



TFS Corporation - July 2016 Update

Summary

Multi-Year Supply Agreements Signed With Indian and Chinese Buyers.

Sandalwood Prices Have Been Untouched By Soft Commodity Downturn.

TFS Shares Trade At 5% Discount To NAV.

TFS Corporation ([OTC:TFSCF](#))

Featured In: July 2015

Partnership Average Cost per Share: \$1.86 AUD

Current Market Price (July 29, 2016): \$1.63 AUD

TFS Corporation was the Partnership's featured investment in July 2015. The company remains my favorite forestry pick. Though shares have remained virtually flat year to date, it was another productive six months for the company and TFS investors saw constant news flow. Four company-specific developments stood above the rest:

In late February, TFS announced in their mid-year earnings report that numerous multi-year supply agreements had been signed with Chinese and Indian wood buyers. CEO Frank Wilson, who co-founded TFS nearly two decades ago, commented on the transaction:

"I am delighted we have signed new agreements with wood buyers in China and India at attractive prices for TFS. With our existing contracts with Galderma and Lush Cosmetics, I am very pleased to announce that we have now forward sold all of the TFS owned yield from the forthcoming two harvests. We are now in the enviable position of having multiple customers across multiple markets in four different continents and this perfectly illustrates the global demand for Indian sandalwood."

Not only does this deal provide earnings visibility for the next 2 years, but it also confirms that Indian Sandalwood prices have been entirely untouched by the soft commodities slump that began in mid-2014. The last time TFS publicly announced the price of a supply agreement was in August 2014 - when the company signed an agreement with Galderma, a Nestle ([OTCPK:NSRGY](#))-owned dermatology company. The deal was to sell up to 20 years of sandalwood oil at \$4500 USD per kilogram.

This year's supply deal was also struck at prices "broadly equivalent to US\$4,500 per kg of oil". Skeptics of the sandalwood story should take note; there are now buyers on multiple continents willing to pay this price for TFS's sandalwood oil. While sandalwood's price increase over the past two decades has been monumental, it is clear to me at least that the market can handle these prices. This bodes very well for TFS over the coming decade.

Source: <http://seekingalpha.com/article/3994520-tfs-corporation-july-2016-update>

August 2nd 2016

