

Thailand Equity Research

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Share Price (THB) 96
SET Index 644

| Share Data | |
|--------------------------------|----------|
| Outstanding shares (mn) | 120 |
| Market Capitalization (THBmn) | 11,520 |
| Market Capitalization (US\$m) | 294.7 |
| 3 mo avg daily T/O (US\$'000) | 19.7 |
| 12 mo avg daily T/O (US\$'000) | 88.5 |
| 12 month high/low (THB) | 122 / 81 |
| Corp Governance Rating | A |
| Major Shareholder (%) | |
| Siam Cement | 64.0 |
| Directors & Families | 12.1 |
| Estimated Free Float | <20 |

| DCF Assumptions | |
|---------------------------|--------|
| DCF Value/share (THB) | 119.0 |
| Premium (disc) to DCF (%) | (23.9) |
| Risk Free Rate | 5.7 |
| Equity Risk Premium | 10.0 |
| WACC (%) | 15.7 |
| Terminal Year | 2015 |
| Terminal Gr Rate (%) | 5.0 |

| Company Calls/Visits | Date |
|-------------------------------|---------|
| A.S. Banthia | 28/6/04 |
| - Chief Financial Controller | |
| Sureeporn Angsutornrangsi | 28/6/04 |
| - Manager, Financial Planning | |

Phoenix Pulp & Paper (PPPC) Pulp & Paper

June 29, 2004

Timber! Pulp prices are falling.

Phoenix has strong free cashflow, is debt free and trades at a reasonable valuation. The company's revenues, however, are a direct function of global prices for pulp. As pulp prices appear to be trending downwards, we believe that Phoenix's share price will follow.

Commodity prices at cyclical highs. The pulp & paper business is a cyclical industry where share prices generally follow commodity prices. Global prices for pulp appear to be at a cyclical high.

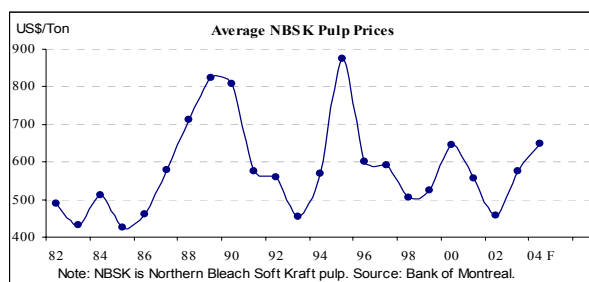
Little scope to expand production. Aside from its current plants already operating at full capacity, we do not believe that local farmers can provide higher levels of raw materials to make it feasible for the company to add new production lines.

Transfer pricing issues. Phoenix's largest customer, Siam Cement, owns a 64% controlling stake in the company. Its largest customer, hence, determines its product prices.

Better corporate governance already discounted. Any upside in corporate governance from Siam Cement having a controlling stake in the company has already been discounted.

| FY end Dec 31 (THBmn) | FY02 | FY03 | FY04F | FY05F | FY06F |
|--------------------------|--------|-------|-------|-------|--------|
| Total Revenues | 3,974 | 4,184 | 4,405 | 4,638 | 4,882 |
| EBITDA | 1,480 | 1,833 | 1,906 | 1,983 | 2,088 |
| Net Income | 1,074 | 1,161 | 1,184 | 1,173 | 1,248 |
| Earnings per share (THB) | 0.9 | 9.7 | 9.9 | 9.8 | 10.4 |
| Dividend Yield (%) | 0.6 | 8.4 | 6.2 | 6.1 | 6.5 |
| EBITDA Margin (%) | 37.2 | 43.8 | 43.3 | 42.8 | 42.8 |
| EBITDA gr (%Y-Y) | (19.1) | 23.9 | 3.9 | 4.1 | 5.3 |
| EV/EBITDA (X) | 78.1 | 6.2 | 5.6 | 5.0 | 4.4 |
| Price/Earnings (X) | 107.3 | 9.9 | 9.7 | 9.8 | 9.2 |
| Net debt to equity (%) | 5.6 | Cash | Cash | Cash | Cash |
| Price Performance | | | 1m | 3m | 1yr |
| Absolute | | | 1.1 | (5.0) | 17.1 |
| Relative to SET | | | (3.1) | 2.7 | (15.5) |

Produces pulp for sale to paper manufacturers. Phoenix processes eucalyptus trees into pulp, which it sells to paper manufacturers. The company encourages local farmers within a 100km radius of their manufacturing facilities in Khon Kaen province (around 400k northeast of Bangkok) to grow the eucalyptus trees. Phoenix provides eucalyptus seedlings to the farmers, trains them in taking care of the growing trees, and guarantees the farmers that they will buy 100% of their output.



