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Apr 07, 2006 Choose a region **Edge Malaysia**



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## 04-04-2006: HLG Research: TH Plantations – a little gem

HLG Research said TH Plantation Bhd's (THP) initial public offering price of RM1.25 was attractive as it offered an inexpensive exposure to the growing plantation sector.

It said using THP's management forecast, which was premised on a highly prudent average financial year 2006 (FY06) crude palm oil (CPO) price of RM1,350 per tonne, THP was only priced at a FY06 price earnings ratio (PER) of eight times.

"This is well below the industry, which averages at FY06 PER of 13.2 times. Ascribing a fair price earnings (PE) multiple of 13 times – a tad above Unico Desa Plantations Bhd's valuation given its more attractive dividend yield, the stock may potentially trade up to RM1.95," it said.

The research house added that THP management had committed to pay out roughly 50% of the company's net profit, which translated into an expected dividend of eight sen for FY06, a high gross yield of 6.4%.

THP forecast a net profit of RM30.8 million for FY06 from RM31.2 million a year earlier.

HLG Research said THP's net profit projections were based on an average FY06 CPO price of RM1,350 per tonne and RM1,000 per tonne for palm kernel.

"The management price assumption, in our view, is achievable, as year-to-date CPO and palm kernel prices have averaged at RM1,426 and RM983, respectively," it said in report.

Moving forward, THP's management plans to venture downstream into the refinery business and indicated that its parent company Lembaga Tabung Haji may inject its other estates into THP on an arm length's basis.

Currently, THP has plantation land of 16,227ha, of which 15,471ha has been fully planted. All of these areas are located in Peninsular Malaysia.

HLG Research said despite a lower market cap, the group's landbank is however higher than peers of similar size.

"The age profile of THP's estates is good, in our view, with 73% of its estate (11,294ha) in the matured stage. Management indicated that since about 15% of the planted trees is more than 20 years old, a re-planting programme is unlikely to be overly excessive, thus draining cash flow," it said.

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