

**Key Details**

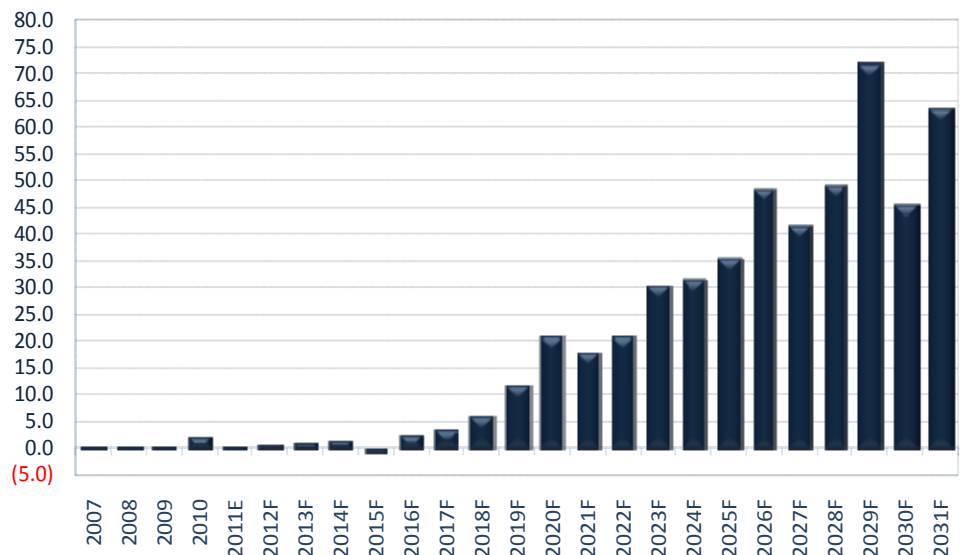
Financial Year End	30 Jun
Valuation	\$1.08
Convertible Note Price	\$1.00
Ordinary Share Price	\$0.80
Discount to valuation	25.9%
Pre IPO Market Cap*	\$16.34m
Post IPO Market Cap*	\$18.79m
Pros FY2011 PB	3.69x

\* Based on the IPO price

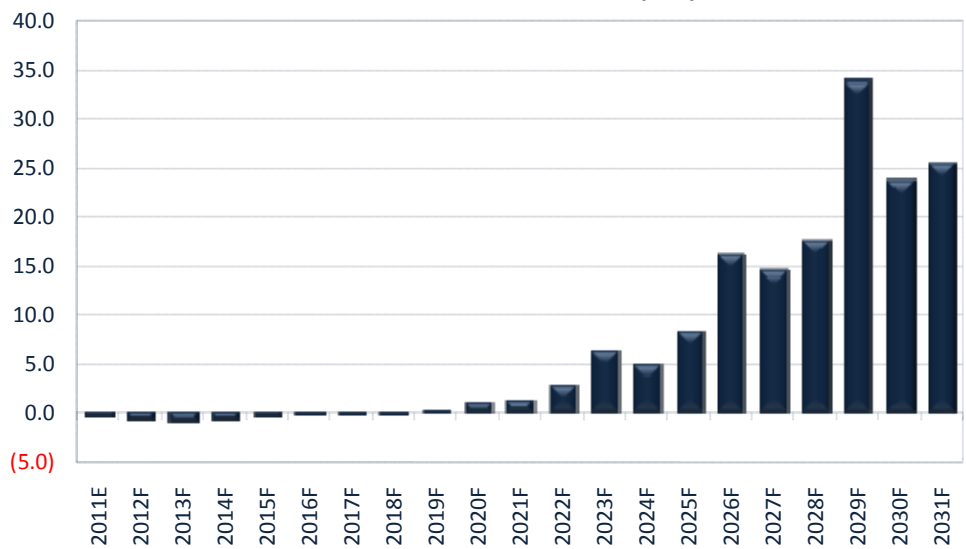
**Highlights**

- Strong potential growth returns from year 1 from steadily growing renewable natural resource.
- Over 140,000 teak trees planted
- Largest commercial timber nursery in Fiji producing 400,000 seedlings every year.
- 5.5% annual growth in teak prices over the last 30 years (in USD).
- Investment diversification into the only listed agro-industry company in Fiji.
- In the process of obtaining Sustainable Forest Management Certification (SFM FSC).