Pulp & Paper prices are at a cyclical high. While the average international prices for pulp have been as low as US\$427/ton in 1983 and as high as US\$876/ton in 1995, since 1996 average pulp prices have traded within a range between US\$456/ton and US\$645/ton. With recent prices at US\$650/ton, pulp prices would appear to be at a cyclical high.

It is possible that global demand for pulp will increase as economies in the United States and Europe improve, and demand for all commodities continues to increase in the emerging markets of Asia and Latin America. It is our view, however, that inventory levels, and global production capacity are high enough to mitigate upward pressure on pulp prices. Even in the best scenario of global economic prosperity, we look for pulp prices to trade within a range of US\$650-\$700/ton in the near to intermediate term.

Note that global pulp prices are for NBSK (Northern Bleach Soft Kraft) pulp, which are long strand fibers. Because it sells short strand pulp, Phoenix sells pulp at roughly a 20-25% discount to prices for NBSK.

Little scope to expand production. Across two production lines, Phoenix claims to have an annual production capacity of 200,000 tons/year. Given that the company produced 230,000 tons of pulp in 2003, 115% of capacity, the company appears to have little room to increase production from existing

lines. As for adding new lines, we do not believe that farmers from (within 100Km of) the local area can provide enough eucalyptus trees as raw materials to make it economically feasible for the company to add an additional production line.

Improving corporate governance already discounted. Though the company earned a reputation for poor corporate governance in the mid-1990s, after a series of executive scandals, corporate governance appears to be on track after Siam Cement (SCC) bought a controlling 64% stake in Phoenix in 2002. Improving corporate controls, introduced by Siam Cement, would appear to be already discounted into the present share price.

| Company | Tons |
|-------------------|---------|
| Advanced Agro | 430,000 |
| Phoenix | 220,000 |
| Siam Pulp & Paper | 126,000 |
| Panjapol Paper | 110,000 |
| Siam Cellulose | 70,000 |
| Total | 956,000 |

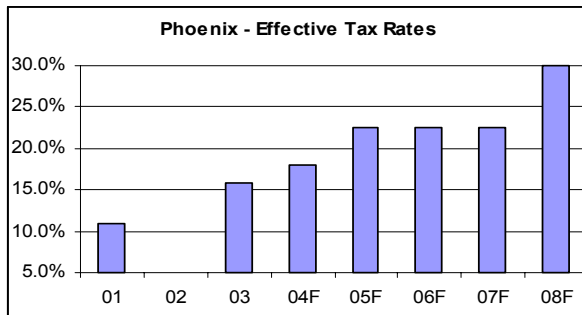
Source: Phoenix Pulp & Paper.

Transfer pricing issues. Siam Cement's interest in owning a controlling stake in Phoenix appears motivated by its need to secure pulp supplies for its Siam Pulp & Paper subsidiary. With almost one-half of Phoenix's output going to Siam Cement, it is not clear that the company's objectives are solely to create the most value for its shareholders.

Minority investors unlikely to benefit from a consolidating industry. Siam Cement appears to be facilitating a consolidating of the pulp and paper industries. In addition to a 64% stake in Phoenix, Siam Cement owns a 50% stake in Thai Cane Paper (TCP), a maker of kraft and industrial (packaging) paper. Siam Cement now controls around 50% of the market for paper products in Thailand.

Siam Cement benefits from industry consolidation by securing raw materials at lower cost and by being able to sell paper products at less competitive, ie. higher, prices.

Because of transfer pricing issues, as a provider of raw materials to Siam Cement it is not clear, however, that Phoenix shareholders benefit from Siam Cement's growing market power in the Thai paper industry.



BOI privileges due to expire. Phoenix has two processing lines. As the first line is more than twenty years old, the company pays full corporate taxes (30% of income) on income generated from this line. The second line, however, started operating in 1995 and the company enjoyed a tax free status on income from this line for eight years through FY03. From FY04 to FY07, the company will pay 50% of the standard corporate tax rate on sales from the second line.

We estimate that the company's effective tax rate will increase from 16% in FY03 to 18% in FY04 to 22.5% in FY05. Once its BOI privileges expire in FY07, Phoenix's effective tax rate should increase to 30% in FY08.

Other concerns - liquidity. Aside from our concerns about global pulp prices, the lack of liquidity in the company's shares is a further risk factor to investing in the company. Phoenix's daily average turnover over the past one year is around US\$80,000/day.

