

Samling Global Limited

Neutral (V)

Target price (HKD)	3.24
Share price (HKD)	2.89
Potential total return	13.5

Jun	2006a	2007e	2008e
HSBC EPS	0.00	0.02	0.03
HSBC PE	223.4	17.9	14.7
Performance	1M	3M	12M
Absolute (%)	13.8		
Relative ^a (%)	3.1		

Note: (V) = volatile (please see disclosure appendix)

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Money can grow on trees

- ▶ **Rapid Asian economic growth is increasing demand for tropical hardwood; with supply flat, prices are rising**
- ▶ **Samling benefits from rising demand and prices; it is increasing wood flow and expanding downstream capacity**
- ▶ **We initiate with a 13.5% potential 12-month return and assign a Neutral (V) rating; target price HKD3.24**

Growing Asian demand

With 76% of its revenues from Asia – particularly China and Japan – Samling is well placed to benefit from the region's growing demand for building materials. Rapid economic growth in large markets such as China and India underpins 11.5% and 11.8% respective construction CAGRs in the last 10 years. Japanese housing starts have been growing since 2002 due to a rebounding economy and favourable medium term demographics.

Higher prices and margins

Samling's average selling price for hardwood logs and plywood products increased by 18-21% and 20-32% respectively between FY06 and 1H07, leading to operating margin expansion from 2.2% to 25.7%. With strong regional economies and limited supply, we are expecting prices to continue to rise.

Neutral rating

We use DCF and relative valuation with international and Asian comparables to set a 12-month target price of HKD3.24, for a potential 13.5% upside including dividend yield. Samling's shares have increased 37.5% since listing five weeks ago and, with a 13.5% expected 12-month return versus a 20% Overweight hurdle rate, we initiate coverage with a Neutral (V) rating.

Key risks

Key risks include failure to renew forestry concessions and maintain sustainable forestry certification, operational and perception risks, regulatory and tax changes, product substitution, a resumption of illegal logging, and changing attitudes on the use of tropical timber. Macro risks include adverse weather conditions, country risk, and interest and exchange rate risk.

Index ^a	HSI
Index level	20366.00
RIC	3938.HK
Bloomberg	3938 HK

Source: HSBC

Free float (%)	34.9
Market cap (USDm)	1,533
Market cap (HKDm)	11,977

Source: HSBC

Financials & valuation

Financial statements

Year to	06/2006a	06/2007e	06/2008e	06/2009e
Profit & loss summary (USDm)				
Revenue	389	602	718	753
EBITDA	61	217	255	267
Depreciation & amortisation	-53	-62	-61	-60
Operating profit/EBIT	8	155	194	207
Net interest	-16	-10	-15	-15
PBT	0	159	192	207
HSBC PBT	0	159	192	207
Taxation	2	-32	-38	-41
Net profit	5	89	108	116
HSBC net profit	5	89	108	116

Cash flow summary (USDm)

Cash flow from operations	84	132	205	218
Capex	-66	-57	-54	-54
Cash flow from investment	-72	-57	-54	-54
Dividends	-5	-18	-22	-23
Change in net debt	na	-357	-129	-141
FCF equity	-5	47	138	155

Balance sheet summary (USDm)

Intangible fixed assets	32	30	28	26
Tangible fixed assets	585	583	579	575
Current assets	211	589	751	902
Cash & others	21	369	498	639
Total assets	892	1,273	1,435	1,587
Operating liabilities	188	171	201	210
Gross debt	370	361	361	361
Net debt	349	-8	-137	-278
Shareholders funds	167	537	623	716
Invested capital	652	693	688	680

Ratio, growth and per share analysis

Year to	06/2006a	06/2007e	06/2008e	06/2009e
Y-o-y % change				
Revenue	-5.0	54.9	19.3	4.9
EBITDA	-20.8	253.4	17.7	4.9
Operating profit	-74.3	1747.8	25.4	6.8
PBT	na	na	21.4	7.5
HSBC EPS	-77.8	1149.5	21.4	7.5
Ratios (%)				
Revenue/IC (x)	0.6	0.9	1.0	1.1
ROIC	-11.7	18.8	22.9	24.6
ROE	2.4	25.3	18.6	17.3
ROA	-18.0	13.0	12.4	11.9
EBITDA margin	15.8	36.0	35.5	35.5
Operating profit margin	2.2	25.7	27.1	27.5
EBITDA/net interest (x)	4.0	22.1	16.5	18.3
Net debt/equity	121.9	-1.1	-16.6	-28.7
Net debt/EBITDA (x)	5.7	0.0	-0.5	-1.0
Per share data (USD)				
EPS reported (fully diluted)	0.00	0.02	0.03	0.03
HSBC EPS (fully diluted)	0.00	0.02	0.03	0.03
DPS	0.00	0.00	0.01	0.01
NAV	0.05	0.12	0.14	0.17

Valuation data

Year to	06/2006a	06/2007e	06/2008e	06/2009e
EV/sales	4.7	2.4	1.8	1.6
EV/EBITDA	29.7	6.7	5.2	4.4
EV/IC	2.8	2.1	1.9	1.7
PE*	223.4	17.9	14.7	13.7
P/NAV	6.8	3.0	2.6	2.2
FCF yield (%)	-0.4	3.2	9.5	10.7
Dividend yield (%)	0.2	1.1	1.4	1.5

Note: * = Based on HSBC EPS (fully diluted)

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Summary

- ▶ Rapid Asian economic growth is increasing demand for tropical hardwood during a period of flat supply, leading to price increases
- ▶ Samling is well placed to benefit, with increasing wood flow and expanding downstream capacity
- ▶ Target price of HKD3.24 based on DCF and relative valuation

Business description

Based in Malaysia, Samling is an integrated tropical forest and wood products company with over 4m ha of forest concessions and plantations, and over 800,000m³ and 350,000m³ of plywood and veneer manufacturing capacity, respectively. Operations and concessions are located in Malaysia, Guyana, New Zealand and China. Logs, and plywood and veneer account for 31% and 59% of sales respectively. Its two largest markets are China and Japan.

Strengths

- ▶ Large forest concession and ownership. Samling has long term and renewable concession and harvesting rights for 3.5m ha of tropical hardwood forests in Malaysia and Guyana, and an additional 473,000 ha of forest plantations and rights to develop these in New Zealand and Malaysia.
- ▶ Sizeable downstream manufacturing facilities. Samling has 822,000m³ of plywood manufacturing, allowing it to add value to its raw wood flow.
- ▶ Sizeable infrastructure. Samling's extensive infrastructure, built over 30 years, includes

impressive road and bridge infrastructure allowing access to its forestry concessions.

- ▶ Diversified markets. Samling has a diversified customer base and sells to a wide variety of end customers, from general traders to end users based in over 30 countries.
- ▶ Certification. Samling has between 3.9% and 100% of its forest concession and plantation areas certified as practising sustainable forestry. Demand for certified forestry products has increased, particularly in North America. Certification allows Samling to access the increasing number of markets where customers demand environmentally certified wood products.
- ▶ Long serving management. Several senior managers have been with Samling or its predecessor companies for between 10 and 40 years and are considered pioneers in the Malaysian wood products industry. The CEO and CFO have been working for Samling or related companies for over 17 and 19 years respectively.

Weaknesses

- ▶ Recent suspension of the company's Guyanese FSC sustainable forestry certification could impact both the company's corporate and product brand building.
- ▶ Key risks include failure to renew forestry concessions and maintain sustainable forestry certifications, future acquisition and operational risks, additional funding, regulatory and tax changes, product substitution, a resumption of illegal logging, and changing attitudes on the use of tropical timber. Macro risks include adverse weather conditions, country risk, and interest and exchange rate risk.
- ▶ Possibility of US housing slowdown affecting international plywood and log prices

Opportunities

- ▶ Rising prices... Samling's ASPs and the market price of tropical hardwood logs and plywood have increased due to strong regional demand and a limited supply of quality logs.
- ▶ ...are expected to continue... We believe that long-term structural demand from China, East Asia and India will continue and that log prices will continue to increase.
- ▶ ...and will increase bottom line. Rising prices and expanding upstream and downstream capacity should lead to margin expansion, higher profitability, and increased cash flow. Gross and operating margins have increased from 26% to 41%, and from 2% to 26% respectively between FY06 and 1H07.
- ▶ Expanding wood flow. Tropical hardwood wood flow is expected to increase by 23% between FY06 and FY09e due to expanding capacity in Guyana and a rebound from last year's weather induced decline.

- ▶ Increased branding possibilities. Samling's concessions include a substantial proportion of high quality logs. The company has an opportunity to increase margins through effective brand management of specific species.

Threats

- ▶ Increase in supply possibly due to a wide scale resumption of illegal logging in Indonesia or another country.
- ▶ There is potential competition from substitute products including non-tropical wood products, non-wood, and engineered wood-based composites such as medium density fibreboard (MDF).
- ▶ Samling's access to forests is dependent on approval from relevant government authorities. Changes in these, or outright revocation of licences will affect Samling's access to its raw materials

Valuation

- ▶ DCF with a 10.0% COE (Hong Kong COE) and 2% long-term growth rate suggests a target price of HKD2.78.
- ▶ International comparables trade at market capitalisation weighted averages of 19.7x FY07e and 21.6x FY08e seasonally adjusted forecasted consensus earnings suggesting a 12-month average target price of HKD3.70.
- ▶ A simple average of the above two valuations would suggest 12-month target price of HKD3.24. This implies FY07e and FY08e PEs of 20.1x and 16.6x. The Hong Kong market is currently trading at 19.1x 12-month forward earnings.
- ▶ With total expected returns of 13.5%, versus a minimum 20% for an Overweight rating, we initiate on Samling with a Neutral (V) rating.

Samling forecast price assumptions

USD/m ³	FY05	FY06	1H07	FY07e	FY08e
Logs (export)					
Malaysian Meranti export log price (as per ITTO. Average of SQ up, small, super small. midpoints of mid-Dec previous year price range)	163	205	260	na	na
% change (y-o-y)	25.0	15.4	26.8	na	na
Samling past ASP / HSBC forecast (export prices)	123	143	169	173	182
% change (y-o-y)	na	16.4	23.9	20.7	5.0
Plywood (export)					
Malaysian plywood export price (as per ITTO. Average of 2.7m, 3mm, 9mm & up midpoints of mid-Dec previous year price range)	323	385	448	na	na
% change (y-o-y)	40.6	16.8	16.4	na	na
Samling past ASP / HSBC forecast (export prices)	350	370	488	483	507
% change (y-o-y)	na	5.7	41.5	30.4	5.0

Source: Past data from company. Forecasts from HSBC, reference prices from ITTO

Sensitivity analysis

A key assumption to our forecast is the annual percentage change in hardwood log and plywood prices.

As a near commodity, changes in prices are expected to have a large effect on Samling's earnings. This is due to the large fixed nature of its cost base, in particular depreciation, which does not change when plywood and log prices increase or decrease. For example, operating and net margins more than doubled between FY05 and 1Q05 mostly due to the increase in hardwood product prices.

To gauge the sensitivity of our base case price assumptions, we altered price increases by 100bp up and down.

A 100bp increase in our assumed price change increases EBIT by 2.6% in FY07e and 6.0% in FY08e. The large increase in FY08e is due to the multiplier effect of increasing prices by 100bp in both FY07e and FY08e. Net income increases by 2.3% and 5.6% in FY07e and FY08e.

Sensitivity to change in ASP growth assumptions

(USDm)	FY07e	FY08e
EBIT (base case)	155	194
Increase in EBIT (base growth + 100bp)	159	206
% change	2.6%	6.0%
Decrease in EBIT (base growth - 100bp)	151	183
% change	-2.5%	-5.8%
Net Income (base case)	89	108
Up net income (base growth + 100bp)	91	114
% change	2.3%	5.6%
Down net income (base growth -100bp)	87	102
% change	-2.2%	-5.5%

Source: HSBC estimates

Sensitivity to change in Price/ASP growth assumptions

	FY07e	FY08e
Base case		
Logs (USD/m ³)	173	182
% change y-o-y	20.7%	5.0%
Plywood (USD/m ³)	483	507
% change y-o-y	30.4%	5.0%
Base case + 100 bp increase in ASP growth		
Logs (USD/m ³)	175	185
% change y-o-y	21.7%	6.0%
Plywood (USD/m ³)	487	516
% change y-o-y	31.4%	6.0%
Base case - 100 bp decrease in ASP growth		
Logs (USD/m ³)	172	179
% change y-o-y	19.7%	4.0%
Plywood (USD/m ³)	479	498
% change y-o-y	29.4%	4.0%

Source: HSBC estimates

Industry structure and market dynamics

- ▶ Rapid economic growth underpins rising construction spending and housing starts in Asia leading to increased demand
- ▶ Clampdown on Indonesian illegal logging has decreased supply of tropical hardwood
- ▶ Prices expected to continue to increase

Dynamics of the timber and plywood market

Based in Malaysia, Samling is an integrated tropical forest and wood products company with over 4m ha of forest concessions and plantations, and over 800,000m³ and 350,000m³ of plywood and veneer manufacturing capacity, respectively. Operations and concessions are located in Malaysia, Guyana, New Zealand and China. Logs, and plywood and veneer, account for 31% and 59% of sales respectively. Its two largest markets are China and Japan.

Below we take a look at the key factors that are driving demand and supply of tropical hardwood logs and plywood wood, which together accounted for between 75.2% and 81.9% of Samling's sales between FY2004 and 1H07. By understanding these key factors we can then make broad assumptions on future prices. This in turn allows us to value the company, which we will turn to later.

Factors that drive demand

We believe there are three main factors influencing demand for tropical hardwood. These are:

- 1 Long-term structural demand increase from China, other East Asian countries, and India.
- 2 Rebound in Japanese demand
- 3 Move towards certified wood – particularly in the US and Europe.

Long-term structural demand

Between 1996 and 2005, according to the International Tropical Timber Organisation (ITTO), Asia-Pacific has been the largest consumer of tropical hardwood logs, accounting for 60-67% of the global market.

According to ITTO, Asia-Pacific is also one of the largest consumers of plywood and veneer, accounting for 57-65% of global consumption between 1996 and 2005. China and Japan accounted for 30% and 36% respectively of total demand for tropical plywood in Asia-Pacific in 2005.

According to ITTO, imports of tropical logs by Asian countries – mostly China, Japan and India – have increased by 1.1% between 2001 and 2005. The low increase is due to a lack of supply, not demand.

India is also an important importer – particularly in its demand for raw logs for which it accounted for 19.2% (ITTO) of global tropical log imports in 2005 and 11.9% of the total consumption of tropical logs in 2005.

In 2006 over 75% of Samling's sales revenues were from Asia – mostly Japan, Greater China, (China, Taiwan, Hong Kong) and Malaysia, as well as South Asia (India, Pakistan) and S. Korea.

Logs are primarily sold to low wage countries where they are further processed into downstream products such as plywood, veneer, doors and flooring. In FY06, 71% of Samling's log revenues came from relatively low-wage China, Malaysia, India and Pakistan.

Plywood, veneer and other finished wood product, which are more labour intensive, are sold to higher wage countries such as China and India. In FY06 64% of Samling's log revenues came from relatively high-wage Japan, North America and Europe.

Important changes in the market

Total global demand for tropical logs and plywood has been relatively stable since 1990. However, this stability hides important changes in the market. The key change has been the increase in tropical log consumption in China (and to a lesser extent India) which has largely replaced Japanese consumption.