**Revenue (\$m)**



**Normalised NPAT (\$m)**



***Investor Profile***

FFF represents the first opportunity for Fiji investors to get exposure to forestry and timber investments. Investment in forestry generally offers investors a chance to protect themselves from long term inflation as over long periods the cost of lumber matches or beats general inflation.

The long term rise in the price of teak wood has been amongst the highest of commonly used woods. However investment in forestry assets is generally most suitable to investors with long term horizons as the value tends to grow geometrically over time, reflecting the growing cycle of the trees themselves. In the years before harvest the growth in value is recognised through non cash accounting adjustments, which reflect estimates of the increase in the value of the trees. However it is important to note that the cash earnings of forestry businesses tend to be negative for many years until the trees start to generate salable harvests. In addition the long maturity cycle of forestry assets mean that investors are exposed to a number of risks before they get cash returns, including disease, fire and disputes over ownership.

**BACKGROUND**

Future Forests (Fiji) Limited (FFF or “the Company”) was incorporated in 2004 and currently has 47 shareholders from 11 different countries; Fiji, Australia, Belgium, Canada, Germany, Italy, Mauritius, the Netherlands, New Zealand, South Africa, United Kingdom and USA.

FFF is Fiji’s first commercial hardwood forest plantation company specialising in sustainable, large-scale planting and harvesting of teak trees. It has the largest commercial timber nursery in Fiji with a capacity to produce 400,000 seedlings per year. As such its core activity also includes the sale of teak seedlings.

By the end of FY2010, the Company had planted 140,000 teak trees on 272 acres of freehold land owned by FFF, and 137 acres of leasehold land. The company is finalising negotiations on 770 acres of leasehold land. The Company had also conducted comprehensive Research & Development into all aspects of teak growth and management including the development of proprietary silvi-culture manuals, improved teak genetics and seed sources and growth trials.

In addition, FFF is in the process of obtaining Sustainable Forest Management Certification (SFM certification) as a responsible plantation company whose operations have minimal effect on the environment.





## Market

Teak (*Tectona grandis*) is one of the world's premiere hardwoods; native to only four countries in the world; Myanmar, India, Laos and Thailand. However, it has been established throughout tropical Asia, tropical Africa, Latin America, Caribbean and most recently introduced to Australia and the Pacific regions.

Myanmar dominates the export of teak logs while India and China are the two largest importers. Sawm timber exports are mainly from Myanmar and Indonesia with other countries namely China, Ecuador, Ghana and Tanzania, exporting modest volumes. The largest producers of teak products are Indonesia, Thailand, India and China. India processes its entire raw production and is also a significant net importer of teak. China and Thailand rely heavily on imports while Indonesia tends to process its own plantation-grown teak. The table below shows the production and exports of teak by country.

Country	Roundwood Production	Roundwood exports	Sawn Timber Exports
Myanmar	358,000	179,200	33,100
India	250,000	-	-
Indonesia*	750,000	-	35,000
Thailand	12,900	-	5,000
Other Countries**	424,100	134,300	14,800
<b>TOTAL</b>	<b>1,795,000</b>	<b>313,500</b>	<b>87,900</b>