Despite our concerns about global commodities prices, there are a number of positive factors that we like about Phoenix:

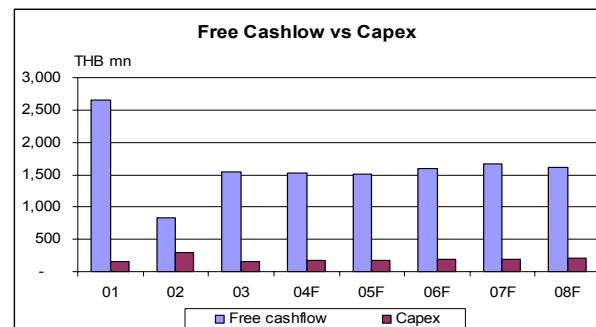
Demand for paper in Thailand is growing. Per capita, Thais only consume one-fifth as much pulp & board as Singaporeans and one-tenth as much as Americans. With the Thai economy growing at 7% y-y, and reading interest in the Kingdom increasing, we anticipate that demand for paper will increase 10-12% y-y in Thailand for the intermediate term.

Per Capita Consumption of Pulp & Board (2002)

| Country | kgs/person |
|-------------|------------|
| Thailand | 30.8 |
| India | 4.28 |
| Philippines | 18.33 |
| Indonesia | 22.61 |
| China | 34.24 |
| Malaysia | 75.46 |
| Singapore | 149.03 |
| UK | 206.84 |
| Japan | 249.66 |
| Canada | 281.44 |
| USA | 307.54 |

Source: earthtrends.wri.org

Phoenix is debt free. The company should pay off existing debts within FY04. Being debt free, Phoenix's financial fortunes will not fluctuate with global pulp prices. This is a competitive advantage compared to its debt burdened competitors.



Free cashflow is strong. We estimate that Phoenix will a minimum of THB 1.5bn per annum in free cashflow, with capex of only THB 170-200mn per annum, for the foreseeable future. The company does not appear likely to build a new processing facility.

Valuation is attractive. Using an equity risk premium of 10% above the risk free rate of 5.7%, Phoenix is trading at a 24% discount to our DCF value of THB 119/share. FY04F valuation multiples are all within a reasonable range: 5.6X for EV/EBITDA, 9.7X for P/E, and 1.7x for P/B.

Income Statement

| FY end Dec 31 (THBmn) | FY02 | FY03 | FY04F | FY05F | FY06F |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 3,974 | 4,184 | 4,405 | 4,638 | 4,882 |
| Service Income | - | - | - | - | - |
| Other oper rev | - | - | - | - | - |
| Total Revenues | 3,974 | 4,184 | 4,405 | 4,638 | 4,882 |
| Cost of sales | (1,732) | (1,902) | (2,026) | (2,156) | (2,270) |
| SGA | (535) | (139) | (146) | (154) | (162) |
| Cost of service | (208) | (289) | (304) | (320) | (337) |
| Other op exp | (20) | (22) | (23) | (24) | (25) |
| EBITDA | 1,480 | 1,833 | 1,906 | 1,983 | 2,088 |
| Depr & Amort | (410) | (470) | (478) | (486) | (495) |
| EBIT | 1,070 | 1,363 | 1,428 | 1,497 | 1,592 |
| Other income | 19 | 16 | 17 | 18 | 19 |
| Interest expense | (21) | (6) | (1) | - | - |
| Other non op exp | - | - | - | - | - |
| Prof bef tax & ex items | 1,068 | 1,373 | 1,444 | 1,514 | 1,611 |
| Forex gain (loss) | 6 | 6 | - | - | - |
| Disposal of PPE | - | - | - | - | - |
| Gain (loss) on invest | - | - | - | - | - |
| Extraord gains (losses) | - | - | - | - | - |
| Profit bef taxes | 1,074 | 1,379 | 1,444 | 1,514 | 1,611 |
| Taxes | - | (218) | (260) | (341) | (362) |
| Profit bef min interest | 1,074 | 1,161 | 1,184 | 1,173 | 1,248 |
| Minority Interest | - | - | - | - | - |
| Net Income | 1,074 | 1,161 | 1,184 | 1,173 | 1,248 |

Balance Sheet

| FY end Dec 31 (THBmn) | FY02 | FY03 | FY04F | FY05F | FY06F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 90 | 49 | 52 | 55 | 57 |
| Short term investment | - | 105 | 784 | 1,510 | 2,264 |
| Accounts receivable | 453 | 607 | 639 | 673 | 709 |
| Inventory | 483 | 547 | 576 | 606 | 638 |
| Other current assets | 107 | 110 | 116 | 122 | 128 |
| Current assets | 1,134 | 1,418 | 2,166 | 2,966 | 3,796 |
| Investments | - | - | - | - | - |
| Property plant & equipment | 5,620 | 5,311 | 5,000 | 4,689 | 4,378 |
| Intangible assets | - | - | - | - | - |
| Other non cur assets | 85 | 61 | 64 | 68 | 71 |
| Total assets | 6,839 | 6,790 | 7,230 | 7,722 | 8,246 |
| Accounts payable | 123 | 115 | 121 | 127 | 134 |
| Short term borrowings | 300 | - | - | - | - |
| Current maturities | 72 | 55 | - | - | - |
| Other cur liabilities | 150 | 295 | 310 | 327 | 344 |
| Current liabilities | 644 | 464 | 431 | 454 | 478 |
| Long term debt | 59 | - | - | - | - |
| Other non cur liab | 0 | - | - | - | - |
| Total liabilities | 704 | 464 | 431 | 454 | 478 |
| Share capital | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Additional paid in capital | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| Retained earnings | 2,775 | 2,967 | 3,440 | 3,909 | 4,409 |
| Adjustments to ret earn | - | - | - | - | - |
| Minority Interest | - | - | - | - | - |
| Shareholders' equity | 6,134 | 6,325 | 6,799 | 7,268 | 7,768 |
| Liabilities and sh equity | 6,839 | 6,790 | 7,230 | 7,722 | 8,246 |

