



MADISON'S TIMBER PREVIEW

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Of all the changes occurring in the North American lumber industry since the crash of the US housing market in 2006, the development of new markets globally is one of the most important. While no one region alone is likely to fill the gap in demand left by a major slowdown in US home building, the rising demand for wood products from new customers in China, India and the Middle East combined can do much to ease oversupply in North America. Indeed, in terms of not relying so heavily on the US housing market in the future, it seems wise for North American lumber producers to seek new markets elsewhere.

A Canadian forestry company that is operating under a different business model than most is Sino-Forest Products, out of Mississauga, ON. A commercial forestry plantation operator in China, Sino-Forest was established specifically to make use of Canadian wood production know-how in Asia. As of December 31, 2008, the Company had approximately 347,000 hectares of forestry plantations in various regions of China, with rights to manage and operate approximately 603,000 hectares of plantations in southern China for up to 50 years. It is the first foreign and privately managed company involved in forest products in China. In addition to selling standing timber and logs, Sino-Forest manufactures downstream engineered-wood products.

Sino-Forest Products Corp. Financials



Although its operations are in mainland China, and most of its revenues come from China and Southeast Asia, Sino-Forest went public on the Toronto Stock Exchange in 1994. Working quietly in the background in China, the humble company was soon showing impressive results. In 4Q 1999 Sino-Forest announced a net income of US\$9.9 million, compared to net income of US\$7.4 million for the fourth quarter of 1998, an increase of 34 per cent. Wood chip and log shipments increased 33 per cent compared to the corresponding period in 1998. Most of Asia, except Japan, had recovered from the economic turmoil of 1998. Accordingly, over the next few years, China would remain the key market for Sino-Forest's plantation and wood panel growth strategy.

This singular focus seems to work well for the company, which showed a respectably steady rise in stock prices until 3Q 2007 when stock prices were up almost 600 per cent compared to one year earlier, from \$3.96 in early September 2006 to \$23.66 in early October 2007.

In May of 2000, using equipment imported from Finland, Sino-Forest announced the development of the first panel board mill in China, with an annual capacity to produce 100,000 m³ of particleboard. The company expected to upgrade the mill for lamination capability in 2001, increasing the annual production capacity to 6,000,000 m² of laminated particleboard.

Through a proven track record of nine consecutive years of profits, in August 2003 Sino-Forest raised US\$17.3 million through its private placement of 7.2 million class A subordinate-voting shares to institutional investors in Canada. The proceeds would be used to develop the company's international wood sourcing capabilities. Sino-Forest continued in the same vein, in May 2004 completing a US\$92.75 million public offering of 35 million class A subordinate-voting shares, this time in Canada as well as the US, Asia and elsewhere. Most of the money was used to acquire pine forests. In August 2004 Sino-Forest announced the closing of a US\$300 million debt offering of non-convertible guaranteed senior notes with an interest rate of 9 per cent annually, that had been made one week earlier. The maturity date would be in seven years.

Continued good financial returns began to be noticed in investor circles, and in April of 2007 Temasek Holdings, an Asia investment firm headquartered in Singapore, acquired 15.5 per cent of Sino-Forest shares. At that time company stocks were skyrocketing, drawing interest from investment advisors. In June 2007, Keith Leslie, VP and portfolio manager with Hesperian Capital Management, wrote in Business Edge, "At the end of 2006, Sino-Forest had 10 million cubic metres of wood-fibre sales. The company's goal, and I think that this goal is conservative, is to reach 20 million cubic metres of wood-fibre sales by 2011, doubling their output."

Sino-Forest's 2008 annual results showed revenue passed the US\$900-million milestone and net income rose 50 per cent for the year to US\$229 million. In March of 2009 the company switched its focus back to managing tree plantations, with the sale of the particleboard manufacturing equipment at its plant for a total price of approximately US\$30 million. Sino-Forest retained ownership of the manufacturing building and property.

Otherwise continuing steadily along its historical path, the company's 1Q 2009 results showed that revenue increased 31 per cent to US\$177 million and net income rose 58 per cent to US\$23 million compared to one year earlier. The primary contributor to the 31 per cent increase in revenue was 25 per cent higher sales from Sino-Forest's plantation fibre.

Further stock and debt offerings were issued towards the end of May 2009. Expectations are that the Sino-Forest Products will continue to do as well as it has traditionally, in fact even more so after having spent the better part of a decade building a new market for its fibre in China.

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