According to ITTO, Japan's consumption of tropical hardwood logs declined by 11.5% CAGR between 2000 and 2005 due to the closure of relatively expensive wood processing operations,

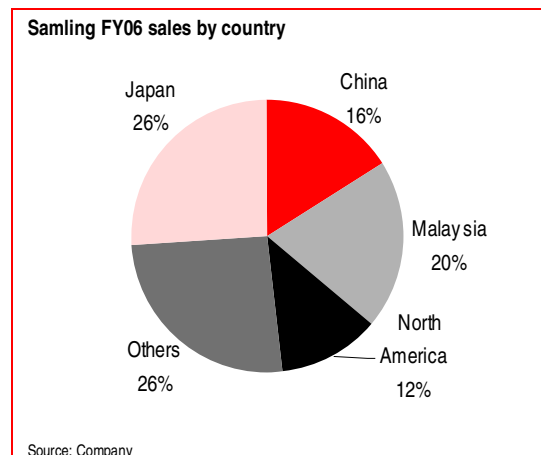
particularly for plywood and veneer which depend on low wage labour.

Global demand for plywood has been relatively stable since the 1990s, with Asia-Pacific consumption increasing by 1.8% per annum, between 1990 and 2005.

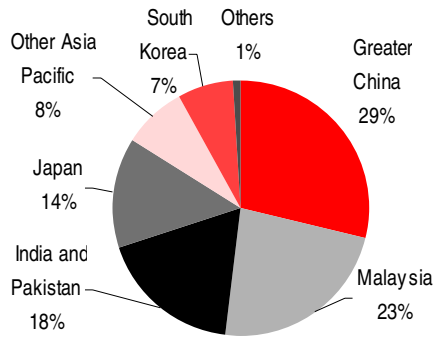
As we will see in the next section, the reason for the small increase in consumption is a lack of supply, not demand.

China

The decrease in Japanese log consumption has been replaced by growth in Chinese consumption. As highlighted further in Appendix II, according to ITTO China is the world's largest tropical log importer and the third largest tropical plywood manufacturer. In 2005 it imported 7.3m³ of logs equivalent to almost half the total amount of logs imported by all countries that the ITTO tracks, and almost triple the level since the mid-1990s.

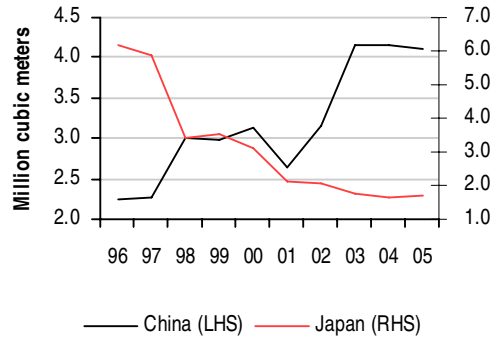


Samling FY06 log sales breakdown by country



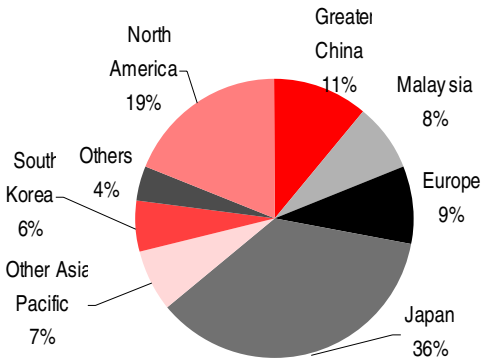
Source: Company

Tropical plywood consumption



Source: ITTO

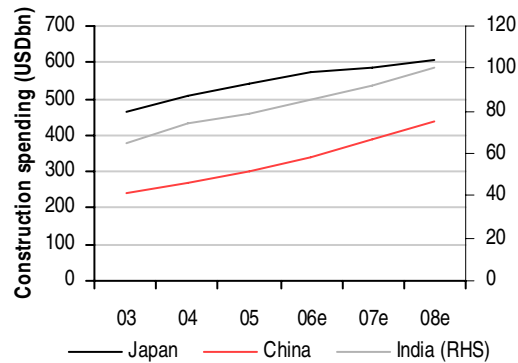
Samling FY06 plywood sales by country



Source: Company

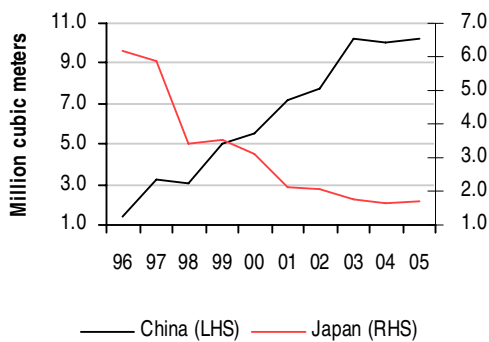
Construction related

Construction spending



Source: Global Insight Inc.

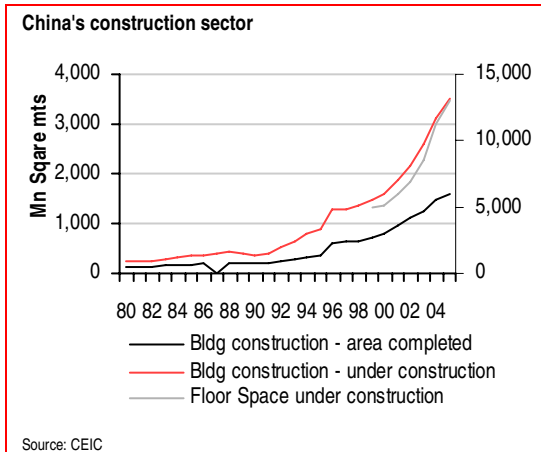
Tropical log consumption



Source: ITTO

The key component of hardwood log and plywood demand according to ITTO is housing starts, as wood-based products are needed for construction, floors, and furniture. Where housing starts are not available – particularly for China and India – we looked at construction figures for each country as a guide to expected growth in demand for wood products in those countries.

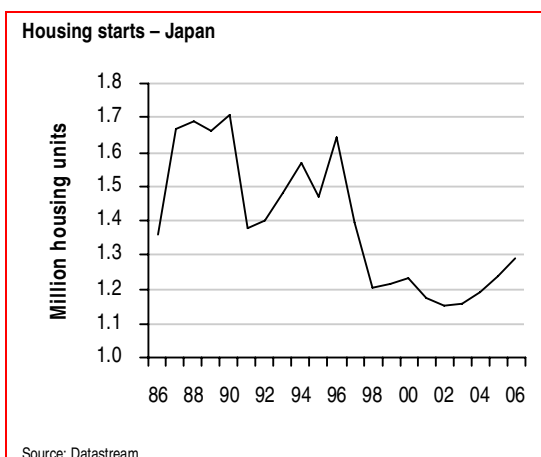
Housing starts and construction growth in Samling's key markets – China and Japan – have been strong. In China, the building area completed and under construction increased by 11.5% and 11.8% CAGR respectively over the last 10 years, and its floor space under construction increased by 17.6% CAGR between 1999 and 2005.



Rebound in Japanese demand

According to figures from Datastream, after declining since the mid-1990s Japan's housing starts since 2002 have been increasing by 2.4% CAGR through 2005, and the trend appears to be increasing. According to ITTO, total new housing starts in Japan were 1.29 million units in 2006, up 4.6% y-o-y, and the fourth consecutive annual increase. Wood based houses accounted for 43% of the total in 2006.

The most recent data is encouraging. Housing starts in Japan increased to 107,906 units in Dec 2006, a 9.2% y-o-y increase, with growth coming from both rental and built-for-sale houses. Y-o-y monthly wood structure housing starts have increased for the 15 months to December 2006.

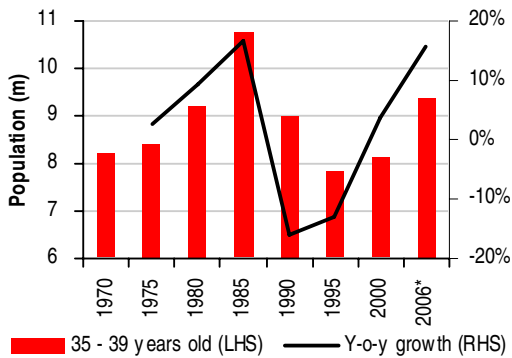


Moving forward

We next turn our attention to the future. Several positive factors point to strong construction growth and hence demand for tropical hardwood:

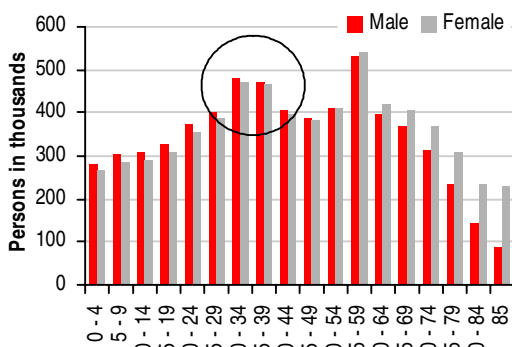
- ▶ Continued strong macro economic growth in China and India, leading to rising affluence and consumer spending. According to HSBC's economics team, China's GDP is expected to grow by 10.0% in 2007e and 10.5% in 2008e; and India's is expected to grow by 7.8% in 2007e and 6.3% in 2008.
- ▶ Continued Japanese growth. According to HSBC economics team, Japan's GDP should increase by 1.8% in 2007e and 2008e. There are signs that deflation is coming to an end.
- ▶ Demographics. Japan could be looking at a sustained period of potential new home buyers due to the increase in second generation baby boomers (i.e. those born between 1970-1974) who are now 32-36 years old and entering the age when they will begin thinking of buying property. According to a Government Housing Loan Corporation survey, the average age of borrowers from the corporation is 40.6 years old.
- ▶ Strong Asian currencies. As of December 2006, the RMB increased by 5.4% y-t-d against the USD. This makes USD priced tropical log and plywood imports cheaper in RMB terms, which should help demand for hardwood products in our opinion. In 2007e HSBC's economics team is expecting the RMB to appreciate by 5.2%, the JPY by 6.6%, and the Indian rupee by 2.9%.
- ▶ In South Korea, housing permits increased by 13.6% y-o-y from Jan to Nov 2006 to 357,000 according to the Ministry of Construction and Transportation. Government development sites rose by 43% y-o-y and private residential areas increased by 3.9% y-o-y.

Japan's population of 35-39 years olds is increasing



Source: Statistical Survey Department, Statistics Bureau, Ministry of Internal Affairs and Communications

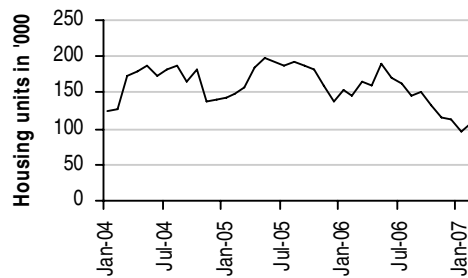
Japanese population as at March 2007*



Source: Statistical Bureau of Japan; * Provisional estimates

Are declining US housing starts a worry?

New housing starts, United States



Source: US Census Bureau

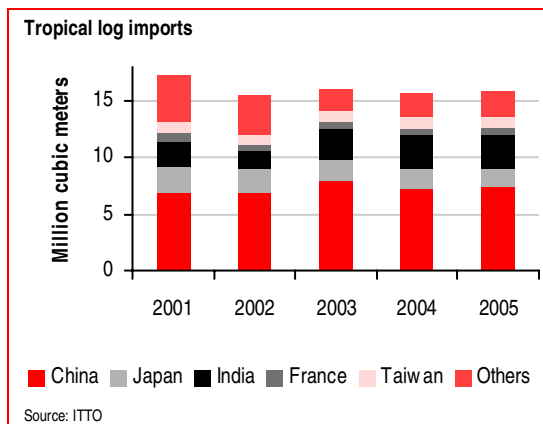
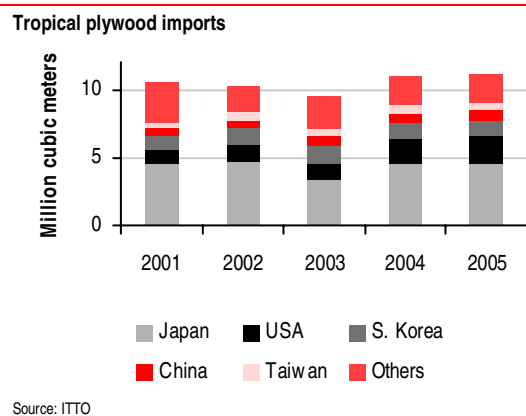
Since reaching a peak of 197,900 in May 2005, US monthly housing starts are down 46.3% as of February 2007 and down 26.8% y-o-y. The HSBC economics team is forecasting US housing investment to decrease by 12.2% in FY07e, before rising by 2.6% in FY08e.

There are a number of reasons to believe that the US situation will not have a major affect on tropical log and plywood prices. This is mostly due to strong demand in Asia and limited supply of tropical logs:

- ▶ Asia accounts for most of the world's tropical log and plywood imports (90% and 72% respectively in 2005 according to ITTO)
- ▶ Housing starts in Japan are increasing. Japan is the largest importer of tropical plywood, accounting for 41.5% of total plywood imports in 2005 according to ITTO.
- ▶ Continued economic growth in China.
- ▶ Asian countries' proportion of tropical wood products to total imports is much higher than in the US. (see table).
- ▶ Between the recent May 2005 peak in US housing starts and March 2007, prices of Asian tropical logs and plywood have risen,

with the average price of Meranti up by 59.5% and the average price of Malaysian plywood up by 27.0%, according to ITTO price statistics.

- ▶ Slowing raw material availability. As we will see in the next section, there is a finite supply of tropical timber over a generation and increased emphasis on sustainable forestry and certification may also limit supply further.



Move toward certification

Along with strong Asian demand, the other trend affecting demand is an emphasis on buying wood products that have been certified as having come from a sustainable forest or plantation.

According to the United Nations Food and Agriculture Organisation (FAO), the world's certified forest area reached 270m ha as of May 2006, or about 7% of the Earth's total forest area. The majority of this, about 96%, is in North America and the European Union, with about 50% of forests in both places having been certified according to the United Nations Economic Commission for Europe (UN/ECE) Timber Committee.

Proportion of tropical wood products to total imports, FY04

(%)	Logs	Veneer	Plywood
China	27.8	64.1	89.6
Japan	12.8	32.4	88.8
Taiwan	82.4	85.9	76.7
S. Korea	7.0	77.9	91.3
India	92.1	60.0	12.9
USA	0.1	5.3	31.0

Source: ITTO

Details of Samling forest certification

Country	Operation	Total gross area certified (ha)	Percentage of gross area	Certification standard	Status
Malaysia (natural forest concession)	Sela' an-Linai Forest Management Unit	55,949	3.9% of its gross forest concession area in Malaysia	MTCC certificate for forest management	Obtained Oct, 2004 - valid for 5 years
Guyana (natural forest concession)	Compartments 4 & 5	570,000	35.4% of its gross forest concessions area in Guyana	FSC certificate for forest management	Obtained Feb, 2006. Suspended on 9 Jan 2007
New Zealand (plantation)	New Zealand forest plantation	35,000	100% of its gross plantation area in New Zealand	FSC certificate for forest management	Obtained Aug, 2005 - valid for 5 years
Total (before suspension)		660,949			
Total (after suspension)		85,949			

Source: Company

Characteristics of forest certification programmes

FSC - Forest Stewardship Council	Founded in 1993, German based, sets international standards for responsible forest management. Accredits independent third parties to certify forest managers and products producers to FSC standards
MTTC - Malaysian Timber Certification Council	Founded in 1998 as an incorporated company, funding mostly comes from interest from an endowment created by the timber export levy fund.
PEFC - Programme for the Endorsement of Forest Certification Schemes	Founded in 1999, umbrella organisation that provides a framework for the development assessment and recognition of national forest certification schemes. Believed to be the world's largest forest certification scheme.

