

Company Review

Ord Minnett Research

Monday, April 20, 2009

TFS Corporation Ltd

TIM's stress is to TFC's advantage

- The news that TIM has failed to secure asset sales to reduce its ~\$900m debt may mean that the business ceases as a going concern. If this occurs it will be because management allowed the balance sheet to be exposed to excessive debt levels. TIM's problems are of its own making but the GFC has exposed the structural flaws in the business model
- OML does not see any correlation between the issues that face TIM and the prospects of TFC. We would expect the financial planning community involved in selling MIS product to easily distinguish the troubled position of TIM v the bright prospects of TFC
- Some key facts worth noting include:
 - TFC has a FY09 forecast Net Debt / Equity gearing ratio of ~5% and will be net debt free even if it does not reach its sales target. OML forecasts cash at bank to be ~\$28m by June 2009 and interest cover is forecast at ~18x
 - TFC operates a cash flow positive business model that does not rely on debt or next year's sales to pay for this year's expenses
 - TFC no longer operates an internal loan book that generates low returns. The external finance facility for growers via CBA enables TFC to receive cash sales and operating cash flows turned around in FY08 as a result
 - The lack of MIS product available this year due to TIM being out of the market and a significantly reduced presence from GTP and some unlisted operators means that TFC should have an easier time of achieving its target sales of 930ha or ~\$61m in MIS sales. Assisting this goal is the significant expansion in the distribution base through new dealer groups placing TFC's project on their approved product list. This recognises the high quality and high investment return project, which should deliver returns in the order of ~15% pa after tax ungeared
- TFC remains a high conviction stock for OML. TFC is set to become a global monopoly across the sandalwood products industry. TFC is extremely attractive with a DCF value of \$2.81 and a normalised PE of ~6x. BUY

Key Financials

Year-end June (A\$)	FY07	FY08	FY09F	FY10F
Reported NPAT (\$m)	19.2	27.6	44.7	48.7
Reported EPS (¢)	12.0	14.9	23.8	25.5
Reported P/E (x)	7.4	5.9	3.7	3.5
Normalised EV / EBITDA (x)	6.7	4.7	4.0	3.6
Dividends (¢)	3.4	4.0	5.7	7.1
Net Yield (%)	3.8	4.5	6.4	8.1
Franking (%)	100.0	100.0	100.0	100.0
Normalised NPAT (\$m)	14.4	22.9	27.7	31.7
Normalised EPS (¢)	9.0	12.4	14.7	16.6
EPS Growth (%)	74.5	36.8	19.1	12.8
Normalised P/E (x)	9.8	7.2	6.0	5.3

Source: Iress, Company, Ord Minnett Estimates Note: all share price data as at 17/4/09

ASX \$0.89

 Recommendation
BUY

 Risk Assessment
High

Disclosure: Ord Minnett was lead manager and underwriter to a placement by TFC which was completed on 4 July 2007

Sector: Materials

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Tropical Forestry Services Ltd

ASX Code	TFC
52 week range	A\$0.67 - A\$1.52
Market Cap (m)	A\$172m
Shares Outstanding (m)	190.8
Av Turnover (3 month)	A\$18m

Relative price performance



Financial Summary

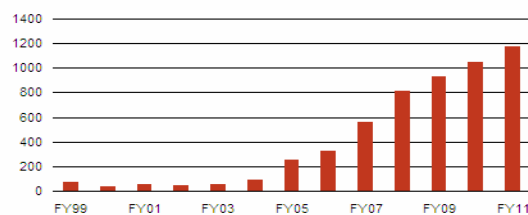
TFS Corporation Ltd

Profit & Loss Statement (A\$m)	FY07A	FY08A	FY09F	FY10F	FY11F
Ha Sold	559	814	930	1,051	1,177
Operating Revenue	38.3	61.7	80.6	90.9	101.9
Operating Costs	16.1	26.2	37.2	42.4	48.5
EBITDA	22.2	35.5	43.3	48.5	53.4
Depreciation & Amortisation	0.5	0.8	1.2	1.5	2.2
EBIT	21.7	34.7	42.1	47.0	51.2
Amortisation of Intangibles	0.0	0.0	0.0	0.0	0.0
EBIT	21.7	34.7	42.1	47.0	51.2
Interest Expense	-1.4	-2.4	-2.4	-2.1	-1.5
SGARA / Deferred Fees	6.8	6.7	24.3	24.3	24.3
Share of Associates	0.0	0.0	0.0	0.0	0.0
Reported Pre-Tax Profit	26.9	39.0	63.9	69.6	74.4
Tax Expense	7.7	11.4	19.2	20.9	22.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Reported NPAT	19.2	27.6	44.7	48.7	52.1
Significant Items (After Tax)	0.0	0.0	0.0	0.0	0.0
NPAT (Pre-Non Cash Items)	14.4	22.9	27.7	31.7	35.1
EBITDA Margin	58.0%	57.6%	53.8%	53.4%	52.4%
Effective tax Rate	29%	29%	30%	30%	30%
EPS (Cash) (c)	9.0	12.4	14.7	16.6	18.4
EPS (Reported) (c)	12.0	14.9	23.8	25.5	27.3
DPS (cps)	3.4	4.0	5.7	7.1	8.6
Yield	3.8%	4.4%	6.3%	7.9%	9.6%
Payout Ratio	38%	32%	39%	43%	47%
Franking	100%	100%	100%	100%	100%

