

TH Plantations

Hold *(unchanged)*

Share price: RM2.05
Target price: RM2.04 *(unchanged)*

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Description: Medium sized pure oil palm plantation player

Information:

Ticker:	THP MK
Shares Issued (m):	508.8
Market Cap (RM m):	1,043.0
3-mth Avg Daily Volume (m):	0.25
KLCI:	1,468.75

Major Shareholders:

	%
LTH	63.7
EPF	5.7

Price Performance:

52-week High/Low RM2.28/RM1.56

1-mth	3-mth	6-mth	1-yr	YTD
3.5	(1.4)	(6.0)	21.3	(1.4)

Price Chart (RM2.05)



Mission accomplished

Landbank boost. THP has delivered its commitments by acquiring a combined 19,782 ha of land in Sarawak and Indonesia for RM90.3m cash. Despite the above-average land cost, THP's long term growth prospect would be enhanced with stronger future FFB production. Expect muted earnings impact in the short term. The acquisition will be financed by its net cash of RM57m (as at Sept '11). Maintain Hold and TP of RM2.04 based on 11x 2013 PER pending further clarification.

THP has acquired 19,782 ha of land, increasing its total landbank by 50% to 59,153 ha and thus has achieved its medium term KPI. 5,602 ha of the land is located in Samarahan, Sarawak with c.694 ha planted while the remaining is greenfield. Meanwhile, 14,180ha of greenfield land at East Kalimantan has Plantation Business Permit (Izin Usaha Perkebunan). The sellers of the land are Sawit Green Plantation Sdn Bhd, and two Indonesian individuals respectively.

Above-average land cost. The lack of debt details deter derivation of the actual acquisition cost on an EV/hectare basis. However, even without the debt details to derive the enterprise value, the equity value appears to be above-average. Stripping off 4,908 ha of greenfield land in the Sarawak land which we estimate to cost RM10,000/ha, the equity value of the planted land is c.RM80,580/ha; pricey for young plants (see overleaf for details). Performance of the planted land is on par with normal yield trends, in our view, yielding 6mt/ha (1H11) in its 4th year. Meanwhile, the Indonesia land is priced >RM1,269/ha. The land price could reflect growing scarcity of plantation land and high CPO prices.

Neutral near-term impact. Incorporating the incremental FFB production from the acquired planted land would nudge up our 2012-13 net profit estimates by 2.2-3.4%. Meanwhile, the acquired greenfield land would only generate significant impact on earnings after year 2014 if THP begins planting in 2012. Based on THP's plantation development expenditure plans of RM495m that spans across 5-6 years, we estimate an average planting of 3,100 ha p.a. to cost RM86m p.a. until 2017. The new planting would increase our estimated 10-year CAGR in 2010-20 FFB production from 6.3% to 9.7%. Nevertheless, we maintain our earnings forecast for now pending further clarification.

TH Plantations– Summary Earnings Table

FYE Dec(RM m)	2009A	2010A	2011F	2012F	2013F
Revenue	304.4	366.0	407.8	361.5	383.6
EBITDA	113.2	189.2	237.0	192.7	205.1
Recurring Net Profit	53.8	89.5	110.4	83.1	90.5
Recurring Basic EPS (Sen)	11.0	18.3	22.6	17.0	18.5
EPS growth (%)	(47.5)%	66.3%	23.3%	(24.7)%	8.9%
DPS (Sen)	8.5	12.5	11.6	8.7	9.5
PER	18.6	11.2	9.1	12.0	11.1
EV/EBITDA (x)	9.5	5.5	4.5	5.3	4.6
Div Yield (%)	4.1	6.1	5.6	4.2	4.6
P/BV(x)	2.2	1.9	1.8	1.6	1.5
Net Gearing (%)	17.0	7.0	11.1	4.3	NA
ROE (%)	12.6%	18.5%	20.4%	14.1%	14.4%
ROA (%)	5.8%	8.7%	9.7%	6.9%	7.2%
Consensus Net Profit (RM m)	-	-	113.3	105.7	110.8

Source: Maybank IB

Low gearing to finance acquisition. The acquisitions are expected to be completed in 1H2012. Going forward, THP would focus in replanting its existing aging estates and new planting. The land acquisition and planting development expenditure would be funded with internal and borrowed funds. Our forecast shows that THP has the ability to fund Capex spending of RM100m p.a. without borrowed funds while gearing remains low at between 11-14%. As of Sept 2011, THP's net cash stands at RM57m (11 sen/sh). Positive catalyst could emanate from further landbank expansion especially land injection from TH Group.