\*This estimate, the most recent for India, dates back to 1970

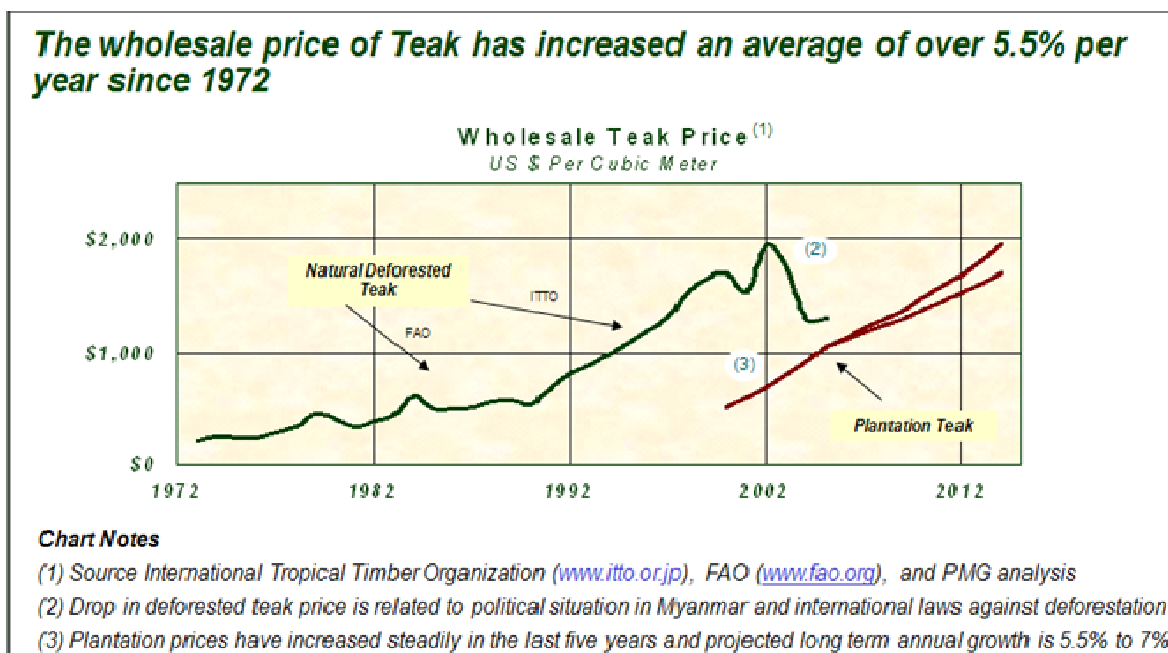
\*\*A rough estimate based on a range of diverse sources

Source: *Unasylva, An international journal of forestry and forest industries (Vol.51-2000/2)*

Teak is known for its strength and durability. The high oil content in the wood makes it naturally resistant to insects, termites, fungus and harsh weather conditions. Its aesthetic qualities make it the tropical hardwood of choice for high-end ship building, furniture, flooring, joinery, fixtures and decorative building components.

Climate Change and the introduction of REDD+ has increased pressure to protect native forests and reduce deforestation, increasing pressure from environment groups against deforestation, legislation prohibiting or limiting the cutting of natural teak forests and various other environmental requirements to grow teak, demand has outstripped supply, leading to the wholesale price of teak (based on USD) increasing an average of 5.5% year on year since 1972.

The trend in demand versus supply and international prices is expected to continue over at least the medium term with long-term supply reliant on commercial plantations. Currently plantation teak meets only 5% of world teak demand [Source: Ball et al. 1999].



## 2011 PUBLIC OFFER

FFF is offering both B-Class Ordinary Shares (shares) and Converting Notes (notes). Investors have the flexibility of choosing either instrument in any combination. The instruments will be issued at \$0.80 per share and \$1.00 per note.

The maximum amount to be raised by the Company will depend on the number of shares and notes that are applied for. The Company has set the following target amounts:

- (a) \$4.9 million if only shares are issued; or
- (b) \$6.125 million if only notes are issued; or
- (c) an amount between (a) and (b) above if a combination of shares and notes is issued.

### Shares

- The price of each share is \$0.80.
- The Company only has B-Class Ordinary Shares on the Share Register. There are no other classes of shares in the Company.

### Notes

Notes have the following features:

1. The price of each note is \$1.00.
2. Each note will pay interest at the rate of 7.5% per annum (*coupon*).
3. Coupons are payable twice yearly on 1 July and 1 January (*coupon payment dates*) for a maximum of 5 years from the date of issue. The amount paid on each coupon payment date will therefore be \$0.0375 per note.
4. Each note converts into one B Class Ordinary Share either:
  - (i) 5 years from the date that the notes are issued; or

<b>Report Date: June 2011</b>	<b>Equities Research</b>	<b>Future Forests Fiji Limited</b>
-------------------------------	--------------------------	------------------------------------

(ii) earlier if the noteholder chooses early conversion. Early conversion will occur at the next 1st January coupon payment date after the Company receives a written request from the noteholder (refer to prospectus for details)

5. Noteholders will receive copies of the annual audited accounts of the Company. They may also attend annual general meetings of the Company, but are not entitled to vote.

