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Limited potential upside seen for Tabung Haji

► Recommendation: Neutral

TARGET Price: RM3
by MIDF Research Sdn Bhd (April 4)

LTH to Sell Riau Estates

IT IS reported in the news that Lembaga Tabung Haji (LTH) will dispose its 95% stakes in PT TH Indo Plantations (THIP) to an Indonesian-based company at a purchase price consideration of RM2.3b.

The disposal includes 83,879ha of plantation land, one kernel crushing plant, six palm oil mills and one biomass plant.

Purpose of Disposal

LTH's board has approved the deal in principal and it is now subject to Indonesia's regulatory approvals. Should the deal go through, LTH will receive a total cash consideration of RM2.19b.

According to LTH's chief executive officer, the purpose of the disposal is to realise the appreciation in the value of THIP that will directly benefit the depositors. The proceeds from the disposal will be invested in other plantation assets.

Surprise Move

We are surprised by the news as we are expecting LTH to sell the estates to TH Plantations Bhd (TH Plant), which is currently managing the estates through its wholly-owned subsidiary, THP Agro Management.

We thought that LTH would try to unlock value from the THIP estates given its young average age profile of 10-years-old.

Impact to TH Plantations

Currently, TH Plantations' revenue derived from estate management accounted for approximately 7% of its total revenue annually, of which 4% alone is derived from managing THIP estates.

Applying the same profit margin of 15% realised for THP Agro Management, we estimate the bottomline contribution from THIP is very minimal, accounted for barely 2% of TH Plant's annual earnings.

Therefore, the disposal of THIP is expected to have a negligible impact on TH Plantations' bottomline.

Maintaining Earnings Forecast

We are maintaining our FY12 and FY13 earnings forecast respectively as the contribution from THIP is very minimal.

Nevertheless, we believe that TH Plantations' fundamentals remain intact given its aggressive replanting programme and the development of the newly acquired land.

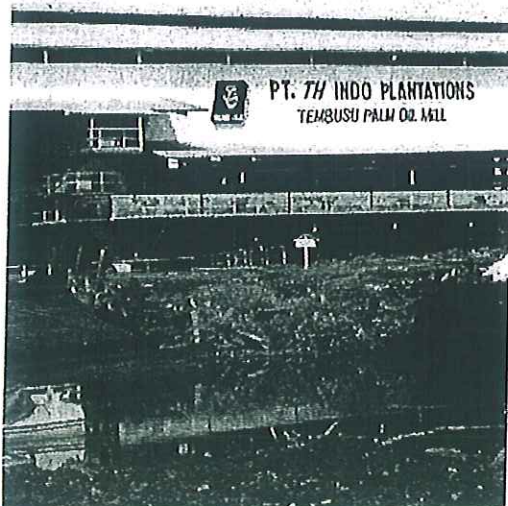
Maintain 'Neutral'

TH Plant is currently trading at 10.3x forward PER which is at its upper bound of its three-year average PER band of 7.6x to 12.2x.

Due to its recent share price outperformance, we believe that its total potential upside of 7.44% is limited and does not meet our 'Buy' rating threshold. The target price remains at RM3, derived from 10.8x EPS12, which is its three years average PER.

► TH PLANTATIONS BHD

	2010	2011F	2012F	2013F
REVENUE (RM mil)	365.97	434.84	471.36	511.42
NET PROFIT (RM mil)	89.48	124.83	140.22	145.60
EPS (sen)	18.32	24.52	27.68	28.74
PER (x)	15.56	11.62	10.30	9.92



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