

SE Business  
HD **Sandalwood producer's fortunes turn around**

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TFS shares have soared as analysts tip serious profits IT was only a year ago that Frank Wilson felt "unloved".

Back then, the chief executive and major shareholder of listed Perth-based sandalwood **company** TFS Corporation was facing a storm of protest from dissident investors over the group's corporate governance practices and general performance.

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An attempt to roll the board sparked a series of ructions, culminating in a 36 per cent vote against the remuneration report and the stigma of a second "strike" at a heated annual meeting last year. Worse, TFS's share price was languishing around 40c amid doubts over its ability to ever capitalise on the surging global demand for the Indian sandalwood that it planned to harvest from its plantations in the Kimberley.

And TFS had an enduring image problem after the collapse of forestry companies Timbercorp and Great Southern, which also operated under managed investment schemes.

Now Wilson, who founded TFS in the mid-1990s and floated it in 2004, feels he is finally winning over the sceptics. The share price has risen a spectacular 330 per cent in the past 12 months, making TFS easily the best-performing stock in the ASX 300 over that period. Its market capitalisation has soared to \$500 **million**, valuing Wilson's 16 per cent **stake** at a handy \$80m.

The **company** has also just completed its first harvest — 15 years after the first trees in the Ord River region were planted — and recently signed a lucrative supply contract with a US pharmaceutical **company** that set the price of Indian sandalwood **oil** at a record \$US4500 a kilogram.

Last month, TFS raised \$67m from institutional investors to develop new plantations and expand on the 7600ha it already owns or manages in the Kimberley, Northern Territory and Queensland. In other words, the stars have aligned for TFS: it now has the largest area of Indian sandalwood in the world just as prices are rising and customers are prepared to pay a premium for a long-term sustainable supply.

"We certainly know what it's like to be in the dark and unloved and bottom end," says Wilson, a lanky former tax lawyer who is descended from the famous Cullity timber family in Western Australia.

"Twelve months ago, it was a very different feeling. I was always very confident of where we were going, and the **company** itself didn't miss a beat, despite a lot of the noise from the outside.

"I think the major issue (behind the share price rise) has been the fact that we've got to our first harvest, we've proved up the **oil** quality and we've proved up very lucrative supply contracts.

"I think we've also cleared up some of the corporate governance issues that we were perceived to have, together with the fact that we're a bit counter-cyclical to the resources cycle, which has tapered off a bit, so people are looking for other growing companies." Analysts say that with its first small but successful harvest behind it, TFS is poised to make serious profits in the next decade given the

burgeoning demand for its product and a constrained global supply (Indian sandalwood is endangered due to illegal logging around the world).

Demand for sandalwood **oil** is driven largely by the fragrance and pharmaceutical industries. It is also highly prized in India and **China** for medicinal purposes and for use in incense.

TFS's only real competitor is US hedge fund KKR, which snapped up about 2000ha of plantations in the Kimberley from Elders last year.

Cannacord Genuity initiated coverage on TFS late last year with a "buy" recommendation and said last month its target price for the stock was \$3.34 — well above Friday's close of \$1.78. Argonaut Securities has a target price of \$2.25.

Wilson says the market has begun to back TFS because of its huge potential in coming years.

"We've got 7600ha in the ground now, so it's very small in comparison to what's coming in the future," he says. "Our harvest next year will also be small, but the harvest the year after that will be probably at least six times bigger than this year's harvest.

"So we soon start to get into some really meaningful harvests in 2016, and they will build up to much larger harvests as we get into the next decade. The step-up in 2016 is a times six; by the time we get to 2020 it would be a times 100.

"Our earnings will be in the hundreds of **millions** of dollars per annum when we get to the 2020s." Of course, these sorts of agricultural schemes are never free of risk, including from fires, floods, cyclones and the like. But the **company**'s overall risk has diminished, especially since it has established a so-called "soil to **oil**" business model under which it owns the intellectual property for seeding, planting, managing, harvesting, processing and selling its sandalwood **oil**.

Wilson has been chief executive since 2007 but says he will hand over the role to someone else soon. In response to the corporate governance concerns, he stood down as chairman last year and handed over to Patrick O'Connor. Cricket legend Adam Gilchrist quit the board last year but remains a brand ambassador and is a long-term investor.

"Like any good team, you've got to have rejuvenation, and we're no different," he says. "Obviously I'm not going to be CEO forever so that'll change in the future. I wouldn't say next week or next month but I think the **company** is growing to a point we've got a really outstanding management team now. It's at a point where the **company** will be able to move on from me being the centre of it."

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