

Analyst: Vincent Leung

Main Board Listing – Research

Samling Global Limited [Stock Code: 3938] 三林環球有限公司

Global Coordinator	: Credit Suisse		
Joint Bookrunners	: Credit Suisse	Macquarie	HSBC
Joint Sponsors	: Credit Suisse	Macquarie	

Sector : Materials

Business : Upstream and downstream timber activities

Total share offer: <u>1,050,000,000</u> shares (25.34% of the enlarged share capital) Public Offer: 105,000,000 shares (10%) Placing: 945,000,000 shares (90%) Greenshoe: 157,500,000 shares	<u>Business of Samling Group Limited (Samling)</u> Samling is an integrated forest resource and wood products company with operations in Sarawak (Malaysia), Guyana, New Zealand and China. The Group is involved in both upstream and downstream timber activities. The Group's upstream timber activities comprise of timber harvesting and management of natural forest concessions in Malaysia and Guyana as well as tree plantations in New Zealand and Malaysia. It has approximately 4 million hectares (ha) of forest assets mainly forest concessions, harvesting rights, plantation licences, freehold land and leases. It has forest concessions of 1.4 million hectares in Malaysia and 1.6 million hectares in Guyana. It also has tree plantation land of 438,000 hectares in Malaysia and 35,000 hectares in New Zealand. These assets generated 2.2 million m ³ of logs for the year ended 30 th June 2006. The Group's downstream operations include manufacturing, marketing and distribution of wood products, including logs, plywood, veneer and sawn timber. Further value-added products include fibreboard, door facings and housing products. Its downstream operations are located in Sarawak, Guyana and China. For the year ended 30 th June 2006, approximately 75.9% of logs used by its plywood, veneer and sawn timber processing facilities were from internal sources.
Price: HK\$1.60 – HK\$2.08 per share Market Cap: HK\$6,631 million – HK\$8,620 million Pro-forma FY2006/07E P/E: 11.8x – 15.3x Adjusted NTA per share: HK\$0.92 – HK\$1.04 Staffing: 13,103 (as of 30 th September 2006)	
Book-building Period: 12 th February 2007 – 28 th February 2007 HK Public Offer period: 23 rd February 2007 – 28 th February 2007 noon Receiving bank: HSBC Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 7 th March 2007	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Yaw Family [including Datuk Yaw Teck Seng (founder of Samling) and Yaw Chee Ming (CEO and an executive director of Samling) as well as other Yaw's family members]	62.55%
Five other shareholders (including directors of certain of Samling's subsidiaries)	12.11%
	<u>74.66%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,772 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.84 each, being the midpoint of the indicative price range)

	HK\$ million
For financing acquisition opportunities and expansion of downstream operations	1,406
For development of plantations in Malaysia to increase future wood-flow	128
For repayment of financing in relation to the mandatory general offer for the shares in Lingui Developments Berhad (a Malaysia-listed company in which Samling owned a 59.69% as at 15 th February 2007) which closed on 24 th May 2006	100
For research & development as well as strengthening information systems	64
For working capital and other general corporate purposes	74

Financial Highlights

	Year ended 30 th June			3 months ended
	2004	2005	2006	30 th September 2005
	US\$ million	US\$ million	US\$ million	US\$ million
Turnover	364.3	409.1	388.7*	144.9
Gross profit	60.3	69.3	46.9*	44.9
Operating profit [^]	57.9	47.4	11.2	40.4
Attributable profit to equity holders	23.5	23.1	5.1	22.3
Gross margin	16.6%	16.9%	12.1%	31.0%
Operating margin	15.9%	11.6%	2.9%	27.9%
Net margin	6.5%	5.6%	1.3%	15.4%

* For the year ended 30th June 2006, prolonged rainy season in Sarawak adversely impacted the total volume of logs extracted from Samling's concession area.

[^] Plantation assets are valued annually. Change in the fair value of its plantation assets led to a US\$10.4-million gain, a US\$14.8-million loss and a US\$15.3-million loss for the years ended 30th June 2004, 2005 & 2006 respectively and a US\$1.2-million gain for the 3 months ended 30th September 2006.

Turnover Breakdown (% of Total Turnover)

	Year ended 30 th June			3 months ended
	2004	2005	2006	30 th September 2006
Logs	31.1%	32.0%	31.2%	29.4%
Plywood / veneer	46.8%	49.7%	53.4%	61.4%
Upstream support	8.2%	8.0%	5.7%	3.1%
Other timber operations	11.6%	8.1%	7.5%	4.2%
Non-timber	2.2%	2.2%	2.2%	1.9%
Total	100.0%	100.0%	100.0%	100.0%

Turnover Breakdown (% of Segmental Turnover)

