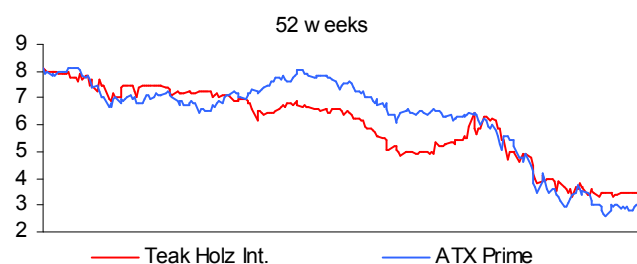


Company Report – Forest Products – Austria – December 16, 2008

Teak Holz Int. from Buy to Accumulate

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EUR mn	2007	2008e	2009e	2010e
Net sales	0.2	0.4	5.3	4.2
EBITDA	-2.2	-3.3	1.1	0.1
EBIT	20.9	2.3	10.8	22.6
Net result after min.	14.3	2.2	6.8	16.0
EPS (EUR)	3.20	0.35	1.09	2.56
CEPS (EUR)	-0.64	-0.61	-0.11	-0.19
BVPS (EUR)	17.54	17.89	18.97	21.54
Div./share (EUR)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	-25.4	-9.9	31.5	421.5
P/E (x)	2.5	10.0	3.2	1.4
P/CE (x)	-12.5	-5.7	-30.8	-18.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in EUR	-57.2%	-46.6%	-44.0%	-4.1%

Share price (EUR)	3.47	Reuters	TEAK.VI	Free float	30.0%
Number of shares (mn)	6.2	Bloomberg	TEAK AV	Shareholders	Hörmann (35.0%)
Market capitalization (EUR mn)	21.7	Div. Ex-date			Hennerbichler (25%)
Enterprise value (EUR mn)	33.0	Target price	4.5	Home page:	www.teakholzinternational.com

Assumptions largely unchanged, but further discount needed

- Applying a discount of 50% to account for potentially lower selling prices in the wake of the financial crisis, as well as potentially lower tree growth (in addition to a 15% liquidity discount), we reduce our 12-month target price from EUR 10.6 to EUR 4.5. As we believe that illiquid small caps will not be among the first stocks to recover, we cut our recommendation from Buy to Accumulate, despite an 80% discount to the BVPS at the end of FY07/08e of EUR 17.9.
- In order to stay consistent with the assumptions applied in the annual valuation by an external forestry expert, which forms the basis for IFRS values, we did not make any changes to our expected tree growth, wood quality or selling prices. Instead we applied discounts to the DCF-value, as mentioned above. We increased our future personnel and other operating costs estimates (higher headcount in Austria). This also leads us to expect somewhat higher net debt levels.
- The 1-3Q07/08 results were significantly hurt by the weak USD and, to a lesser extent, higher than expected costs, consequently ending in the red. In the last quarter of FY07/08, the USD reversed almost all previous losses (at EUR/USD 1.4487), so we expect a strong final quarter.
- For FY08/09, we still expect the first more significant revenues from thinning. Also, the company just received FSC certification for four plantations.
- We increase our FY07/08 EPS estimate to EUR 0.35 (previously EUR 0.26), based on expected extraordinary deferred tax income. As the most important assumptions remain the same, the EPS estimates for the two following years of EUR 1.09 (prev. EUR 1.12) and EUR 2.56 (prev. EUR 2.46) are not significantly different.

Short overview of business model and market

Teakwood pure-play, focusing on intensive gardening

THI is a teakwood pure-play, employing an intensive gardening approach. In essence, this means that THI applies all tools of silvicultural management (proper site location, fertilization, pruning and so on) to ensure fast growth of teak trees without sacrificing quality properties, like color and heartwood content. Including an 862ha plantation acquired and reforested during FY06/07, THI currently owns and operates seven teak plantations in the southwest of Costa Rica, with a total size of 1,934ha.

Market dominated by Asian producers

The majority of global teak plantations are concentrated in India (43%), Indonesia (31%), Thailand (7%) and Myanmar (6%), while tropical America accounts for about 3%. Myanmar, the only Asian producer that allows relatively unconstrained export of teak logs, dominates the export market. The most important markets for high-quality grades are Europe and North America. Asia also demands lower-quality grades. The global market for teakwood is not very transparent regarding demanded quality and prices. Teak prices are volatile and very sensitive to the quality of the wood, making accurate forecasts difficult.

