

# Sateri

(1768.HK / 1768 HK)

Rating	<b>OUTPERFORM* [V]</b>
Price (14 Jan 11, HK\$)	7.96
Target price (HK\$)	10.55 <sup>1</sup>
Chg to TP (%)	32.5
Market cap. (HK\$ mn)	27,190 (US\$ 3,498)
Enterprise value (US\$ mn)	3,612
Number of shares (mn)	3,415.88
Free float (%)	16.17
52-week price range	8.00 - 6.50

\*Stock ratings are relative to the relevant country benchmark.

<sup>1</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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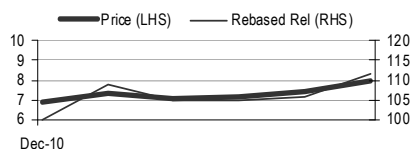
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## INITIATION

### Build by cellulose

- **We initiate coverage on Sateri with an OUTPERFORM rating and 33% potential upside.** Sateri is one of the world's largest manufacturers of specialty cellulose products. Its specialty cellulose product is one of the broadest among the major producers in the industry and includes rayon and specialty grades of dissolving wood pulp, and viscose staple fibre.
- **A cardinal supplier geared to China's consumption growth.** With a market share of about 40%, Sateri is the largest supplier of rayon grades of dissolving wood pulp to China, the world's largest by demand at a projected three-year CAGR of 25%. We believe the products made by Sateri are geared to China's consumption growth with a variety of end applications, including textiles, non-woven products and cigarette filters. It is a low-cost and vertically integrated company from wood plantations and dissolving wood pulp production in Brazil, to viscose staple fibre production in China.
- **Market price of rayon grades of dissolving wood pulp has doubled to US\$2,400 per tonne since early 2010.** We believe pricing of both dissolving wood pulp and viscose staple fibre will remain firm in the foreseeable future thanks to the favourable supply-demand, with additional support from strong cotton prices. Sateri is a major beneficiary of high cotton prices, and hence viscose staple fibre and dissolving wood pulp prices, thanks to its upstream vertical integration.
- **Valuation is at 10.6x 2011E P/E with a projected recurrent profit growth of 36% YoY.** If Sateri's current product selling prices, which are 26-32% higher than our conservative base-case assumptions, hold throughout 2011, we estimate that its net profit in 2011 will be 52% higher than our current projection, making the stock trade at a 6.9x 2011E P/E. Our 12-month target price of HK\$10.55, based on a target P/E of 14x 2011E EPS, implies 33% potential upside.

## Share price performance



The price relative chart measures performance against the MSCI China Free index which closed at 69.2 on 14/01/11. On 14/01/11 the spot exchange rate was HK\$7.77/US\$1.

Performance Over	1M	3M	12M
Absolute (%)	9.5	—	—
Relative (%)	7.2	—	—

## Financial and valuation metrics

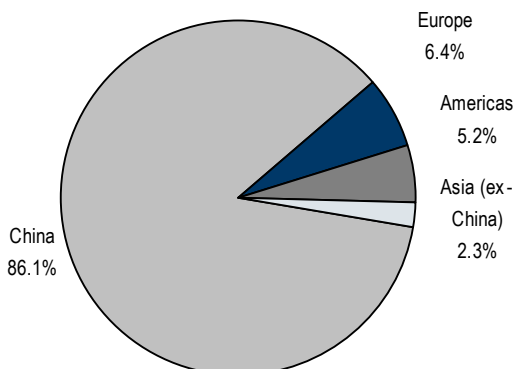
Year	12/09A	12/10E	12/11E	12/12E
Revenue (US\$ mn)	552.0	874.6	1,055.7	1,439.3
EBITDA (US\$ mn)	209.2	444.9	500.2	585.4
EBIT (US\$ mn)	146.3	354.0	380.1	447.8
Net income (US\$ mn)	106.9	305.4	330.7	391.4
EPS (CS adj.) (US\$)	0.04	0.11	0.10	0.11
Change from previous EPS (%)	n.a.	—	—	—
Consensus EPS (US\$)	n.a.	—	—	—
EPS growth (%)	n.a.	182.4	-8.2	18.4
P/E (x)	27.4	9.7	10.6	8.9
Dividend yield (%)	—	—	2.4	2.9
EV/EBITDA (x)	18.4	8.1	7.5	6.2
P/B (x)	2.5	2.1	1.8	1.6
ROE	9.7	21.7	18.5	18.9
Net debt/equity (%)	29.4	6.7	13.9	7.0

Source: Company data, Thomson Reuters, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

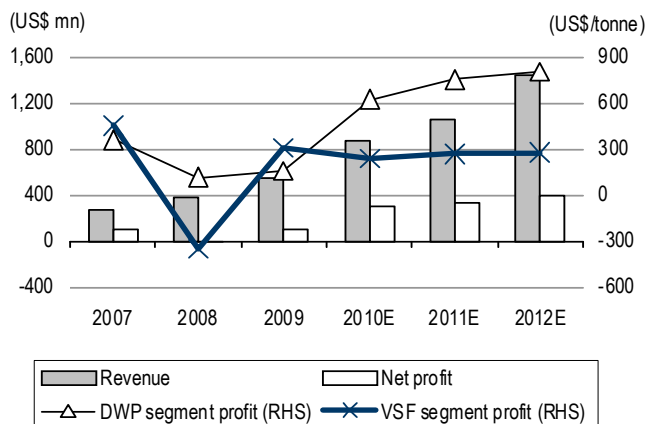
# Focus charts and tables

**Figure 1: Sateri's sales breakdown by geography in 2009**



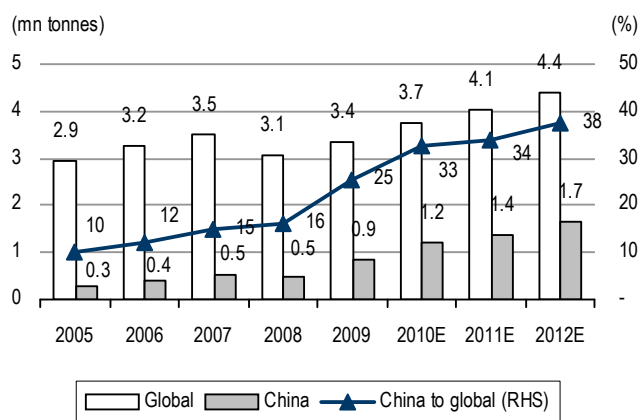
Source: Company data

**Figure 2: Sateri's product segment profit**



Source: Company data, Credit Suisse estimates

**Figure 3: Demand for dissolving wood pulp**



Source: PCI Fibres, Credit Suisse estimates

**Figure 4: Cotton vs dissolving wood pulp relative prices**



Source: PCI Fibres, Shanghai JC Intelligence

**Figure 5: Sensitivity analysis of Sateri's estimated earnings in 2011**

Change of selling price of dissolving wood pulp from the base case (%)	Average selling price in 2011 (US\$ / tonne)	2011 net profit (US\$ mn)	YoY growth (%)	2011E P/E (x)
+40	2,276	546	124.0	6.4
<b>+32 (current blended selling price)</b>	<b>2,145</b>	<b>503</b>	<b>106.4</b>	<b>6.9</b>
+30	2,114	492	101.9	7.1
+20	1,951	438	79.7	8.0
+10	1,789	384	57.6	9.1
<b>Base case</b>	<b>1,626</b>	<b>331</b>	<b>35.6</b>	<b>10.5</b>
-10	1,463	276	13.3	12.6
-20	1,301	222	-8.9	15.7

Source: Credit Suisse estimates

## Build by cellulose

Sateri is one of the largest manufacturers of specialty cellulose products in the world. Its specialty cellulose product line is one of the broadest among the major producers in the industry and includes both rayon grades and specialty grades of dissolving wood pulp, and viscose staple fibres, the downstream products of rayon grades of pulp.

One of the world's largest manufacturers of specialty cellulose products

### A cardinal supplier geared to China's consumption growth

With a market share of about 40%, Sateri is the largest rayon grades of dissolving wood pulp supplier by volume to China, which was the world's largest dissolving wood pulp market in 2009, according to PCI Fibres. We believe the products made by Sateri are geared more to Chinese consumption growth, for it generated 86% of its total revenue from China in 2009. The end markets of its products include textiles, non-woven products, cigarette filters and a great variety of end-applications. Sateri is a vertically integrated company, from upstream wood plantations and production of dissolving wood pulp, to downstream viscose staple fibre. Its main production facilities are in Brazil and China, where it can access low transportation and labour costs. Its production cost per tonne for dissolving wood pulp is the lowest among the key global players. Sateri is planning to spend US\$703 mn to increase its production capacity of dissolving wood pulp by 18% by end-2013, and expand design capacity of viscose staple fibre by 177% by the end of 2012.

Sateri's products are geared more to China's consumption growth

### Positive cellulose industry outlook

Considering the continuous investments in additional viscose staple fibre capacity in China, and the constraints limiting the supply of cotton linter pulp, China's total demand for dissolving wood pulp should experience a 2009-12 CAGR of 25%, according to PCI Fibres. This makes the Chinese market the key driving factor of global dissolving wood pulp demand, given the growing needs of the PRC's textile and cigarette filter industries. Production of viscose staple fibre in China is estimated to have a 2009-12 CAGR of 12% to 2.1 mn tonnes, or 61% of the global production in 2012. We believe pricing of both dissolving wood pulp and viscose staple fibre will remain firm in the foreseeable future thanks to the favourable supply-demand, with additional support from strong cotton prices.

Chinese market is the key driving factor for global dissolving wood pulp demand, given the growing needs of the PRC's textile and cigarette filter industries

### Potential upside on favourable product prices

If the profit contribution from the disposed trading unit, DP Macao, is excluded, we estimate that Sateri's net profit will grow 36% YoY to US\$331 mn in 2011 with higher selling prices and increased capacity. We believe that China plays Hengan, Huabao, Nine Dragons and Lee & Man Paper are closer comparisons with Sateri. Although they do not produce the same products as Sateri does, they have a similar exposure to the fast-growing Chinese consumption market. We set our 12-month target price for Sateri at HK\$10.55, based on a target P/E of 14x 2011E EPS, or 0.85x PEG. If its current product selling prices, which are 26-32% higher than our conservative base-case assumptions, hold throughout 2011, we estimate that Sateri's net profit in 2011 will be 52% higher than our current projection, making the stock trade at a 6.9x 2011E P/E. With 33% potential upside to our 12-month target price of HK\$10.55, we initiate coverage of Sateri with an OUTPERFORM rating.

With 33% potential upside to our 12-month target price of HK\$10.55, we initiate coverage of Sateri with an OUTPERFORM rating

### Key risks

The key risks include: (1) macroeconomic-related risks, which may result in substantially lower selling prices of Sateri's products; (2) expansion risks, as Sateri may look to expand aggressively beyond the current expansion plans; (3) competition risks; (4) acquisition risks; (5) customer concentration risks; (6) currency mismatch risks; (7) raw material risks; (8) reputational risks; (9) unexpected weather patterns, and key staff changes.

