

# FINANCIAL REVIEW

**HD** **Gilly's sweet spot with \$2.5m money tree**  
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**LP**  
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Investors looking for a tax-effective bet on Australia's rural sector could do worse than follow the **lead** of former Australian Test cricketer Adam Gilchrist.

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Gilchrist is proving to be an astute businessman thanks to his somewhat risky decision to back the owner and manager of the world's biggest Indian sandalwood plantations, TFS Corporation.

His shareholding in the Australian-listed **company** has doubled in value to \$2.5 **million** in the past six months.

Gilchrist, who hit 5570 Test runs at an average of 47.6 and took 379 Test catches in his keeper's gloves, attached his good name and reputation to TFS in mid 2010.

That was risky because the Australian market for managed investment schemes (MIS) was in meltdown after various collapses had wiped out more than \$1 **billion** in investors' savings.

Companies involved in MIS projects which collapsed included Timbercorp, Great Southern, Willmott Forests, Forest Enterprises Australia and Gunns.

Gilchrist showed considerable **commercial** nous in deciding to back a **company** that was exposed to the risks that retail and institutional investors would no longer back – rural enterprises with very long periods between the initial investment and the final return.

It can take 14 years to 16 years for an Indian sandalwood tree to reach maturity. Most of the MIS companies that collapsed were offering blue gum or pine trees.

TFS Corporation has not only survived the fallout from the widespread collapses but has started to deliver what no other **company** could: a financial return.

The **company** started its first Indian sandalwood plantation in 1999 and this is being harvested this financial year.

Australia has a long history of sporting figures getting involved in enterprises that go bad. Former Test fast bowler Brett Lee and former Test batsman Michael Slater endorsed dodgy **property** developer Kovelan Bangaru.

Even the world's greatest ever batsman, Don Bradman, had a brush with corporate disaster. His boss in an Adelaide broking **firm**, Harry Hodgetts, embezzled funds from about 238 clients without Bradman's knowledge.

Gilchrist began his relationship with TFS Corporation as global ambassador. He was responsible for promoting the sandalwood products in India where he is a household name. Also, he was called on to promote the **company's** retail prospectus MIS offerings.

He has put his money where his mouth is by investing in the typical retail allotment of about 1.3 hectares, which comprises 12 lots at a cost of about \$6600 each.

Read a prospectus for a TFS sandalwood project and it quickly becomes obvious why many investors have steered clear of the sector.

There are multiple fees charged over the period of the investment and there is plenty of cream for the manager of the business if the product attracts more returns than expected.

The attraction for many investors in MIS schemes was the tax deductibility. The entire initial investment is tax deductible. Investors are often encouraged to borrow the money up front, which adds another layer of tax deductibility.

TFS Corporation has its own financing arm called Arwon Finance. The quality of the loan book has remained strong as evidenced by the fact that a portfolio of loans was **sold** last year for \$22 **million**.

However, the real win for Gilchrist and other investors in the past year has been through the movement in the TFS Corporation share price. It has risen about 130 per cent since last year when it became clear that the **company** would actually harvest some trees.

The first harvest is a relatively small one because the initial sandalwood stock from the West Australian Department of Agriculture had inferior qualities and only 25 per cent of the trees survived. The **company** now prepares its own seedlings.

Indian sandalwood is a parasite that must get its nutrients and water from other trees to survive. That does not increase the risks involved but it still takes a lot of faith from investors to commit to a project that will not deliver for 14 years to 16 years.

Over the past 14 years, TFS Corporation has gradually increased its annual planting of Indian sandalwood. Its annual planting is now running at about 1500 hectares a year.

The **company's** total Indian sandalwood **estate** under management is now 7580 hectares in Western Australia, Northern Territory and Queensland.

TFS Corporation differs from the failed MIS companies in that it owns 2084 hectares, or about one-third of its total **estate**. Shareholders will benefit from the long-term growth.

The first Indian sandalwood from the harvest in September last year was **sold** for about \$US150,000 a tonne to buyers in **China**. The first **oil** was **sold** for \$US4000 a kilogram to a US pharmaceutical **company**.

The **oil** from TFS Corporation plantations will be processed at a plant at Mount Romance near Albany in Western Australia.

The latest prospectus says sandalwood is an aromatic wood that is internationally prized for use in luxury, pharmaceutical and religious product markets.

It says the average price of wild Indian sandalwood heartwood has had a compounded increase of 16.7 per cent a year over the past 20 years due to strong demand and diminishing supply.

In India the sandalwood trees grow wild. It is illegal to export. Several broking analysts have put a **buy** on the stock.

The **company** is expected to deliver \$2 **billion** of earnings before interest, tax, depreciation and amortisation. (EBITDA) over the next 15 years, according to Adam Michell at Moelis & Co.

Owen Humphries from Cannacord Genuity has given eight reasons why he likes the **company** including the significant barriers to entry, the vertically integrated business model, the fact that Indian sandalwood is the most valuable heartwood and that the stock is trading a significant discount to its intrinsic value.

One aspect of the **company's** business that is not well known is the global institutional support for its plantation business. Endowment funds in the US and sovereign wealth funds in the Middle East have invested \$180 **million** in Indian sandalwood trees.

Gilchrist's career has certainly had plenty of variety. After years successfully swinging the willow at No 7, Gilchrist now delivers the wood that is an important ingredient in making Chanel No 5.

The decision by Telstra chief executive David Thodey, backed by the Telstra **board**, to sell the print and digital directories business Sensis is about six years overdue.

Thodey cannot be blamed for that delay as he was not the CEO at the time.

His predecessor Sol Trujillo made the fateful decision to keep the asset despite the urgings of the man who ran it, Bruce Akhurst.

About \$8 **billion** in value was lost by holding on to the business.

Its earnings collapsed.

Chanticleer well remembers Akhurst's powerful arguments in favour of selling the business but those fell on deaf ears when put to the **board** headed by Donald McGauchie.

Telecom New Zealand chief executive Theresa Gattung **sold** her **company's** Yellow Pages business, an exact copy of Sensis, in 2007 for \$NZ2.24 **billion**.

She later told Chanticleer: "Telstra could have **sold** their directories assets, they could have **sold** Sensis around the same time we **sold** Yellow Pages. We were meeting in Australia with private **equity** companies in the US who were flying down to meet with us about Yellow Pages, and I'm sure they were knocking on Telstra's door."

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