Unstable cash flow pattern

THI's business model is characterized by an unstable cash flow pattern. Initially, the company has to lay out the money for the acquisition of land, the teakwood seeds and the ongoing costs of cultivating the plantation. In the 8th and 15th years, it expects to sell the teakwood, thus generating cash to cover the costs and generate a satisfactory return. As most of THI's plantations are rather young, the company will have to wait until 2014-17 before the first significant positive cash flows are generated.

Business model so far still lacks proof of concept, due to young age of plantations

THI's plantations are still rather young – the large plantations are currently between one and eight years old. The company's business model still lacks the proof of concept, as it has not sold any significant quantities of wood from its own plantations yet and there is no complete set of historic growth data from seed to harvest. Instead, the plantations are valued at the end of each financial year (September 30) by an external forestry expert based on assumed tree growth, quality, selling prices (in USD) and timing of the harvest. This expert opinion also forms the basis for the book values of the plantations according to IFRS and, consequently, the revaluation gains/losses in the P&L. We therefore base our projections on the same basic assumptions, among others, and provide for potential shortcomings via above-average risk costs and discounts in the DCF valuation.

Figures overview and forecast

1-3Q07/08 results hurt significantly by weak USD and higher than expected costs

Operating results in the first three quarters of FY07/08 were significantly impacted by the weak USD. The USD declined from EUR/USD 1.426 at the end of FY06/07 to 1.58 at the end of June 2008. As the plantations in Costa Rica are valued in USD, while the reporting currency of THI group is EUR, this currency movement eliminated the lion's share of revaluation gains. Sales revenues in the third quarter of EUR 143k were picking up from a low level and mainly consisted of wood from third party plantations (traded to develop sales channels). Over the last year, the company increased its Austrian headcount from 16 to 24 and it encountered additional costs in connection with the FSC certification of own plantations. Consequently, personnel costs and other operating expenses were higher than we had expected in our last report. Taken together, operating profit (EUR -1,373k) and EBT (EUR -1,582k) were still in the red after nine months.

Figures overview

in EUR thsd.	1-3Q 06/07	4Q 06/07	FY 06/07	1-3Q 07/08	4Q 07/08e	FY 07/08e	FY08/09e
Sales	82	112	194	229	174	403	5,251
Revaluation gains/losses	0	23,186	23,186	1,136	4,618	5,754	9,888
Personnel costs	-758	-441	-1,199	-1,385	-527	-1,912	-2,296
Net other operating expenses	-1,594	328	-1,266	-1,353	-589	-1,942	-2,001
EBIT	-2,270	23,186	20,916	-1,373	3,675	2,302	10,841
Financial result	-123	118	-5	-209	-307	-516	-1,805
EBT	-2,393	23,304	20,911	-1,582	3,368	1,786	9,036
Tax	n.a.	n.a.	-6,590	n.a.	n.a.	385	-2,259
Net income	n.a.	n.a.	14,321	n.a.	n.a.	2,172	6,777

Source: Company data, Erste Group estimates

Higher revaluation gains and negative tax rate expected in 4Q07/08

In the last quarter of FY07/08, the USD strengthened again and ended at EUR/USD 1.4487 (1.6% lower than at the end of FY06/07). Revaluation gains on biological assets and operating profit should consequently be significantly higher than during the first three quarters. In addition, we expect positive taxes for the full year, as the company will likely lower its deferred tax rate for most of its profits from 30% (Costa Rica) to 25% (Austria). Last year's high deferred tax expenses should therefore be partly reversed.

FSC certification received for four plantations

At the end of November, THI announced that it received Forest Stewardship Council (FSC) certification for four of its plantations with a total of 850ha. The FSC certification is a voluntary process for verifying responsible forest practices in all types of forests and plantations across the world. With its 10 principles and 56 associated criteria, FSC offers a comprehensive set of universally applicable requirements for responsible forest management. The aim is to ensure that forest resources are managed to meet the social, economic and ecological needs of present and future generations. In addition THI's processing and distribution company received the FSC chain of custody certificate, allowing the company to process and trade FSC-certified products around the globe.