Key risks

# Financial summary

**Figure 6: Estimated production and earnings growth of Sateri (2007-2012E)**

Year-end 31 Dec (US\$ mn)	2007		2008		2009		2010E		2011E		2012E	
<b>Revenue</b>	% of total		% of total		% of total		% of total		% of total		% of total	
Cellulose products												
- Bahia Specialty	94	34.4	118	30.8	314	56.9	568	64.9	673	63.8	715	49.7
- DP Macao	13	4.9	139	36.5	110	20.0	125	14.2	-	-	-	-
	107	39.3	257	67.3	424	76.9	692	79.2	673	63.8	715	49.7
Viscose staple fibre	165	60.7	125	32.7	128	23.1	182	20.8	382	36.2	724	50.3
	<b>272</b>	<b>100.0</b>	<b>382</b>	<b>100.0</b>	<b>552</b>	<b>100.0</b>	<b>875</b>	<b>100.0</b>	<b>1,056</b>	<b>100.0</b>	<b>1,439</b>	<b>100.0</b>
<b>Gross profit</b>	Margin		Margin		Margin		Margin		Margin		Margin	
Cellulose products	(%)		(%)		(%)		(%)		(%)		(%)	
- Bahia Specialty	63	67.6	63	53.5	138	43.9	357	62.9	430	63.9	462	64.6
- DP Macao	7	55.7	29	21.0	42	38.4	68	54.4	-	-	-	-
	71	66.1	92	35.9	180	42.5	425	61.4	430	63.9	462	64.6
Viscose staple fibre	36	21.7	(14)	-11.2	30	23.3	37	20.1	84	21.9	157	21.7
	<b>107</b>	<b>39.1</b>	<b>78</b>	<b>20.5</b>	<b>210</b>	<b>38.1</b>	<b>462</b>	<b>52.8</b>	<b>514</b>	<b>48.6</b>	<b>619</b>	<b>43.0</b>
<b>Segment profit</b>	Margin		Margin		Margin		Margin		Margin		Margin	
Cellulose products	(%)		(%)		(%)		(%)		(%)		(%)	
- Bahia Specialty	25	26.3	14	11.6	51	16.3	244	43.0	312	46.3	344	48.1
- DP Macao	7	54.4	23	16.4	35	31.9	62	49.4	-	-	-	-
	32	29.8	37	14.2	86	20.4	306	44.1	312	46.3	344	48.1
Viscose staple fibre	33	20.0	(21)	-17.1	21	16.3	18	9.7	38	9.9	72	10.0
	65	23.8	15	4.0	107	19.4	323	37.0	350	33.2	416	28.9
Unallocated items	43		(27)		(3)		-		-		-	
<b>Profit before tax</b>	<b>108</b>	<b>39.6</b>	<b>(12)</b>	<b>-3.1</b>	<b>104</b>	<b>18.9</b>	<b>323</b>	<b>37.0</b>	<b>350</b>	<b>33.2</b>	<b>416</b>	<b>28.9</b>
Taxation	(4)		3		3		(15)		(16)		(21)	
Minority interest	(9)		5		(1)		(3)		(3)		(5)	
<b>Net profit</b>	<b>95</b>	<b>34.9</b>	<b>(4)</b>	<b>-1.0</b>	<b>107</b>	<b>19.4</b>	<b>305</b>	<b>34.9</b>	<b>331</b>	<b>31.3</b>	<b>391</b>	<b>27.2</b>
Net profit of DP Macao	n.a.		n.a.		35		62		-		-	
<b>Net profit ex. DP Macao</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>71</b>	<b>16.2</b>	<b>244</b>	<b>32.5</b>	<b>331</b>	<b>31.3</b>	<b>391</b>	<b>27.2</b>

Source: Company data, Credit Suisse estimates

**Figure 7: Sateri's 2H10 profit should fall HoH after disposing of DP Macao in 3Q10**

Year-end Dec (US\$ mn)	2010E	2009	YoY % chg.	2H10E	1H10	HoH % chg.
<b>Turnover</b>	<b>875</b>	<b>552</b>	<b>58.4</b>	<b>434</b>	<b>441</b>	<b>-1.6</b>
- Cellulose products	692	424	63.2	327	365	-10.5
- Viscose staple fibre	182	128	42.7	107	75	41.5
<b>Gross profit</b>	<b>462</b>	<b>210</b>	<b>119.8</b>	<b>219</b>	<b>243</b>	<b>-9.7</b>
Operating profit	355	147	142.1	165	190	-13.1
Finance cost	(32)	(42)	-24.9	(16)	(15)	8.3
Profit before tax	323	104	209.5	149	175	-14.9
Taxation	(15)	3	n.a.	(6)	(8)	-19.7
Minority interest	(3)	(1)	474.0	(2)	(2)	13.9
<b>Net profit</b>	<b>305</b>	<b>107</b>	<b>185.8</b>	<b>140</b>	<b>165</b>	<b>-15.0</b>
Net profit of DP Macao	62	35	73.6	18	44	-59.7
<b>Net profit ex-DP Macao</b>	<b>244</b>	<b>71</b>	<b>241.5</b>	<b>123</b>	<b>121</b>	<b>1.2</b>
Gross margin (%)	52.8	38.1	14.7 pp	50.5	55.0	-4.5 pp
Op margin (%)	40.6	26.6	14.0 pp	38.0	43.1	-5.0 pp
Net margin (%)	34.9	19.4	15.6 pp	32.4	37.4	-5.1 pp

Source: Company data, Credit Suisse estimates

# A cardinal supplier geared to China's consumption growth

Sateri Holdings (Sateri or "the company") is one of the largest manufacturers of specialty cellulose products in the world. Its specialty cellulose product line is one of the broadest among the major producers in the industry and includes both rayon grades and specialty grades of dissolving wood pulp and viscose staple fibre, the downstream products of rayon grades of pulp.

With a market share of about 40% of imports into the country, Sateri is the largest supplier of rayon grades of dissolving wood pulp by volume to China, which was the world's largest dissolving wood pulp market in 2009, according to PCI Fibres. We believe the products made by Sateri are geared more to the growth of Chinese consumption. The end markets of its products include textiles, non-woven products, cigarette filters, tyres, thickeners, pharmaceuticals, food products, sausage casings, cosmetics, lacquers, tablets, baby wipes, personal hygiene products, medical pads and household wipes, etc (Figure 8).

Sateri's main market is China, accounting for 86% of its revenue in 2009. We estimate that the company's net profit will reach US\$305 mn in 2010. If the profit contribution from the disposed trading arm is excluded, we estimate that Sateri's net profit will grow 241% YoY to US\$244 mn in 2010 and 36% YoY to US\$331 mn in 2011.

Sateri is a vertically integrated company, with operations covering the upstream and the downstream parts of the supply chain – from wood plantations to the production of dissolving wood pulp and viscose staple fibre. Sateri's main production facilities are in Brazil and China, where the company can access low transportation and labour costs. Its production cost per tonne for dissolving wood pulp is the lowest among the key global players, according to PCI Fibres. Sateri is planning to spend US\$703 mn to increase its production capacity of dissolving wood pulp by 18% by end-2013, and expand the design capacity of viscose staple fibre by 177% by the end of 2012.

## Broad product lines in highly specialised industries

Cellulose is a natural and biodegradable polymer used as a feedstock to manufacture a broad range of recyclable commodity and specialty products. Dissolving wood pulp is a highly purified form of cellulose made from wood.

Dissolving wood pulp (Figure 9) is used for a wide range of applications, such as textiles, non-woven products, tyres, thickeners, lacquers, cigarette filters, pharmaceuticals, food products, sausage casings and cosmetics. Depending on its level of purity and type of application, dissolving wood pulp is generally categorised into rayon grades of pulp and specialty grades of pulp. The demand for rayon grades of pulp has increased in recent years as the production of viscose staple fibre increased.

A substitute of dissolving wood pulp is cotton linter pulp, which is a by-product of cotton production. Both dissolving wood pulp and cotton linter pulp can be further processed into cellulose-based products.

Sateri is one of the world's largest manufacturers of specialty cellulose products ...

... with a 40% market share in China in 2009

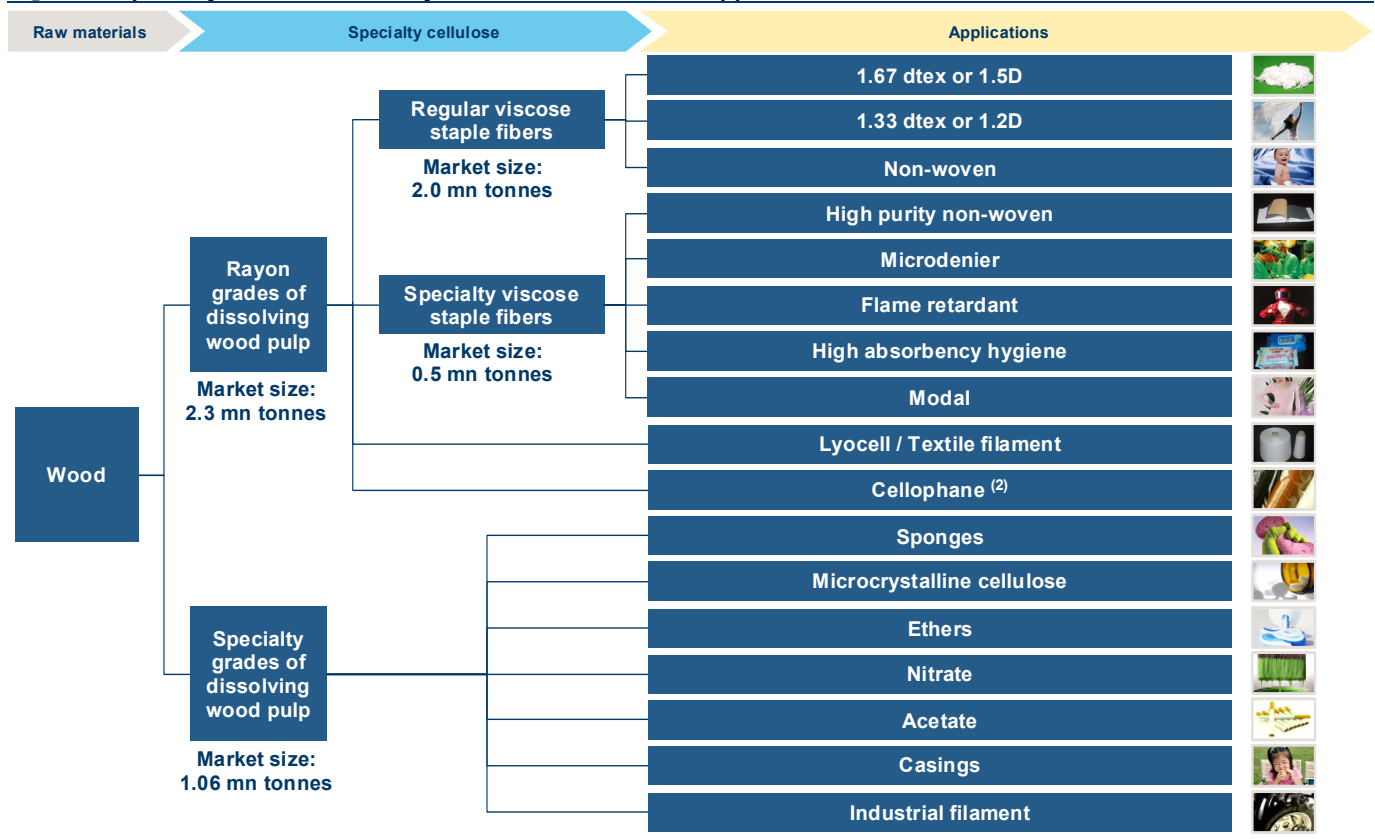
Net profit to reach US\$331 mn in 2011

A vertically integrated and low-cost producer

Dissolving wood pulp is used for a wide range of applications ...

... with cotton linter pulp as a substitute

Figure 8: Specialty cellulose is widely used in consumer end-applications



Notes:

(1) Market size as of December 2009

(2) Consistent with the practice of comparable companies, Sateri categorises cellophane as an application under “grades of dissolving wood pulp”.

Source: PCI Fibres

Viscose staple fibre (Figure 10) is a fibre derived from cellulose and provides the same absorbency and breathability as cotton. It is used in a wide variety of textile and non-woven applications, such as baby wipes, personal hygiene products, medical pads and household wipes. Depending on their tenacity, brightness and titre, viscose staple fibres are generally categorised into regular viscose fibres and specialty viscose fibres. Worldwide demand for viscose staple fibres has increased in recent years with rising personal incomes and the resulting growth in demand for both comfortable clothing and absorbent non-woven products.

Viscose staple fibres are used in a wide variety of textile and non-woven applications

**Figure 9: Wood chips and dissolving wood pulp**



Source: Company data

**Figure 10: Viscose staple fibre**

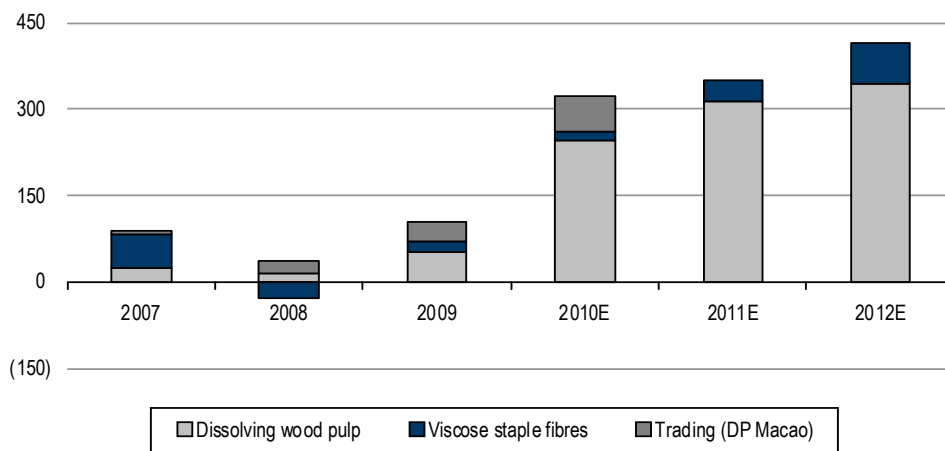


Source: Company data

Sateri generated segment profit of US\$86 mn from dissolving wood pulp (including the trading profit for dissolving wood pulp and pulp products of US\$35 mn from DP Macao, which was disposed of in September 2010), or 81% of total segment profit in 2009 (Figure 11). We estimate that the contribution of dissolving wood pulp will rise to 95% of its total segment profit, thanks to the increase in production volume, ASP and margins in 2010.

