NEW STRAITS TIMES (2.10.2007)

Strong turnaround

Higher prices and good performance to boost Tradewinds bottomline

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TRADEWINDS Corp Bhd has geographical diversification on the mind. Earlier this week, via its wholly-owned unit TCB Wakil Sdn Bhd, Tradewinds won a bid to acquire a 99.71% stake in Bristol Mixed Hotel-Tourism and Trade Co Ltd (MHTT) for RM15.5mil.

Part of the agreement will see Tradewinds completing the construction of a hotel in Sarajevo, Bosnia, currently being undertaken by Grand Hotel Bristol Ltd Sarajevo, a subsidiary of MHTT, for RM54.3mil. According to reports, the hotel has 15 floors with 200 rooms and a total land area of 12,000 sq m.

Tradewinds says the acquisition will allow the group to acquire a strategic asset in Bosnia, which will allow it to tap into the European tourism market and diversify its hotel businesses, which are presently concentrated in Malaysia.

It also provides the company with a relatively low-costing entry into the Bosnian market, which it views as having much potential.

The latter, adds the company, is due to the fact that there is currently just one internationally affiliated hotel in Bosnia.

Not only does Tradewinds see the country as having the potential to be the transportation hub of Europe given its central location, the lack of high-end hotels in Bosnia means there is an untapped market of affluent travellers that the company can cater to.

To illustrate, the company goes on to say that there are only four hotels rated higher than four stars in Bosnia.

Things are also looking up on the domestic front for Tradewinds. The company's second quarter results for the 2007 financial year (2Q07) came in above Standard & Poor's (S&P) expectations, as net profit surged to RM22.2mil from RM8mil in the first quarter on the back of higher palm oil prices.

The effect of those prices on plantation earnings over the past year has been profound – Tradewinds posted a loss of RM100,000 in the division for 2Q06. Says S&P:

"The year to date net profit of RM30.2mil, versus a net loss of RM24.6mil in the first half of 2006 (1H06), has already accounted for 68.8% of our original full-year forecast."

Tradewinds' operating profit grew 2.4 times year-on-year to RM120.6mil, rescuing the group from staying in the red due to high interest costs.

The growth drivers were higher profits from plantations, which were up 35.3% yoy to RM35.3mil, and the manufacturing and trading division, which saw a rise of 35.5% yoy to RM35.5mil.

This growth was attributed to higher sugar prices as well as the inclusion of profit from Gula Padang Terap Sdn Bhd, which was acquired in November 2006.

A further boost was provided by Tradewinds' hotel division, which leapt 25.2% yoy to RM25.2mil, aided by the positive effects of the Visit Malaysia Year 2007 campaign.

"We expect a stronger second half for plantations, due to seasonally stronger crop production and the strength in palm oil prices, and the manufacturing segment, due to various festive celebrations which should increase the demand for sugar," says S&P.

The rating agency is raising its projected net profit for 2007 and 2008 by 39.2% and 36% respectively, while also adjusting its assumed crude palm oil price assumption for 2008 from RM1,900 per tonne to RM2,300 per tonne. S&P is also revising its 12-month target price on the counter to RM1.70 and upgrading its recommendation on Tradewinds to a Strong Buy.

"We are encouraged by the strong turnaround in the group's performance and expect the growth trend to continue with higher earnings projected for all the major divisions.

"Its high gearing remains a concern, but Tradewinds is looking at rationalising its assets to reduce its debts and interest burden," adds the rating agency.

A stronger second half for plantations is expected due to seasonal stronger crop production and higher palm oil prices