

**RESULTS – 1QFY10**

27 Apr 2010

For period Jan-Mar 2010

<b>TH Plantations</b>		<b>Price:</b>	RM1.61
		<b>Market Capitalisation:</b>	RM785.3m
		<b>Board:</b>	Main Board
<b>Stock Code/Name:</b>	5112 / THPLANT	<b>FBM Index:</b>	EMAS Shariah / Small Cap
<b>Recommendation:</b>	HOLD	<b>Sector:</b>	Plantation

Analyst: Edmund Tham

Key Stock Statistics	2010E
EPS (sen)	11.4
P/E (x)	14.2
Dividend/Share (sen)	9.0
NTA/Share (RM)	0.98
Book Value/Share (RM)	0.98
Issued Capital (mil shares)	487.8
52-weeks share price (RM)	1.42 – 1.78
<b>Major Shareholder:</b>	%
Lembaga Tabung Haji (LTH)	67.9

1Q/ 31 Mar	1Q10	1Q09	vo% %	4Q09	qoq%
Rev (RMm)	77.2	60.0	28.7	87.4	(11.6)
EBIT (RMm)	28.9	10.0	188.2	33.7	(14.4)
NPAT (RMm)	17.8	8.4	112.4	22.5	(21.1)
EPS (sen)	3.6	1.7	112.4	4.6	(21.1)

**PERFORMANCE**

TH Plantation's (TH Plant) annualized 1Q/FY10 revenues came in **21.3% below** our earlier expectations while its **net profit after tax (NPAT) was in-line** with our earlier estimates.

For 1Q/FY10 ended 31<sup>st</sup> March 2010, the group had recorded an increase of 28.7% in revenue to RM77.2 million from RM60.0 million for the same quarter last year. This increase was mainly due to the higher commodity prices for CPO (crude palm oil) and PK (palm kernel) as compared to the preceding 4Q/FY09, despite of the lower sales volume.

**“Stronger CPO and PK prices lead to better y-o-y performance”**

TH Plant's profit before tax (PBT) for 1Q/FY10 ended 31<sup>st</sup> March 2010 was higher by 105.2% to RM27.2 million as compared to the RM13.3 million recorded in the same quarter last year. The higher PBT y-o-y was mainly due to the higher revenue by 29% and higher gross profit margin by 12%.

Group revenue was lower by 11.6% q-o-q mainly due to the lower sales volume for CPO and PK despite of the higher palm commodity prices as compared to the preceding quarter. Meanwhile, group PBT was lower as compared to preceding quarter due to the lower revenue and other-income during 1Q/FY10.

Per Share Data	2007*	2008*	2009	2010E
Book Value (RM)	0.51	0.82	0.93	0.98
Earnings (sen)	15.6	17.2	11.0	11.4
Dividend (sen)	10.5	8.8	8.5	9.0
Payout Ratio (%)	49.8	37.8	57.8	59.4
PER (x)	10.3	9.3	14.6	14.2
P/Book Value (x)	3.1	2.0	1.7	1.6
Dividend Yield (%)	6.5	5.4	5.3	5.6
ROE (%)	30.4	21.0	11.9	11.6
Net Gearing (cash) (x)	(0.01)	(0.10)	0.17	0.10

\*figures adjusted for 1:1 bonus in Jan 2009

P&L Analysis (RM mil)	2007	2008	2009	2010E
<b>Year end: Dec 31</b>				
Revenue	175.6	243.4	304.4	334.0
Operating Profit	82.5	115.6	78.9	118.5
Depreciation	(8.3)	(8.5)	(8.7)	(8.9)
Interest Expenses	0.0	(0.0)	(8.0)	(8.8)
Pre-tax Profit	82.5	115.5	70.9	79.7
Effective Tax Rate (%)	25.9	27.8	19.5	22.3
Net Profit	61.3	84.1	53.8	55.4
Operating Margin (%)	47.0	47.5	25.9	35.5
Pre-tax Margin (%)	47.0	47.5	23.3	23.9
Net Margin (%)	34.9	34.5	17.7	16.6

\*RM0.50 par value

\*CPO=crude palm oil; PK=palm kernel; FFB=fresh fruit bunch

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## OUTLOOK/CORP. UPDATES

Based on the recent CPO commodity price trends, TH Plant should continue to record steady revenue and profit growth in its FY10. The group's revenue growth would mostly depend on any upside in CPO prices and organic production expansion, barring any future plantation land bank acquisitions. We expect TH Plant's ASP (average selling price) for CPO to be in the RM2300-2600/mt range for the next 2-3 quarters. Nevertheless, TH Plant's FFB production from its plantation operations would constantly be affected by seasonal crop factors and weather conditions.

