Tropicana Corporation (DJC MK)

1Q13: Results Above Expectations

1Q13 net profit was RM43.8m, or 31% of our 2013 forecast. Tropicana Corp remains confident of achieving RM2b in sales on the back of RM3b launches for 2013, driven by projects in Klang Valley, Iskandar and Penang. The group raked in RM254m worth of property sales with unbilled sales of RM1.1b in 1Q13. Downgrade to HOLD. Target price: RM1.99. Entry price: RM1.80.

1Q13 Results

Year to 31 Dec (RMm)	1Q13	4Q12	1Q12	qoq % chg
Revenue	**305.3**	**234.1**	**100.5**	**30.4**
Operating profit	**81.0**	**72.1**	**23.4**	**12.4**
Property development & resort operations	70.2	36.5	16.4	92.6
Property investment	15.9	27.8	2.6	(42.7)
Investment holding and others	-5.1	7.9	4.4	n.m
Pretax profit	**66.8**	**60.8**	**21.0**	**9.8**
Net Profit	**43.8**	**60.3**	**16.3**	**(27.3)**
EBIT margin (%)	26.0	17.3	14.8	

Source: Bursa

Results

- **1Q13 results slightly above expectation.** Tropicana Corp reported 1Q13 net profit of RM43.8m (-27.3% qoq, +169% yoy), or 31% of our and 28% of consensus' full-year forecasts RM140m and RM158m respectively. The better-than-expected performance was mainly due to higher gains from land sales.
- **Growing property margin.** Property pre-tax margin increased due to greater land sales. Management stressed that land trading is part of its core business and would contribute about 20% of earnings going forward.

Key Financials

Year to 31 Dec (RMm)	2011	2012	2013F	2014F	2015F
Net turnover	375	630	1,353	1,700	1,949
EBITDA	120	243	398	480	526
Operating profit	104	243	300	369	419
Net profit (rep./act.)	65	55	140	177	225
Net profit (adj.)	53	55	140	177	225
EPS (sen)	9.3	4.6	10.8	12.9	14.7
PE (x)	20.7	41.9	17.8	14.9	13.0
P/B (x)	0.9	1.0	0.9	0.9	0.9
EV/EBITDA (x)	29.4	14.6	8.9	7.4	6.7
Dividend yield (%)	1.6	2.6	2.6	2.6	2.6
Net margin (%)	17.4	8.7	10.4	10.4	11.6
Net debt/(cash) to equity (%)	91.7	80.2	64.9	53.8	24.9
Interest cover (x)	11.0	8.8	4.7	6.6	9.8
ROE (%)	3.7	2.4	5.5	6.7	8.0
Consensus net profit	-	-	159	190	225
UOBKH/Consensus (x)	-	-	0.88	0.93	1.00

Source: Tropicana, Bloomberg, UOB Kay Hian

HOLD
(Downgraded)

Company Results

Share Price	**RM1.92**
Target Price	**RM1.99**
Upside	**+3.6%**
(Previous TP	***RM1.65)***

Company Description

Tropicana Corp is a leading property developer in Malaysia with vast landbanks in Klang Valley, Penang and Iskandar.

Stock Data

GICS sector	Financials
Bloomberg ticker:	DJC MK
Shares issued (m):	860.6
Market cap (RMm):	1,652.3
Market cap (US$m):	547.4
3-mth avg daily t'over (US$m):	1.5

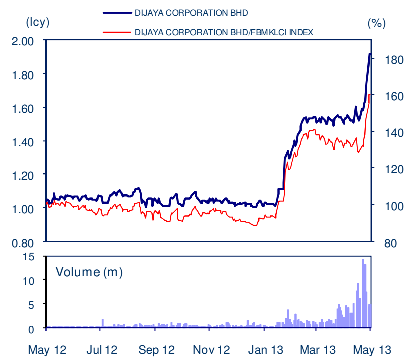
Price Performance (%)

52-week high/low RM1.92/RM1.00

1mth	3mth	6mth	1yr	YTD
24.7	47.7	86.4	91.9	86.4

Major Shareholders	%
Tan Sri Danny Tan	68.3
FY13 NAV/Share (RM)	2.15
FY13 Net Debt/Share (RM)	1.40

Price Chart



Source: Bloomberg

Analyst

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Stock Impact

- **RM254m sales in 1Q13.** In 1Q13, Tropicana managed to rake in RM254m of sales. Management expect sales to take a quantum leap in the following quarters to reach its 2013 sales target of RM2b. This quarter, sales will continued to be driven by key projects in the likes of Tropicana Grande (RM60m), Tropicana Avenue (RM58m), Tropicana Gardens (RM39m) and Tropicana Danga Cove (RM35m).
- **Targeting RM3b worth of launches in 2013.** Key launches in 2013 are Tropicana Gardens (GDV: RM402m), Tropicana Metropark (GDV: RM332m) and Penang World City (GDV: RM819m). We expect Tropicana to command sales of RM1.1b and RM1.4b for 2013 and 2014 respectively.
- **Unbilled sales of RM1.1b will underpin future earnings.** Unbilled sales of RM1.1b (or 1.0x 2013 property development revenue) should cushion earnings visibility for the next three years. Unbilled sales will come mainly from its projects in Iskandar and the Klang Valley - Tropicana Danga Bay (RM345m) and Tropicana Avenue (RM194m).
- **RM219m from land sales.** Thus far, Tropicana has sold RM219m worth of land, pocketing gains of about RM115m. We expect Tropicana to stick to its asset monetisation strategy as: a) this is part of its expansion strategy to focus on larger developments, b) this creates an efficient avenue of asset monetisation and de-leveraging, and c) profitably selling small land parcels is part of the amalgamation exercise.
- **Strong landbanks in the pipeline.** In Apr 13, Tropicana acquired 1,172 acres of land in Canal City for RM1.34b (or RM25.41psf). The Canal City land is currently going though the master planning stage which is expected to be completed by 3Q13. The group plans to develop the site into a mixed residential and commercial development that is expected to commence in 2015. This development is expected to offer a GDV of about RM20b spanning the next 20 years. With this acquisition, Tropicana's existing undeveloped landbank will more than double from about 800 acres to 2,000 acres. The future GDV will rise from the current estimated RM50b to potentially RM70b.