About the Sarawak land acquisition

News: THP entered into a conditional Sale and Purchase Agreement with Sawit Green Plantation Sdn Bhd to acquire the latter's 70% equity stake (or 3.5m ordinary shares of RM1 each) in Hydroflow Sdn Bhd for RM73.5m. Hydroflow owns 8 parcels of 60-year leasehold land with total land area of approximately 5,602 ha in Sedilu-Gedong Land District, Samarahan, Sarawak. The remaining 30% shareholder of Hydroflow is Punggor Wibawa Berhad.

Of the 5,602 ha, approximately 693 ha has been planted with young oil palm trees (no more than 7 years old) while the balance remains unplanted. THP estimates that RM102m will be incurred over a 5-year period to plant the remaining greenfield land.

FFB Production of the Hydroflow Land

	31.12.2009	31.12.2010	30.6.2011
FFB production	n/a	2,149	1,596
Yield (MT/ha)	n/a	5.48	6.91

Financial Information of Hydroflow

	Audited 31.12.2009 RM '000	Unaudited 31.12.2010 RM '000	Unaudited 30.6.2011 RM'000
Revenue	171	1,102	1,144
Net Profit	(394)	(635)	159
Shareholders' fund	(294)	(535)	259

Our views: The RM73.5m cash consideration for a 70% equity stake in Hydroflow translates to RM105m in equity value (i.e. 100% equity stake). As no details on Hydroflow's debt level were provided, we are unable to compute the enterprise value for the acquisition. But based on the estimated equity value alone, we believe the acquisition price is relatively high. Assuming the 4,908 ha of greenfield land cost RM10,000/ha, the cost of the remaining planted area works out to be RM80,580/ha; which is expensive for the young plants (with no mill). Listed plantation stocks like Sarawak Oil Palms (SOP; Buy, TP: RM6.70) is trading at Enterprise Value per hectare of less than RM40,000 per ha.

About the Indonesia land acquisition

News: TH Plantations entered into a conditional Sale and Purchase Agreement with Indonesian citizens, namely Drs H. Rajasa Abdurachman and Ir. Badai Sakti Daniel to acquire the latter's 93% equity stake or 5.58m shares of Rp1,000 each in PT Persada Kencana Prima ("PKP") for a total cash consideration of Rp46,211,960,000 or RM16.82m equivalent (Rp2,747: RM1).

PKP had obtained a Plantation Business Permit (*Izin Usaha Perkebunan*) on 27 Feb 2009 which allows PKP to operate oil palm plantation on approximately 14,180 ha of leasehold land in Sesayap Hilir Subdistrict, Tana Tidung District, East Kalimantan, Indonesia. One of the condition precedents requires the sellers to obtain *Surat Keputusan Hak Guna Usaha* (i.e Land Permit/ Rights) before full payment is released to the sellers.

THP estimates that RM393m will be incurred over a 6-year period to plant the remaining greenfield land, which will be funded from internally-generated funds and/or borrowings.

Financial Information of PKP

	Unaudited 31.12.2009 Rp '000	Unaudited 31.12.2010 Rp '000	Unaudited 30.6.2011 Rp'000
Revenue	-	-	-
Net Profit	-	(213,749)	(47)
Shareholders' fund	600,000	(1,179,304)	(1,179,304)

Our views: The RM16.82m cash consideration for a 93% equity stake in PKP translates to RM18.1m in equity value (i.e. 100% equity stake). As no details on PKP's debt level were provided, we are unable to compute the enterprise value for the acquisition. But based on the estimated equity value alone, we believe the acquisition price is higher than similar land transactions in Indonesia. The cost is above RM1,269/ha (or c. USD400/ha), perhaps reflecting the growing scarcity of plantation land in Indonesia.

INCOME STATEMENT (RM m)

FYDec	2010A	2011F	2012F	2013F
Revenue	366.0	407.8	361.5	383.6
EBITDA	189.2	237.0	192.7	205.1
Depreciation & Amortisation	(35.2)	(35.9)	(36.3)	(36.6)
Operating Profit (EBIT)	154.0	201.1	156.5	168.5
Interest (Exp)/Inc	(9.4)	(16.1)	(17.1)	(17.1)
Associates	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0
Pre-Tax Profit	144.6	184.9	139.4	151.4
Tax	(36.1)	(46.2)	(34.8)	(37.8)
Minority Interest	(18.9)	(28.3)	(21.4)	(23.1)
Net Profit	89.5	110.4	83.1	90.5
Recurring Net Profit	89.5	110.4	83.1	90.5
Revenue Growth %	20.2%	11.4%	(11.4)%	6.1%
EBITDA Growth (%)	67.1%	25.3%	(18.7)%	6.4%
EBIT Growth (%)	97.4%	30.6%	(22.2)%	7.7%
Net Profit Growth (%)	66.3%	23.3%	(24.7)%	8.9%
Recurring Net Profit Growth (%)	66.3%	23.3%	(24.7)%	8.9%
Tax Rate %	25.0%	25.0%	25.0%	25.0%

