



Are TFS Corporation Limited shares an absolute bargain?

*“Someone is sitting in the shade today because someone
planted a tree a long time ago.” – Warren Buffett*

Today shares of the world’s largest Indian sandalwood plantation owner and operator, **TFS Corporation Limited** ([ASX: TFC](#)), traded slightly lower despite reporting another healthy jump in statutory profits.

In the nine months to 31 March 2015 TFS reported revenue of \$235.4 million and net profit after tax, or NPAT, of \$81.3 million, up from the \$1.8 million it reported during the same period a year earlier.

Whilst on first glance the headline figure appears exceptionally strong, TFS says the increases were “driven by a sixfold increase in non-cash revenues, principally from the revaluation of TFS’s sandalwood plantations.”

Non-cash revenues result from increases in the prices of assets on a company’s balance sheet when they’re revalued. Cash revenues, from sales of sandalwood products, establishment fees and land sales, increased 63% over the prior period.

Meanwhile the company’s cash EBITDA (earnings before interest, tax, depreciation and amortisation) – which also excludes windfalls from a lower dollar – were \$10.4 million during the period, up from a \$7.9 million loss a year earlier.

Following its induction into the **S&P/ASX 300** (Index: ^AXKO) ([ASX:XKO](#)) in early 2014, TFS reported a record half-year profit of \$55 million and upgraded its full year guidance from at least \$70 million to at least \$90 million.

“It has been very encouraging to carry the momentum from the first six months of the year into the second half,” TFS CEO Frank Wilson said.

“Our sales of sandalwood products are building strongly as we fulfil orders of pharmaceutical grade sandalwood oil from Galderma under our long-term supply agreement,” Mr Wilson said. “The results from the first nine months have set a strong foundation for the final quarter, which is expected to deliver significant cash earnings in line with our existing guidance for the full year.”

Management confirmed NPAT guidance of at least \$90 million and forecast a 10% increase in cash EBITDA.

Of the 9,000 hectares currently managed by TFS, it owns (either directly or indirectly) approximately 3,200 hectares of Indian Sandalwood plantations. At 31 March 2015 it had \$64.3 million in cash and cash equivalents.

Should you buy TFS Corporation shares?

TFS shares currently appear to trade on a ludicrously low price-earnings multiple of around 7x. However, it's important to remember TFS should be considered a long-term investment, but it isn't yet free cash flow positive. In fact, despite [issuing \\$US25 million of debt](#) earlier in the year (which is a cash inflow), TFS reported a net cash outflow of \$24.3 million during the nine-month reporting period.

Source: <http://www.fool.com.au/2015/05/06/are-tfs-corporation-limited-shares-an-absolute-bargain/>

May 6th 2015