Earnings Revision/Risk

- We maintain our earnings forecasts.

Valuation/Recommendation

- **We downgrade Tropicana to a HOLD, with a higher target price of RM1.99** from RM1.65), which is a 40% discount to our RNAV/share. Our RNAV/share is lifted from RM2.35 to RM3.32 after factoring in the NPV from Canal City land, which will only contribute from 2015 onwards. Our downgrade reflects the recent run-up in the share price. Entry price is RM1.80.

Share Price Catalyst

- Better-than-expected take-up rates of projects.
- Potential REIT-ing of investment properties in the medium term.

RNAV

	(RMm)
Undeveloped landbank value	2,681.1
DCF of project profits	2,652.4
NPV of unbilled sales	212.7
Investment properties	1,077.0
Net debt	(1,650.0)
RNAV	4,973.3
Share base (m)	1,069.0
RCULS	428.1
Enlarged sharebase	1,497.1
RNAV/share (RM)	4.65
RNAV/share ex-RCULS (RM)	3.32
Discount	40%
Fair value (RM)	1.99

Source: UOB Kay Hian

Notable Launches In 2013

Project	GDV (RMm)
Tropicana Gardens	402
Tropicana Metropark	332
Tropicana Danga Bay	495
Tropicana Danga Cove	379
Penang World City	819

Source: Tropicana, UOB Kay Hian

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Major Landbanks and GDV

Major Landbanks	GDV (RMm)
Ongoing Projects	
Central Region	4,991
Southern Region	17,433
Future Projects	
Central Region	31,738
Southern Region	8,560
Northern Malaysia	10,201
East Malaysia	108
Grand Total	**73,031**

Source: Tropicana, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Net turnover	**630**	**1,353**	**1,700**	**1,949**
EBITDA	243	398	480	526
Deprec. & amort.	0	98	111	106
EBIT	243	300	369	419
Associate contributions	0	22	23	31
Net interest income/(expense)	(28)	(84)	(73)	(53)
Pre-tax profit	**215**	**259**	**319**	**397**
Tax	(42)	(65)	(80)	(99)
Minorities	(9)	(54)	(63)	(73)
Net profit	**55**	**140**	**177**	**225**
Net profit (adj.)	55	140	177	225

Balance Sheet

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Fixed assets	1,030	952	861	775
Other LT assets	2,513	2,585	2,658	2,739
Cash/ST investment	214	311	443	1,004
Other current assets	762	1,478	1,787	1,686
Total assets	**4,518**	**5,326**	**5,748**	**6,204**
ST debt	224	224	224	224
Other current liabilities	339	588	739	847
LT debt	1,642	1,742	1,692	1,542
Other LT liabilities	124	0	0	0
Shareholders' equity	2,061	2,548	2,740	3,064
Minority interest	128	223	353	526
Total liabilities & equity	**4,518**	**5,326**	**5,748**	**6,204**

Cash Flow

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Operating	**(17)**	**(444)**	**(308)**	**228**
Pre-tax profit	215	259	319	397
Tax	(18)	(65)	(80)	(99)
Deprec. & amort.	14	98	111	106
Associates	(45)	(45)	(45)	(45)
Working capital changes	(76)	(807)	(833)	(227)
Other operating cashflows	(107)	116	220	95
Investing	**(895)**	**325**	**225**	**225**
Capex (growth)	(560)	(20)	(20)	(20)
Investments	(45)	(45)	(45)	(45)
Proceeds from sale of assets	40	40	40	40
Others	(330)	350	250	250
Financing	**998**	**217**	**214**	**109**
Dividend payments	(17)	(44)	(47)	(52)
Issue of shares	322	161	161	161
Loan repayment	693	100	100	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	**86**	**97**	**131**	**561**
Beginning cash & cash equivalent	**115**	**214**	**311**	**443**
Changes due to forex impact	12	0	0	0
Ending cash & cash equivalent	**214**	**311**	**443**	**1,004**

Key Metrics

Year to 31 Dec (%)	2012	2013F	2014F	2015F
Profitability				
EBITDA margin	38.5	29.4	28.2	27.0
Pre-tax margin	34.1	19.2	18.8	20.4
Net margin	8.7	10.4	10.4	11.6
ROA	1.1	2.6	3.2	3.9
ROE	2.4	5.5	6.7	8.0
Growth				
Turnover	67.9	114.8	25.6	14.7
EBITDA	101.7	64.1	20.6	9.5
Pre-tax profit	148.0	20.7	23.0	24.4
Net profit	(16.2)	157.0	26.0	27.4
Net profit (adj.)	3.9	157.0	26.0	27.4
EPS	(50.7)	134.9	19.5	14.6
Leverage				
Debt to total capital	46.0	41.5	38.2	33.0
Debt to equity	90.5	77.1	69.9	57.6
Net debt/(cash) to equity	80.2	64.9	53.8	24.9
Interest cover (x)	8.8	4.7	6.6	9.8

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