Cash Flow Statement (A\$m)	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA	22.2	35.5	43.3	48.5	53.4
Change in Working Capital	-12.8	-4.7	-3.2	-3.6	5.8
Net Interest (paid)/received	-0.3	0.9	-2.5	-1.7	-1.1
Tax Paid	-3.0	-7.9	-11.9	-13.6	-15.0
Other Operating Items	3.6	-3.3	0.0	0.0	0.0
Operating Cash Flow	2.5	27.1	25.7	29.6	43.0
Asset Sale Proceeds	0.0	0.1	0.0	0.0	0.0
Net Acquisitions	0.0	0.0	-28.6	0.0	0.0
Capex	-8.1	-19.0	-4.0	-5.4	-5.9
Other investing items	0.0	-3.1	5.0	0.0	0.0
Investing Cash Flow	-8.0	-22.0	-27.6	-5.4	-5.9
Incl/(Dec) in Equity	0.0	19.8	0.0	0.0	0.0
Incl/(Dec) in Borrowings	14.7	-11.2	22.8	0.0	0.0
Dividends Paid	-3.1	-5.6	-10.8	-13.6	-16.5
Other Financing Items	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	11.5	3.0	11.9	-13.7	-16.5
Net Inc/(Dec) in Cash	6.0	8.1	10.1	10.5	20.6

Balance Sheet (A\$m)	FY07A	FY08A	FY09F	FY10F	FY11F
Cash	9.4	16.9	28.4	39.0	59.5
Inventories	1.0	0.8	4.9	1.0	1.2
Receivables	29.1	35.2	33.9	36.3	40.8
Other Current Assets	1.5	1.0	-4.0	-4.0	-4.0
PP & E	37.3	58.5	67.0	70.9	74.6
Intangibles	0.0	0.5	13.9	13.9	13.9
Other Non Current Assets	44.9	53.7	48.5	63.5	63.2
Total Assets	123.2	166.7	192.7	220.7	249.3
Short term Debt	1.0	0.5	0.5	0.5	0.5
Other Current Liabilities	28.3	21.8	13.8	14.3	15.0
Long term Debt	22.0	11.1	33.9	33.9	33.9
Other Non Current Liabilities	12.3	18.6	25.7	32.8	39.8
Non Current Liabilities	34.8	30.4	60.2	67.2	74.2
Total Liabilities	64.1	52.7	74.5	82.1	89.8
Total Equity	59.1	114.0	115.9	134.0	152.6
Total Liability & Shareholder Equity	123.2	166.7	190.4	216.1	242.4
Net Debt	13.6	-5.5	6.5	-3.8	-25.1

Ha Sold



Source: Ord Minnett Estimates, Company Data.

Profitability Ratios	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue Growth	68.5%	61.2%	30.5%	12.8%	12.1%
EBITDA Margin	58.0%	57.5%	53.8%	53.4%	52.4%
EBITDA Growth	80.5%	60.0%	22.0%	11.9%	10.1%
EBIT Margin	56.6%	56.2%	52.3%	51.7%	50.3%
EBIT Growth	81.1%	60.1%	21.3%	11.6%	9.0%
EBIT Margin	56.6%	56.2%	52.3%	51.7%	50.3%
EBIT Growth	81.1%	60.1%	21.3%	11.6%	9.0%
Net Profit Margin	37.6%	37.1%	34.4%	34.9%	34.4%
Net Profit Growth	75.9%	58.7%	21.2%	14.4%	10.6%