Source: FSC, MTTC, PEFC, compiled by HSBC

Most of the demand for certified sustainable forest products is coming from business to business and government sales as these customers are keen to protect their reputation and brand image.

Only about 1% of tropical forests are certified. Tropical countries are increasingly getting their forests certified and creating their own certification programmes, with the most prominent being the seven year old Malaysian Timber Certification Council (MTCC).

According to a UN/ECE Timber Committee report, it is now difficult to export uncertified tropical forest products to the Netherlands and the UK. The report also acknowledges that certified tropical timber is finding "improved opportunities and strong market growth", yet there does not appear to be a premium paid for products made from certified trees.

Leading programmes

The two most popular certification programmes are the FSC (Forest Stewardship Council) and PERC (Programme for the Endorsement of Forest Certification Scheme), which together account for 51% of certified forest areas according to FAO and the UNECE. FSC, which Samling uses, has been recognised as having one of the world's highest standards for sustainable forest management.

In a recent bi-weekly report on the tropical timber market, ITTO noted that Malaysian hardwood log and plywood prices have been particularly strong

in 2006 and that Malaysia has better regulations as compared to other tropical hardwood producers.

FSC Suspension

On 9 January 2007 Samling's FSC certification in Guyana was suspended following a compliance review. This resulted in the issuance of five major corrective action requests (CARs) which require Samling to make improvements in several areas including worker amenities, staff health and safety practices, monitoring of non-timber activities within operational areas, maintenance of buildings and vehicles, fire safety and signage, and other minor issues relating to road building. The company is working with the independent assessor and the FSC to identify and resolve the CARs. During its suspension, Samling can continue to sell logs from its Guyana forest concession; however these can not be FSC certified.

Share of certified forest area by major schemes, 2006

Sponsoring institution	% of major schemes
Forest Stewardship Council (FSC)	28%
Canadian Standards Association (CSA)*	26%
Programme for the endorsement of Forest Certification Schemes (PEFC)	23%
Sustainable Forestry Initiative (SFI)*	20%
American Tree Farm System (ATFS)	3%

*Also endorsed by PEFC
Source: Forest products annual market review 2005-06

Until its recent FSC certification suspension, Samling appeared to be one of the leaders amongst tropical timber producers in getting its forests certified, with 16.5% of its total forest and

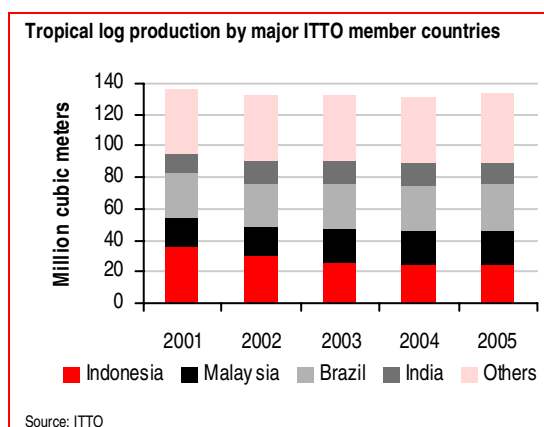
plantation areas having been certified by FSC or MTCC. With the suspension in place, 2.1% of Samling's total forestry and plantation areas are certified. The company's strategy is to first get all its products destined for the North American and European market certified and then move to certify other concessions over time.

It is difficult to predict when certification will be reinstated. According to Samling management, FSC is currently reviewing their certification procedures on tropical timber natural forests, as there was a conflict between Barama's (Samling's 100% owned subsidiary in Guyana), auditors (SGS) assessment and FSC's assessment.

Barama does appear to be keen to get its certification reinstated, and according to management and official statements is working closely with its auditors (SGS), FSC and WWF to comply with the FSC requirements, when they become clearer.

At the same time, Barama is pursuing another certification programme, the Global Forest Trade Network, which is the WWF's responsible forestry management and trade programme.

Supply side dynamics



So far we have shown:

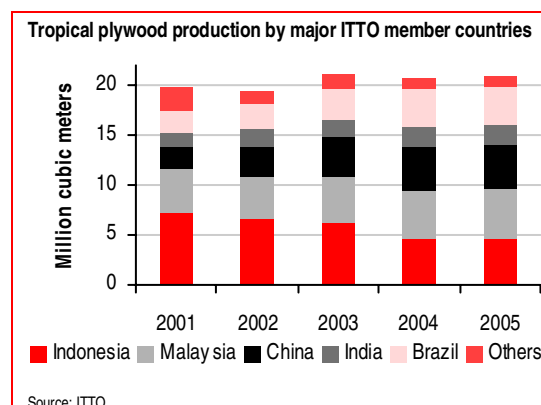
- 1 Demand for tropical hardwood logs and plywood is driven by an increase in housing starts and construction spending in Asia.
- 2 This is underpinned by broad economic growth, especially in China, and a resumption of growth in Japan.
- 3 There is an increasing emphasis on sustainable forest production.

After looking at demand we next turn our attention to supply. We see the following two trends in the international supply of tropical hardwood and plywood:

- ▶ Dramatic slowdown in illegal logging
- ▶ Inelastic supply of raw materials

Dramatic slowdown in illegal logging

Officially, production of tropical logs, plywood, and veneer has been flat according to ITTO, with the production of logs by ITTO member countries decreasing slightly by 1.6%, and the production of plywood increasing by 4.8% between 2001 and 2005.



These numbers need to be taken with a grain of salt as, according to ITTO, Indonesia (as well as Brazil and India), in its 2005 Annual Review and Assessment of the World Timber Situation, "has never provided reliable official production figures

to ITTO". The organisation uses estimates and notes that illegal harvesting could be equal to or even greater than estimated figures.

Illegal Indonesian logging

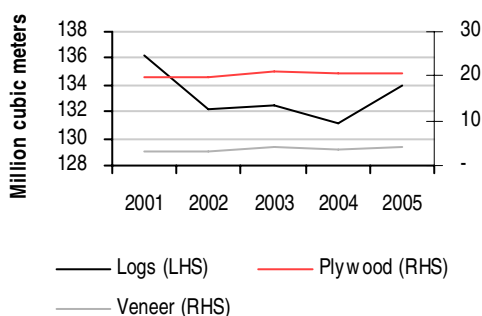
Indonesia typically accounts for about 25% of the world's tropical wood production and hardwood lumber exports, and about half of its tropical hardwood plywood exports. Any change in Indonesian forestry policy or regulations can have a significant impact on global hardwood trade.

Illegal logging is believed to have been widespread in Indonesia since soon after the onset of Asia's 1997 financial crisis, which hit the country particularly hard.

Ironically, a key reason behind the increase in illegal logging was probably the IMF regulations adopted by Indonesia in 1998 in exchange for emergency IMF assistance. These regulations included several provisions which encouraged illegal logging:

- ▶ A regionalisation policy which decentralised the awarding of forestry licences to the regional governments instead of the central government.

Production of tropical log, plywood and veneer



Source: ITTO

- ▶ Repeal of Indonesia's ban on log exports

In a 2004 study commissioned for the American Forest and Paper Association, a national trade association representing US companies engaged

in wood and paper manufacturing ("Illegal" Logging and Global Wood Markets: The Competitive Impacts on the US Wood Products Industry, 2004, Seneca Creek Associates and Wood Resources International), by the early 2000s it was estimated that illegal forest products accounted for between 70-80% of total Indonesian production. This included 100% of log exports, and 55% of plywood exports.

Indonesian and several regional Asian governments have acknowledged that illegal logging is a significant problem and have taken measures to thwart it. These include:

- ▶ Re-imposing an export ban on popular species of Indonesian hardwood logs in 2001
- ▶ The issuing of logging licences by the central government instead of provincial or local governments
- ▶ A high-profile anti-corruption campaign and measures to reform Indonesia's military under President Susilo Bambang Yudoyono.
- ▶ Malaysia's introduction of a law banning the importation of logs and squared timber from Indonesia.
- ▶ Bilateral agreements signed with large importing countries including China, Japan and the UK to curb illegal log imports.

These measures appear to have had been effective. Between 2003 and 2005 Indonesian tropical hardwood log exports decreasing by an estimated 85% according to ITTO statistics.

Stable supply

Over the next few generations, tropical log supply is fixed. This is simply because trees grow slowly, especially hardwood varieties which take between 60-100 years to reach maturity.

Larger diameter trees generally command a higher price than smaller ones because they can be

converted into higher value-added products – in particularly lumber and plywood.

Campaigning by NGOs and increased awareness of their forestry assets has prompted governments to impose restrictions on harvesting of these assets.

Short supply being felt

Inadequate supply is already affecting Japanese consumption. Plywood imports have been increasing as, according to the ITTO, Japanese downstream producers have been having a difficult time obtaining tropical logs for domestic production, mostly due to demand in China.

Lower prices of imported plywood also make it more attractive to import than to produce domestically, and Japan's imports of tropical plywood have increased by 39.3% between 2003 and 2005, while its local production has declined by 16.7% during the same time period, according to ITTO.

And lastly, according to Japan's Forestry Agency, Japanese wood product manufactures are shifting from tropical hardwood to Russian softwood due the shrinking supply of tropical logs.

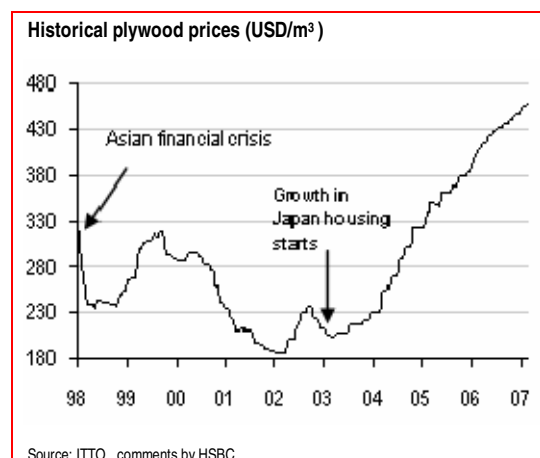
Prices

Here is the scenario thus far:

- ▶ Demand for wood products is increasing in Asia-Pacific due to regional economic growth particularly from China and growing Japan.
- ▶ Official log supply has been stagnant, and real supply has likely decreased in the last few years due to the ending of illegal log exports from Indonesia

With limited supply and increasing demand, prices have increased steadily from their 1998 lows. Log prices have more than doubled in the last five years, and blended Malaysian Meranti log prices having increased by more than 23% in

the 12 months to March 2007, according to ITTO data. Malaysian Plywood prices have also more than doubled in the last five years and have increased by 12% in the 12 months to March 2007.



Samling's prices have increased in line with the market. Its average selling price for exported and domestically sold hardwood logs increased by 17.7% and 20.9% in 1H07 vs. FY06, and its average selling price for plywood exports and domestic sales increased by 31.7% and 19.7% respectively.

Malaysian log and plywood prices

(USD/m ³)	1996	Dec-98	Dec-05	Dec-06	Mar-07
Logs, Meranti export SQ up	200	120-125	230-240	283-297	297-327
% chng		-40	92	23-24	5-10
Plywood (M'sian export, MR grade BB/CC) 2.7mm	503	300-310	420-430	476-497	487-508
% change		-40	40	13-16	2

Source: ITTO

Going forward

Now that we have an understanding of the demand and supply factors and how these have affected prices in the recent past, we can make assumptions about future prices.

But first...

Although considered a commodity, wood and timber products are not traded on any exchange, making price discovery difficult. The wide variety of tree species, growing regions, and a fragmented market leads to a non-standard product, and hence non-standard prices. For our pricing data we have relied on prices compiled by ITTO and Samling's past ASPs.

Pricing assumptions

For our forecasts, we are assuming that prices will remain strong in FY07e due to increasing Japanese housing starts, and growing building construction in China, India and the rest of East Asia. According to ITTO, prices of Meranti (which we have used as a yardstick for Samling's log production) have increased by 23-32% y-o-y

to the middle of December 2006. Exported Malaysian hardwood plywood prices have increased between 15-19% during the same time period.

Note that while we have used Meranti as the yardstick for Samling log price increases, the company's average selling prices are determined by the blend of trees that are felled as well as the price for each species.

We believe that after several years of increases, hardwood prices rises will moderate to the 5% level in FY08e and decline to a 2% increase in FY09e. Long-term price increases of 2-3% per annum we believe are sustainable given the long term positive outlook for growth in Asia, rising affluence of Asia's growing middle class, and finite supply.

Samling forecast price assumptions

USD/m ³	FY05	FY06	1H07	FY07e	FY08e
Logs (export)					
Malaysian Meranti export log price (as per ITTO. Average of SQ up, small, super small. midpoints of mid-Dec previous year price range)	163	205	260	na	na
% change (y-o-y)	25.0	15.4	26.8	na	na
Samling past ASP / HSBC forecast (export prices)	123	143	169	173	182
% change (y-o-y)	na	16.4	23.9	20.7	5.0
Plywood (export)					
Malaysian plywood export price (as per ITTO. Average of 2.7m, 3mm, 9mm & up midpoints of mid-Dec previous year price range)	323	385	448	na	na
% change (y-o-y)	40.6	16.8	16.4	na	na
Samling past ASP / HSBC forecast (export prices)	350	370	488	483	507
% change (y-o-y)	na	5.7	41.5	30.4	5.0

Source: Past data from company. Forecasts from HSBC, reference prices from ITTO

Peer comparison

- ▶ Malaysian and China based forestry companies have grown faster and are investing more than North American firms
- ▶ This underpins our industry view that growth is coming from Asia
- ▶ Samling's net earnings have increased faster than most peers

Cross border comparisons

Comparing Asian and international forestry companies

So far we have determined that demand has been robust for tropical timber logs and downstream products in the last few years due primarily to increasing demand in East Asia as well as flat supply growth. Prices as a result have increased.

We next want to find out how companies in the forestry sector are performing, and how Samling compares with its international peers.

To make these comparisons we look at trend numbers, i.e. three year historical data, in order to filter out short term "noise". In particular, we look at momentum growth, profitability, and valuations of listed forestry companies.

In general we find that Asia based operations have grown faster and are more positive about the future as show by higher proportional capex spending.

Momentum

Amongst our comparables, sales growth has generally been higher, between 8% and 35% for Malaysia and China based forestry companies than for their North American counterparts, whose sales grew by 2-11% (not including West Fraser Timber, which appears to have mostly grown

through acquisitions). We find this interesting given the US's buoyant property market in the past few years.

The fast growth amongst the China and Malaysian comparables seems to confirm our conclusion that Asian demand for wood and wood products is growing rapidly.

Indonesian companies Barito and Sumalindo were amongst the slowest growing companies in the last three years, as overseas buyers are believed to have stopped purchasing Indonesian plywood due to concerns of illegal logging. Crowding out by illegal logging also likely had a negative effect on sales and EBIT growth.

Samling's sales growth has been amongst the slowest compared to its Malaysian competitors, however it appears to have done a better job at maintaining net margins as its net earnings have increased faster than its four listed Malaysian comparables, and all of three North American based comparables (not including West Fraser). We calculated net margin excluding gain/loss on change in fair value of plantation assets.