Contribution of dissolving wood pulp estimated to rise to 95% of total segment profit in 2010

**Figure 11: Sateri's segment profit breakdown by products (US\$ mn)**



Source: Company data, Credit Suisse estimates

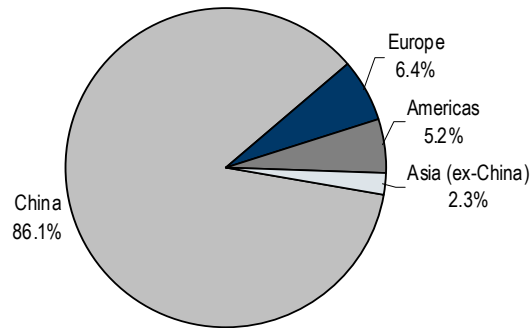
## Geared to China, the fastest-growing market for these products

Sateri had the largest market share of about 40% of rayon grades of dissolving wood pulp imports by volume into China in 2009, according to PCI Fibres. We believe the products manufactured by Sateri are geared to the growth of China's consumption. Most of these segments are set to see stable-to-strong demand growth in China, driven by the overall growth in the Chinese economy, in our view.

Sateri had the largest market share of 40% of rayon grades of dissolving wood pulp imports by volume into China in 2009

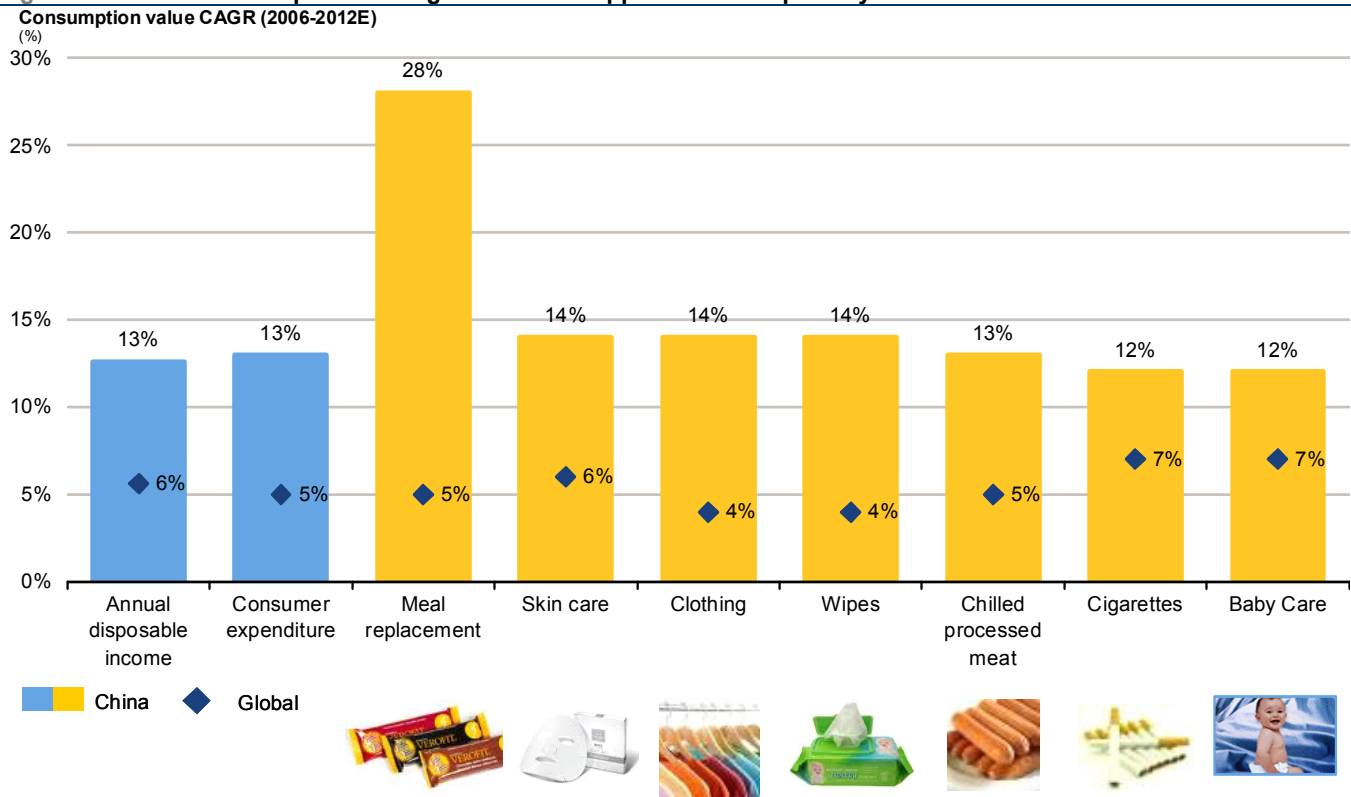
In terms of geographical breakdown, 86% of Sateri's total revenue in 2009 came from China (Figure 12).

Figure 12: Sateri's revenue breakdown by geography in 2009



Source: Company data

Figure 13: Global consumption value growth of end-applications of specialty cellulose versus China



Source: Euromonitor, Credit Suisse estimates

**Consumption of dissolving wood pulp in China**

China has been the growth driver for the industries in which Sateri is involved: from the upstream dissolving wood pulp to the downstream viscose staple fibre. Demand for dissolving wood pulp is driven by its use in more downstream products such as viscose staple fibre, whose demand in turn is driven by its use primarily in textile applications. In recent years, the growth in textile manufacturing in China has resulted in the country having a global market share of no less than 50% of the textile manufacturing makers. Dissolving wood pulp is also used in other downstream applications leading to various end products; we believe these are likely to see strong growth in China as well (Figure 13).

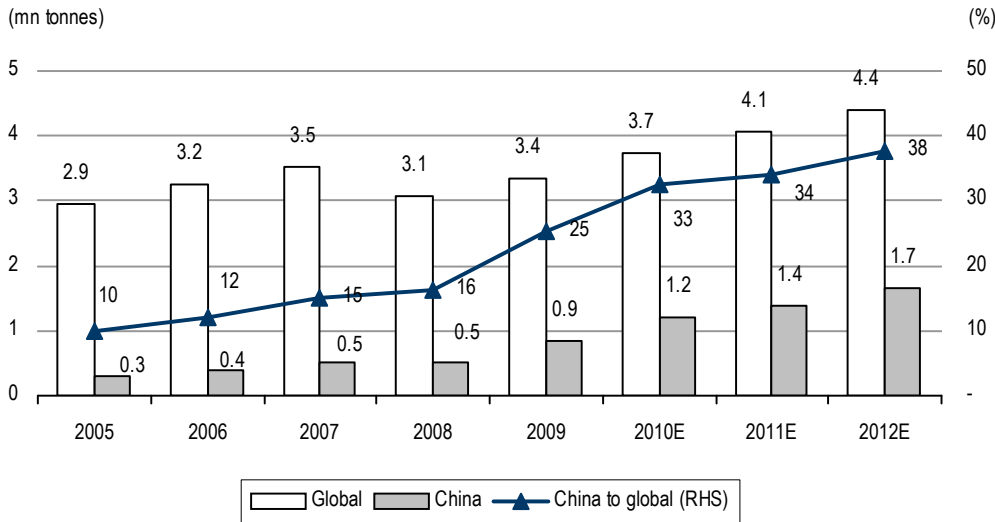
China has been the growth driver for the industries in which Sateri is involved



For dissolving wood pulp, China accounted for no less than 25% of total world consumption in 2009 (Figure 14), based on the industry consultancy, PCI Fibres. PCI Fibres projects that China will account for more than 38% of total global dissolving wood pulp consumption by 2012.

China is projected to account for >38% of global dissolving wood pulp consumption by 2012

**Figure 14: Global and Chinese demand for dissolving wood pulp**

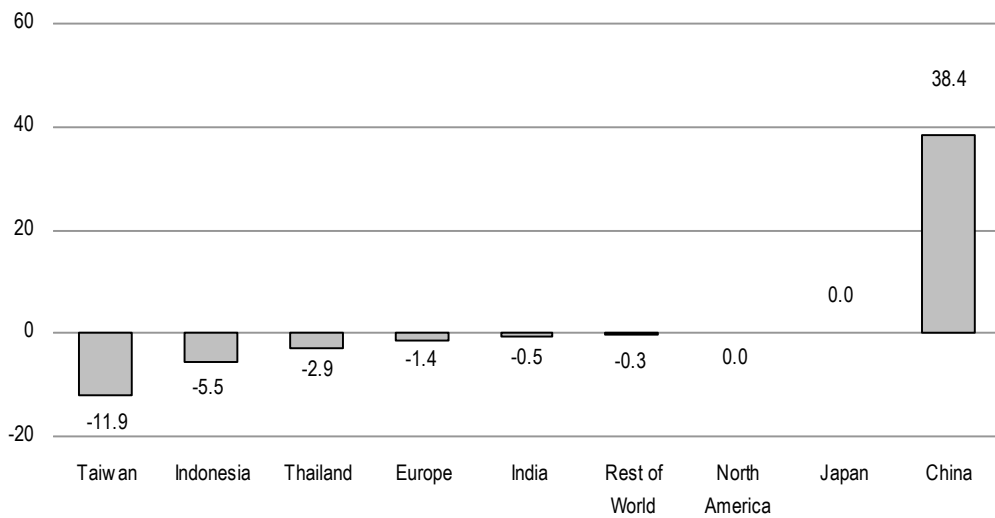


Source: PCI Fibres, Credit Suisse estimates

Due to the migration of the production of cellulose-based products to low-cost areas, China's demand for rayon grade dissolving wood pulp had a CAGR of 38% between 2007 and 2009 (Figure 15), significantly outperforming other Asian countries and developed markets, according to PCI Fibres. This rapid rise was due to increased viscose staple fibre production and constrained cotton linter pulp supply. Considering the continuous investments in additional viscose staple fibre capacity in China, and the constraints limiting the supply of cotton linter pulp, China's total demand for dissolving wood pulp may surpass 1.65 mn tonnes in 2012, or a three-year CAGR of 25%, representing about 38% of the global market share. This makes the Chinese market the key driving factor of the global dissolving wood pulp demand.

China's total demand for dissolving wood pulp projected to have a three-year CAGR of 25%, or 38% of global share in 2012

**Figure 15: Rayon grades of dissolving wood pulp demand (2007-09 CAGR) (%)**



Source: PCI Fibres

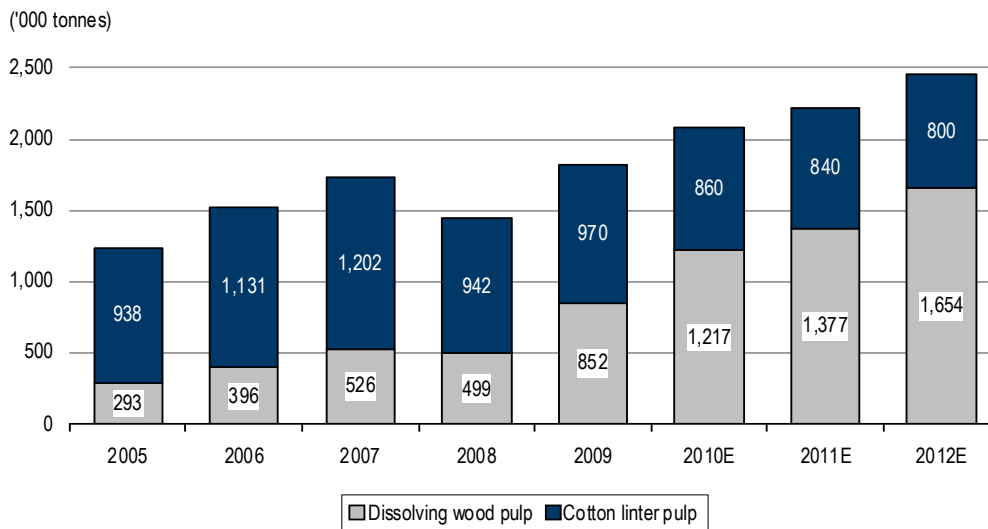
In addition, the Chinese cigarette industry is increasing the industry's domestic capacity for acetate flake production, which relies on the imports of acetate grade dissolving wood pulp from the specialty dissolving wood pulp producers. This emerging segment is set to expand Chinese demand for dissolving wood pulp.

Given the absence of domestic sources of dissolving wood pulp, demand was initially met by domestic Chinese production of cotton linter pulp. However, since 2004, the increase in viscose staple fibre and viscose filament production has required dissolving wood pulp to be imported, as Chinese cotton linter pulp producers have been unable to expand their output sufficiently due to the shortage of cotton linter. This shortage has also led to higher costs for cotton linter pulp compared to dissolving wood pulp. Since 2005, Chinese imports of dissolving wood pulp have risen 1.9x to about 852,000 tonnes in 2009. With cotton linter supply not expected to exceed 860,000 tonnes in 2010, imports of dissolving wood pulp are estimated to increase to 1.65 mn tonnes in 2012 (Figure 16).