Financial Ratios

| FY end Dec 31 (THBmn) | FY02 | FY03 | FY04F | FY05F | FY06F |
|--------------------------|--------|-------|-------|-------|-------|
| EV/EBITDA (X) | 78.1 | 6.2 | 5.6 | 5.0 | 4.4 |
| EV/sales (X) | 29.1 | 2.7 | 2.4 | 2.1 | 1.9 |
| Price/Earnings (X) | 107.3 | 9.9 | 9.7 | 9.8 | 9.2 |
| Price/Book Value (X) | 18.8 | 1.8 | 1.7 | 1.6 | 1.5 |
| Earnings per share (THB) | 0.9 | 9.7 | 9.9 | 9.8 | 10.4 |
| Operating Margin (%) | 26.9 | 32.6 | 32.4 | 32.3 | 32.6 |
| EBITDA Margin (%) | 37.2 | 43.8 | 43.3 | 42.8 | 42.8 |
| Net Margin (%) | 27.0 | 27.7 | 26.9 | 25.3 | 25.6 |
| EBITDA/Assets (%) | 21.6 | 27.0 | 26.4 | 25.7 | 25.3 |
| Net Income/Assets (%) | 15.7 | 17.1 | 16.4 | 15.2 | 15.1 |
| EBITDA/Equity (%) | 24.1 | 29.0 | 28.0 | 27.3 | 26.9 |
| Net Income/Equity (%) | 17.5 | 18.4 | 17.4 | 16.1 | 16.1 |
| Free cashflow (THBmn) | 827 | 1,541 | 1,524 | 1,514 | 1,590 |
| Capex (THBmn) | 293 | 160 | 169 | 178 | 187 |
| Net Debt (THBmn) | 341 | Cash | Cash | Cash | Cash |
| Interest coverage (x) | 70 | 298 | 2,759 | NA | NA |
| Net debt to equity (%) | 5.6 | Cash | Cash | Cash | Cash |
| Dividend Yield (%) | 0.6 | 8.4 | 6.2 | 6.1 | 6.5 |
| Sales gr (%Y-Y) | (7.6) | 5.3 | 5.3 | 5.3 | 5.3 |
| EBITDA gr (%Y-Y) | (19.1) | 23.9 | 3.9 | 4.1 | 5.3 |
| Net Income gr (%Y-Y) | (14.0) | 8.1 | 2.0 | (0.9) | 6.4 |

Cash Flow Statement

| FY end Dec 31 (THBmn) | FY02 | FY03 | FY04F | FY05F | FY06F |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income | 1,074 | 1,161 | 1,184 | 1,173 | 1,248 |
| Depr & Amort | 410 | 470 | 478 | 486 | 495 |
| Forex gain/(loss) | (6) | (6) | - | - | - |
| Net ch in working assets | 363 | (84) | (45) | (47) | (50) |
| Cashflow from operations | 1,841 | 1,541 | 1,617 | 1,612 | 1,694 |
| Net ch in PPE & intangibles | (1,745) | (2,098) | (1,587) | (1,584) | (1,683) |
| Net ch in investments | - | - | - | - | - |
| Net ch in other assets | 24 | 24 | (3) | (3) | (4) |
| Cashflow from investing | (1,721) | (2,074) | (1,591) | (1,587) | (1,687) |
| Dividends | 726 | 967 | 710 | 704 | 749 |
| Net ch in debt | (792) | (383) | (55) | - | - |
| Net ch in equity | - | - | - | - | - |
| Cashflow from financing | (66) | 584 | 656 | 704 | 749 |
| Net change in cash | 54 | 52 | 682 | 729 | 756 |

| Forecast Assumptions | FY02 | FY03 | FY04F | FY05F | FY06F |
|-------------------------|------|------|-------|-------|-------|
| Sales ('000 tons) | 222 | 227 | 227 | 227 | 227 |
| Sales Price (USD / ton) | 417 | 445 | 496 | 496 | 496 |