Productivity

Amongst the comparables, Asian forestry firms, except for those in Indonesia, appear to be more positive about the future and are generally

investing more in capex, as a percentage of sales, than their North American counterparts. Only Plum Creek's capex as a percent of sales is greater than 10% amongst our North American comparables.

Sino Forest appears to be the most positive about the future with capex spend equivalent to almost half its sales for the last three years on average.

Samling's capex as a percent of sales is in line with its Malaysian counterparts. Indonesian firms have made very small capex investments in the last few years, which adds further evidence of the negative affects of illegal logging in that country.

Samling's asset turnover is lower than its Malaysian competitors. At 0.4x, its asset turnover is close to another large land-owner, Plum Creek, the second largest private landowner in the US, with more than 8m ha of timberland.

Samling's pre-IPO net debt to total equity is higher than its Malaysian comparables. This is likely due to Samling's aggressive capex spend between FY03 and FY06.

Profitability

Except for International Forest and West Fraser, Samling's average operating margin was the lowest compared with other companies that we looked at. This is likely due to the effects of depressed log prices over the last few years as well as last year's heavy rains which decreased production.

Valuation

After removing several outliers (Timberwest and Sumalindo), our comparable group of forestry companies have traded on an unweighted average for 2002 to 2005, of 13.4x earnings, 1.5x book value and 9.3x free cash flow. Asian companies, in particular Sino Forest and Subur Tiasa, have generally traded at lower multiples in the last three years than those based in North America.

Peer comparison table

Company	Samling	Plum Creek Timber	West Fraser Timber	Timberwest Forest	Intl. Forest	Sino Forest	TA ANN	Jaya Tiasa	WTK Holding	Subur Tiasa	Sumalindo**	Barito Pacific***
Country	Malaysia, Guyana, NZ (listed in HK)	US	Canada	Canada	Canada	China (listed in Canada)	Malaysia	Malaysia	Malaysia	Malaysia	Indonesia	Indonesia
Business	Upstream and downstream. Tropical hardwood plantations	Upstream and downstream. Owns and manages 8.2m HA of timberland	Upstream and downstream. Lumber, pulp and paper and wood panels	Primarily upstream Large land owner in western Canada	Upstream and downstream. Manufactures lumber products, logs and wood chips	Upstream and downstream. Plantations and downstream manufacturing	Upstream and downstream. wood operations. Also has real estate and CPO exposure	Upstream and downstream. Sawn timber concentration	Plywood, sawnwood and timbers	Upstream and downstream. Plywood concentration	Upstream and downstream. Also has plantations	Upstream and downstream. Large plywood capacity
Market Cap (USDm)	1,577	7,012	1,731	1,284	338	1,660	684	463	399	319	307	208
Momentum												
Sales growth	4%	11%	22%	2%	10%	35%	20%	8%	8%	20%	1%	-38%
EBIT growth****	-17%	17%	1003%	23%	-58%	45%	37%	9%	55%	30%	-172%	-252%
Net earnings growth****	71%	25%	204%	57%	52%	55%	27%	-10%	58%	37%	-122%	-270%
Productivity												
Capex as % sales	13%	17%	6%	3%	9%	58%	14%	25%	8%	11%	8%	1%
Asset turnover	0.4x	0.3x	0.8x	0.3x	1.4x	0.5x	0.7x	0.5x	0.6x	1.0x	0.6x	0.3x
Net debt/ total equity	186%	82%	25%	720%	5%	43%	-8%	25%	-13%	0%	596%	-145%
Cash conversion (Days)	63	22	57	33	24	22	20	113	188	36	58	-3
Profitability												
EBIT Margin****	10%	29%	7%	18%	2%	23%	22%	11%	17%	18%	-2%	-23%
EBIT RoC****	4%	10%	5%	6%	3%	12%	16%	6%	10%	18%	-1%	-7%
Net RoE	10%	15%	12%	15%	11%	17%	18%	5%	10%	18%	-76%	31%
Valuations* (historical three year average)												
PE	NA	23.4x	15.2x	nm	17.0x	7.3x	12.3x	21.6x	10.8x	7.4x	2.8x	6.2x
PB	NA	3.1x	1.0x	nm	0.8x	1.3x	2.4x	1.0x	1.1x	1.3x	5.9x	1.5x
P/CF	NA	12.5x	3.3x	nm	3.8x	3.0x	9.4x	9.3x	7.9x	4.2x	2.5x	13.0x
P/FCF	NA	15.3x	4.8x	nm	14.1x	nm	3.6x	nm	4.4x	8.2x	3.7x	15.2x

Source: Bloomberg* Samling year ending 30 June, Jaya 30 April, Subur 31 July; all others 31 Dec

** Net debt/ equity is high as company is sustained losses from 2002 to 2004

*** Equity is negative during 2003 and 2004

**** Samling EBIT & Net earning are calculated excluding gain/loss on change in fair value of plantation assets

Financial analysis and forecasts

- ▶ FY07e expected to rebound from FY06 adverse weather conditions
- ▶ Certification issue should have limited financial impact but needs to be addressed
- ▶ After poor 2006 volumes, we expect sales to increase 54.5% y-o-y in FY07

Sales, margins and profits

Sales mix

So far we have seen that Malaysian tropical wood prices have increased due to strong Asian demand, particularly from China, and that Asian forestry companies are growing faster, have higher profit margins and are more positive about the future than their North American counterparts.

We next look at Samling's finances and future prospects.

Upstream and downstream

Samling is an integrated forestry and wood products company. Like other forestry companies its operations are divided into two broad business lines: upstream (logs) and downstream operations (plywood, veneer, sawn timber and other wood products). Of this log, plywood and veneer sales accounted for more than 85% of the company's turnover in FY06. The remainder comes from upstream support services (essentially helping other companies extract logs), other timber operations (downstream production of flooring

chipboard, sawn timber, etc.), and non-timber operations (production and sale of granite aggregates and rubber compounds, glue, etc.).

Moving downstream

Downstream operations are becoming more important, having grown from 58% of sales in FY03 to 61% of sales in FY06, and 63% of sales in 1H07.

The company is expanding its downstream businesses to capture a higher percentage of value added from its core timber concessions, plantations, and logging operations. Based on planned expansion capacities and assumptions on prices and volume produced, we are expecting Samling's sales from downstream activities to increase to 62.1% and 65.7% of total sales in FY07e in FY08e respectively. This is mostly due to the growth in plywood and sawn timber manufacturing in Malaysia and Guyana.

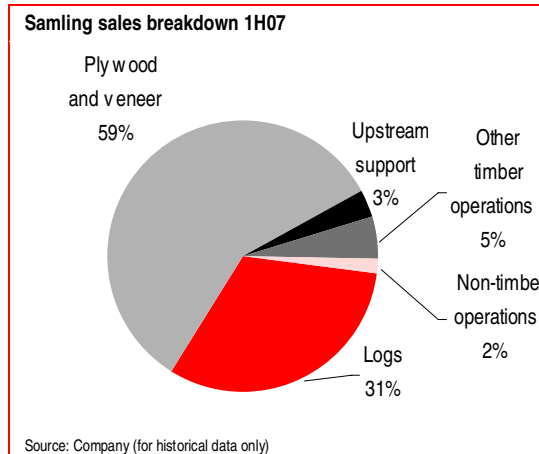
Limited financial impact of suspension

As discussed in the industry background section, Samling's Guyana sustainable forestry

certification was suspended on 9 Jan 2007. This affects 28,000m³ of FSC certified logs in Guyana, equivalent to 12.8% of total log production from that country. The company can continue to sell logs and timber products from their Guyanese concessions but they can not be certified.

This will not likely have any effect on the company's FY07e earnings as, with demand for hardwood logs strong, they can be sold to buyers who do not require certification. The amount of logs sold from Guyana accounts for less than 1% Samling's total FY07e log production. Samling's Guyana concessions accounted for 3.3% of total log production and 3.9% of total plywood production by volume in FY06.

The suspension could have longer-term consequences if it is not corrected. According to the company, the forest management certifications enable Samling to build brand identity and to satisfy increasing market demand for certified wood products. If not quickly addressed, we believe that Samling's brand building could become more difficult.



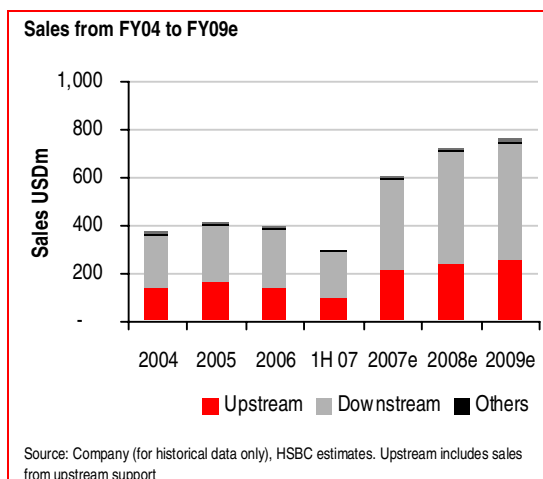
Sales

From 2004 to 2006 sales increased at a CAGR of 3.3%. However, this relatively flat growth hides some ups and downs.

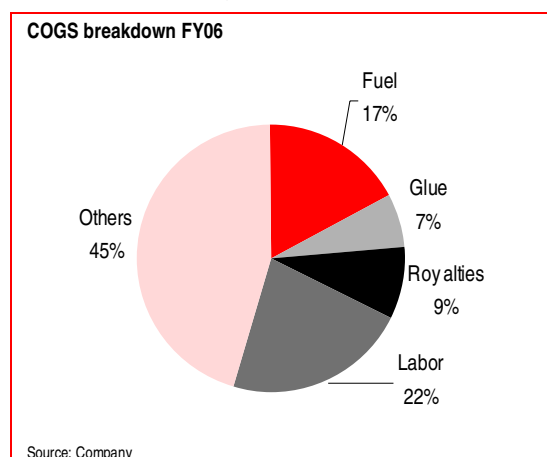
Turnover increased by 12.3% in FY05 primarily due to higher average selling prices of exported logs (up 17.5%) and plywood (up 12.4%). In FY06, turnover fell 4.9% despite average log and plywood selling prices increasing by 16.4% and 5.7% respectively.

The sales decrease was due to a drop in log harvest volumes caused by heavy rains in Sarawak – where 85% of Samling's wood flow comes from – which decreased productive days. In FY06 the aggregate volume of logs and plywood produced decreased by 10.0% and 9.6% y-o-y.

We expect sales to increase by 54.5% y-o-y in FY07e due to higher log and plywood ASPs and higher volumes of harvested trees after a poor 2006.



Costs and margins



Samling's major cost of goods sold includes fuel and gas, glue, royalties and labour.

Fuel has also become a major component of costs, increasing from 6% of revenue in 2004 to high of 13% in 2006. The increase was mostly due to Malaysia's 2005 removal of fuel subsidies.

Royalties are paid to the Malaysian and Guyanese governments based on volume and species harvested in Samling's timber concessions. As timber prices have increased royalties paid as a percent of sales decreased to from 8% in FY04 to 6% in 1Q06. According to Samling, there have been no major changes to the royalty rates payable in Malaysia and Guyana since 1995. Samling amortises the cost of timber concessions.

Cost of goods sold as a % of sales and gross profit margins

	FY04	FY05	FY06	1Q FY07
Fuel	6%	9%	13%	11%
Glue	5%	5%	5%	4%
Royalties	8%	7%	6%	6%
Labour	15%	14%	16%	14%
Others	39%	38%	35%	25%
Gross profit margins	28%	27%	25%	41%

Source: Company

Margins have been increasing

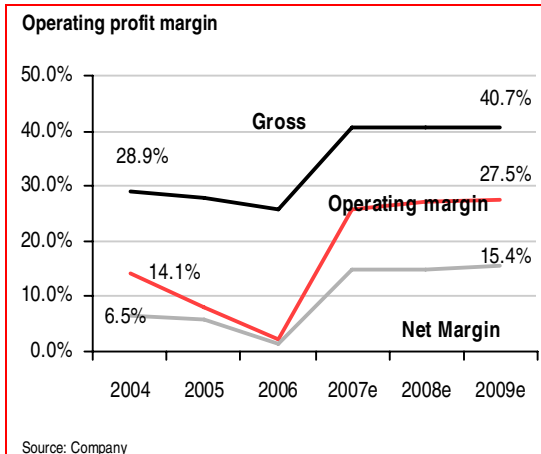
In line with the sales dip and then rise in the last three years, margins rebounded strongly in 1H07 y-o-y, primarily reflecting the impact that prices have on Samling's bottom line. Samling's average selling prices of exported logs and plywood have increased by 17.7% to 31.7% between FY06 and 1H07. The increase in prices has been even more dramatic in 1H07 y-o-y, with exported logs and plywood prices increasing by 23.9% and 41.5% respectively.

Price increases and lower fuel costs lead to higher margins. After falling to 25.7% in FY06 from 28.9% in FY04, mostly due to the lower production caused by bad weather, gross margins rebounded to 40.7% as production and prices continued to increase in 1H07. The increase in operating margin is more pronounced rising from 2.2% in FY06 to 25.7% in 1H07.

Samling royalty and concession information

Forest concessions	Number of concessions	Gross area (ha)	Net operable area (ha)	Terms	Royalties paid (USD)	Approving authority	Renewal dates (% of gross area)
Malaysia	15	1,424,000	908,000	6-25 years, renewable	FY04 – 27.3m FY05 – 28.7m FY06 – 23.7m 1Q07 – 7.9m	Sarawak Forest Department	- 18.5% (264,000 ha) renewable before 30 June 2010 - 64.5% (919,000 ha) renewable before 30 June 2015 - 16.9% (241,000 ha) renewable before 30 June 2018
Guyana	1	1,611,000	1,327,000	25 years, renewable	FY04 – 607,000 FY05 – 654,000 FY06 – 961,000 1Q07 – 291,000	Guyana Forestry Commission	- 16 October 2016. Automatically renewable for 25 years

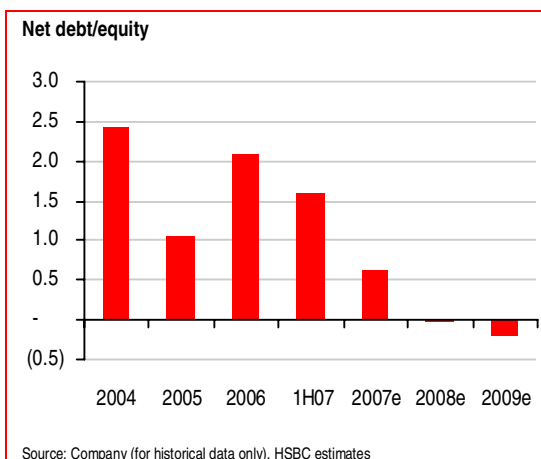
Source: Company



Balance sheet management and cash flow

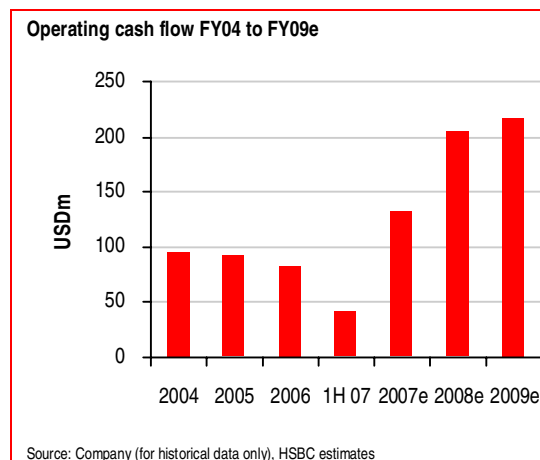
Samling's leverage has been high, with its debt exceeding equity by more than two times in the last three years. The company's debt level was kept high to fund two key cash outflows; capex spending of USD249m between FY04 and FY06 (which we discuss below), and USD35.5m to acquire 19.8% of Lingui shares through a mandatory general offer. The offer was triggered when Samling acquired 39.87% from the Yaw family in April 2006.