Chinese cigarette industry demand for specialty dissolving wood pulp increasing

Imports of dissolving wood pulp to China estimated to exceed 1.65 mn tonnes in 2012 from 850,000 tonnes in 2009

**Figure 16: Consumption of dissolving wood pulp and cotton linter pulp in China**

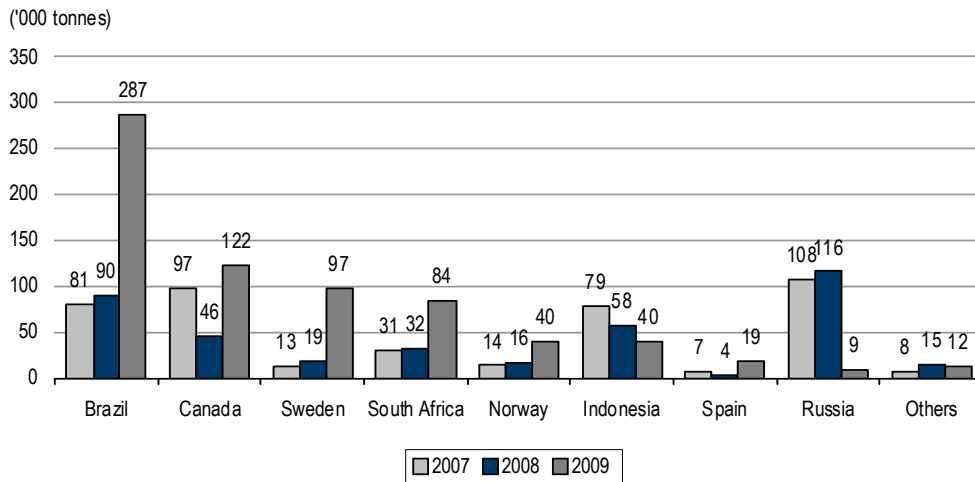


Source: UN Comtrade, PCI Fibres

Brazil was the largest supplier of dissolving wood pulp to China, with a 40% share of total rayon grades of dissolving wood pulp imports by volume, more than double the share of Canada, the second-largest supplier in 2009. Bahia Specialty Cellulose, Sateri's Brazil-based dissolving wood pulp operating arm, has been the only supplier of dissolving wood pulp from Brazil into China (Figure 17). As a leading player, Sateri is seeing good growth opportunities in the fast-growing Chinese market, in our view.

Bahia Specialty Cellulose is the only supplier of rayon grades of dissolving wood pulp from Brazil into China

**Figure 17: Rayon grades of dissolving wood pulp imports to China by country**



Source: UN Comtrade

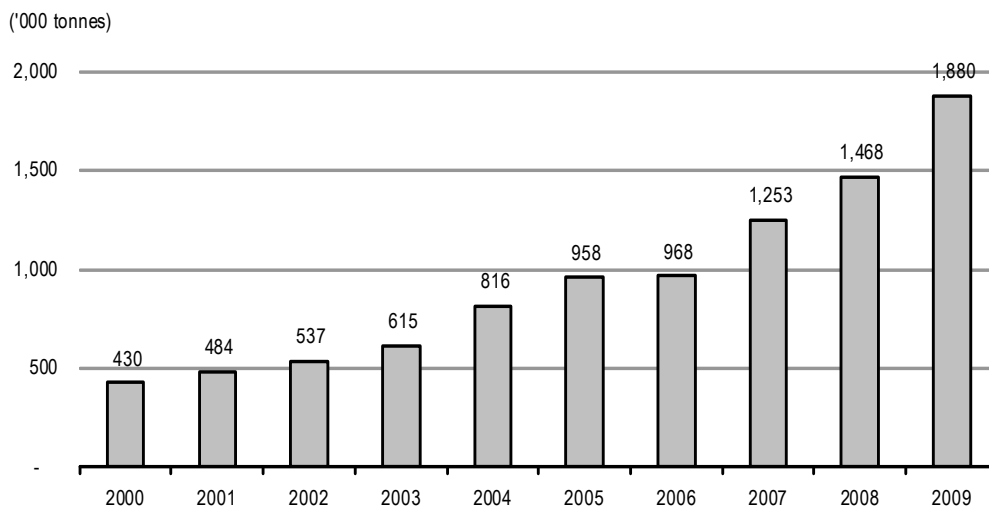
**Consumption of viscose staple fibre in China**

Due to its numerous attractive characteristics, the single-use, task-centred, disposable, viscose-based wipe is the fastest growing sector of the non-woven market, and it is expanding strongly in emerging markets, including China.

China accounts for around 50-60% of the global capacity of viscose staple fibres. Annual production capacity in the country has grown from less than 430,000 tonnes in 2000 to around 1.9 mn tonnes in 2009. In 2009, ten new viscose staple fibre lines came on-stream in China, adding about 500,000 tonnes of viscose staple fibre capacity. China viscose staple fibre capacity could exceed 3 mn tonnes by 2012, according to the research by industry consultant CCF (Figure 18).

China accounts for 50-60% of global capacity of viscose staple fibres

**Figure 18: Production capacity of viscose staple fibres in China**



Source: CCF

According to Clothesource, the usage of viscose staple fibre in the Chinese apparel segment was about 760,000 tonnes with a share of 5.7% in 2009. Assuming no fibre substitution, Clothesource estimates that its usage in apparel will grow 33% to 1 mn tonnes by 2014 (Figure 19). If there is fibre substitution, driving the share of viscose staple fibre in the Chinese apparel segment to increase from 5.7% in 2009 to 9% in 2014, its usage in textiles in China will grow 86% to 1.84 mn tonnes in the period.

If the share of viscose staple fibre in the Chinese apparel segment increases to 9%, usage will grow 86% to 1.84 mn tonnes from 2009-14

**Figure 19: Usage of viscose staple fibre in textiles in China by 2014 ('000 tonnes)**

	2009	Different share of fabric used in apparel		
Viscose staple fibres share of apparel production (%)	5.7	5.7	7.5	9.0
Apparel	760	1,012	1,315	1,566
Non-apparel	226	272	272	272
<b>Total</b>	<b>986</b>	<b>1,284</b>	<b>1,587</b>	<b>1,838</b>

Source: Clothesource

There are about 40 viscose staple fibre producers in China with a total annual capacity of about 1.98 mn tonnes by 1H10 (Figure 20). Many of these producers have announced capacity expansion plans in 2011 and 2012, which will further add to the viscose staple fibre capacity in China.

**Figure 20: Design capacity of viscose staple fibres in China (as of 30 June 2010)**

Company	Location	Design capacity (tonnes p.a.)
Fulida Group	Zhejiang, Xinjiang	280,000
Shandong Helon	Shandong, Xinjiang	230,000
Tangshan Sanyou	Hebei	166,000
Jiangsu Aoyang	Jiangsu, Xinjiang	130,000
Xinxiang Bailu	Henan	120,000
<b>Sateri Jiangxi</b>	<b>Jiangxi</b>	<b>90,000</b>
Gaomi Chemical Fibre Group	Shandong	80,000
Hubei Jingwei	Hubei	80,000
Lenzing (Nanjing Chemical Fibre)	Jiangsu	70,000
Shandong Yamei	Shandong	70,000
Others	-	665,000
<b>Total</b>		<b>1,981,000</b>

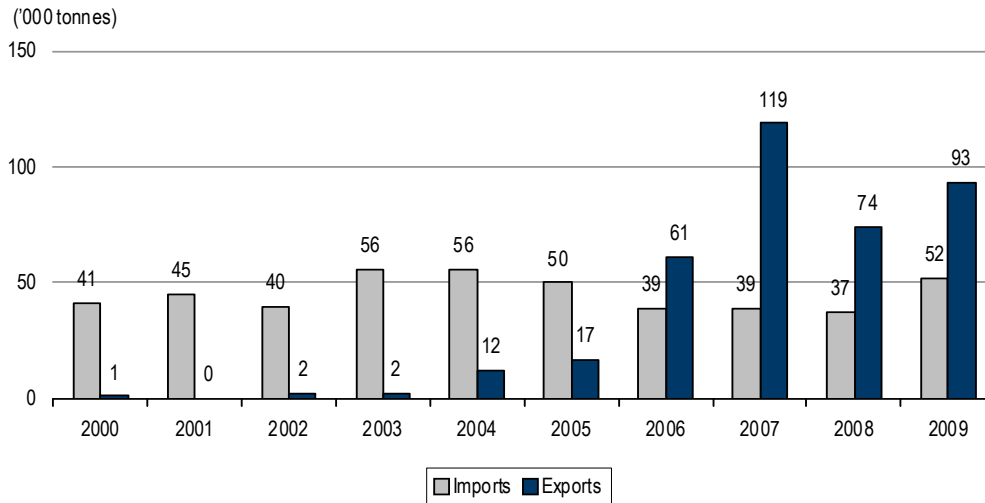
Source: PCI Fibres

While Sateri's market share in viscose staple fibre in China is small currently, it is planning to increase its design annual production capacity by 200% to 360,000 tonnes by the end of 2012.

With the rapid increase of viscose staple fibre production, exports have surpassed imports in China since 2006 (Figure 21). Chinese viscose staple fibre exports are concentrated among a few companies, including Tangshan Sanyou, Sateri, Lenzing (Nanjing) and Shandong Helon. Some new businesses have also begun to compete for market share by developing medium-end products, resulting in the export market becoming more competitive, and cost and quality becoming the determining factors in export competition.

Exports of viscose staple fibre have surpassed imports in China since 2006

**Figure 21: Imports and exports of viscose staple fibre in China ('000 tonnes)**



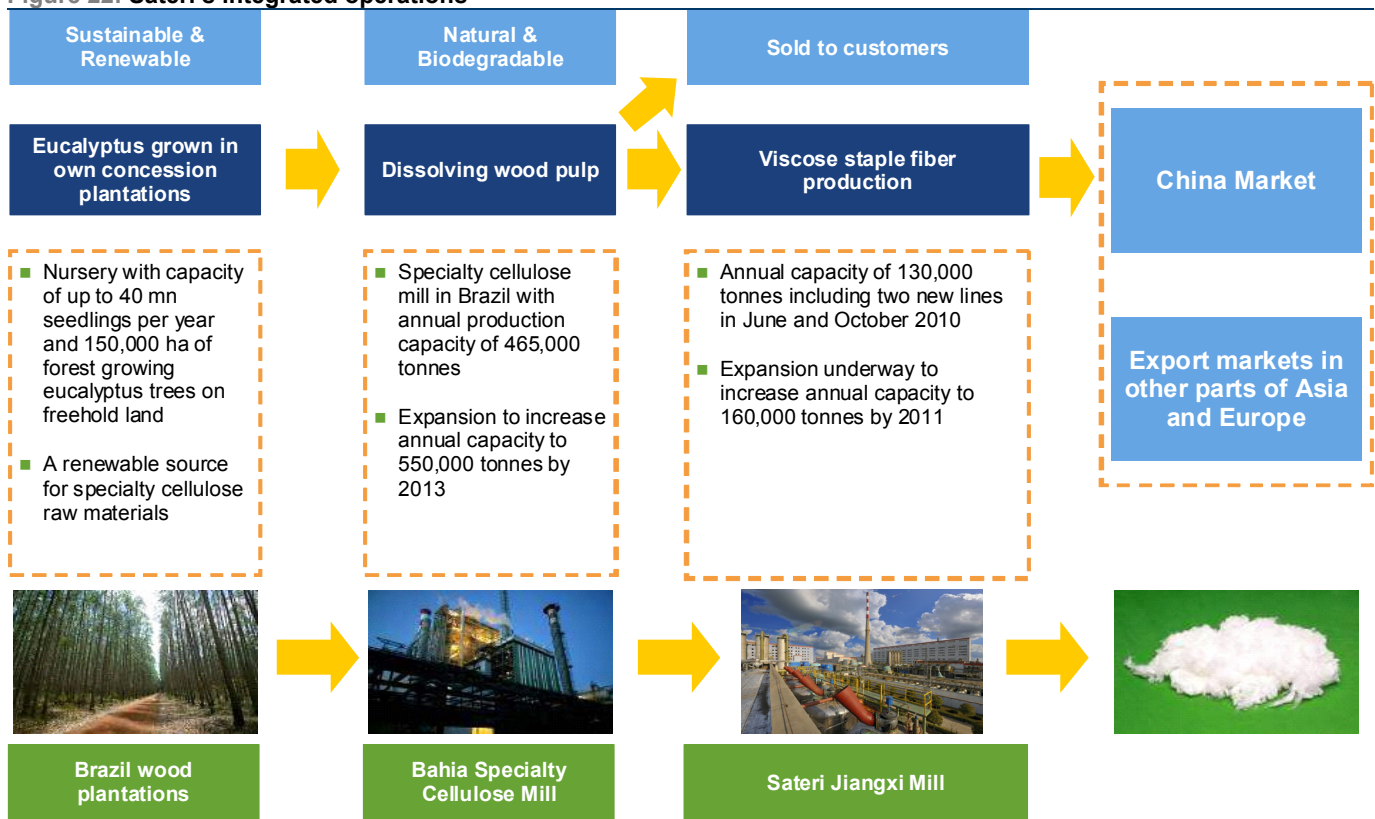
Source: CCF

## Vertically integrated, and in the right location

As one of the world's largest manufacturers of specialty cellulose products, Sateri operates through two principal subsidiaries: Bahia Specialty Cellulose in Brazil and Sateri Jiangxi in China. It has integrated operations from wood plantations, dissolving wood pulp in Brazil to viscose staple fibre production in China (Figure 22).

