	4.5	4.1	8.3	8.3	7.5

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	362.1	363.4	444.7	299.1	355.9
Operating expenses	-300.1	-290.8	-306.8	-257.9	-234.9
EBIT	62.0	72.6	137.9	41.2	121.0
Net int income/(expense)	-13.6	-25.4	-14.4	-17.3	-13.5
Associates' contribution	1.8	2.2	78.5	0.9	13.5
Exceptional Items	12.1	0.0	123.1	0.0	0.0
Pretax profit	62.3	49.3	325.2	24.8	121.0
Tax	-15.6	-19.7	-65.4	-5.2	-15.9
Minority interest	-8.4	-5.9	-3.3	-11.8	-15.7
Net profit	38.3	23.7	256.5	7.8	89.5
Core net profit	29.3	23.7	79.6	7.8	89.5
Margins (%)					
EBIT	17.1%	20.0%	31.0%	13.8%	34.0%
PBT	17.2%	13.6%	73.1%	8.3%	34.0%
Net profit	10.6%	6.5%	57.7%	2.6%	25.1%

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	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
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	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
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	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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