Samling's debt/equity ratio is expected to decrease to 0.7x as at June 2007e primarily due to the company's February 2007 IPO and subsequent green shoe which raised USD300m in equity funding.



Increasing cash flow

In the last three years, Samling has spent USD249m on property, plant and equipment including three new veneer mills, a sawmill, generation facilities, and 140 logging trucks and over 350 excavators, and other heavy equipment machinery.



Its capex timing has proven to be fortuitous. In addition to higher wood and plywood prices, input prices have also increased. Heavy equipment and spare parts such as tire prices are high and rising due to the rapid increase in worldwide commodity prices which has increased demand and led to supply constraints for several types of heavy equipment.

Requirement of IAS-41

IAS 41 requires the valuation of plantation assets at fair value less estimated point of sale costs. The change in the fair value of assets is recognised in the profit and loss account, and is determined by current market prices of logs, and forecasted expected future harvest sizes, discounted by the in-country sovereign bond (risk free) rate.

With prices one of the three key determining factors, it essentially makes the good times better and the bad times worse. For instance, in FY05 and FY06 Samling's revaluation losses wiped 16% and 20% respectively from the company's

EBITDA, decreasing net income and reported book value by a total of USD15m for both years.

It is, however, a non-cash item.

Solid first half

Samling had a very good first half. Turnover in 1H07 increased 58.8% y-o-y due to both higher prices and better volumes. Hardwood log export sales by volume increased 37.7%, ASPs by 23.9%, and total revenue from hardwood logs was up by 53.6%.

In 1H07, plywood and veneer export sales by volume increased by 29.8% and ASPs by 41.5% for plywood and 37.3% for veneer. Total revenue from plywood and veneer increased 83.3% y-o-y.

“Other” turnover declined by 5.6% primarily due to the acquisition of Merawa, a Yaw family owned company that was acquired on the last day of FY06’s financial year. Samling provided services to Merawa in the past and this revenue was eliminated due to the consolidation.

However, EBITDA in 1H06 accounted for 55.2% of full year sales, implying lower operating profits during other half. This was likely due to FY06’s adverse weather conditions as Sarawak typically gets its rainy season in the winter (i.e. Samling’s 2nd and 3rd quarter). Another factor could be recurring seasonality, which has affected Lingui in the past due to major holidays (Christmas and

Chinese New Year).

Gross and operating margins increased to 29.9% and 26.9%, from 12.4% and 5.8% respectively due to higher prices and volumes. Gross margins decreased from 41.7% in 1Q07 to 39.7% in 2Q07 due to higher expenses that typically occur during Samling’s 2Q and 3Q. According to management, expenses typically increase during the wet season as the company spends money on repairs machines and performs routine maintenance, during the slow season to prepare machinery for the heavy harvest period during the dry season (Samling’s 4Q and 1Q)

Key assumptions

Key assumptions to our forecast include:

- ▶ We have assumed that 1H07 log sales by volume will be 47.2% of FY07e total sales. Between FY03 and FY06, Lingui’s first half sales accounted for an average of 47.2% of the entire year’s sales volume. Generally log volume sales are higher in the second half due to better weather conditions as compared to the first half.
- ▶ Averages sales price of log exports are expected to remain stable in 2H07 as compared with 2Q07. While ITTO has Malaysian Meranti log prices increasing by 4.1% in the first 2.5 months of 2007, Samling

Half yearly performance

	1H FY06	1H FY07	y-o-y change	1HFY06 as a % of FY06
Turnover	188	298	58.8%	48.3%
Logs	61	94	53.6%	50.4%
Plywood & Veneer	95	175	83.3%	46.0%
Others	31	30	-5.6%	52.3%
Cost of sales*	(140)	(177)	26.1%	48.6%
Gross Profit	47	121	155.4%	47.6%
S G & A	(11)	(16)	46.0%	45.8%
Gain/ (Loss) from change in fair value of plantation assets	(3)	3	-194.0%	19.5%
EBITDA (Operating profit)	34	109	220.7%	55.2%
Gross profit margin	25.3%	40.7%	15.4%	
EBITDA margin	18.0%	36.4%	18.4%	

* excludes depreciation
Source: Company

sells a different blend of logs during the year depending on weather.

Samling's generally sells a higher proportion of lower priced logs in the second half as compared to the first. This is because the proportion of higher priced timber felled in the rainy season is greater than in the dry season in an effort to smooth sales.

- ▶ 2H07e plywood sales by volume are expected to be in line with first half volume sales. Plywood production is not as affected by seasonal fluctuations as log sales.
- ▶ We are expecting the average selling price of plywood to decrease marginally by 2% in 2H07e as compared to 2Q07 based on management guidance that Samling's average plywood prices declined by USD10-15 in 3Q07. Third quarter sales are typically weak as Japanese firms delay increasing inventory ahead of their March fiscal year end. According to ITTO, Malaysian plywood prices have been flat in the first 2.5 months of 2007, however this could reflect price reporting delays.
- ▶ With a largely stable environment, gross margins are assumed to remain constant at around 1H07 levels.
- ▶ The prices of key products, logs, plywood and veneer increasing at similar rates after FY07e – 5% in FY08e and 2% per annum thereafter.
- ▶ We have assumed that SG&A in FY07e is double 1H07's total and thereafter remains at 5.2% of net sales. The higher SG&A expenses are due to staff incentive and holiday bonuses, and expenses incurred in preparation for the company's 3Q07 IPO.
- ▶ Timber concessions are assumed to continue on present terms. This allows us to value the

company using terminal DCF, as we show in the following section on valuation.

- ▶ We have not included the impact of revaluations under IAS-41 due to lack of past information from the company.

Sensitivity analysis

A key assumption to our forecast is the annual percentage change in hardwood log and plywood prices.

As a near commodity, changes in prices are expected to have a large effect on Samling's earnings. This is due to the large fixed nature of its cost base, in particular depreciation, which does not change when plywood and log prices increase or decrease. For example, operating and net margins more than doubled between FY05 and 1Q05 mostly due to the increase in hardwood product prices.

To gauge the sensitivity of our base case price assumptions, we altered price increases by 100bp up and down.

A 100bp increase in our assumed price change increases EBIT by 2.6% in FY07e and 6.0% in FY08e. The large increase in FY08e is due to the multiplier effect of increasing prices by 100bp in both FY07e and FY08e. Net income increases by 2.3% and 5.6% in FY07e and FY08e.

Sensitivity to change in ASP growth assumptions

	FY07e	FY08e
EBIT (base case)	155	194
Increase in EBIT (base growth + 100bp)	159	206
% change	2.6%	6.0%
Decrease in EBIT (base growth - 100bp)	151	183
% change	-2.5%	-5.8%
Net Income (base case)	89	108
Up net income (base growth + 100bp)	91	114
% change	2.3%	5.6%
Down net income (base growth -100bp)	87	102
% change	-2.2%	-5.5%

Source: HSBC estimates

Sensitivity to change in Price/ASP growth assumptions

	FY07e	FY08e
Base case		
Logs (USD/m ³)	173	182
% change y-o-y	20.7%	5.0%
Plywood (USD/m ³)	483	507
% change y-o-y	30.4%	5.0%
Base case + 100 bp increase in ASPs growth		
Logs (USD/m ³)	175	185
% change y-o-y	21.7%	6.0%
Plywood (USD/m ³)	487	516
% change y-o-y	31.4%	6.0%
Base case - 100 bp decrease in ASPs growth		
Logs (USD/m ³)	172	179
% change y-o-y	19.7%	4.0%
Plywood (USD/m ³)	479	498
% change y-o-y	29.4%	4.0%

Source: HSBC estimates

Data limitations

Samling has only provided three and a half years of financial data – we do not have long-term data for the company that we can use to determine how it performed over a full business cycle.

We have even less insight into the company's seasonality having only four quarters' financial and operating figures. Further limiting our insight into the company is that half of the quarterly data that can be compared to full year results is FY06, which we believe was an abnormal year due to adverse weather conditions.

Upstream- volume and selling price assumptions

Year to Jun (USDm)	2004	2005	2006	1H 07	2007e	2008e	2009e
Hardwood logs- export							
Average selling price USD/m ³	105	123	143	169	173	182	185
y-o-y change (%)		17.5%	16.4%		20.7%	5.0%	2.0%
Sales volume (m ³ '000)	733	782	595	438	922	949	1,001
y-o-y change (%)		6.8%	-23.9%		55.0%	2.9%	5.5%
Revenue (USDm)	77	96	85	74	160	172	186
y-o-y change (%)		25.5%	-11.4%		87.0%	8.1%	7.6%
% of total sales	21.1%	23.5%	22.0%	24.8%	26.5%	24.0%	24.6%
Hardwood logs - local sales							
Average selling price USD/ m ³	64	70	78	95	87	91	93
y-o-y change (%)		9.5%	11.4%		10.9%	5.0%	2.0%
Sales volume (m ³ '000)	453	380	378	180	378	387	401
y-o-y change (%)		-16.0%	-0.7%		0.1%	2.3%	3.5%
Revenue (USDm)	29	27	30	17	33	35	37
y-o-y change (%)		-8.0%	10.6%		11.1%	7.4%	5.6%
% of total sales	8.0%	6.5%	7.6%	5.7%	5.5%	4.9%	4.9%
Softwood logs - export sales							
Average selling price USD/ m ³	48	50	56	65	68	72	73
y-o-y change (%)		4.9%	11.0%		22.2%	5.0%	2.0%
Sales volume (m ³ '000)	72	68	68	33	69	89	98
y-o-y change (%)		-5.8%	-0.3%			30.0%	10.0%
Revenue (USDm)	3	3	4	2	5	6	7
y-o-y change (%)		-1.2%	10.7%		23.7%	36.5%	12.2%
% of total sales	1.0%	0.8%	1.0%	0.7%	0.8%	0.9%	1.0%
Softwood logs - local sales							
Average selling price USD/ m ³	62	72	71	72	78	82	84
y-o-y change (%)		16.0%	-0.7%		10.3%	5.0%	2.0%
Sales volume (m ³ '000)	64	62	34	10	22	28	31
y-o-y change (%)		-2.7%	-45.4%			30.0%	10.0%
Revenue (USDm)	4	4	2	1	2	2	3
y-o-y change (%)		12.9%	-45.8%		-29.1%	36.5%	12.2%
% of total sales	1.1%	1.1%	0.6%	0.2%	0.3%	0.3%	0.3%
Total upstream sales (USDm)	113	131	121	94	199	217	233

Source: Company (for historical) ; HSBC estimates

Downstream- volume and selling assumptions

Year to Jun (USDm)	2004	2005	2006	1H 07	2007e	2008e	2009e
Capacity (m³ in '000)							
Plywood							
Malaysia	594	594	594	594	594	800	800
Guyana	108	108	108	108	108	108	108
China	120	120	120	120	120	120	120
Sub-total	822	822	822	822	822	1,028	1,028
y-o-y change (%)		0.0%	0.0%	0.0	0.0%	25.1%	0.0%
Veneer							
Malaysia	356	356	356	356	410	410	410
y-o-y change (%)		0.0%	0.0%	0.0%	15.2%	0.0%	0.0%
Production (m³ in '000)							
Plywood							
Malaysia	466	481	455	NA	535	680	680
Guyana	48	48	29	NA	43	49	54
China	40	56	45	NA	60	72	84
Sub-total	554	585	529	324	638	801	818
y-o-y change (%)		5.6%	-9.6%		20.6%	25.5%	2.2%
Veneer							
Malaysia	77	126	203	136	313	313	313
y-o-y change (%)		63.6%	61.1%		54.3%	0.0%	0.0%
Utilisation							
Plywood							
Malaysia	78.5%	81.0%	76.6%	NA	90.0%	85.0%	85.0%
Guyana	44.4%	44.4%	26.9%	NA	40.0%	45.0%	50.0%
China	33.3%	46.7%	37.5%	NA	50.0%	60.0%	70.0%
Average	67.4%	71.2%	64.4%	NA	77.6%	77.9%	79.6%
Veneer							
Malaysia	21.6%	35.4%	57.0%	76.2%	76.4%	76.4%	76.4%

Source: Company (for historical) ; HSBC estimates

Downstream volume and selling price assumptions

Year to Jun (USDm)	2004	2005	2006	1H 07	2007e	2008e	2009e
Plywood - export sales							
Average selling price USD/ m ³	312	350	370	488	483	507	517
y-o-y change (%)		12.4%	5.7%		30.4%	5.0%	2.0%
Sales volume (m ³ '000)	489	495	452	297	590	741	757
y-o-y change (%)		1.2%	-8.8%		30.7%	25.5%	2.2%
Revenue (USDm)	152	174	167	145	285	376	392
y-o-y change (%)		13.9%	-3.6%		70.4%	31.8%	4.2%
% of total sales	41.9%	42.4%	43.1%	48.6%	47.4%	52.3%	52.0%
Plywood - local sales							
Average selling price USD/ m ³	263	293	292	349	347	364	371
y-o-y change (%)		11.2%	-0.4%		18.9%	5.0%	2.0%
Sales volume (m ³ '000)	31	27	29	16	31	39	40
y-o-y change (%)		-11.1%	6.3%		7.5%	25.5%	2.2%
Revenue (USDm)	8	8	8	6	11	14	15
y-o-y change (%)		-1.2%	5.8%		27.8%	31.8%	4.2%
% of total sales	2.2%	1.9%	2.2%	1.9%	1.8%	2.0%	2.0%
Veneer - export sales							
Average selling price USD/ m ³	125	174	259	337	333	350	357
y-o-y change (%)		39.2%	48.9%		28.4%	5.0%	2.0%
Sales volume (m ³ '000)	39	71	79	45	91	91	91
y-o-y change (%)		84.2%	10.1%		15.4%	0.0%	0.0%
Revenue (USDm)	5	12	20	15	30	31.7	32.3
y-o-y change (%)		156.4%	63.9%		48.2%	5.0%	2.0%
% of total sales	1.3%	3.0%	5.2%	5.1%	5.0%	4.4%	4.3%
Veneer - local sales							
Average selling price USD/ m ³	164	229	223	294	291	305	311
y-o-y change (%)		39.2%	-2.5%		30.3%	5.0%	2.0%
Sales volume (m ³ '000)	32.0	40.6	51.1	31	63	63	63
y-o-y change (%)		26.9%	25.9%		23.1%	0.0%	0.0%
Revenue (USDm)	5	9	11	9	18	19	20
y-o-y change (%)		76.6%	22.8%		60.4%	5.0%	2.0%
% of total sales	1.4%	2.3%	2.9%	3.1%	3.0%	2.7%	2.6%
Total downstream sales (USDm)	171	203	208	175	344	441	458
Upstream support							
Average selling price USD/ m ³	30	33	22	10	20	21	22
y-o-y change (%)		10.0%	-32.9%		-8.4%	5.0%	5.0%
% of total sales	8.2%	8.0%	5.7%	3.4%	3.4%	3.0%	3.0%
Other timber operations							
Average selling price USD/ m ³	42	33	29	14	30	30	30
y-o-y change (%)		-22.0%	-11.3%		1.0%	1.0%	1.0%
% of total sales	11.6%	8.1%	7.5%	4.8%	4.9%	4.2%	4.0%
Other operations							
Average selling price USD/ m ³	8	9	9	5	9	10	10
y-o-y change (%)		10.2%	-3.3%		5.0%	5.0%	5.0%
% of total sales	2.2%	2.2%	2.2%	1.8%	1.5%	1.3%	1.3%
Total other sales (USDm)	80	75	60	30	59	61	62