<b>Summary of Offer</b>		
	<b>Shares</b>	<b>Notes</b>
Price	\$0.80 per share	\$1.00 per note
Minimum Investment	\$200.00	\$200.00
Coupon	n/a	7.5% per year payable half yearly
Term	n/a	5 years
Convertibility	n/a	Each note converts into 1 share
Conversion timing	n/a	End of 5 years or earlier of noteholder nominates
Dividends	Yes	No
Voting Rights	Yes	No
Capital Gains	Yes	Yes
Quotation on SPSE	Yes	Yes

The shareholding structure of the company post Public Offer will be as follows<sup>1</sup>:

<b>Shareholder</b>	<b>Description</b>	<b>Number of shares owned</b>	<b>Percentage of the company owned</b>
Tarei Weeks & Roderic Evers	FFF Co-founding shareholder and Chef & proprietor of Five Princess Hotel, a boutique hotel in Suva.	4,200,000	16%
Jeffrey Mhoon Liew	FFF Co-founder and a Senior Advisor, United Nations Capital Development Fund.	4,200,000	16%
Paul Evers (On behalf of Evers Family Trust)	FFF Co-founder and CEO, Ravua Pastoral Company	6,750,000	26%
Other Investors	44 investors from Fiji and around the world including persons of high net worth and prominent background	4,477,400	17%
Float Investors	A mixture of 6,125,000 shares and notes	6,125,000	24%
<b>Total</b>		<b>25,752,400</b>	<b>100%</b>

<sup>1</sup> Calculations based on full conversion of any notes issued and assuming the target of 6.125m shares and/or notes is reached.

## BUSINESS ANALYSIS

**Performance:** In the early years of its establishment, FFF conducted extensive trials and research before a decision was reached to commence operations. FY2006 to FY2010 marked the *start up phase* whereby land was acquired; nursery and R&D facilities established to supply the raw materials and the first forests were planted.

Due to the agricultural nature of the business, very little income was earned during the start up phase with expenses rising on average 33% year on year. Teak trees mature over 22 to 25 years with thinning<sup>2</sup> beginning on trees aged 6 onwards.

For the most recent financial year (ended 31 December, 2010), revenue from the sale of teak seedlings increased strongly by 176.3%, from just below \$0.05m to \$0.14m.

Age of Trees	% Thinned
6 years	47.8%
9 years	12.2%
12 years	9.6%
15 years	9.6%
18 years	8.7%
22 years	12.2%

On the other hand expenses also increased by 36.5% from \$0.16m in FY2009 to \$0.22m.

Before FY2010, the Company accounted for its teak plantations at cost but because of the availability of more reliable data, the company has adopted IAS 41 to account for the teak plantations using fair value. The change in accounting principles saw a fair value gain of \$2.03m in FY2010.

As a result an accounting profit of \$1.81m was recorded in FY2010 compared to a loss of \$0.21m the previous year. Removing this abnormality, the Company made a loss of \$0.21m, a slight increase of 3.8% on the previous year.

The following summarises FFF's financial performance over the past three years.

<sup>2</sup> Thinning involves removing trees at set intervals throughout the growth cycle ("rotation") of commercial forests. Seedlings are initially planted densely to induce trees to grow straight with limited branching, thereby achieving the straight-grained and relatively knot-free characteristics desirable in teak. As trees grow larger, thinning is required to make room for the remaining trees. During the 22 year rotation for teak planted by FFF, about half of the trees are thinned at the end of year 6 with small quantities thinned every 3 years thereafter. Trees removed during thinning are used to produce teak logs for sale with waste material used in other applications such as bio-mass energy production.

Year end : 31 December	2008	2009	2010
Revenue:			
Sales Revenue	411	49,801	137,576
Recognition of Biological Assets	0	0	2,027,902
EBITDA	(195,191)	(112,916)	1,943,381
Depreciation	(34,039)	(67,071)	(84,854)
EBIT	(229,230)	(179,987)	1,858,527
Interest	(14,604)	(26,374)	(44,868)
EBT	(243,834)	(206,361)	1,813,659
Tax	0	0	0
NPAT*	(243,834)	(206,361)	1,813,659
Normalised NPAT**	(243,834)	(206,361)	(214,243)