Sateri has integrated operations from wood plantations, dissolving wood pulp to viscose staple fibre production

**Figure 22: Sateri's integrated operations**



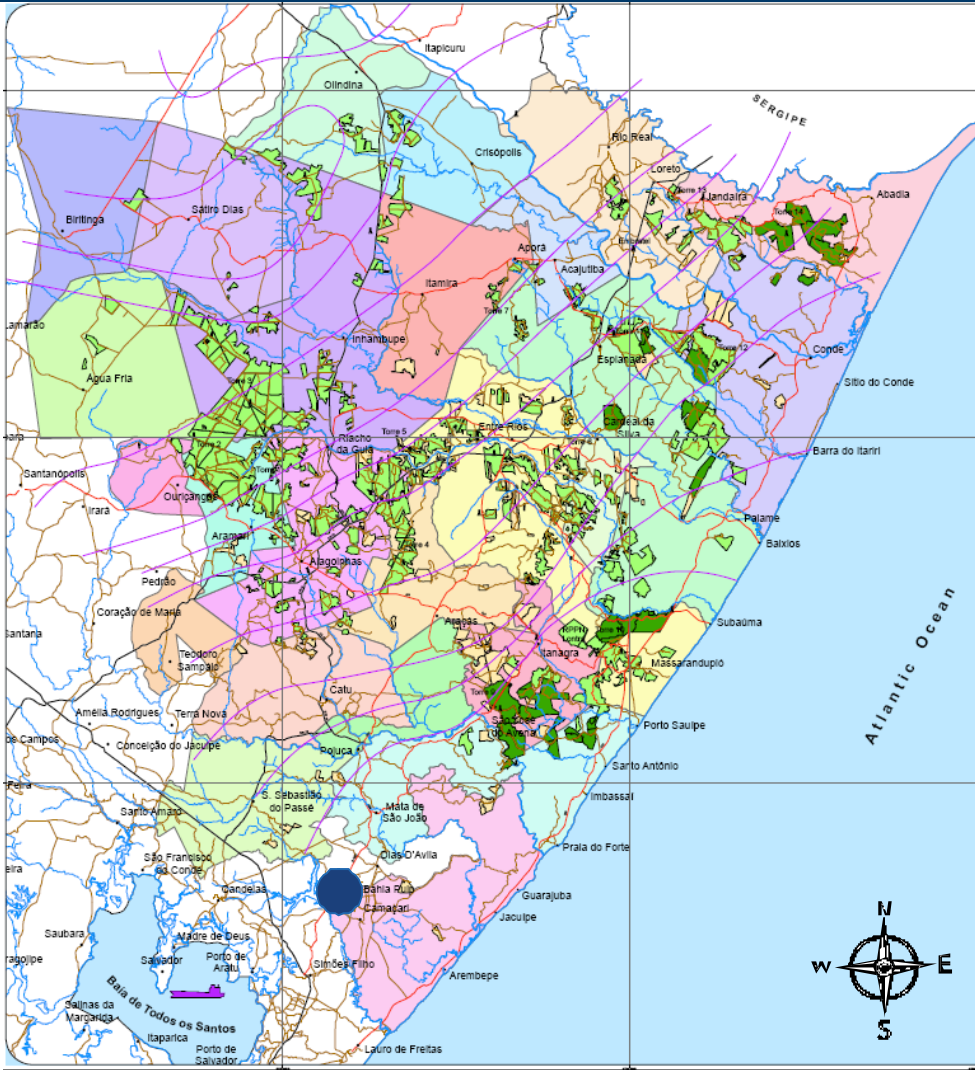
Source: Company data, Credit Suisse

**Wood plantations in Brazil with a relatively short harvest cycle**

Sateri’s wood plantations in Brazil provide a stable and secure supply of wood for its dissolving wood pulp production at the Bahia Specialty Cellulose mill. Its plantations are located in the extreme north-eastern coastal region (Litoral) of the State of Bahia, Brazil. They are serviced by an established rural infrastructure including communications, energy supply, developed service centres, agricultural communities and highway access from the plantations to the mill and the port of Salvador.

Its plantations in Brazil provide a stable and secure supply of wood for its dissolving wood pulp production

**Figure 23: Wood plantations of Bahia Specialty Cellulose and Copener in Brazil**



● Bahia Specialty Cellulose mill

Source: AMEC Forest Industry Consulting, Credit Suisse

Sateri’s wood plantations in Brazil, about 155 km on average from its Bahia Specialty Cellulose mill, consist of about 150,000 ha of non-contiguous land. It operates the wood plantations through Copener and Bahia Specialty Cellulose, its Brazilian operating subsidiaries. The company plants eucalyptus trees specifically developed by its research teams according to the soil and climate conditions of its wood plantations.

Sateri’s wood plantations are located about 155 km on average from its dissolving wood pulp mill

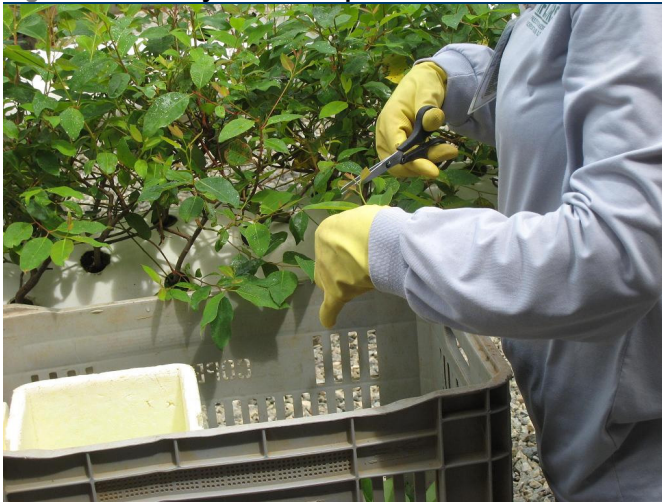
About 92,000 ha of Sateri's plantation land is covered by the company's licences for operating forestry activities with the remaining plantation land being either legal reserves or permanent preservation areas under Brazilian law, land used for infrastructure, or land which is not suitable for eucalyptus planting. Of the 92,000 ha covered by its licences, approximately 84,000 ha are productive and/or plantable.

Of the 92,000 ha covered by its licences, approximately 84,000 ha are productive and/or plantable

Sateri's wood plantations benefit from the climate of the tropical locations of their eucalyptus forests, including abundant rainfall and warm temperatures, which are favourable for tree growth throughout the year. These factors help Sateri's plantations achieve higher mean annual increment and are expected to enable them to achieve a maturation and harvest cycle of six to seven years in 2010, according to AMEC. Sateri believes that this is one of the shortest harvest cycles in the world, which means the cost of its wood is lower than that produced by many other plantations elsewhere where the harvest cycle is longer.

Its wood plantations have one of the world's shortest harvest cycles of six to seven years

**Figure 24: Nursery of Sateri's plantations**



Source: Company data

**Figure 25: Harvesting of Sateri's plantations**



Source: Company data

**Dissolving wood pulp mill in Brazil strategically located**

Sateri's Bahia Specialty Cellulose mill is in north eastern Brazil near Salvador, the capital of the State of Bahia, Brazil. Located in a well developed industrial centre that includes the largest integrated petrochemical complex in Latin America, the Bahia Specialty Cellulose mill benefits from comprehensive local infrastructure and suppliers located nearby. Sateri's mill is 155 km away from its wood sources on average and about 50 km from the Port of Salvador, a deep water port.

Bahia Specialty Cellulose mill benefits from comprehensive local infrastructure and suppliers located nearby

Figure 26: Bahia Specialty Cellulose



Source: Company data

Figure 27: Bahia Specialty Cellulose



Source: Company data

The Bahia Specialty Cellulose mill operates two production lines with a design annual production capacity of 465,000 tonnes in total. The second production line, completed in 2008, has a design annual production capacity of 350,000 tonnes. A more advanced and cost-efficient special alkaline treatment process, cold caustic extraction (CCE), is employed on the second production line, enabling it to produce specialty grades of pulp with a purity level of up to 98% alpha-cellulose. The second line is flexible to switch production between rayon grades and specialty grades of dissolving wood pulp. The mill achieved a production utilisation rate of 95% in 1H10 (Figure 28).

Bahia Specialty Cellulose mill operates two production lines with a design annual production capacity of 465,000 tonnes in total

Figure 28: Bahia Specialty Cellulose—Production and utilisation rate

Year-end 31 Dec	2007	2008	2009	1H10
Capacity (tonnes)				
- Line 1	115,000	115,000	115,000	57,500
- Line 2	-	175,000	350,000	175,000
	115,000	290,000	465,000	232,500
Production volume (tonnes)	115,249	210,092	367,306	221,582
Utilisation rate (%)	100	72	79	95

Source: Company data, Credit Suisse estimates

The Bahia Specialty Cellulose mill is capable of supplying all of the dissolving wood pulp required for its viscose staple fibre production. It plans to expand its production capacity by 20,000 tonnes through debottlenecking by 1Q11. It also plans to further expand the capacity of the second production line by 65,000 tonnes to increase the total mill capacity by 13% to 550,000 tonnes by December 2013.

It is expanding total mill capacity to 550,000 tonnes by end-2013



**Figure 29: Sateri's dissolving wood pulp**



Source: Company data

**Figure 30: Sateri's high purity cellulose**



Source: Company data

**China viscose staple fibre operations in expansion**

The company's Sateri Jiangxi mill in China is located by Poyang Lake, Jiangxi province with convenient access to water transportation on the Yangtze River and close proximity to customers in the textile production centres in China, such as Jiangsu and Zhejiang provinces.

**Figure 31: Sateri Jiangxi viscose staple fibre mill**



Source: Company data

**Figure 32: Sateri Jiangxi viscose staple fibre mill**



Source: Company data

The 81%-owned Sateri Jiangxi operates four production lines with total annual production capacity of 130,000 tonnes of viscose staple fibre, which are for textile and non-woven manufacturers in China and overseas. The plant achieved a utilisation rate of 118% amid good demand of its viscose staple fibre products in 1H10 (Figure 33).

Sateri Jiangxi operates four production lines with a total annual production capacity of 130,000 tonnes ...

**Figure 33: Sateri Jiangxi—Production and utilisation rate**

Year-end 31 Dec	2007	2008	2009	1H10
Design capacity (tonnes)				
- Line A	30,000	30,000	30,000	15,000
- Line B	30,000	30,000	30,000	15,000
	60,000	60,000	60,000	30,000
Production volume (tonnes)	68,740	61,100	66,551	35,416
Utilisation rate (%)	115	102	111	118

Source: Company data, Credit Suisse estimates

Sateri Jiangxi commenced trial production on the third and fourth production lines with an annual capacity of 30,000 tonnes each in June and October 2010, respectively. Thereafter, it is targeting to further expand the design annual production capacity to 160,000 tonnes by December 2011 through certain process improvements. It is also planning to produce specialty viscose fibres in December 2010.

Sateri is also in the process of developing a greenfield viscose staple fibre mill in Putian, Fujian province, China. It expects this mill to reach a design annual production capacity of 200,000 tonnes by 2012.

... which is expanding to 160,000 tonnes by December 2011

Fujian greenfield mill should add capacity of another 200,000 tonnes by 2012

## Competitive advantages of Sateri

We believe Sateri holds several key competitive advantages over its competitors. These include:

### A vertically integrated model

Sateri's integrated upstream dissolving wood pulp business and downstream viscose staple fibre business allow it to exploit market opportunities at multiple points of the value chain, as well as pricing its products competitively to maximise earnings. Further, unlike most of its competitors, Sateri operates its own wood plantations in Brazil, providing it with a secure and stable supply of wood – the main raw material used in the production of dissolving wood pulp.

Its own wood plantations in Brazil provide it with a secure and stable supply of wood

Sateri's business model allows it to maintain a cost competitive operating structure and also to benefit from economies of scale. The company participates in every stage of the production process: from research and development, planting of seedlings of eucalyptus trees, to the production of dissolving wood pulp and viscose staple fibre. Its plantations have a relatively shorter harvest cycle, allowing its cost of wood to be lower than those produced by many other plantations where the harvest cycle is longer.

