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TH Plantations sees brighter outlook on new acquisitions

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KUCHING: TH Plantations Bhd's (TH Plantations) earnings is expected to grow rapidly going forward, backed mainly by the increase in production arising from the expansion of its landbank.

According to the research division of MIDF Amanah Investment Bank Bhd (MIDF Research) in a research report yesterday, in 2012, TH Plantations had completed several corporate exercises which would help to elevate its earnings going forward.

"The acquisitions of Hydroflow, TH Bakti and TH Ladang Sabah and Sarawak (THLSS) have added almost 9,447 hectares (ha) of mature plantation areas into TH Plantations, a 40.8 per cent increase to its existing 23,157ha," it explained.

Furthermore, the research firm outlined, following the completion of the acquisitions of Bumi Suria Ventures (BSV) and Maju Warisan Mas (MWM) on February 27, 2013, the size of TH Plantations' total landbank had increased to 97,592ha, including 2,300ha of mature areas.

"This represents an increase of a whopping 147 per cent from mere 39,443ha in early last year," it pointed out.

Additionally, the research firm noted, the acquisitions of BSV and MWM had also helped improved the overall average age profile of TH Plantations' oil palm trees from 14 years to 13 years.

It added, "As at December 31, 2012, mature oil palm trees accounted for 36 per cent of the total area, comprises of 13,525ha young mature, 10,384ha prime mature, 4,450ha mature and 4,245ha old mature."

The research firm highlighted TH Plantations' recent acquisitions were set to elevate the group's earnings from its relatively weak financial year 2012 (FY12) results.

To note, TH Plantations posted relatively weak revenue in FY12 of RM375.8 million, a decrease of 13.6 per cent year on year (y-o-y), the research firm said.

"While net profit was higher at RM156.6 million, however, the increase was mainly due to higher operating income derived from the surplus of fair value of the net asset acquired amounting to RM101 million," it added.

Placing aside the surplus of fair value, the research firm said TH Plantations normalised earnings for FY12 was only RM73.6 million, 41 per

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cent y-o-y lower than its normalised earnings in FY11.

It explained further, “The decline in revenue and net core profit were attributable to lower sales volume, lower average commodity selling prices and higher cost of production.”

Nevertheless, MIDF Research opined, the recent acquisitions had placed TH Plantations in a position of strong forward output growth. Moreover, it had also elevated TH Plantations’ position from a small-cap company to a medium-size plantation company.

“We are expecting higher earnings going forward with the almost 150 per cent increase in its total landbank, and approximately 50 per cent increase in mature areas,” it added.

The research firm, hence raised the target price at RM2.64 per share, derived from price earnings ratio of 10-fold earnings per share 2013 of 26.38 sen.

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