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StarBIZ

THP set to join big league

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TH Plantations Bhd (THP) is working to increase its land bank in a bid to become one of the big boys in the local plantation industry.

The smallish plantation group plans to double its current landbank of about 16,000ha in three years.

"We have stated in our prospectus that we will expand one fold by 2009, but we may achieve this even earlier than targeted," THP managing director Datuk Rashidi Omar told StarBiz. "About 90% of the acquisitions will be in Sabah and the balance in Peninsular Malaysia."

He reckoned about 50% of the acquisitions would be via related parties like parent Lembaga Tabung Haji (LTH), which owns a 60.07% stake in THP, while the other 50% would be through third party acquisitions.

Due to its financial constraints, only half of the acquisitions will be ready-made estates while the rest green field, as fully planted estates would be more expensive.

"We are negotiating with various parties on the acquisitions, and at least some acquisitions would be made next year.

"In 10 years, we are targeting to own at least 100,000ha of land. We have the experience and expertise as we currently manage about 122,000ha of plantation land owned by LTH," he said.

Note: IPO price was RM1.25

This year, THP's fees to manage LTH's vast estates will come to about RM13mil, up from RM12mil last year, and it is expected to be on the uptrend, as crop production in the Indonesian plantations would increase in future.

An industry observer believes that LTH would already have plans lined up for THP to become a major plantation player with the latter's listing on Bursa Malaysia in April.

"If there are no plans, what is the purpose of listing a 16,000ha company? And why have so many fragmented plantation companies under LTH?" he said.

"I think the intention is to have only one plantation group under LTH and that is THP. I believe that is the direction things are headed – it is only logical.

"Having a flagship plantation company that is only 16,000ha is neither here nor there. Why not have a flagship that is sizable and comparable to the big boys. But such intentions cannot happen overnight; it may take at least a few years to materialise."

And how would THP fund such sizeable acquisitions?

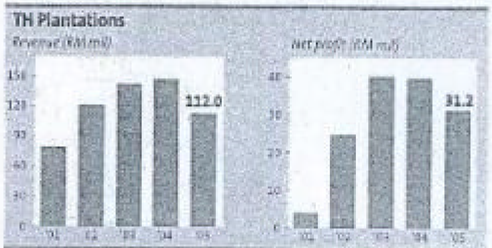
Rashidi has it all more or less mapped out.

"We are not planning to raise funds from our shareholders as this will dilute earnings per share but are currently talking to a few bankers and looking at various options – medium-term loans, a combination of ready-made and green field instruments, serial papers, setting up a special purpose vehicle or even sale and lease back.

"We have yet to finalise the instruments – we want to find the right mix and instrument after taking into consideration our targets," he said.

At present, THP has a strong balance sheet with no borrowings and zero gearing.

"By year-end, we should be looking at a cash pile of about RM30mil, enough to honour our obligations to shareholders in terms of dividends as stated in the prospectus (gross dividend of 8 sen per share)," Rashidi said.



Source: TH Plantations Bhd

Datuk Rashidi Omar

Expansion plans aside, Rashidi is also working hard to ensure that THP is operating at optimum efficiency.

"You can expand your land bank and mills, but if you are inefficient operationally, there is no point expanding. Since listing, our priority is to increase productivity by ensuring that our plantations and mills are operated more efficiently.

"We also want to improve our fresh fruit bunches (FFB) yield per hectare," he said.

Rashidi said THP, which currently had a yield of 23 tonnes per ha, had the potential to hit 28 tonnes per ha.

"To achieve this, we will have to replant. Our replanting rate is about 5% a year. We are now using good yielding material – one of them is by tissue culture material.

"This is very promising now – on our third year of harvest, we managed to achieve FFB yield of 35 tonnes per ha," he said.

According to Rashidi, the production of tissue culture materials could be in the works for the group, which currently purchases them from various sources.

"If all goes well, we plan to invest about RM15mil over four years from next year to develop this area. We are targeting yields of 25.6 tonnes per ha in the next three years from our plantations," he said, adding that the industry average was below 20 tonnes per ha.

The group is also in the midst of modifying and modernising the front-end of its mill in Pahang. The exercise, which started at the beginning of the year, is expected to cost RM5mil and is slated for

Turn to P5

TH Plantations' KPIs

Headline KPIs for FY06

- Target return on equity of 20.29%
- Target FFB yield per mature hectare of 22.34 tonnes
- Dividend – to distribute about 50% of group annual profit after tax and minority interest

Three-year headline KPIs (FY07 to FY09)

- Target expansion of landbank by one fold over three years

Source: Bursa Malaysia

Planter aims for 22% oil extraction rate

From P1

completion by year-end.

"This will help improve efficiency. We are now achieving a 20.16% oil extraction rate (OER), and this is pretty good for Peninsular Malaysia as our mills are quite old. We will try to improve the OER to 22% in three years," Rashidi said.

He added that the group was also planning the same modifications for its Johor mill, pending the success of the mill in Pahang. THP has allocated a total of RM20mil (including the RM5mil spent on the Pahang mill) to modernise the mills.

"This will put us on par with the big boys in terms of mills efficiency.

"We will not rest until we have achieved a minimum oil yield of 5.5 tonnes per ha in the next three years from our existing estates. Our current oil yield per hectare is about 4.6 tonnes.

"Yields will be even better with our new land acquisitions, as the majority will be in East Malaysia where the estates achieve high yields than in the peninsula," h said.

On THP's performance this ye Rashidi seems confident that th group would be able to achieve net profit of RM30.8mil for the ending Dec 31, 2006, as forecas its prospectus, as well as its key performance indicator targets f the year.

"We will certainly achieve wh we have mentioned in our prospectus – possibly even a bit higher, as crude palm oil (CPO) prices have increased.

"This is because we forecast CP price to be RM1,350 in our prospectus, but the CPO price ha instead been over RM1,400 per tonne, on average, this year," he s

Due to seasonal factors, crop production is also expected to p during the third quarter of the y For the first half of the year ende June 30, the group recorded a ne profit of RM9.3mil from a revenu of RM43.3mil.