BALANCE SHEET (RM m)

FYDec	2010A	2011F	2012F	2013F
Fixed Assets	916.6	963.2	992.8	977.3
Other LT Assets	0.6	0.6	0.6	0.6
Cash/ST Investments	130.6	113.3	150.0	179.6
Other Current Assets	61.8	100.4	94.9	103.5
Total Assets	1,109.5	1,177.5	1,238.3	1,261.1
ST Debt	0.0	5.0	5.0	(5.0)
Other Current Liabilities	147.3	122.9	121.7	127.2
LT Debt	166.3	171.3	171.3	131.3
Other LT Liabilities	113.3	113.3	113.3	113.3
Minority Interest	169.3	197.6	219.0	242.1
Shareholders' Equity	513.4	567.3	608.0	652.2
Total Liabilities-Capital	1,109.5	1,177.5	1,238.3	1,261.1
Share Capital (m)	487.8	487.8	487.8	487.8
Gross Debt/(Cash)	166.3	176.3	176.3	126.3
Net Debt/(Cash)	35.7	63.0	26.3	(53.4)
Working Capital	45.1	85.8	118.2	161.0

CASH FLOW (RM m)

FYDec	2010A	2011F	2012F	2013F
Profit before taxation	144.6	184.9	139.4	151.4
Depreciation	35.2	35.9	36.3	36.6
Net interest receipts/(payments)	9.4	16.1	17.1	17.1
Working capital change	0.0	0.0	0.0	0.0
Cash tax paid	(43.4)	(46.2)	(34.8)	(37.8)
Others (incl'd exceptional items)	48.2	(63.0)	4.3	(3.2)
Cash flow from operations	194.0	127.8	162.2	164.1
Capex	(110.3)	(82.5)	(65.9)	(21.1)
Disposal/(purchase)	0.0	0.0	0.0	0.0
Others	0.2	0.0	0.0	0.0
Cash flow from investing	(110.1)	(82.5)	(65.9)	(21.1)
Debt raised/(repaid)	68.0	10.0	0.0	(50.0)
Equity raised/(repaid)	1.0	0.0	0.0	0.0
Dividends (paid)	(35.0)	(56.4)	(42.5)	(46.2)
Interest payments	(7.1)	(16.1)	(17.1)	(17.1)
Others	0.0	0.0	0.0	0.0
Cash flow from financing	26.9	(62.5)	(59.6)	(113.3)
Change in cash	110.8	(17.3)	36.7	29.7

RATES & RATIOS

FYDec	2010A	2011F	2012F	2013F
EBITDA Margin %	51.7%	58.1%	53.3%	53.5%
Op. Profit Margin %	42.1%	49.3%	43.3%	43.9%
Net Profit Margin %	24.5%	27.1%	23.0%	23.6%
ROE %	18.5%	20.4%	14.1%	14.4%
ROA %	8.7%	9.7%	6.9%	7.2%
Net Margin Ex. EI %	24.5%	27.1%	23.0%	23.6%
Dividend Cover (x)	1.5	2.0	2.0	2.0
Interest Cover (x)	16.3	12.5	9.2	9.9
Asset Turnover (x)	0.3	0.3	0.3	0.3
Asset/Debt (x)	6.7	6.7	7.0	10.0
Debtors Turn (days)	47.4	65.0	67.0	69.0
Creditors Turn (days)	248.3	210.0	210.0	210.0
Inventory Turn (days)	26.0	52.0	54.0	56.0
Net Gearing %	7.0	11.1	4.3	NA
Debt/ EBITDA (x)	0.9	0.7	0.9	0.6
Debt/ Market Cap (x)	0.2	0.2	0.2	0.1

Source: Company, MaybankIB

APPENDIX 1

Definition of Ratings

Maybank Investment Bank Research uses the following rating system:

BUY	Total return is expected to be above 10% in the next 12 months
HOLD	Total return is expected to be between -5% to 10% in the next 12 months
SELL	Total return is expected to be below -5% in the next 12 months

Applicability of Ratings

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Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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