First significant revenues from thinnings planned for FY08/09

In the course of the last few months, the company started to cut trees at "Finca Tres", the oldest plantation (with an age of 13 years), and at the same time the smallest one (18ha). THI will likely start selling the wood in January 2009. In our model, we assumed that tree growth in 2008 would be stable compared to 2007 and that half of the trees would be cut and sold in FY08/09, yielding slightly short of 7,000m³ teak wood. At the assumed selling price of USD 400 for wood from thinning, total revenues would be about USD 2.8mn. In addition, the company also plans to thin out about 200 trees per ha from its 405ha large 7-year old "Finca Uno". We assume that the thinning will yield some 12,000m³ wood and a selling price of about USD 4.8mn.

Application of discount for potentially slower tree growth than assumed...

As mentioned above, THI is differentiating itself through the use of an intensive gardening approach, which starts with choosing high-quality sites, soil preparation, raising plants first in jiffy pots, controlling competing weeds and continues with fertilizing exactly as needed, repeated pruning, tying bending trees, etc. The company argues that, due to the intensive treatment, it is able to achieve superior tree growth and quality compared to other plantations. The annual valuation of the plantations by the external forestry expert (on which IFRS book values are based) therefore assumes only one commercial thinning in year eight and a mean annual growth after 15 years of 36.6m³/ha. However, in the course of the FSC certification, the company also published more conservative scenarios, with three thinnings and lower mean annual commercial wood growth of 21.4m³/ha. In our basic models, we did not make any changes to our expected wood growth. Nevertheless, we ran scenarios of tree growth falling short of expectations and account for it in our share price valuation through discounts applied.

...and potentially lower than expected selling prices

Recent reports indicate that the current economic crisis has been causing some uncertainty among timber dealers. India, a major consumer of teak, was said to have fallen behind in purchases. Indian buyers blamed exchange rate problems and credit facilities as some of the factors. Teak is well known for its use in the furniture industry and shipbuilding, as well as building components, products for façades and window construction. Alongside industrialized countries, the negative economic effects are now being felt in Asia as well. While we did not change our basic teak wood price assumptions in our models, we did apply a discount for potentially lower than expected selling prices in our DCF valuation.

Company Report – Teak Holz Int.

EPS estimates remain largely unchanged

As detailed above, we did not make any changes to expected tree growth, wood quality or selling prices, which are still consistent with the assumptions applied in the annual valuation by the external forestry expert (which forms the basis for IFRS values). We increased our future personnel and other operating cost estimates, mainly to account for the increased headcount in Austria. This also leads us to expect somewhat higher net debt levels than in our previous report. We increase our FY07/08 EPS estimate to EUR 0.35 (previously EUR 0.26), based on expected deferred tax income. As the most important assumptions remain the same, the EPS estimates for the two following years of EUR 1.09 (prev. EUR 1.12) and EUR 2.56 (prev. EUR 2.46) are not substantially different.

DCF valuation and recommendation

Introduction of 50% discount to account for potential shortfalls in selling prices and/or slower tree growth

Given the startup-like business model of THI, we have deviated from a common DCF valuation approach in a number of respects. Most importantly, we have built a model that considers a sufficient timeframe to calculate the cash flows of one rotation per plantation with no terminal value. Furthermore, we used cash taxes in our model, as taxes will only have to be paid when the teakwood is actually sold. The WACC was slightly increased from 13.2% to 13.4%. We deducted the expected net debt at the end of FY07/08, which consists of expected net financial liabilities of EUR 2.4mn and liabilities according to IFRS from participation rights and minorities of EUR 8.8mn. Due to the low trading volume of the stock, we had already introduced a 15% liquidity discount in our last report. As explained above, we have now applied a discount of 50% to account for potential shortfalls in selling prices and/or slower than anticipated tree growth. Based on our forecasts and after discounts, the DCF valuation points to a 12-month target price of EUR 4.5 per share.

Downgrade to Accumulate

We reduce our 12-month target price to EUR 4.5 (previously EUR 10.6). As we believe that illiquid small caps will not be among the first stocks to recover, we cut our recommendation from Buy to Accumulate, despite an 80% discount to the BVPS at the end of FY07/08e of EUR 17.9.

