



Corporate Snippet

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Due to launch after the storm

Asia Resources

Medical China (8186 HK, HK\$0.45)

STRONG BUY (unchanged)

Target price: HK\$2.09 (+364.4%)

Everything proceeding on track. In order to reflect the business nature, Medical China will be renamed as China Asean Resources. Acquisition of the 10,082.0 hectares of forest concession should be completed soon. Following the completion of the acquisition, China Asean Resources will focus on the development of forestry and rubber plantation in Cambodia.

Deep discount to the fair market value. Based on the independent technical report conducted by BMI Appraisals, fair market value of the forest that will be injected into the listco is estimated at approximately HK\$2.8b, or HK\$1.64/share.

Far below the intrinsic value. Based on the target 2-yr forward P/E of 17.5x, the group's sawn timber division and flooring materials division should be valued at US\$592.2m. For the rubber plantation, assuming a WACC of 10.4%, 1.0% terminal growth rate and an operating period of 34 years, we arrive at the rubber plantation's net present value (NPV) of US\$222.4m. To reflect the risks factors associated with the project, we prudently adopt a 50.0% discount to our NPV to derive the valuation of US\$111.2m. Thus, we put the valuation of the 100.0% interest in concession at US\$703.4m, or HK\$3.23 per share on fully diluted basis. Alternatively, assuming the estimated reserve size at the concession area of 1.25m³ (against more than 3.0m³ according to the technical report) of logs and the ASP of US\$165.0/m³, we arrive at the concession area's valuation of US\$206.3m, or HK\$0.95 per share on fully diluted basis. Based on the average valuations derived from earnings-based approach and asset based approach, we arrive at the intrinsic value of the forest at US\$454.8m, or HK\$2.09/share.

Attractive valuation in terms of EV/hectare. With the acquisition of (Cambodia) Tong Min, the group will obtain the operating rights to the concession area for US\$26.6m (US\$2,638.4/hectare) compared with selected timber companies' average EV/hectare of US\$10,891.4.

Deep discount to its peers. We project the group to post earnings of HK\$246.6m for FY12/08F, representing a fully diluted 2-yr forward P/E of 3.1x. The vendor of the project guaranteed that earnings of the project to be not less than HK\$170.0m for FY12/08F, representing a fully diluted 2-yr forward P/E of 4.5x. Currently, the global forestry segment is trading at 1-yr forward P/E of 15.9x.

Possible positive surprise in FY12/07F. In our earnings forecasts, we project the group to report loss in this fiscal year. However, the forest may start to provide contribution to the group as soon as the acquisition completed by the end of the 3Q FY12/07F.

Buy on weakness. Poor market sentiment has triggered selling pressure over the market. Share price of the counter has tumbled 54.1% since from its historical high of HK\$0.98 recorded on 2 August 2007. Recent plunge in the share price has nothing to do with the fundamentals. The valuation of the counter is very attractive, in our view. Given the potential upside of 364.4%, we strongly recommend investors to accumulate the counter on its price weakness.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Sole Bookrunner and Joint Placing Agent for Medical China (233m Top-up shares and 167m new shares at HK\$0.60) on Jul, 2007. SBI E2 Securities Ltd. and/or its affiliates beneficially own(s) more than 1.0% of any class of common equity securities of the shares of Medical China Limited (8186. HK).

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