Source: Company (for historical) ; HSBC estimates

P&L statement

Year to Jun (USDm)	2004	2005	2006	1H 07	2007e	2008e	2009e
Upstream sales	113	131	121	94	199	217	233
Downstream sales	171	203	208	175	344	441	458
Other sales	80	75	60	30	59	61	62
Total sales	364	409	389	298	602	718	753
y-o-y change (%)		12.3%	-5.0%		54.9%	19.3%	4.9%
COGS	(259)	(295)	(289)	(177)	(357)	(426)	(447)
y-o-y change (%)		13.9%	-2.1%		23.7%	19.3%	4.9%
Gross profit	105	114	100	121	245	292	306
y-o-y change (%)		8.5%	-12.5%		145.3%	19.3%	4.9%
Gross margin	28.9%	27.9%	25.7%	40.7%	40.7%	40.7%	40.7%
S, G & A	(19)	(22)	(23)	(16)	(31)	(37)	(39)
y-o-y change (%)		12.4%	6.1%		33.6%	19.3%	4.9%
Gain/ (loss) from changes in fair value of plantations assets less estimated point of sale costs.	10	(15)	(15)	3	3	0	0
EBITDA	96	77	61	109	217	255	267
y-o-y change (%)		-19.5%	-20.8%		253.4%	17.7%	4.9%
EBITDA margin	26.4%	18.9%	15.8%	36.4%	36.0%	35.5%	35.5%
Depreciation & amortisation	(45)	(45)	(53)	(32)	(62)	(61)	(60)
y-o-y change (%)		(0.0)	0.2		0.2	(0.0)	(0.0)
EBIT	51	33	8	77	155	194	207
y-o-y change (%)		-36.3%	-74.3%		1747.8%	25.4%	6.8%
EBIT margin	14.1%	8.0%	2.2%	25.7%	25.7%	27.1%	27.5%
Net interest income/(expense)	(9)	(8)	(16)	(3)	(10)	(15)	(15)
y-o-y change (%)		-19.0%	104.9%		-36.7%	57.9%	-5.8%
Other income/(expense)	12	19	7	7	13	14	14
Pre-tax income	54	45	(0)	80	159	192	207
y-o-y change (%)		-17.6%	N/a		N/a	21%	8%
Tax	(9)	(1)	2	(15)	(32)	(38)	(41)
Effective tax rate	16.3%	2.9%	N/a	18.3%	20.0%	20.0%	20.0%
Minority interests	(22)	(20)	4	(20)	(38)	(46)	(49)
Net income	24	23	5	46	89	108	116
y-o-y change (%)		-1.8%	-77.8%		1636.8%	21.4%	7.5%
Net profit margin	6.5%	5.6%	1.3%	15.5%	14.8%	15.0%	15.4%

Source: Company (for historical data) ; HSBC estimates

Balance sheet

Year to Jun (USDm)	2004	2005	2006	1H 07	2007e	2008e	2009e
Cash and marketable securities	20	27	21	28	369	498	639
Inventory	73	69	83	100	98	117	123
Acc receivables	59	46	47	58	74	88	93
Other current assets	157	181	59	7	48	48	48
Total Current assets	308	323	211	193	589	751	902
Fixed assets	353	359	420	440	415	411	407
Timber concession and plantation	196	210	197	232	198	195	193
Others	50	65	65	67	71	78	85
Total Non-current assets	600	634	681	739	684	684	685
Total Assets	908	957	892	932	1,273	1,435	1,587
ST debt	124	146	145	149	149	149	149
Acc payable	64	58	68	54	54	64	67
Other current liabilities	140	82	120	100	117	136	143
Total Current liabilities	329	287	333	303	319	349	359
LT debt	226	162	226	239	212	212	212
Other non-current liabilities	47	53	48	56	48	48	48
Total Non-current liabilities	273	216	273	294	260	260	260
Minority	169	190	119	148	157	203	252
Share capital	53	54	1	1	122	122	122
Share Premium	0	0	0	0	179	179	179
Reserves	84	211	166	225	236	322	415
Shareholder funds	306	455	286	373	693	826	968
Total liabilities and equity	908	957	892	970	1,273	1,435	1,587

Source: Company (for historical data only) ; HSBC estimates

Cash flow statement

Year to Jun (USDm)	2004	2005	2006	1H 07	2007e	2008e	2009e
EBIT	51	33	8	77	155	194	207
Depreciation & amortisation	45	45	53	32	62	61	60
(Gain)/loss from change in fair value of forest assets	(10)	15	15	(3)	(3)	0	0
Change in working capital	5	6	13	(17)	(71)	(9)	(3)
Net interest	(9)	(8)	(16)	(3)	(10)	(15)	(15)
Tax paid	2	(9)	(8)	(2)	(8)	(33)	(39)
Others (net)	12	10	18	(41)	7	7	7
Cash flow from operations	96	92	84	42	132	205	218
Capex	(35)	(45)	(66)		(57)	(54)	(54)
Others	(13)	9	(6)		0	0	0
Cash flow from investing	(48)	(36)	(72)	(4)	(57)	(54)	(54)
Cash flow from financing	(40)	(46)	(26)	(31)	273	(22)	(23)
Net cash flow	8	10	(14)	7	348	129	141

Source: Company (for historical data only) ; HSBC estimates

Ratios							
Year To June	2004	2005	2006	1H 07	2007e	2008e	2009e
Internal liquidity							
Current ratio	0.9	1.1	0.6	0.8	1.8	2.2	2.5
Quick	0.9	1.2	0.5	0.4	1.9	2.4	3.0
Cash	0.1	0.1	0.1	0.1	1.2	1.4	1.8
Receivables collection period	59	41	45	35	45	45	45
Inventory processing period	103	85	105	102	100	100	100
Payables payment period	91	72	86	55	55	55	55
Cash conversion cycle	71	55	64	82	90	90	90
Operating performance							
Total asset turnover	0.4	0.4	0.4	0.6	0.5	0.5	0.5
Fixed asset turnover	0.7	0.7	0.6	0.9	1.0	1.2	1.3
Equity turnover	2.7	1.5	2.3	2.6	1.1	1.2	1.1
Gross margin	28.9%	27.9%	25.7%	40.7%	40.7%	40.7%	40.7%
EBITDA margin	26.4%	18.9%	15.8%	36.4%	36.0%	35.5%	35.5%
Operating margin (EBIT)	14.1%	8.0%	2.2%	25.7%	25.7%	27.1%	27.5%
Net margin	6.5%	5.6%	1.3%	15.5%	14.8%	15.0%	15.4%
Dupont							
Net margin	6.5%	5.6%	1.3%	15.5%	14.8%	15.0%	15.4%
Asset turnover	0.4	0.4	0.4	0.6	0.5	0.5	0.5
ROA	2.6%	2.4%	0.6%	9.5%	7.0%	7.5%	7.3%
Financial leverage	6.7	3.6	5.3	4.3	2.4	2.3	2.2
Return on equity	17.2%	8.7%	3.1%	40.8%	16.6%	17.3%	16.2%
Risk							
Debt / equity	2.6	1.2	2.2	1.7	0.7	0.6	0.5
LT debt/equity	1.7	0.6	1.3	1.1	0.4	0.3	0.3
Interest coverage	3.1	2.0	0.4	7.1	8.6	10.8	11.5

Source: Company (for historical data only) ; HSBC estimates

Risks

- ▶ Company specific: funding, costs, expansion, and operational and perception risk
- ▶ Industry: illegal logging, regulatory and tax changes, product substitution
- ▶ Macro: weather, country, and exchange and interest rates

Company specific

Additional funding

Samling may need to raise additional funds depending on the size of future forest concessions and or acquisitions it may potentially make which may lead to higher financing costs or the potential of minority dilution.

Changes in input prices

Price changes in key operating costs such as fuel, transportation, heavy equipment and labour are largely out of Samling's control and could impact our forecasted earnings and cash flow.

Business expansion

Samling's plans to expand its downstream processing facilities carry general risks of building factories and processing plants in developing countries such as Guyana and Malaysia. General project risks include those associated with getting new capacity up and running without delays or problems.

Information

Information available from official documents has not been as complete as we would have liked. Notably missing has been past quarterly financial and operating data. We have had little data from

which to analyse seasonal effects in preparing this report.

Operational and perception risk

The suspension of Samling's Guyana forest certification may be indicative of additional operational risks. It could also be used by NGOs as an example of poor forestry management which could affect the company's corporate branding and perception amongst the business and financial communities.

Product pricing data

Our forecasts rely on past tropical hardwood and plywood product prices, and their changes, provided by ITTO as well as past average selling prices as provided by Samling. For log market prices we have used price changes for Meranti as a guide to changes in Samling's average log selling prices. For plywood we used the average selling price for three different thicknesses.

Samling's ASPs, however, are determined by a wide variety of tree species as well as an unknown blend of various plywood thicknesses and qualities. These differences between ITTO's reported prices and Samling's average selling prices may cause differences between our

earnings forecasts and the company's actual results.

Industry related

Regulatory and tax changes

Forest resources are subject to a wide range of environmental laws and regulations, and are subject to change. Changes could impact expected wood flows, costs of felling and transporting trees, as well as the ability to export.

Changes to royalty payments and taxes could also impact our earnings forecasts.

Product substitution

As highlighted in the industry section there are several products that can be considered solid hardwood substitutes, such as MDF and LVL. Increased demand for these or newer products or better production techniques which may lower their overall costs, could decrease demand and prices for tropical hardwood logs and plywood. Also, if these synthetic products are marketed and are perceived as being environmentally friendly, end demand could switch to these and away from tropical hardwood logs and products made from these.

Illegal logging

An increase or decrease in illegal logging, particularly its wide-scale resumption in Indonesia, could change the international balance of supply and demand and impact prices.

Public opinion

The use of hardwood tropical logs for building materials has been criticised by activists and NGOs. While Samling appears to have been a pioneer within Asia in promoting and applying sustainable forestry practices and has obtained certifications for some of its timberlands, it is possible that an aggressive campaign targeting hardwood timber could decrease demand for all hardwood products.

Such a campaign may include perceived treatment of local peoples claim to land within Samling's concession areas. Currently, three Samling subsidiaries are being sued under two lawsuits in the Malaysian courts by local indigenous communities. The State Government of Sarawak is a co-defendant in both lawsuits and the Superintendent of Lands and Survey's Department is a co-defendant in one.

Macro

Exchange and interest rates

Exchange rate movements between the USD, MYR, NZD, and GYD (Guyanese dollar) could negatively impact Samling's financial results.

Country risk

With 53.8% of its FY06 sales to Japan, greater China and the Indian subcontinent, Samling is exposed to those countries' growth or decline in housing and building construction, and overall economies. Decreases in housing starts or construction spending in these countries could negatively affect our earnings forecasts.

Weather

Logging is conducted outside and is therefore subject to weather changes. In particular, abnormally heavy and prolonged periods of rain reduce the amount of logs that can be extracted, as it decreases the number of work days and number of days that roads are navigable. Abnormally heavy rains in Malaysia in FY06 decreased the volume of logs harvested from 2.1m³ in FY05 to 1.8m³ in FY06 and appears to be the key reason why turnover declined by 5% in FY06.

Valuation

- ▶ We use DCF and relative earnings multiples to value Samling
- ▶ Our target price is HKD3.24
- ▶ This represents a 13.5% upside

Two methods

We utilised two financial models to value Samling, an absolute valuation methodology, DCF, and a relative valuation methodology, earnings multiple compared to other listed international peers. We believe it is appropriate to use both methodologies to determine a valuation range for the following reasons:

- ▶ DCF provides a method to value future firm specific earnings associated with increasing wood flow, as well as future sector associated price increases
- ▶ Earnings multiples look at valuation based on near term earnings

DCF

Our DCF-based valuation for Samling is underpinned by medium term assumptions that Samling's ASPs increase at 2% pa between FY9e and FY12e due to the positive economic prospects of its key markets. We have assumed minority interests remain at their first half 2007 level of 30% of pre-tax income, and that minorities' claim on plantation assets are at the same level.

DCF is very sensitive to two factors. The discount rate used, in particular the cost of equity, and the long-term assumed growth rate.

Cost of equity

HSBC calculates the cost of equity by country using a risk adjusted total return ratings model. The risk free rate underpinning this is calculated using the local long-bond rate. Where this is not available, the US long bond rate is used. Added to this is a local equity risk premium based on past volatility.

Samling WACC Calculation

Cost of equity (%)	10.0
Cost of debt (%)	7.2
Debt/equity ratio	27:73
Weighted avg. cost of capital (%)	8.7

Source: HSBC forecasts

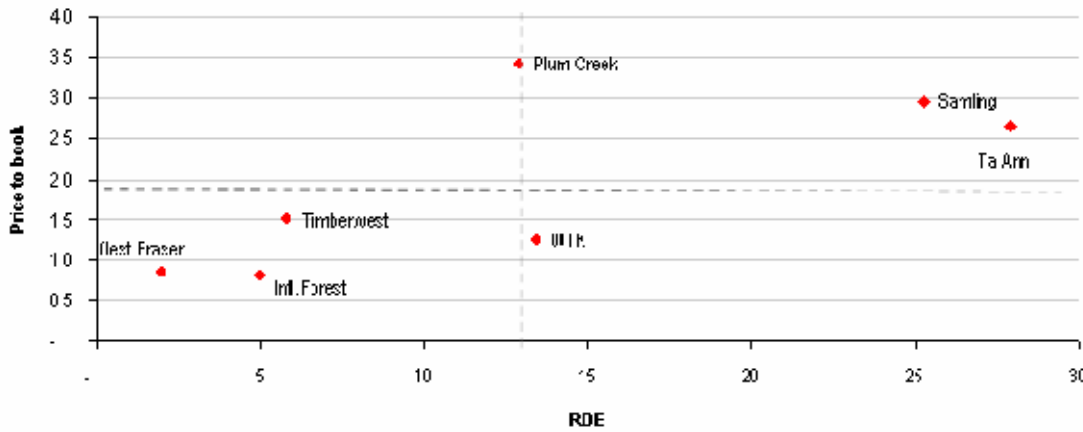
Using the above cost of equity methodology, we estimate that Samling's WACC at the end of FY06 was 8.7%, based on HSBC's US risk free rate of 5% and equity risk premium of 5% for the Hong Kong market.

Long-term growth rate

The DCF sensitivity chart below provides various long-term growth assumptions. We believe a long-term terminal growth rate of 2% is reasonable and is in line with HSBC's metals and mining team's observation that over the past 50 years, commodity prices have grown at rates less than international growth rates.

Additional assumptions underpinning our DCF valuation and a sensitivity table are included below.