\*Recognition of biological assets under IAS 41

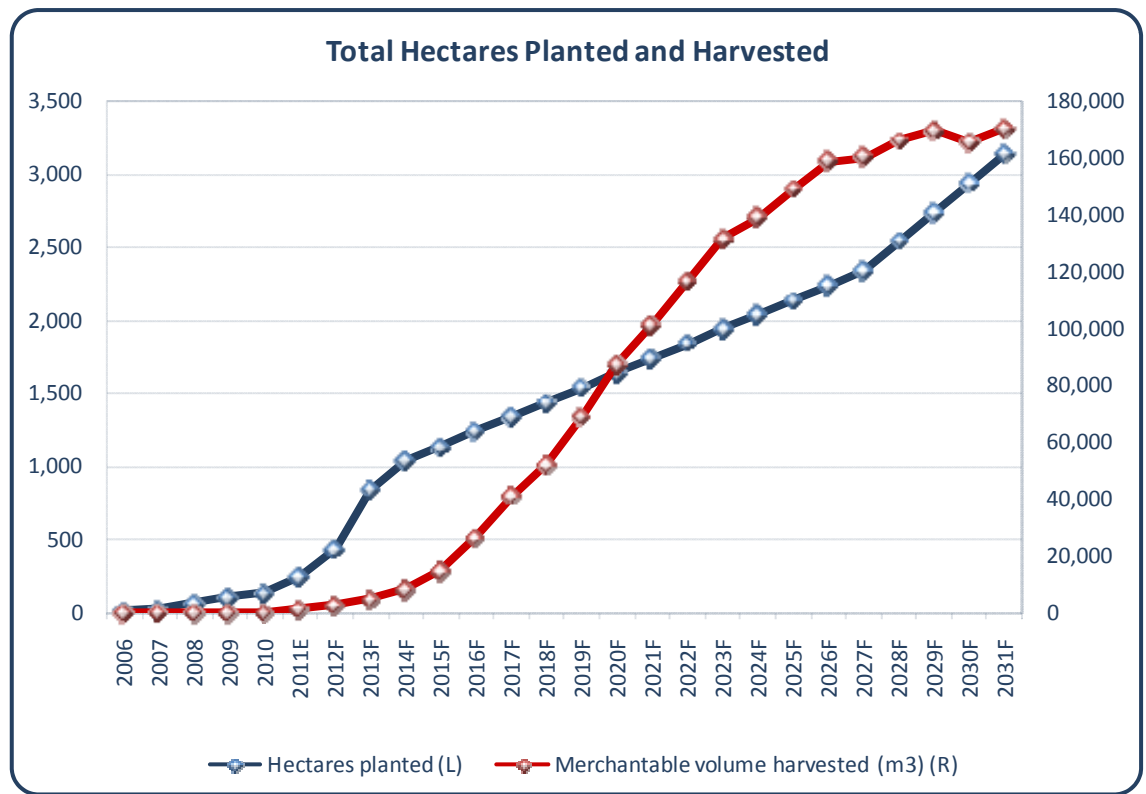
\*\*Excludes the recognition of biological assets

**Outlook:**

On the revenue front, FFF is expected to commence its first lot of thinning in FY2011 as the initial plantings reach the age of 6 years. Sale of teak seedlings is also expected to increase, bringing total revenue to \$0.21m compared to \$0.14m in FY2010.

Notwithstanding the fair value adjustments to timber inventory (biological assets), FFF is projected to record its first profit in 2017 at which point it will have plantations aged from 1 through 12 years. The profit will be mainly driven by the planned 100 new hectares of planting in FY2011 reaching the first stage of thinning. In addition, the remaining trees continue to grow and increase in value.

FFF plans to plant a minimum of 100 hectares of teak each year with the aim of achieving 3 million trees on 3,000 Ha in the next 30 years. This is part of the company's commitment to international efforts to sustainably manage world forests, which is marked by 2011 being designated the International Year of the Forests.



**According to Dr. Luis Ugalde, an International Forestry Consultant commissioned to evaluate teak in Fiji and FFF's operations, Fiji's sub tropical climate is suitable for teak plantations and with good site selection, good genetic material and silviculture best practices, FFF should be able to achieve good timber yields and high wood quality.**

The company has strong management with domestic and international skills that will drive the value of the company. The supply of raw material, the foundation of commercial teak forests, will not be an issue as the Company has the necessary nursery facilities, systems and processes developed over the past 6 years.