Company Report – Teak Holz Int.

DCF valuation

DCF Valuation (EUR th)	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
EBIT	10,841	22,620	17,022	17,313	19,841	25,165	40,765	42,782
- Taxes on EBIT	0	0	0	0	0	-68	-1,028	-10,821
+ Depreciation/amortisation	127	147	177	197	207	202	172	192
+/- Change in working capital and biological assets	-10,181	-22,968	-21,136	-22,029	-25,340	-21,096	-19,203	19,381
- Capital expenditures	-200	-200	-200	-200	-200	-200	-200	-200
Free cash flow	587	-401	-4,137	-4,719	-5,493	4,002	20,506	51,335
Terminal value (net WC)								
Total free cash flow	587	-401	-4,137	-4,719	-5,493	4,002	20,506	51,335
DCF Valuation (EUR th)	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Discounted free cash flow	518	-312	-2,841	-2,858	-2,935	1,887	8,528	18,835
DCF Valuation (EUR th)	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
EBIT	15,873	20,774	21,519	25,236	25,687	7,985	-13,522	0
- Taxes on EBIT	-10,908	-418	-563	0	-11,692	-39,055	-23,904	0
+ Depreciation/amortisation	212	232	232	216	206	206	216	0
+/- Change in working capital and biological assets	28,648	-17,212	-19,410	-33,931	29,026	145,819	107,908	-438
- Capital expenditures	-200	-200	-200	-200	-200	-200	-200	0
Free cash flow	33,624	3,176	1,579	-8,679	43,028	114,755	70,498	-438
Terminal value (net WC)								1,177
Total free cash flow	33,624	3,176	1,579	-8,679	43,028	114,755	70,498	739
DCF Valuation (EUR th)	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
Discounted free cash flow	10,884	907	398	-1,929	8,436	19,849	10,757	99
Net present value (Enterprise Value)			70,222					
Expected net debt (September 31, 2008)			-11,350					
Net present value (September 31, 2008)			58,873					
Net present value (December 2009)			69,053					
Property value land			10,415					
Total equity value as of December 2009			79,468					
15% liquidity discount			-11,920					
50% discount for potentially lower tree growth/selling prices			-39,734					
Equity value after applicable discounts			27,814					
Number of shares in million			6,241					
Equity value per share as of Dec. 2009			4.5					
WACC Calculation								
Country Risk Premium	2.4%							
Risk-free rate	4.0%							
Premium to equity	5.5%							
Beta	1.5							
Cost of equity	14.7%							
Cost of debt	8.0%							
Effective tax rate (%)	25.0%							
After-tax cost of debt (%)	6.0%							
Equity weight (%)	85%							
Debt weight (%)	15%							
WACC	13.4%							

Source: Erste Group estimates

Company Report – Teak Holz Int.