FY07e PB vs ROE



Source: HSBC

DCF assumptions

ASPs	ASPs assumed to increase at 5% in FY08e and 2% pa between FY9e and FY12e due to positive economic prospects of Samling's key markets
Cost of debt	7.2% based on effective interest rate after adjusting for capitalised interest expenses associated with NZ plantation
Cost of equity	HSBC standardised COE based on 5.0% US risk free rate, and 5.0% and 8.5% country equity risk premiums for Hong Kong and Malaysia respectively
WACC	8.7% (Hong Kong COE)
Target debt / equity ratio	Target debt equity ratio assumed at 27:73 based on average of our comparables universe

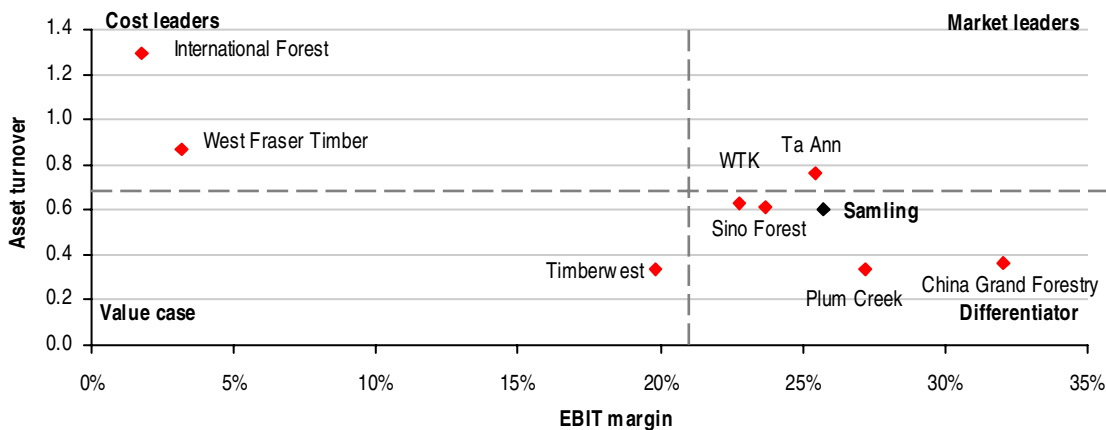
Source: HSBC

DCF sensitivity

USD m WACC	Terminal growth		
	1.0%	2.0%	3.0%
7.7%	2.874	3.200	3.666
8.7%	2.545	2.779	3.094
9.7%	2.276	2.446	2.667

Source: Based on HSBC forecasts

FY06 EBIT margin vs asset turnover



* For Samling EBIT margin and asset turnover are annualized 1H07 numbers
Source: HSBC, Bloomberg

Earnings multiples

International comparisons

There is a variety of listed forestry companies that can act as a basis for relative valuation. Most of these have integrated operations (i.e. upstream and downstream), and several, as is similar to Samling, have varying degrees of operations outside their core forestry operations. We included only two Malaysian listed companies, Ta Ann and WTK Holdings, as they are the only two Malaysia based forestry companies with publicly available consensus forecasts. Although Sino Forest is listed in Canada, almost all its business operations are in East Asia, primarily China.

We have also included China Grand Forestry in our table as it is the only forestry related company besides Samling listed on the Hong Kong stock exchange. In FY06, 39% of its sales came from garment manufacturing, with the remainder from its forestry operations.

North American companies and China Grand Forestry are trading at higher multiples – an average of 17.7x FY07e adjusted earnings – compared to Asian companies' average of 12.4x FY07e earnings.

The two Malaysian listed companies are trading at significantly lower multiples than those companies listed outside of Malaysia. In general, firms with larger capitalisations are trading at significantly higher multiples than smaller companies.

Include international comparables

There are several reasons we believe Samling's relative valuation should include North American sector comparables in addition to its Malaysian and other Asian forestry companies:

- ▶ With a market capitalisation of USD1.6b, Samling is larger than all listed comparables and more than the market cap of Ta Ann, the

largest listed Malaysian forestry company.

Samling's large market capitalisation and decent liquidity since listing (an average of USD36mn per day since listing) make it investible for a wider variety of funds than its smaller Malaysian counterparts.

- ▶ Samling is adding value to its products through its stated commitment to sustainable forestry practices. This should make its products more readily marketable to western consumers. While the Guyanese FSC certification suspension is a setback, the company is working with reputable organisations to get this reinstated. Management appears to be genuinely embracing sustainable forestry practices.
- ▶ All of the Yaw family's forestry assets are within Samling. This in our opinion is good corporate governance and better aligns minority and majority interests as it greatly decreases potential adverse transfer pricing between listed company and family owned operations. Malaysian business groups have in the past been widely believed to shuffle assets between listed and privately owned corporate entities.
- ▶ Samling's large concession in Guyana provides access to forestry assets allowing the company to grow wood flow in conjunction with what we believe will be growing Asian demand.

Based on IBES consensus forecasts, international comparables are trading at market capitalisation weighted average of 19.7x FY07e and 21.6x FY08e seasonally adjusted earnings respectively. This would equate to target share prices of HKD3.17 and HKD4.23 respectively. A mid-point of this – to get a roughly 12-month target – would be HKD3.70.

Summary

In summary, we have utilised two widely used valuation methodologies in an attempt to value Samling. These are:

- ▶ DCF with a 10.0% COE (Hong Kong COE) and 2% long-term growth rate suggests a target price of HKD2.78.
- ▶ International comparables trade at market capitalisation weighted averages of 19.7x FY07e and 21.6x FY08e seasonally adjusted forecasted consensus earnings suggesting a 12-month average target price of HKD3.70.

Narrowing it down

A simple average of the above two valuations would suggest a 12-month target price of HKD3.24, 12.1% above Samling's current price. Including FY07e DPS of HKD0.04, total 12-month expected return would be 13.5%.

This implies FY07e and FY08e PEs of 20.1x and 16.6x. Currently, the HK market is trading at 19.1x 12-month earnings.

Rating explanation

Samling is classified as a volatile stock under HSBC ratings methodology due to its short trading history. Stocks classified as volatile need to have a total 12-month return greater than the country COE +10% to be receive an Overweight rating. Those that have a total return less than country COE -10% are classified as Underweight, and those between COE +/-10% receive a Neutral rating.

HSBC country COE for Hong Kong is 10%, which means that a stock needs a 12-month total expected return of 20% to be classified as Overweight, under 0% to be classified as Underweight, and between 10% to 20% to be classified as Neutral.

With 13.5% 12-month expected return, we initiate coverage of Samling with a Neutral (V) rating.

Relative valuation

Company	Ticker	Price (Local)	Country	Market cap (USDm)	FY06	FY06	FY06e-	FY06e-	Jun 07e -	FY07e-	FY 2007f										FY08e
					EV/ EBITDA	PE X	08e EPS CAGR (%)	08e EPS PEG	Jun 08e EPS Adjusted EPS growth YoY (%)	08e	Jun 07 Adj. PE	Jun 07 Adj. EV/ EBITDA	PE (x)	EPS Growth	Div yield	Net margin	RoE	EV/ EBITDA	P/B	Jun 08 Adj. PE	PE
Samling Global Limited	3938 HK	2.89	Malaysia	1,591	31.7	223.8	289%	0.8	21%	0.8	17.9	9.0	17.9	1149%	1.1%	14.8%	25.3%	9.0	3.0	14.8	14.8
Market weighted average (excluding China Grand Forestry)					13.2	14.8	-7.7%	-1.9	-2.1%	-1.9	19.7	12.8	19.5	102.8%	3.4%	14.1%	9.9%	12.5	2.6	21.6	19.0
Simple average (excluding China Grand Forestry)					10.3	11.4	-12.0%	-0.9	-3.3%	-0.1	15.4	9.6	19.2	95.5%	3.5%	12.0%	11.2%	9.1	1.8	18.2	15.1
North America average					11.9	9.8	-35.8%	-1.3	-14.6%	-0.9	17.7	11.7	26.6	133.6%	2.8%	6.8%	6.4%	11.5	1.7	23.6	18.7
Asian average					14.4	17.8	11.8%	1.1	11.8%	1.1	12.4	6.9	11.8	44.6%	4.9%	19.1%	20.7%	5.9	2.1	11.0	10.4
North American firms																					
West Fraser Timber	WFT CN	44.25	Canada	1,553	5.0	4.8	-48.7%	-0.1	-69%	-0.1	8.9	5.1	NA	6.4%	1.3%	0.8%	2.0%	5.3	0.9	29.0	18.1
Timberwest Forest	TWF - U CN	18.74	Canada	1,282	22.6	NM	NM	NM	86%	0.4	31.8	21.9	19.5	436.4%	5.8%	7.4%	5.8%	21.2	1.5	17.0	15.1
International Forest	IFP/A CN	8.01	Canada	331	4.1	4.1	-53.3%	-0.1	-70%	-0.1	7.3	4.0	34.8	11.7%	0.0%	1.7%	5.0%	4.0	0.8	24.3	18.6
Plum Creek Timber	PCL US	39.17	USA	6,945	15.8	20.5	-5.4%	-3.8	-6%	-3.9	22.8	15.6	25.6	80.1%	4.1%	17.2%	12.9%	15.5	3.4	24.2	22.9
Asia Based firms																					
Sino Forest (Canada listed)	TRE CN	14.25	Canada	1,494	6.3	15.5	13.3%	1.2	14%	1.1	15.1	5.2	14.7	105.4%	NM	16.5%	NM	4.4	2.3	13.3	12.1
Ta Ann	TAH MK	10.90	Malaysia	679	12.1	13.6	14.6%	0.9	14%	0.9	12.4	10.1	11.4	20.0%	5.5%	23.7%	27.9%	8.6	2.7	10.8	10.4
WTK Holding	WTKH MK	8.40	Malaysia	399	6.4	10.0	7.5%	1.3	7%	1.3	9.6	5.5	9.2	8.3%	4.3%	17.0%	13.4%	4.8	1.3	8.9	8.7
China Grand Forestry	910 HK	0.96	China	622	32.6	32.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: SGL based on HSBC Estimates, remainder from Datastream. Based on closing prices of 12 April /2007

Appendix I: Company background

- ▶ 30-year track record in developing, investing and operating forestry concessions and downstream wood products
- ▶ Hardwood concessions and operations Malaysia and Guyana, softwood plantation in New Zealand, with additional downstream processing in China

Integrated forestry products

Based in Malaysia, Samling is an integrated forestry and wood products company with concessions in Malaysia, Guyana, New Zealand, and China.

Malaysia is Samling's cash cow and accounts for 35% of the company's total forest assets and the majority of its revenue. Malaysian operations include upstream activities such as logging of a wide variety of tropical hardwood timber, downstream processing which includes veneer and plywood, and a variety of wood products include fibreboard, flooring, furniture, and door facings. The company is investing in R&D to develop hardwood tree plantations in Malaysia.

In 1991, the company was granted 1.6m ha of timber concessions in Guyana, Samling's largest concession. This is a key area of expansion for the next few years both in terms of wood flow as well as downstream wood products with logs being sold to China, India, and Vietnam. Further downstream expansion is planned to include manufacturing hardwood decking lumber for

North America and middle-end floor products for China. In 1997 the group bought HFF, which owns a New Zealand based 35,000 ha Radiata pine plantation forest, 90% of which is on freehold owned land. All trees are pruned, and are expected to be used as plywood and veneer.

Samling's China operations, which are both outside of Shanghai, manufacture plywood, veneer and LVL for the domestic China market.

Samling sells its products to more than 30 countries. Its primary markets are Japan, China, the US and India. 15.0% of revenue came from Malaysia in 1Q07, however it is estimated that about 90% of these products are eventually exported after further processing by Samling's customers.

Samling sells to both end users and traders. Its largest five customers accounted for less than 29% of total sales in the last three years.

History

Incorporated in June 2005, Samling can trace its roots to 1963 when the founder and current CEO, Yaw Chee Ming's father Datuk Yaw Teck Seng,

started a logging business in Sarawak. Samling essentially groups virtually all of the Yaw family's wood businesses under one umbrella company. This includes a majority stake in KLSE listed Lingui, which holds a large proportion of Samling's upstream and downstream wood assets.

Samling forest resources ('000 ha) as at 30 September 2006

Hardwood	Gross area	Net operable area
Malaysia		
Concession	1,424	908
Plantation	438	138
Guyana		
Concession	1,611	1,328
Harvesting rights	445	370
Sub-total	3,918	2,744
Softwood		
New Zealand		
Plantation	35	26
Total	3,953	2,770

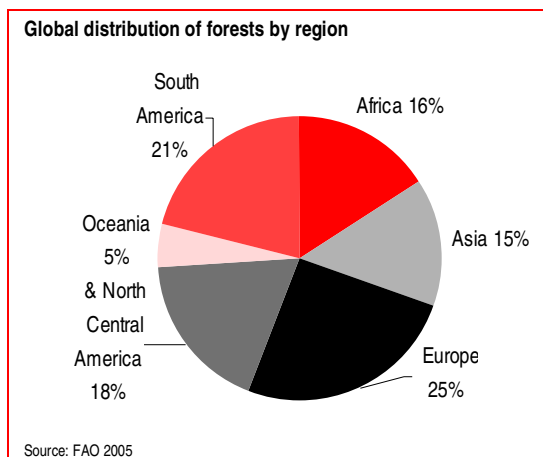
Source: Company

Appendix II: Additional sector and country information

- ▶ Forestry is a global, mature industry
- ▶ China and India are large, growing markets
- ▶ Demand in Japan is expanding again

Global forest industry

Using wood for construction purposes is nothing new. Forestry is a mature, cyclical business that can be found in most areas of the world.



According to the United Nations Food and Agriculture Organization (FAO), the world's total forest area is estimated at 3.9bn ha, or about 30% of the earth's land area. Natural forests compose 95% of the world's forest resources, with man-made plantations composing less than 5%, although these are rapidly expanding.

The world's forests can be broadly divided into tropical and temperate forests. Tropical forests are located in tropical and subtropical regions of the world – primarily in Malaysia, Indonesia, Brazil and India.

Prices for tropical hardwood species are generally more expensive than coniferous wood varieties that come from temperate climates. For instance, in September 2006 the price of pruned New Zealand Radiata Pine was NZD173-178 / m³ (USD112-115) as per the NZ Ministry of Agriculture and Forestry statistics. At this time, Malaysian Meranti was selling for about USD135/m³ as per ITTO price index, a 17-21% premium.

Upstream and downstream

The global forestry industry is generally divided into upstream and downstream activities:

- ▶ Upstream businesses focus on forest management and planning, and the harvesting and transporting of cut logs.

- Downstream businesses consist of processing these logs into useable products such as sawn timber, plywood, veneer, and furniture.

Products

Tropical hardwood is generally sold in four formats:

Logs: Logs are the raw materials used throughout the wood products industry. They are sold to downstream factories to make the items below

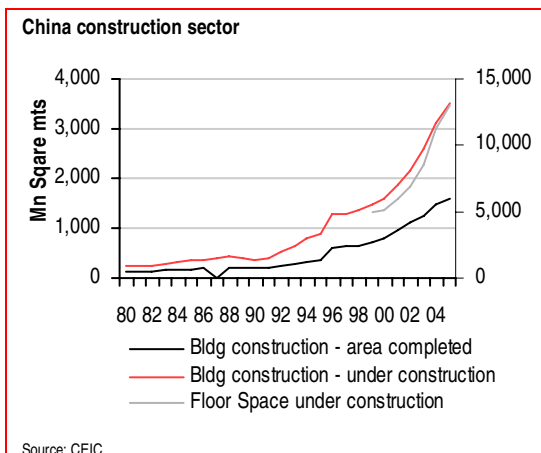
Sawn timber: Sawn timber is logs that have been cut into boards

Plywood: Plywood is made from thin slices of wood called veneer. Several layers of veneer are glued together to make plywood. Plywood has a variety of uses, but is primarily used in the construction industry. Plywood manufacturing is a labour intensive process, and veneer is often transported to low-wage countries to be manufactured into plywood.