DuPont Analysis	FY07A	FY08A	FY09F	FY10F	FY11F
EBIT Margin	56.6%	56.2%	52.3%	51.7%	50.3%
x Asset Turnover	0.31	0.37	0.42	0.41	0.41
x Interest Burden	1.24	1.12	1.52	1.48	1.45
x Tax Burden	0.54	0.59	0.43	0.46	0.47
= Return on Assets	11.7%	13.7%	14.4%	14.4%	14.1%
x Leverage	2.1	1.5	1.7	1.6	1.6
= Return on Equity	24.4%	20.1%	23.9%	23.7%	23.0%

Per Share Ratios (AS cps)	FY07A	FY08A	FY09F	FY10F	FY11F
Normalised EPS (Cash)	9.0	12.4	14.7	16.6	18.4
EPS Growth	74.5%	36.8%	19.1%	12.8%	10.6%
Dividend Per Share	3.4	4.0	5.7	7.1	8.6
Cash Flow Per Share	1.6	15.6	13.7	15.5	22.5
NTA per share	36.5	61.2	54.6	65.3	76.2

Valuation Ratios (x)	FY07A	FY08A	FY09F	FY10F	FY11F
Reported PE Multiple	7.5	6.0	3.8	3.5	3.3
Normalised PE Multiple	10.0	7.3	6.1	5.4	4.9
Price To Book Value	2.5	1.5	1.6	1.4	1.2
Price To Cash Flow	57.3	5.8	6.6	5.8	4.0
EV / EBITDA Multiple	6.8	4.8	4.1	3.6	3.3
EV / EBITA Multiple	6.8	4.2	3.5	3.1	2.9
EV / EBIT Multiple	6.8	4.2	3.5	3.1	2.9

Leverage	FY07A	FY08A	FY09F	FY10F	FY11F
Net Debt / Book Equity	23.0%	-4.8%	5.6%	-2.9%	-16.5%
Net Debt / Total Assets	11.0%	-3.3%	3.3%	-1.7%	-10.1%
Net Debt / (Net Debt + Mkt. Cap)	9.3%	-3.8%	4.4%	-2.6%	-17.1%
Interest Cover (x)	15.0	14.5	17.8	22.7	33.9

Substantial Shareholders	m	Current (%)
Domenica Nominees Pty Ltd	38.78	24.4
Steynton Nominees Pty Ltd	14.11	8.93
BDK Administration Services Pty Ltd	8.44	5.34
Nora Atkinson	5.99	3.79
Ronald Eacott	4.60	2.91
Anna Coxon	4.00	2.53
Julius Matthys	3.08	1.95

Valuation

Risk Free Rate		3.0%
Equity Risk Premium		8.8%
Equity Beta		1.6
Cost of Equity		17.5%
D / EV		0.0%
WACC (%)		17.5%
Terminal Growth		2.0%
Number of shares (m)		190.9
	A\$m	A\$
Operational NPV (20 year Forecast)	388.5	2.04
Terminal Value	153.5	0.80
Net Debt	6.5	0.03
Franking Credits Value (50%)	0.0	0.00
Group NPV	535.5	2.81
Current Share Price		0.90
Share Price Prem/(Disc) to NPV		211.7%

Sensitivity Analysis

		WACC				
		15.5%	16.5%	17.5%	18.5%	19.5%
Terminal Growth	1.0%	\$3.53	\$3.11	\$2.75	\$2.44	\$2.18
	1.5%	\$3.57	\$3.14	\$2.78	\$2.47	\$2.20
	2.0%	\$3.61	\$3.17	\$2.81	\$2.49	\$2.22
	2.5%	\$3.65	\$3.21	\$2.84	\$2.52	\$2.24
	3.0%	\$3.70	\$3.25	\$2.87	\$2.54	\$2.26

		B				
		1.48	1.56	1.64	1.73	1.81
Equity Risk Premium	7.8%	\$4.39	\$3.95	\$3.57	\$3.24	\$2.95
	8.3%	\$3.89	\$3.50	\$3.16	\$2.86	\$2.60
	8.8%	\$3.47	\$3.11	\$2.81	\$2.54	\$2.31
	9.3%	\$3.10	\$2.78	\$2.51	\$2.27	\$2.06
	9.8%	\$2.79	\$2.50	\$2.25	\$2.04	\$1.85

Please contact your Ord Minnett Adviser for further information on our document.

Guide to Ord Minnett Recommendations

BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%. Investors may add to existing holdings, or initiate holdings on share price weakness.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down 15%. Investors should consider selling into share price strength.
SELL	The stock's total return is expected to lose 15% or more.
RISK ASSESSMENT	Classified as High, Medium or Low, denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, volatility, nature of its operations and other relevant quantitative and qualitative criteria.

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