Income Statement	2007	2008e	2009e	2010e
(IAS, EUR mn, 30/09)	30/09/2007	30/09/2008	30/09/2009	30/09/2010
Net sales	0.19	0.40	5.25	4.23
Invent. changes + capitalized costs	-0.03	0.00	0.00	0.00
Total revenues	0.17	0.40	5.25	4.23
Other operating revenues	0.38	0.42	0.37	0.35
Material costs	-0.14	-0.33	-0.40	-0.33
Personnel costs	-1.20	-1.91	-2.30	-2.40
Other operating expenses	-1.43	-1.92	-1.84	-1.77
EBITDA	-2.22	-3.33	1.08	0.08
Depreciation/amortization	23.14	5.64	9.76	22.54
EBIT	20.92	2.30	10.84	22.62
Financial result	-0.01	-0.52	-1.81	-1.28
Extraordinary result	0.00	0.00	0.00	0.00
EBT	20.91	1.79	9.04	21.34
Income taxes	-6.59	0.39	-2.26	-5.34
Result from discontinued operations	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00
Net result after minorities	14.32	2.17	6.78	16.01
Balance Sheet	2007	2008e	2009e	2010e
(IAS, EUR mn, 30/09)				
Intangible assets	0.00	0.00	0.00	0.00
Tangible assets	122.59	127.79	132.60	159.56
Financial assets	0.01	0.01	0.01	0.01
Total fixed assets	122.60	127.80	132.60	159.57
Inventories	0.17	1.11	6.27	2.03
Receivables and other current assets	0.20	0.18	0.26	0.21
Other assets	1.78	2.05	2.26	2.60
Cash and cash equivalents	8.52	1.65	0.67	0.42
Total current assets	10.67	4.99	9.46	5.26
TOTAL ASSETS	133.27	132.79	142.06	164.83
Shareholders' equity	109.45	111.62	118.40	134.41
Minorities	0.00	0.00	0.00	0.00
Hybrid capital and other reserves	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.06	0.11	0.13	0.13
Other LT provisions	0.00	0.00	0.00	0.00
Interest-bearing LT debts	9.01	9.42	9.42	10.51
Other LT liabilities	7.69	7.56	10.03	15.71
Total long-term liabilities	16.71	16.98	19.45	26.21
Interest-bearing ST debts	5.98	3.48	3.48	3.48
Other ST liabilities	1.08	0.60	0.60	0.60
Total short-term liabilities	7.06	4.08	4.08	4.08
TOTAL LIAB., EQUITY	133.27	132.79	142.06	164.83
Cash Flow Statement	2007	2008e	2009e	2010e
(IAS, EUR mn, 30/09)				
Cash flow from operating activities	-1.78	-3.76	1.02	0.14
Cash flow from investing activities	-7.49	-0.35	-0.17	-0.18
Cash flow from financing activities	19.80	-2.77	-1.84	-0.20
CHANGE IN CASH, CASH EQU.	8.45	-6.87	-0.98	-0.25
Margins & Ratios	2007	2008e	2009e	2010e
Sales growth		107.6%	1,204.6%	-19.4%
EBITDA margin	-1,324.6%	-828.5%	20.6%	2.0%
EBIT margin	12,478.3%	572.0%	206.5%	534.6%
Net profit margin	8,543.8%	539.5%	129.1%	378.3%
ROE		2.0%	5.9%	12.7%
ROCE		1.8%	5.1%	10.6%
Equity ratio	82.1%	84.1%	83.3%	81.5%
Net debt	6.5	11.3	12.4	13.7
Working capital	1.8	-1.1	3.1	-1.4
Capital employed	123.7	130.5	140.8	163.8
Inventory turnover		0.5	0.1	0.1

Source: Company data, Erste Group estimates

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Domestic Sales Fixed Income

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Treasury Domestic Sales

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Christian Skopek +43 (0)5 0100 - 84146

Fixed Income Institutional Desk

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Ingo Lusch +43 (0)5 0100 - 84111

Lukas Linsbichler +43 (0)5 0100 - 84345

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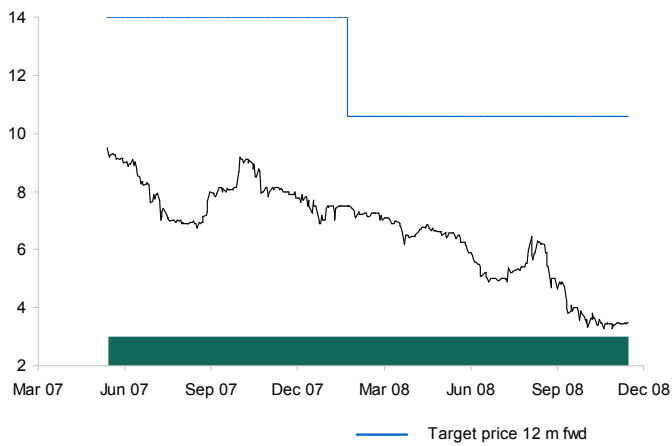
Michael Schmotz +43 (0)5 0100 - 84114

Company Report – Teak Holz Int.

Teak Holz Int.

Rating history

Date	Rating	Price	Target Price
25. May 07	Buy	9.88	14.00



Company

Disclosure

Teak Holz Int.

2

Important Disclosures

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Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	36	30.3	5	33.3
Accumulate	18	15.1	2	13.3
Hold	39	32.8	4	26.7
Reduce	8	6.7	1	6.7
Sell	2	1.7	0	0.0
N.R./UND.REV./RESTR.	16	13.4	3	20.0
Total	119	100.0	15	100.0

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