Its cost of wood to be lower than those produced by many other plantations where the harvest cycle is longer

Sateri's dissolving wood pulp mill at Bahia Specialty Cellulose is strategically located within 155 km of its wood source and within 50 km of the Port of Salvador, a deep water port. Sateri's viscose staple fibre mill at Sateri Jiangxi is located near Poyang Lake, with convenient access to water transportation on the Yangtze River and in close proximity to its customers in the textile industry in China.

Its dissolving wood pulp and viscose staple fibre mills are strategically located

### Cost advantages

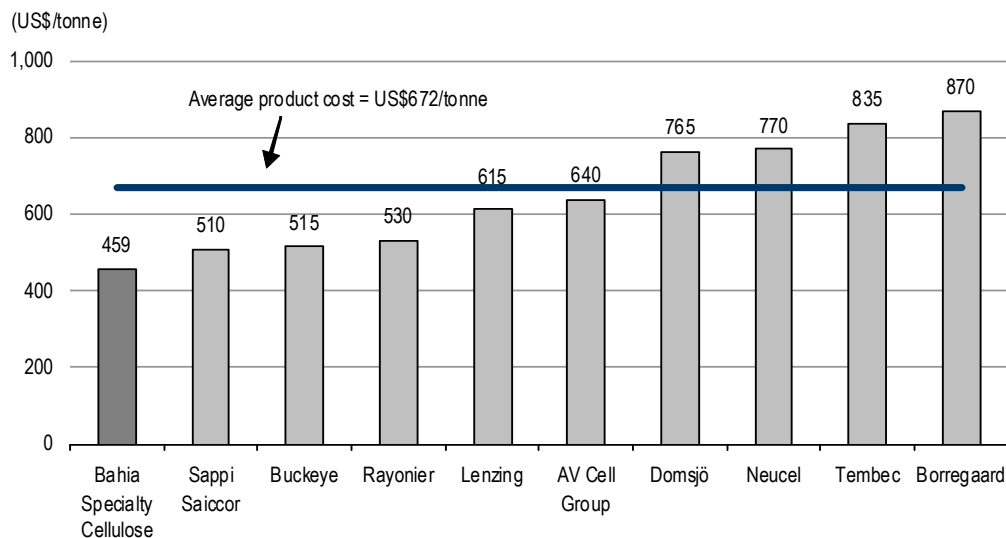
Sateri's cost advantages in terms of the relatively shorter harvest cycle of plantations, reduced transportation and labour costs, as well as advanced production techniques using modern equipment, help lower operating costs while enhancing cost competitiveness.

According to PCI Fibres, Sateri's Bahia Specialty Cellulose has the lowest production costs of dissolving wood pulp among the top-ten producers in the world (Figure 34). PCI Fibres estimates that the production cost per tonne of Bahia Specialty Cellulose is US\$459, 10% lower than that of the world's largest dissolving wood pulp supplier, Sappi Saiccor, Sappi Ltd (SPP, \$5.15, UNDERPERFORM [V], TP \$5.55), 11-13% lower than that of Buckeye Technologies (BKI, \$21.97, UNDERPERFORM [V], TP \$20.00) and Rayonier (RYN, \$56.98, UNDERPERFORM, TP \$50.00), two major suppliers of specialty

Production cost per tonne of Bahia Specialty Cellulose is 32% lower than the average cost of the world's top-ten producers

grades of pulp; and 32% lower than the average cost of US\$672 as of end of 2010. Sateri's cost advantages make it the lowest cost producer with a significant edge over global peers.

**Figure 34: Estimated production cost of top-ten dissolving wood pulp producers (as of end-2010)**



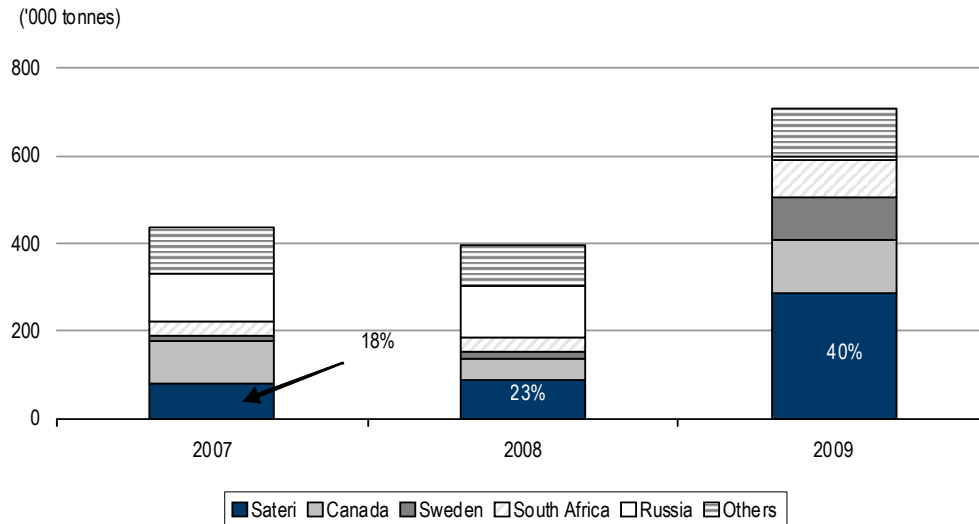
Source: PCI Fibres

## Customers and suppliers

Sateri sold its dissolving wood pulp and viscose staple fibre to more than 200 customers in Asia, North America and Europe from 2007 to 1H10. It expanded its market share from 18% in 2007 and 23% in 2008 to 40%, to become the largest rayon grades of dissolving wood pulp importer by volume into China at 308,000 tonnes in 2009, according to PCI Fibres (Figure 35). The company's five-largest customers accounted for 43% of its total revenue last year. The majority of these customers were major producers of viscose staple fibre globally, in particular in China. Sateri sells its products primarily through spot sales, short-term sales contracts, and monthly and quarterly purchase orders, mostly through its own sales teams.

Five-largest customers accounted for 43% of its total revenue in 2009

**Figure 35: Rayon grades of dissolving wood pulp imports to China by country**

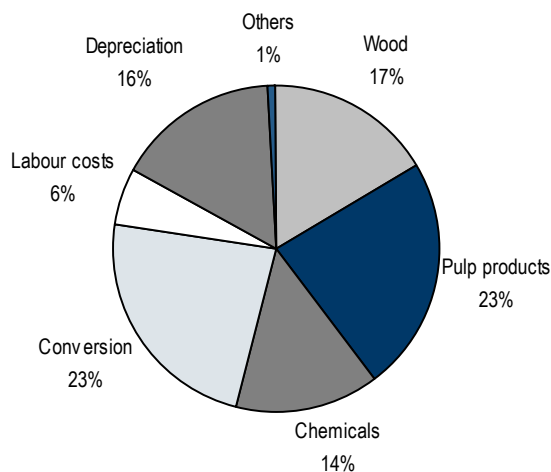


Source: PCI Fibres, Credit Suisse estimates

Wood is the primary raw material for dissolving wood pulp, and chemicals such as sodium chlorate, sulphuric acid, hydroxide are used in the production process. Dissolving wood pulp, chemicals such as sulphuric acid, caustic soda and carbon disulfide are the major raw materials for viscose staple fibre production (Figure 36).

Wood is the primary raw material

**Figure 36: Breakdown of Sateri's cost of sales by category in 1H10**



Source: Company data, Credit Suisse estimates

Sateri self-supplies most of the wood, a principal raw material, from its plantations for its dissolving wood pulp production. It also internally sources some of the dissolving wood pulp required for its viscose staple fibre production from its Bahia Specialty Cellulose mill. The company purchases other chemicals used in its production processes, such as sodium hydroxide and sulphuric acid, from local third-party suppliers in Brazil and China.

Sateri self-supplies most of the wood for its dissolving wood pulp production

PT Toba Pulp Lestari (TPL) (INRU.JK, Rp690, Not Rated), controlled by Sateri's ultimate controlling shareholder Mr Sukanto Tanoto, was the company's largest supplier, accounting for 35% of total purchases in 2008 and 25% in 2009. The sales were taken care of by Sateri's trading arm, DP Macao's purchases of dissolving wood pulp and other pulp products from TPL. Following the disposal of DP Macao in September 2010, Sateri

TPL, controlled by Sateri's ultimate controlling shareholder, used to be the largest supplier

expects the amount of total purchases from the once-largest supplier, TPL, to be significantly less.

Sateri's viscose staple fibre operations source dissolving wood pulp primarily from Bahia Specialty Cellulose internally, and third-party suppliers in Sweden or Canada, depending on pricing and delivery terms.

Viscose staple fibre operations source materials internally and externally

## Capacity expansion: Tapping into industry growth

Sateri is planning to spend about US\$703 mn to expand its dissolving wood pulp and viscose staple fibre operations in the next three years (Figure 37). It expects the expansion plans to increase its annual capacity of dissolving wood pulp by 18% to 550,000 tonnes by the end of 2013, and expand the design capacity of viscose staple fibre by 177% to 360,000 tonnes by end-2012.

It is spending US\$703 mn by 2013 to expand capacity ...

Figure 37: Sateri's expansion plans

Expansion project	Commencement	Completion	Estimated capex (US\$ mn)
<b>Bahia Specialty Cellulose</b>			
20,000 tonnes debottlenecking	October 2010	March 2011	20
<b>Bahia Specialty Cellulose</b>			
65,000 tonnes debottlenecking	2H11	December 2013	250
<b>Sateri Fujian</b>			
200,000 tonnes greenfield project	Ongoing	December 2012	433

Source: Company data, Credit Suisse estimates

Bahia Specialty Cellulose mill operates two dissolving wood pulp production lines with an annual production capacity of 465,000 tonnes in total. It is expanding its production capacity by 20,000 tonnes, at US\$20 mn, through debottlenecking by 1Q11. It is spending another US\$250 mn to further expand the capacity of the second production line by 65,000 tonnes to increase the total mill capacity to 550,000 tonnes by December 2013.

... with US\$270 mn to increase dissolving wood pulp capacity to 550,000 tonnes by end-2013

Figure 38: Sateri's manufacturing capacity expansion schedule

Year-end 31 Dec (tonnes)	2007	2008	2009	2010E	2011E	2012E	2013E
<b>Dissolving wood pulp</b>							
<b>Bahia Specialty Cellulose</b>							
- Line 1	115,000	115,000	115,000	115,000	115,000	115,000	115,000
- Line 2		350,000	350,000	350,000	370,000	370,000	435,000
<b>Total</b>	<b>115,000</b>	<b>465,000</b>	<b>465,000</b>	<b>465,000</b>	<b>485,000</b>	<b>485,000</b>	<b>550,000</b>
<b>Viscose staple fibre</b>							
<b>Sateri Jiangxi</b>							
- Lines A + B	60,000	60,000	60,000	70,000	80,000	80,000	80,000
- Line C				30,000	40,000	40,000	40,000
- Line D				30,000	40,000	40,000	40,000
<b>Sateri Fujian</b>	-	-	-	-	-	<b>200,000</b>	<b>200,000</b>
<b>Total</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>130,000</b>	<b>160,000</b>	<b>360,000</b>	<b>360,000</b>

Source: Company data, Credit Suisse estimates

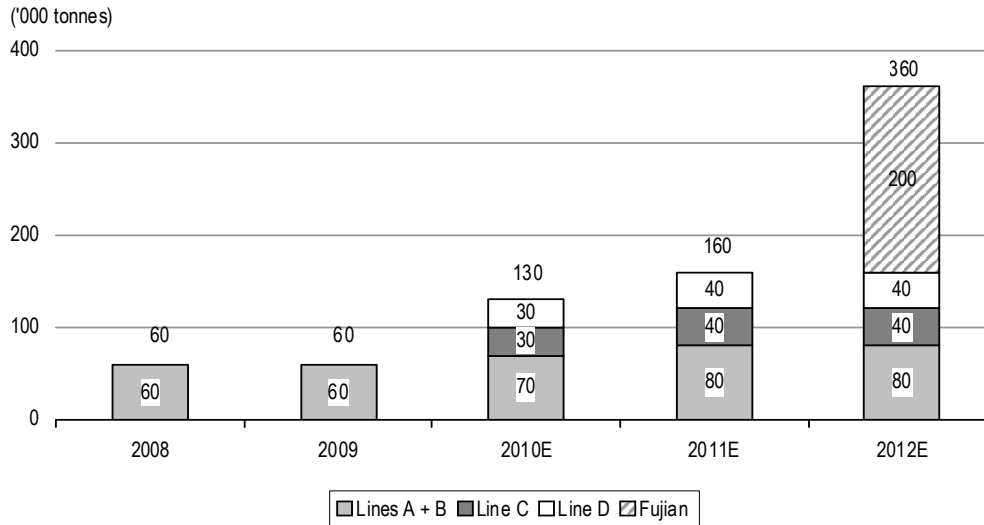
Sateri Jiangxi runs four viscose staple fibre production lines with total annual production capacity of 130,000 tonnes, including two new lines which commenced trial production in June and October 2010, respectively. It is targeting increasing production capacity to 160,000 tonnes by December 2011 through certain process improvements.

