

# TH Plantations Bhd

Initial Public Offering (IPO)

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Equity Commentary from Avenue Securities Sdn Bhd

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## Small In Size, Big In Returns

Fair Value: RM1.83

IPO Price: RM1.25

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### Investment Highlights

TH Plantations Bhd (THPB) is a small plantation company but exhibits similar cost efficiencies to that of its much larger counterparts. We recommend investors to subscribe the IPO underpinned by: (i) its attractive dividend yield of 7.2%; (ii) potential doubling in earnings over the next 3-5 years from new estate injection; (iii) huge 34% discount from sector average FY06 PER suggests tremendous upside potential; and (iv) long-term positive CPO price uptrend from Biodiesel demand.

Small but cost efficient. THPB is a small plantation company, by market capitalization and estate size. However, THPB's FY05's average CPO cost of RM883/tonne and 5-year historical average of RM818/tonne compares favourably with large-to-mid cap plantation companies range of RM710/tonne-RM1,100/tonne taking into account its smaller operating scale.

Possible injection of favorable estate profile by LTH. THPB's parent, Lembaga Tabung Haji (LTH) has approximately 83,000ha of estate landbank in Indonesia and 38,844ha in East Malaysia. THPB has indicated that it may acquire the East Malaysian plantations from LTH once the tress is older. Currently, approx 50% of the tress are still within the young age group profile, thus providing the group ample long term FFB production growth potential, which will more then offset its current ageing plantation age profile.

Highest dividend yielding plantation stock. Based on THPB's minimum dividend payout policy of 50%, we forecast FY06 DPS of 9.0 sen, translating into dividend yield of 7.2%. This places THPB among the highest plantation dividend yielding stock listed on Bursa Malaysia.

Conservative CPO forecast hence upward earnings surprise. Management has pegged its FY06 earnings forecast of RM30.4mn on a relatively conservative CPO price assumption of RM1,350/tonne. This compares to current YTD average CPO spot price of RM1,428/tonne and our full year estimates of RM1,500/tonne. Sensitivity analysis indicates that there is a 5.8% and 17.6% upside to management's FY06 earnings forecast based on current YTD (RM1,428/tonne) and our full year CPO price estimates (RM1,500/tonne) respectively.

Subscribe. Given its more attractive dividend yield and EBIT margins from its more efficient cost base, we have applied a 10% premium to the weighted average FY06 PER valuation of our sample small market capitalization plantation stocks. Consequently, we have derive a target price of RM1.83 (9.8X FY06 PER), implying a 46% upside from IPO price of RM1.25. Subscribe the IPO.

### Earnings Summary

YE 31 Dec (RM mn)	FY03a	FY04a	FY05a	FY06f	FY07f
Turnover (RM mn)	140.9	145.7	112.0	129.4	148.9
Management fees (RM mn)	7.2	8.1	12.5	13.2	15.7
Net Profit (RM mn)	40.0	39.6	31.2	36.7	40.7
% chg YoY	63.7	(0.9)	(21.3)	17.6	10.1
EPS (sen)	20.4	20.2	15.9	18.7	20.8
DPS (sen)	n.a.	n.a.	-	9.0	10.3
Div Yield % <sup>a</sup>	n.a.	n.a.	-	7.1	8.2
ROE %	n.a.	n.a.	26.1	26.8	26.5
ROA %	n.a.	n.a.	18.0	18.8	18.6
PER (x) <sup>a</sup>	n.a.	n.a.	7.9	6.7	8.0
P/NTA (x) <sup>a</sup>	n.a.	n.a.	2.0	1.7	1.5
P/Sales (x) <sup>a</sup>	n.a.	n.a.	2.2	1.9	1.7

<sup>a</sup>Based on IPO price of RM1.25

### Major Shareholders

Shareholder	%
Lembaga Tabung Haji	60.1

### Board Of Directors

Tan Sin Datuk Dr Yusof bin Basiran	Chairman
Dato' Che Abdulah	Managing Director
Datuk Dr Abdul Datuk Dr Abdul Samad bin Haji Alias	Non-Executive Director
Datuk Azran bin Abd Rahman	Non-Executive Director
Ismae bin Ismael	Non-Executive Director
Dato' Wan Zakaria bin Abd Rahman	Non-Executive Director
Md. Yusof bin Hussein	Non-Executive Director
Syed Miod bin Syed Edros	Non-Executive Director

### Financial Highlights for FY06

Revenue Growth (%)	+15.5
Net Profit Growth (%)	+17.6
EBIT Margin (%)	41.2
ROE (%)	26.8
ROA (%)	18.8
Net Profit Margin (%)	25.7
Cash Balance (RM mn)	46.9
Net Gearing Ratio (%)	Net Cash

### IPO Statistics

IPO Price	RM1.25
Public Issue (mn shares)	9.8
Tabung Haji Depositors	31.1
Private Placement	19.6
Directors and employees	4.0
Enlarged paid-up capital	196.3
Market Capitalisation (RMmn)	245.1
Listing PER <sup>a</sup>	7.9

<sup>a</sup>Based on prospectus earnings forecast

### Valuation Comparables

Company	Average <sup>a</sup>
FY05 PER (x)	12.3
FY06 PER (x)	8.9
Mkt. Cap. (RMmn)	310.7
EBIT margin (%)	28.3
DY (%)	4.5

<sup>a</sup>weighted average of small cap plantation stocks applied for valuation purposes based on consensus numbers