Veneer: Veneer is created by peeling wood from logs to create a flat sheet. Closely related to plywood, veneer is sold as a separate product for eventual use in plywood.

Key markets

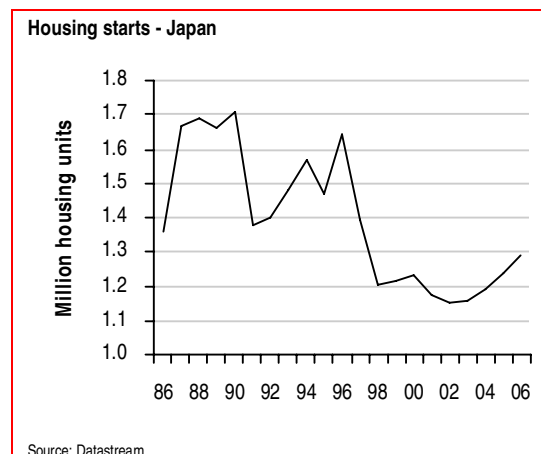
China – key growth driver



According to ITTO, China is the world's largest importer of tropical logs, and the fourth largest importer of tropical plywood. In 2004 and 2005 it imported an estimated 7.3m cubic metres of logs, equivalent to almost half of total ITTO imports in 2004 and 2005. Although imports fell by 8.9% in 2004 y-o-y, China's tropical log imports have tripled since the mid-1990s, and have grown by 11.4% CAGR between 2001 and 2005. These have mostly come from Malaysia, Papua New Guinea, Gabon, Myanmar and the Republic of Congo.

China is expected to remain a major log and plywood importer due to continued strong demand from its booming economy and construction sector. Underpinning rising log and plywood imports has been a massive increase in construction activity in the last 25 years, with the total area (square metres) under construction increasing at 12.2% CAGR and floor space under construction increasing at 18% CAGR between 1999 and 2005 according to CEIC statistics.

Demand in Japan is growing again



According to ITTO, Japan is the world's third largest importer of tropical logs and the largest importer of tropical plywood in 2005.

In 2004, it imported an estimated 1.7m cubic metres of logs, equivalent to 10.7% of total

international imports. Log imports declined by 9.1% in 2004 and increased by 5% in 2005. Japanese plywood manufactures have been and are expected to continue to shift to non-tropical timber. Russia supplies about 40% of Japan's non-tropical imports.

Plywood imports in Japan have been increasing as, according to the ITTO, it has been having a difficult time obtaining tropical logs for domestic production due to competition for resources from China. Lower prices of imports make domestic plywood manufacturing uneconomical, and Japan's imports of tropical plywood increased by 39.3% between 2003 and 2005, while its domestic plywood production declined by 16.7%.

Longer term, we believe housing starts are expected to remain on a downward trend, mostly due to Japan's expected long-term population decline.

India – large and growing

According to ITTO, India is the world's second largest tropical log importer. In 2004 it imported an estimated 3.0m cubic metres of logs, equivalent to 19.4% of total ITTO imports. Log imports rose by 7% in 2004 y-o-y with most coming from Malaysia, Myanmar, and an increasing amount from Africa. India's true imports could be understated by up to 15% however, as there is a substantial discrepancy in ITTO's numbers between India's reported log imports from Myanmar (528,000m³) and Myanmar's reported log exports to India (997,000 m³).

India's plywood consumption increased by 11.1% CAGR between 2001 and 2005 however, being a low wage country, less than 1% is exported, with most made from imported logs and veneer.

Log imports were stable in 2005 mostly due to supply constraints.

Indian demand drivers

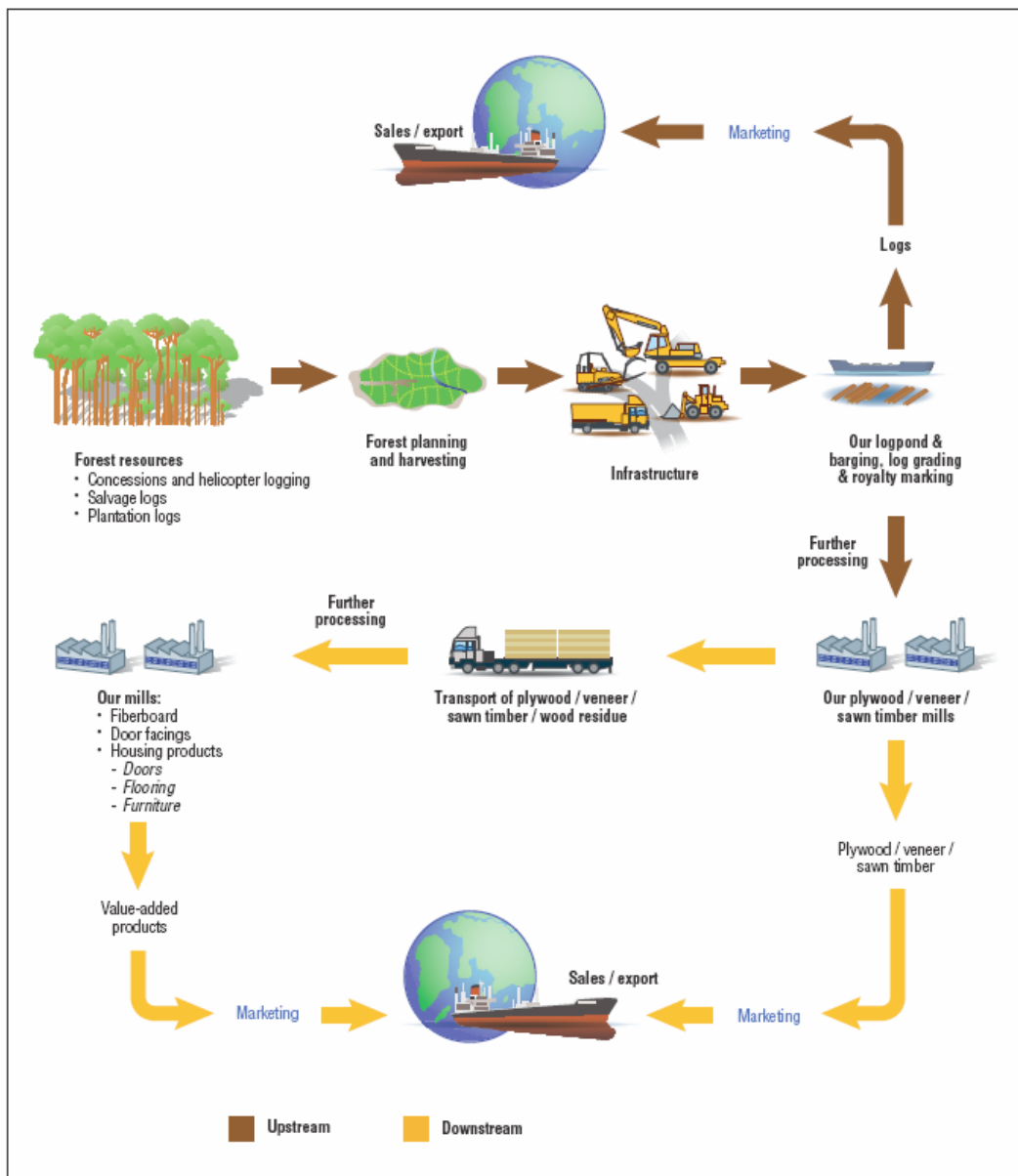
India's construction sector has been growing at an increasing rate since the late 1980s, growing at 11% CAGR over the last five years. Demand for housing is expected to continue to increase for several reasons:

- ▶ Favourable demographics. Large segment of population in the earning age bracket.
- ▶ Housing shortage. Cushman & Wakefield estimates that there is a shortage of 12 million housing units in urban areas.
- ▶ According to CRIS INFAC, Standard and Poor's Indian affiliate, Indian home ownership is expected to increase due to increasing use of mortgage financing and favourable tax incentives. They estimate spending on new housing targeted at the middle and upper income segments of the population to be worth INR1.72 trillion in fiscal 2005, and to grow at 18.6% CAGR of over the next five years to INR4.03 trn.



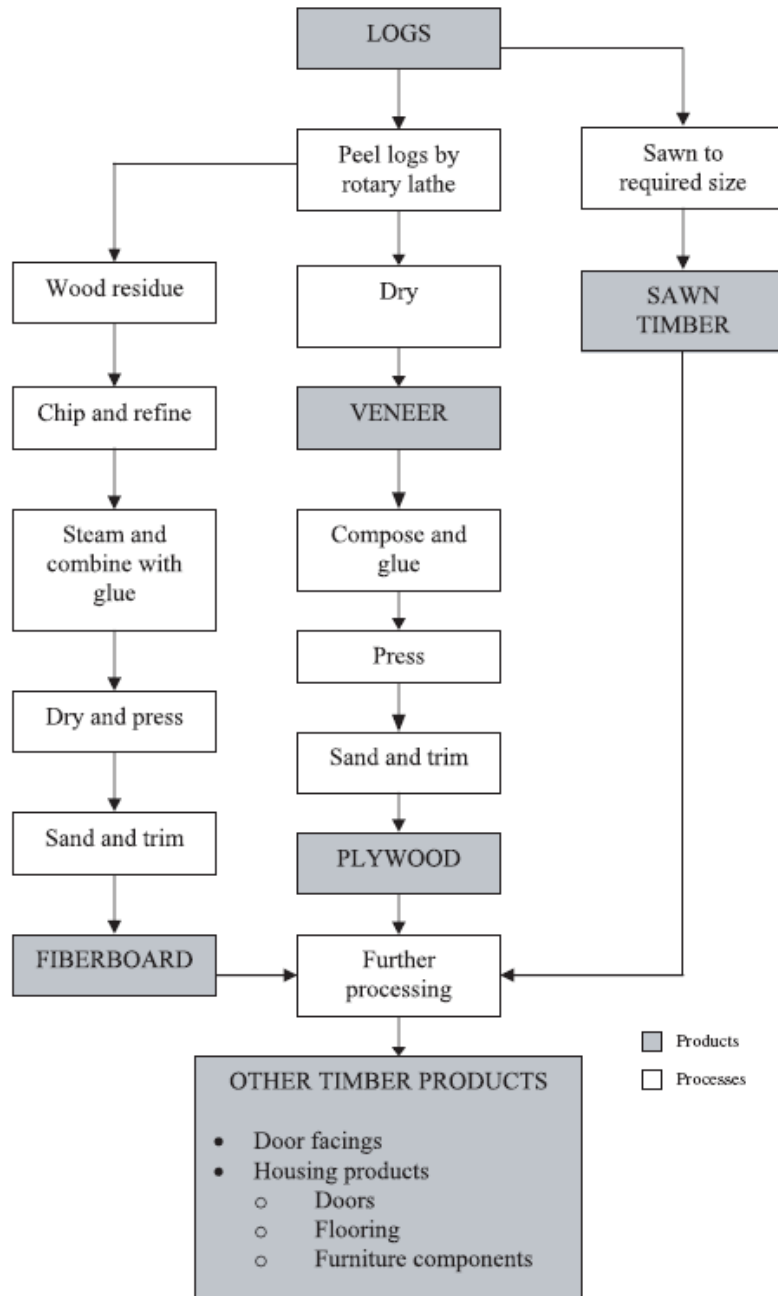
Appendix III: Production and integration charts

Production operations and scale of integration



Source: Company

Key production steps for downstream operations

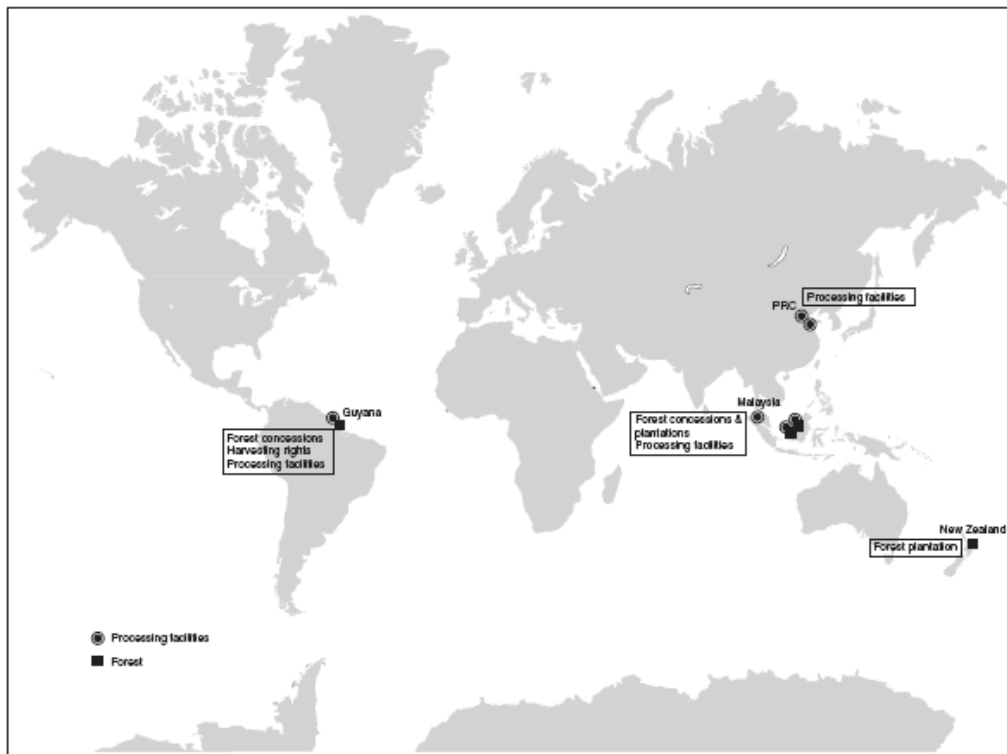


Source: Company

Appendix IV: Forest locations

- ▶ Forest locations and processing facilities in Sarawak (Malaysia), Guyana, New Zealand and China

Locations of the natural forest concession and tree plantations



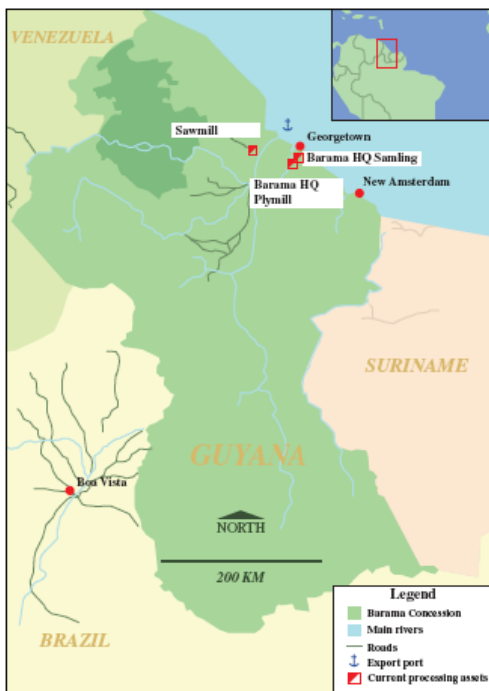
Source: Company

Sarawak



Source: Company

Guyana



Source: Company

New Zealand



Source: Company

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the views expressed herein accurately reflect their personal view(s) about the subject security(ies) and issuer(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Michael McGaughy, Anil Kumar Tulsiram and Puneet Dhanuka

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past

month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

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