### “Steady growth expected for FY10”

With the global economy bottomed out and recovering in some regions, this generally augurs well for commodity demand growth and hence prices. In determining the direction of CPO prices, various factors come into play such as demand growth, sector inventory levels, weather/crop yield and also price movements in other commodities such as crude oil and soybean oil. We generally expect CPO prices to remain firm during 2010.

### “New KPI targets for FY10”

In March 2010, TH Plant announced that its new FY10 KPI targets were to achieve 12.0% ROE, 21.6 mt/ha FFB yield (metric tonne per mature hectare) and to distribute approximately 50% of its annual net profits after tax and minority interest (NPATMI) as dividend. In FY09, TH Plant's FFB production of 21.48mt/ha had fallen short by 4.5% as compared to its targeted FFB yield of 22.50mt/ha due to the unfavourable weather conditions and biological tree stress.

Meanwhile, TH Plant has surpassed its medium term KPI of positioning the group as a medium size plantation company of 32,000 ha by 2009, which is one year ahead of time by achieving a land bank size of 39,059 hectares in 2008. The group aims to expand its land bank to 50,000 hectares by 2012 at strategic locations to complement its growth strategy.

TH Plant has displayed commitment and noble intentions towards fulfilling its **Corporate Social Responsibilities (CSR)**. These include measures and activities for the employees (training, OSH), community (zakat, schools, flood victims etc) and the environment (zero-burning).

## VALUATION

TH Plant had recorded lower sales volume in its 1Q/FY10. Subsequently, we tweaked our FY10 revenue forecast for TH Plant a little downwards to err on the side of being conservative. Our estimated FY10 net margins also reflect the effects of impairment from the winding-up of a subsidiary company belonging to TH Plant.

For FY10, we estimated that TH Plant would declare a gross dividend per share (DPS) of 9 sen, reflecting a dividend payout of 59.4%. This is given that the group targets to pay out around 50% of its annual NPATMI each year.

With the global economy expected to be stronger in 2010 versus 2009, we expect the picture for plantation companies to look rosier in 2010, as compared to the year before. Nevertheless, there remain various risks from commodity price volatilities, demand fluctuations, contractual timing differences, foreign exchange translation and operational cost controls.

TH Plant has an adjusted beta (correlation factor) to the KLCI of 0.80. In 2010, the stock is up by 10.3% YTD (slightly outperforming the KLCI, which is up by 5.1% YTD). Based on our forecast of TH Plant's FY10 EPS and expected P/E of 14 times, we derive a FY10-end target price of RM1.59, approximate its current market price. We are maintaining our **Hold Call** on TH Plant.

### “Upside mainly dependent on CPO prices and land bank acquisitions”

Any further earnings growth and hence valuation upside would depend mainly on the strength of palm commodity prices and future plantation land bank acquisitions. With its minimal gearing position, TH Plant is able to consider future land bank acquisitions from either its main shareholder i.e. Lembaga Tabung Haji or other parties as well.

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#### Results Coverage

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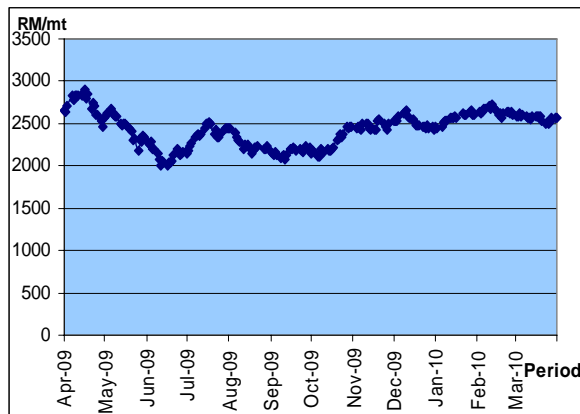


**TH Plant: 6-month chart**



Source: NextView

**CPO prices: 12-month chart**



Source: Bloomberg

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