Year ended 30 th June 2006		Year ended 30 th June 2006	
Logs		Plywood / veneer	
Greater China	30%	Japan	36%
Malaysia	23%	North America	19%
Japan	14%	Greater China	11%
India & Pakistan	18%	Europe	9%
South Korea	6%	Malaysia	8%
Other Asia Pacific	8%	South Korea	6%
Others	1%	Other Asia Pacific	7%
		Others	4%
Total	100%	Total	100%


Samling's Upstream Timber Operations

	Resource ('000 ha)		Production ('000 m ³)			
	As at 30 th September 2006		Year ended 30 th June		3 months ended	
	Gross area	Net area	2004	2005	2006	30 th September 2006
Hardwood						
Malaysia – concession	1,424	908	1,976	1,997	1,858	580
Malaysia – plantation	438	138	-	-	-	-
Guyana – concession	1,611	1,327	43	85	61	23
Guyana – harvest rights	445	370	110	105	157	44
Subtotal	3,918	2,743	2,129	2,187	2,076	647
Softwood						
New Zealand – plantation	35	26	132	130	96	24
Total	3,953	2,769	2,261	2,317	2,172	671

Concession Renewal Dates

Renewal date	Gross Area ('000 ha)	% of Gross Area
Sarawak, Malaysia		
30 th June 2010	264	18.54%
30 th June 2015	919	64.54%
30 th June 2018	241	16.92%
	1,424	100.00%
Guyana		
16 th October 2016	1,611	100.00%

Samling's Downstream Timber Operations

	Rated production capacity per annum (^{'000} m ³)	Production (^{'000} m ³)			
		Year ended 30 th June		3 months ended	
		2004	2005	2006	30 th September 2006
Malaysia					
Plywood / veneer	950	543	607	662	201
Sawn timber	54	39	42	38	12
Medium density fibreboards	100	102	99	89	23
Subtotal	1,104	684	748	789	236
Guyana					
Plywood / veneer	108	48	48	29	10
Sawn timber	64	3	5	5	2
Subtotal	172	51	53	34	12
China					
Plywood / veneer / LVL [#]	160	52	88	71	20
Others					
Furniture (^{'000} pieces)	6,172	4,739	5,269	5,460	916
Flooring (^{'000} m ²)	2,004	664	584	423	101
Door facings (^{'000} units)	8,000	4,318	7,562	8,165	2,143
Doors (^{'000} units)	267	172	74	69	10

[#]LVL = laminated veneer lumber



Strengths/Opportunities

- ✓ Demand for quality logs from China and India remains strong amid the strong economic growth in these two countries. Rising housing starts in Japan, which is Samling's largest plywood market (36% of Samling's total plywood revenue for the year ended 30th June 2006), should also benefit Samling. Growing affluence of Chinese public on the back of rising disposable income could lead to higher demand for quality hardwood. These factors are expected to continue to drive the tropical hardwood and plywood prices.
- ✓ Samling is a highly vertically integrated forest resource company, involving in both upstream and downstream timber activities. This maximises the use and value of wood resources and optimises Samling's efficiency.
- ✓ Samling's large forest assets of 4 million hectares secure medium to long term wood-flow.
- ✓ Approximately 91,000 hectares of Samling's forests and plantations have received environmental certification. While such certification would not affect forest management practices and legality of the source of logs, it would help enhance Samling's ability to meet increasing demand for certified wood products.
- ✓ Samling has established a diversified customer base, spanning more than 30 markets including Japan, Malaysia, Greater China (including Hong Kong and Taiwan), the US, India, South Korea, Thailand, the UK and other European countries.
- ✓ There is no real direct comparables currently listed in Hong Kong. However, to be priced at 11.8x-15.3x FY2006/07E P/E, Samling's valuation is reasonable when compared with its Malaysian peers Ta Ann Holdings (stock code: TAAN.KL) and WTK Holdings (stock code: WTKH.KL), both of which have logging operations and downstream activities in Sarawak. While Ta Ann and WTK are trading at 14.3x and 10.3x FY2007E P/E respectively, Samling's market capitalisation of approximately US\$850 million-US\$1,150 million immediately after listing is much larger than its two Malaysian peers (Ta Ann: ~US\$688 million; WTK: ~US\$418 million).

Weaknesses/Threats

- × Illegal logging activities, which have been a major factor in depressing wood product prices historically, may pick up again, especially in Indonesia.
- × Inability to renew the concession licenses will adversely affect Samling's both its upstream and downstream operations as its downstream operations rely on logs from its own forest concessions.
- × Unfavourable weather, such as extreme wet weather conditions and prolonged periods of rainfalls, could be detrimental to logging activities. A shortfall in log production would also affect downstream operations.
- × A renewed rise in oil prices, which will raise transportation costs and price of resin (an oil-based product and one of the materials used to make veneer), would have negative impacts on profit margins.
- × Samling is in a net-debt position of US\$344.3 million as of 30th September 2006, with net debt-to-equity ratio of 105.6%.

Recommendation: Trading Buy



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