Increasing viscose staple fibre capacity to 160,000 tonnes by end-2011

Sateri is planning to build a greenfield viscose staple fibre mill with annual production capacity of 200,000 tonnes in Putian, Fujian province, China, by the end of 2012. This project comprises two phases with design production capacity of 45,000 tonnes and 155,000 tonnes, respectively. The total capex planned for the Fujian projection is US\$433 mn.

Spending US\$433 mn to build the Fujian greenfield mill with capacity of 200,000 tonnes

**Figure 39: Capacity expansion of Sateri's Jiangxi and Fujian viscose staple fibre plants**



Source: Company data, Credit Suisse estimates

In addition, the company is exploring the feasibility of building an integrated dissolving wood pulp and viscose staple fibre mill in Jiangsu province, China. The feasibility study for this project is at a preliminary stage. All necessary approvals granted by the relevant governmental authorities are also needed to proceed with further project development.

Exploring to build an integrated mill in Jiangsu

# Positive cellulose industry outlook

Considering the continuous investment in additional viscose staple fibre capacity in China, and the constraints limiting the supply of cotton linter pulp, China's total demand for dissolving wood pulp should have a 2009-12 CAGR of 25%, according to PCI Fibres. This makes the Chinese market the key driving factor of global dissolving wood pulp demand, amid the growing needs from the PRC textile and cigarette filter industries. Production of viscose staple fibre in China is estimated to have a 2009-12 CAGR of 12% to 2.1 mn tonnes, or 61% of the global production in 2012. We believe the pricing of both dissolving wood pulp and viscose staple fibre will remain firm in the foreseeable future thanks to favourable supply and demand, with additional support from strong cotton prices.

The Chinese market is the key driving factor of global dissolving wood pulp and viscose staple fibre demand

## Dissolving wood pulp: Not your average paper pulp

There are differences between manufacturing paper grade pulp and dissolving wood pulp for cellulose-based products (Figure 40). Dissolving wood pulp features a higher chemical purity level (at least 90% alpha-cellulose content) compared to the more common paper pulp. Consequently, the production of dissolving wood pulp is more technically demanding than the production of paper pulp. In a typical year, dissolving wood pulp accounts for just around 2% of total pulp production globally.

Production of dissolving wood pulp is more technically demanding than paper pulp

**Figure 40: Difference between dissolving wood pulp and paper pulp**

	Paper grade pulp	Dissolving wood pulp
End applications	Paper and paperboard	Viscose staple fibre for textile and non-woven applications, acetate tow, etc.
Chemical purity	Low to medium	High
Chemical properties	Low	High
Technical requirements	Mechanical performance	Mechanical and high chemical performance
Key market players	Large number of global, regional and local players	< 10 key players

Source: PCI Fibres, Credit Suisse estimates

Dissolving wood pulp is used in the production of a range of downstream applications, primarily viscose staple fibre. Outside of viscose staple fibre, dissolving wood pulp is also used in the production of the following downstream applications:

Dissolving wood pulp is used in different downstream applications, apart from viscose staple fibre

- **Acetate tow:** Acetate tow is the second-largest downstream product of dissolving wood pulp, primarily used as the filtration medium in cigarette filters. While smoking rates are declining in most developed markets, this is more than offset by the rise in smoking rates in major emerging markets such as China, South America, Eastern Europe, India and South-East Asia. Further, increased wealth allows smokers to switch from non-filtered to filtered cigarettes. In addition, demand for triacetate cellulose film (TAC film), used in liquid crystal display (LCD) screens is expected to drive demand for acetate products as well.
- **Cellulose ethers:** These are used as additives, such as thickeners, stabilisers, film formers, rheology modifiers, emulsifiers, lubrication aids and conditioners across a range of fluid products. Industrial and construction materials are the principal markets.
- **Microcrystalline cellulose:** This is used as an excipient in the manufacturing of pharmaceutical tablets as well as a gum and low digestibility bulking agent in processed foods.
- **Viscose filament:** Key markets for viscose filament include linings (primarily for jackets) and high end fashion-wear. Since the textile industry has migrated to lower cost markets, demand for viscose filament has grown in these markets, mainly in China, but also in India, South Korea and Turkey.
- **Nitrocellulose:** There are two grades of nitrocellulose: (1) high-nitrogen nitrocellulose, typically produced using cotton linter pulp and used as a smoking propellant; and

(2) low-nitrogen nitrocellulose, used in coatings, paints, lacquers and varnishes for a range of applications including automotive, outdoor furniture and nail varnishes.

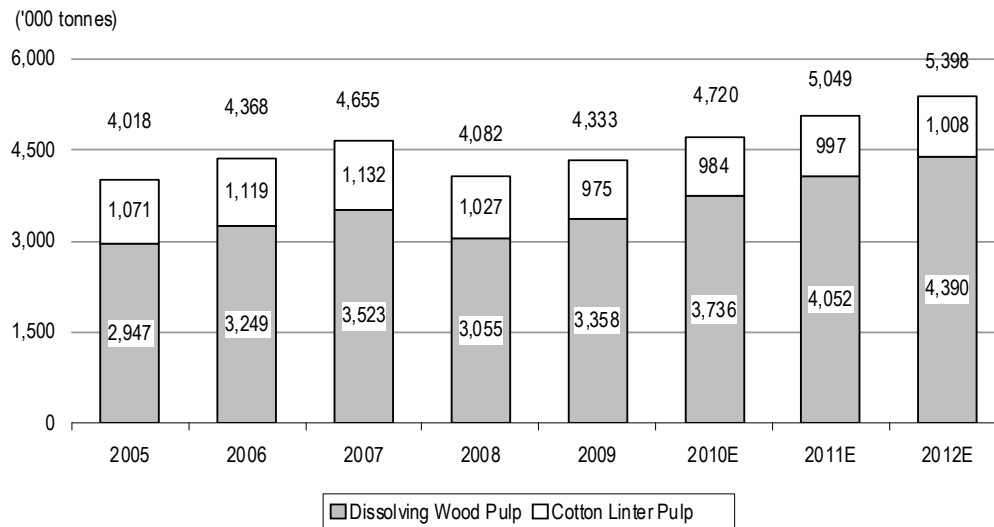
The end products of these downstream applications include textiles, non-woven products, tyres, thickeners, cigarette filters, LCD screens, tablets and sausage casings. Depending on the level of purity and the type of application, dissolving wood pulp is generally categorised into: (1) rayon grade and (2) specialty grade. The former accounts for around two thirds of total dissolving wood pulp demand.

Dissolving wood pulp is categorised into rayon and specialty grades

The main substitute for dissolving wood pulp is cotton linter pulp (CLP). CLP is relatively easy to produce but generally limited to the China market. Outside of China, the high price of CLP generally prohibits its use as feedstock. PCI Fibres estimates that the global demand of dissolving wood pulp will have a 2009-12 CAGR of 9%, surpassing 1% of CLP (Figure 41).

Main substitute for dissolving wood pulp is cotton linter pulp

**Figure 41: Global demand for dissolving wood pulp and cotton linter pulp**



Source: PCI Fibres

**Rayon and specialty grades of pulp**

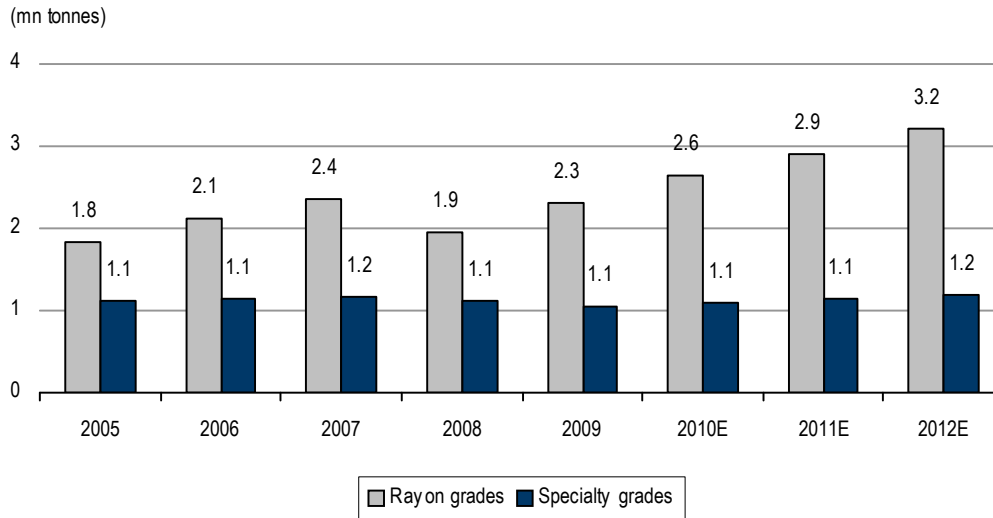
Depending on its level of purity and type of application, dissolving wood pulp is generally categorised into rayon grades of pulp and specialty grades of pulp. Rayon grades of pulp typically contain 91-94% of alpha-cellulose, while specialty grades of pulp typically contain over 95% of alpha-cellulose. Rayon grades of pulp are the principal raw material in the production of viscose staple fibre.

Rayon grades of pulp are the principal raw material of viscose staple fibre

According to PCI Fibres, worldwide rayon grades of pulp demand is has an expected 2009-12 CAGR of 12%, higher than that of 4% for specialty grades of pulp (Figure 42). The higher growth for rayon grades is driven by China's demand for viscose staple fibre production.



**Figure 42: Global demand for rayon grades and specialty grades of pulp**

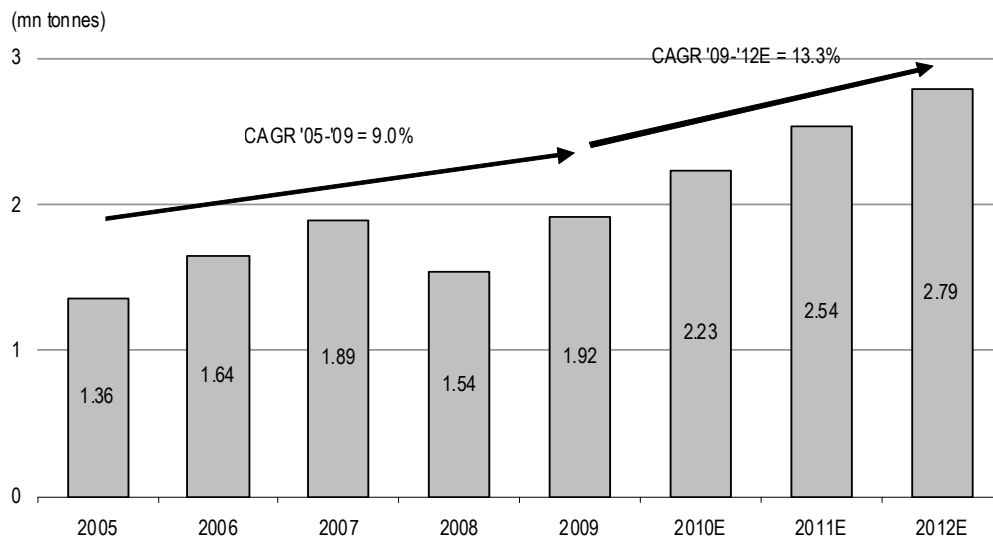


Source: PCI Fibres

Global demand for dissolving wood pulp for viscose staple fibre production has increased in recent years. Demand increased at a 9% CAGR between 2005 and 2009, and is expected to experience a 13% CAGR between 2009 and 2012 (Figure 43), according to PCI Fibres. Although demand declined in 2008 as a result of the global financial crisis, it has bounced back strongly.

Global demand for dissolving wood pulp for viscose staple fibre production is estimated to grow at a three-year CAGR of 13%

**Figure 43: Demand for dissolving wood pulp for production of viscose staple fibre**

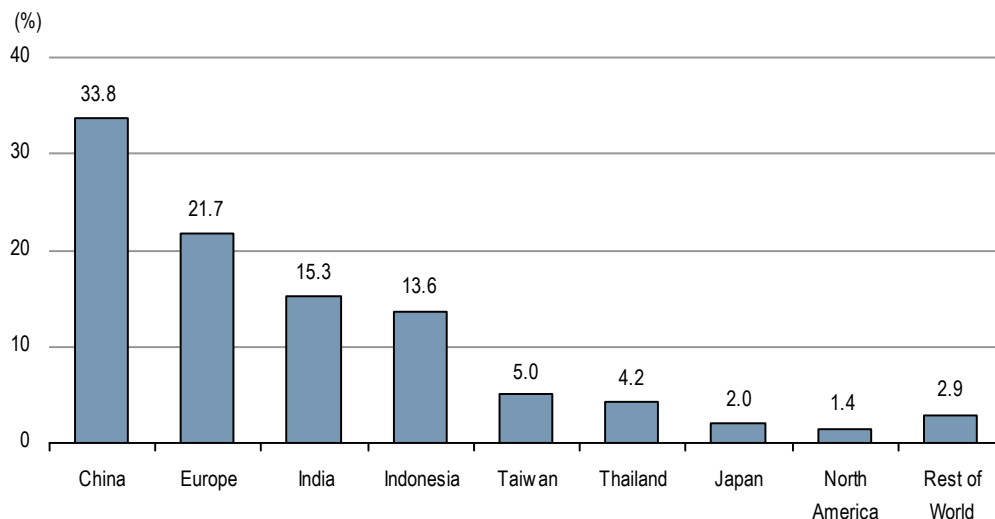


Source: PCI Fibres

Due to the migration of viscose staple fibre production from the developed countries to lower-cost areas, China now holds the largest share of global demand for rayon grades of pulp, with a 34% market share in 2009 (Figure 44). Considering the continuous investment in additional viscose staple fibre capacity in China, and the constraints limiting supply of cotton linter pulp, China's total demand for dissolving wood pulp may surpass 1.65 mn tonnes in 2012, or a 2009-12 CAGR of 25%, representing about 51% of global market share. This makes the Chinese market the key driving factor of global dissolving wood pulp demand.