The long run outlook for Future Forests (Fiji) Limited is optimistic given that its core product is a commodity with insatiable demand, limited supply and increasing value.

Teak has a strong reputation for excellent wood quality that makes it one of the most valuable multipurpose timbers in the world. Known properties of the timber include; strength with lightness, durability, non-corroding, natural resistance to termite, fungus and weather conditions.

However its supply is limited by its environmental requirements, increased deforestation leading to depletion of natural teak and pressure from the United Nations and governments prohibiting the cutting down of indigenous teak forests. To compensate for the limited supply and growing demand, teak prices are expected to continue growing strongly over the long term.

The availability of markets is also a key factor with India, although one of the largest teak producing nations, still a net importer of the product. Other large manufactures of teak products include China, Indonesia and Thailand.

Insatiable demand,  
limited supply and  
increasing value

Finally, FFF is already working to exploit several other significant revenue opportunities including:

- Diversification into planting mahogany, sandalwood and other exotic timbers
- Production of value-added products such as timber processing, joinery, etc
- Carbon trading revenues
- Agro and pastoral forestry
- Capturing further price gains from moving into timber wholesale and retail

These potential revenue streams could enhance FFF's valuation. However we have not factored these opportunities into our valuation.

The table on page 10 summarises FFF's forecasts for the period 2011 to 2031.

**Report Date: June 2011**
**Equities Research**
**Future Forests Fiji Limited**

Year End: 31 December	2011E	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Total Revenue (\$m)	0.34	0.52	1.08	1.23	(1.00)	2.36	3.64	6.32	11.94	21.21	18.24	21.14	30.67	31.64	35.55	48.40	41.88	49.22	72.09	45.44	63.53
EBITDA (\$m)	(0.05)	(0.04)	0.18	0.49	(1.69)	1.56	2.67	5.23	10.52	19.11	16.28	18.81	27.28	28.40	31.61	42.61	36.63	43.05	62.52	38.36	55.20
Normalised Net Profit (\$m)	(0.31)	(0.73)	(0.99)	(0.74)	(0.32)	(0.26)	0.01	0.10	0.30	0.97	1.33	2.88	6.27	4.95	8.29	16.06	14.52	17.55	33.82	23.60	25.37
Earnings per share	(0.01)	(0.02)	(0.01)	0.00	(0.09)	0.03	0.07	0.13	0.27	0.49	0.42	0.49	0.70	0.73	0.81	1.10	0.93	1.10	1.61	0.99	1.43
EPS growth	n/a	148.7%	n/a	(143.3%)	n/a	n/a	112.7%	98.8%	104.7%	83.0%	(14.8%)	15.7%	43.5%	4.4%	11.7%	35.3%	(15.1%)	18.2%	46.0%	(38.8%)	44.5%
EV/EBITDA	(201.68)	(279.99)	64.20	25.24	(7.33)	9.39	5.48	2.88	1.44	0.80	0.89	0.75	0.57	0.50	0.43	0.32	0.37	0.28	0.19	0.16	0.08
P/E	(47.13)	(20.22)	(14.81)	(19.92)	(46.07)	(64.62)	1,274.75	162.10	55.62	17.08	12.50	5.76	2.65	3.36	2.00	1.03	1.14	0.95	0.49	0.70	0.65
Net Profit Margin	(91.4%)	(139.5%)	(92.0%)	(59.7%)	31.9%	(10.9%)	0.4%	1.6%	2.5%	4.6%	7.3%	13.6%	20.4%	15.6%	23.3%	33.2%	34.7%	35.7%	46.9%	51.9%	39.9%
Operating Revenue/Assets	0.03	0.06	0.12	0.14	(0.14)	0.30	0.38	0.49	0.60	0.65	0.43	0.39	0.45	0.38	0.37	0.43	0.34	0.36	0.48	0.29	0.37
Assets/Equity	1.62	1.66	1.68	1.65	2.02	1.06	1.05	1.03	1.02	1.02	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.02	1.01	1.01
ROE	(5.1%)	(12.9%)	(18.3%)	(13.4%)	(9.2%)	(3.5%)	0.1%	0.8%	1.5%	3.0%	3.1%	5.4%	9.4%	6.0%	8.6%	14.5%	11.8%	12.9%	22.7%	15.4%	15.0%
Net Debt/Equity	(0.73)	(0.64)	(0.54)	(0.44)	(0.66)	(0.27)	(0.21)	(0.12)	(0.07)	(0.04)	(0.05)	(0.05)	(0.02)	(0.03)	(0.03)	(0.03)	(0.02)	(0.03)	(0.03)	(0.07)	(0.07)

