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SOUTH AFRICAN brand keeps it HOT
THE EDGE MALAYSIA
PP 8409/03/2010(023496) MICA (P) No. 042/04/2009
BUSINESS & INVESTMENT WEEKLY
THE WEEK OF AUGUST 24 — AUGUST 30, 2009 769

TH Plantations on lookout for landbank

| BY JENNY NG |

The adoption of certain accounting standards may have an impact on TH Plantations Bhd's bottom line and ultimately affect dividend payout, but the company is looking into ways to continue rewarding shareholders.

TH Plantations has been committed to paying out 50% of its earnings since its listing in 2006. Its dividend yield of 11.1% (based on 17.5 sen gross dividends and last Tuesday's closing price at RM1.57) is one of the highest among the plantation companies listed on Bursa Malaysia. It emerged as the top company in the agriculture and fisheries sector in the KPMG/*The Edge* shareholder value award for 2008/2009. It was also the sector winner last year.

However, as evidenced in TH Plantations 2Q2009 results, expenses rose due to the adoption of FRS 2 (share-based payment), where the fair value of shares granted under its employee share option scheme amounted to about RM8 million.

"With the adoption of certain accounting standards, namely, FRS 2, FRS 139 and FRS 3, which to a certain extent has impacted our profit as a result of non-cash accounting treatment, the board might revisit the policy so as not to put our shareholders in a disadvantaged position. However, the board has yet to decide on this matter," says the company's CEO Zainal Azwar Zainal Aminuddin.

Among the options being considered is to pay additional dividends from retained earnings, the company says.

TH Plantations has a landbank of 39,159ha of which 33,320ha have been planted. It recently completed the acquisition of estates with a combined landbank of about 9,930ha from Lembaga Tabung Haji (LTH). The acquisition contributed to a better age profile differentiation for the group as 30% of the new estates are planted with young mature palms and 55% are mature palms between the age of 10 and 19 years. The acquisition included two oil mills, bringing TH Plantations' total number of mills to five with a capacity of 130 tonnes per hour.

LTH has extensive palm oil estates in Riau, Indonesia, as well as in Sarawak and Terengganu, all managed by TH Plantations.

"LTH shall only dispose of or inject its assets into TH Plantations when the price is right," says Zainal, when asked if there would be more injections of estates from LTH in the near future.

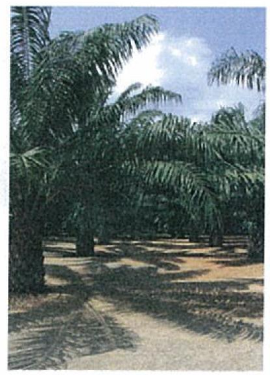
He adds that apart from buying plantations from LTH, it is constantly on the lookout for opportunities to expand our landbank both locally and overseas.

Given the age profile of TH Plantations' oil palms, where 27% are aged between 20 and 25 years, the company has a policy of replanting 5% of its total mature area annually. For 2010, the company plans to replant slightly above the normal rate as its first estate in Sarawak, measuring about 2,500ha, will reach maturity then.

TH Plantations has a medium-term target to grow its landbank to 50,000ha over the next five years. It has 13,000ha greenfield development being planted progressively since they were acquired in 2007, of which 2,500ha will be maturing in 2010.

For now, TH Plantations has no immediate plans to expand downstream.

"There are no immediate plans to expand downstream as our CPO production level of about 119,000 tonnes is insufficient to cater to the production requirements of a refinery. Nevertheless, upon achieving sufficient volume in the future, we may venture into refineries and other value-added products," says Zainal.



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As a pure planter whose performance is subject to fluctuations in CPO prices, the group makes it a priority to control its oil extraction rate and production costs. The group's cost of production of CPO is currently RM960 per tonne.

To ensure efficiency, the group adopts performance improvement programmes covering good agriculture practices, precision agriculture, sub-surface fertiliser application technique and research station. The group is also developing THP Management Information System which will integrate geographical information and spatial data into useful information to aid decision making.

"Leveraging on our experience in managing and developing a contiguous 82,000ha oil palm plantations on peat soil in Riau, Indonesia, a peat research station was established in Sarawak to conduct R&D for sustainability of our peat plantation landbank," says Zainal.

TH Plantations' KPIs for FY2009 are ROE of 7.5%, FFB yield of 22.5 tonnes per ha and dividend distribution of about 50% of the group's annual earnings. In FY2008, the group achieved ROE of 28% and FFB yield of 22.1 MT/ha. The lower ROE target is due to the enlarged shareholders' fund following corporate exercises taken.

As for the direction of CPO prices, the group expects it to hover in the region of RM2,200 to RM2,500 per tonne in 2H2009, in light of the supply and demand dynamics. ■

* Increase zoom (%) to enlarge screen view.