## VALUATION AND ASSUMPTIONS

**Valuation:** We calculated FFF's equity value at \$1.08 per share based on our discounted cash flow (DCF) model.

The following table summarises some of the comparative multiples for similar institutions that have been around as early as 1907:

Company	PE	EV/EBITDA	Dividend yield	Net Debt/ Equity
Sino-Forest Corp. (China)	13.5x	4.5x	Nil	58.5%
Mangalam Timber Products Ltd (India)	(25.1)x	136.0x	Nil	209.4%
Deltic Timber Corp. (US)	76.4x	31.4x	0.5%	30.9%
West Fraser Timber (Canada)	14.3x	5.9x	0.6%	18.9%
Elders Limited (Australia)	(1.0)x	(19.1)x	Nil	49.6%
Future Forests (Fiji) Ltd*	157.2x	2.6x	0.3%	(16.9%)

\*Based on FY2018 figures after the first cycle

**Assumptions:** Our valuation is based on the following assumptions:

- Revenue from sale of seedlings to increase by 4.0% year on year.
- Teak plantations have a rotation period of 22 years with a percentage thinned from year 6 onwards.
- COGS have been forecasted to average 51.8% of revenue in the next 5 years of forecast and then reduce to around 10% of sales till 2034 (terminal year)
- Receivables turnover to remain constant at 60 days, with creditor turnover at 90 days.
- CAPEX to average 17% of average assets going forward
- A weighted average cost of capital of 15.7%.

## RISKS AND DISCLOSURES

- Country risk concerns may cause the market to discount our estimate of FFF's intrinsic value.
- FFF's business may suffer if the economy is battered by political instability or negative economic impacts.
- Due to the nature and large scale of the business good governance plays a crucial role to achieving its goals.
- Effective management is key to achieving the projected returns of the company. Due to the long time horizons involved, FFF's business could suffer if it lost key members of its management team and was unable to adequately replace them.
- While the price of teak and demand for teak has increased steadily over the years, and projections are for this trend to continue, past performance is no guarantee of future performance.
- Genetics, care and maintenance along with the right climate and soil type impact the quality of teak. FFF's success will also depend in large part on its ability to ensure these requirements are consistently met.

- Although teak forests have demonstrated remarkable resistance to cyclones and drought, most recently in Fiji and Australia, FFF could still suffer losses from cyclones and droughts.
- FFF could also suffer losses due to pests and diseases.

For further information or to place an order please contact one of our licensed broker or investment adviser representatives below or call us on (679) 3307284 Fax (679) 3307241.

**Jack Lowenstein**[Jack@kontiki.com.fj](mailto:Jack@kontiki.com.fj)**Griffon Emose**[Griffon@kontiki.com.fj](mailto:Griffon@kontiki.com.fj)**David Oliver**[David@kontiki.com.fj](mailto:David@kontiki.com.fj)**Jignesh Pala**[Jignesh@kontiki.com.fj](mailto:Jignesh@kontiki.com.fj)**Raghni Khatri**[Raghni@kontiki.com.fj](mailto:Raghni@kontiki.com.fj)**Elenoa Kaloumaira**[Elenoa@kontiki.com.fj](mailto:Elenoa@kontiki.com.fj)**IMPORTANT NOTICE**

This document was prepared solely for potential investors in the planned Public Offer of FFF shares in or around June 2011. It is not to be shared with any other party(s) without the prior consent of Kontiki Capital. The information in this document is based on information provided by the FFF management and independent research by Kontiki Capital. Whilst Kontiki Capital has made every endeavour to ensure the accuracy of the information, no warranty can be given.

©Kontiki Capital Ltd., 2011

All rights reserved. Any unauthorized use, duplication or disclosure is prohibited by law and will result in prosecution.