China demand for dissolving wood pulp estimated to have a three-year CAGR of 25%

**Figure 44: Demand for rayon grades of pulp by region in 2009 (%)**



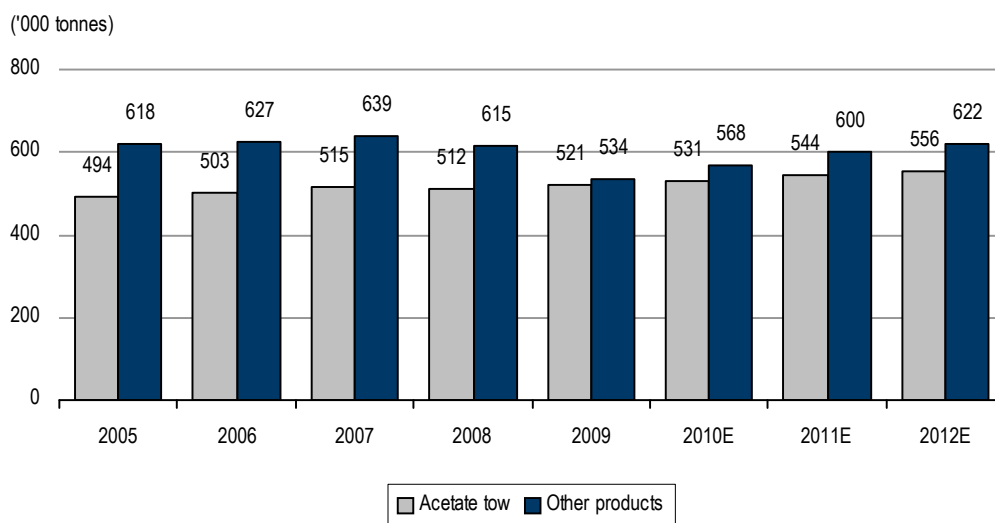
Source: PCI Fibres

Sateri's rayon grades of dissolving wood pulp have one of the highest alpha-cellulose content in the industry, allowing customers to achieve higher efficiency and less waste during their production processes.

According to PCI Fibres, demand for specialty grades of pulp for acetate tow production is expected to rise at a 2009-12 CAGR of 2%, aided by increased smoking rates in emerging markets, the displacement of polypropylene tow by acetate tow in cigarette filters in China, and the development of light cigarettes and the concomitant increase in the size of cigarette filters (Figure 45).

Demand for specialty grades of pulp for acetate tow production estimated to rise at a three-year CAGR of 2%

**Figure 45: Global demand for specialty grades of pulp**



Source: PCI Fibres

**Major dissolving wood pulp producers**

There are 17 major dissolving wood pulp producers operating 21 mills worldwide. Sateri is the third-largest producer, following Sappi Saiccor and Rayonier (Figure 46). Among the top ten global players, Sateri, Sappi Saiccor, Tembec (TMB.TO, C\$4.71, Not rated) and Neucel are the four dissolving wood pulp producers manufacturing both rayon and specialty grades of pulp.

Sateri is the world's third-largest dissolving wood pulp supplier ...

**Figure 46: Top dissolving wood pulp producers in the world as of end-2010**

Producer	Country	Principal markets	Products	Capacity ('000 tonnes)
Sappi Saiccor	South Africa	Global	Rayon and specialty	825
Rayonier	USA	Global	Specialty	470
<b>Sateri</b>	<b>Brazil</b>	<b>Global</b>	<b>Rayon and specialty</b>	<b>465</b>
AV Cell Group	Canada	Integrated (Aditya Birla)	Rayon	330
Lenzing	Austria	Integrated (Lenzing)	Rayon	265
Tembec	Canada	Global	Rayon and specialty	260
Domsjö	Sweden	Europe & Asia	Rayon	235
Buckeye	USA	Global	Specialty	190
Borregaard	Norway	Europe & Asia	Specialty	160
Neucel	Canada	Asia (China)	Rayon and specialty	140

Source: PCI Fibres, Credit Suisse estimates

PCI Fibres estimates that the production cost per tonne of Sateri's Bahia Specialty Cellulose is the lowest among the top-ten dissolving wood pulp producers. Its production cost per tonne of US\$459 is 32% lower than the average cost of US\$672 of these ten players as of end-2010.

... with production cost per tonne 32% lower than the average of the world's top-ten producers

## Viscose staple fibre

Viscose staple fibre is composed of, or derived from, cellulose and provides the same absorbency and breathability as cotton. Dissolving wood pulp is used in the production of viscose staple fibre. The viscose staple fibre market is segmented into regular viscose staple fibre used in textile and non-woven applications, and specialty viscose staple fibre, which include flame retardant viscose fibres for bedding linings, high absorbency fibres for personal hygiene products, micro-denier fibres for woven and non-woven products, high-end non-woven grades and high wet modulus fibres.

The viscose staple fibre market is segmented into regular and specialty viscose staple fibres

**Figure 47: Key qualities of major fibres**

Key quality	Viscose staple fibre	Cotton	Polyester	Wool
Absorbency	*	*		*
Biodegradation	*	*		*
Breathability	*	*		*
Brightness	*	*	*	
Drape	*			*
Dyeability	*		*	
Regeneration	*	*		*
Softness	*	*	*	*
Purity	*		*	

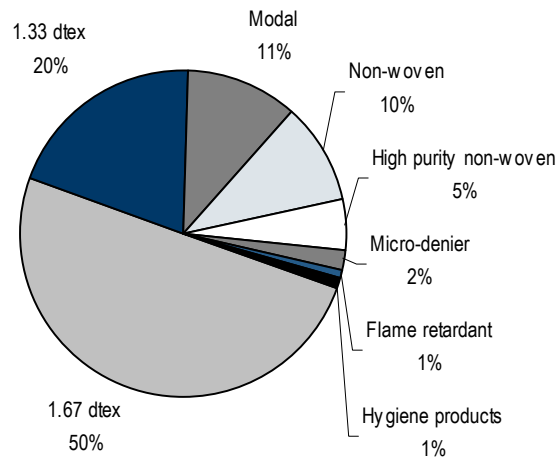
Source: Clothesource

Viscose staple fibres are suitable for consumer wipes (such as baby, cosmetic or personal care and household wipes) and industrial wipes (used in applications ranging from cleaning and food services to medical care), due to their high absorbency, moisture retention and softness in terms of handling. They are also biodegradable and can be made flushable (Figure 47). The single-use, task-centred, disposable, viscose-based wipe is the fastest growing sector of the non-woven market, and is expanding strongly in emerging markets, including China.

The single-use, task-centred, disposable, viscose-based wipe is the fastest growing sector of the non-woven market

Nevertheless, textile applications continue to be the largest source of viscose staple fibre demand, driven by demand for comfortable clothing. According to the US Department of Agriculture FAS database, this demand cannot be met by cotton, as the underlying trend of global cotton supply is expected to remain flat to downward.

**Figure 48: Global production of major categories of viscose staple fibres in 2009**



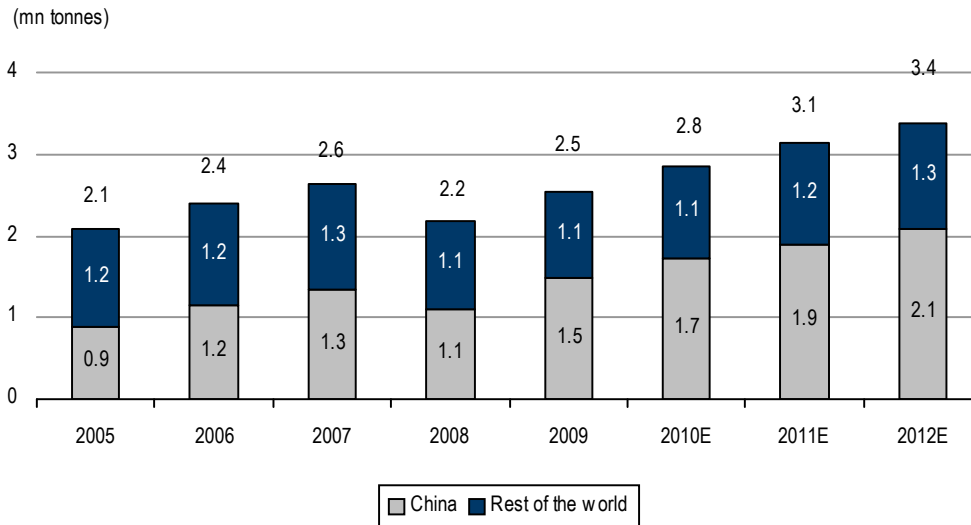
Note: 1.67 dtex and 1.33 dtex are equivalent to 1.5D and 1.2D titer

Source: PCI Fibres

China has become the world's largest viscose staple fibre producing country, with its production share increasing from 42% in 2005 to 58% of global production in 2009 (Figure 49), according to PCI Fibres. It estimates that China's production of viscose staple fibre will grow at a 2009-12 CAGR of 12% to 2.1 mn tonnes, or 61% of the global production in 2012.

China is the world's largest viscose staple fibre producing country with a share of 58% in 2009

**Figure 49: Viscose staple fibre production in China and the rest of the world (mn tonnes)**



Source: PCI Fibres

There are 11 viscose staple fibre producers outside China, along with about 40 producers in China (Figure 50). Seven of the world's top-ten viscose staple fibre producers are located in China. With an annual capacity of 90,000 tonnes, Sateri's mill in Jiangxi province, China, was ranked number nine among the global top ten as of 30 June, 2010.

Sateri's viscose staple fibre mill ranked number nine in the world

**Figure 50: Capacity of global top ten viscose staple fibre producers (as of 30 June 2010)**

Company	Location	Design capacity (tonnes p.a.)
Birla	India, Thailand, Indonesia, China	684,000
Lenzing	Austria, Indonesia, China, UK, USA	673,000
Fulida Group	China	280,000
Shandong Helon	China	230,000
Tangshan Sanyou	China	166,000
FCFC	Taiwan	160,000
Jiangsu Aoyang	China	130,000
Xinxiang Bailu	China	120,000
<b>Sateri Jiangxi</b>	<b>China</b>	<b>90,000</b>
Gaomi Chemical Fibre	China	80,000

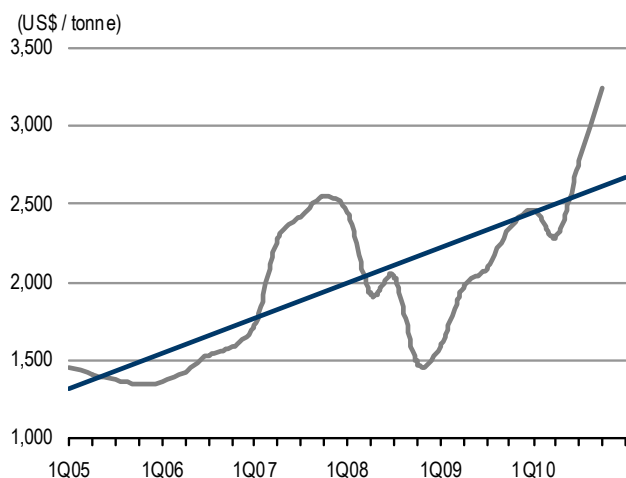
Source: PCI Fibres

## Firm prices likely to stay in the foreseeable future

Viscose staple fibre prices in China have been on an upward trend since 2000. Before 2005, viscose staple fibres were mainly used as an alternative to cotton with prices consistently following, but at a discount to, cotton prices. From 2H06, viscose staple fibre prices began an upward cycle benefiting from strong demand in sirospun yarns, compacted spun yarns, air-jet spun yarns and non-spun products (Figure 51). Since early 2009, viscose staple fibre prices have recovered from the global economic crisis.

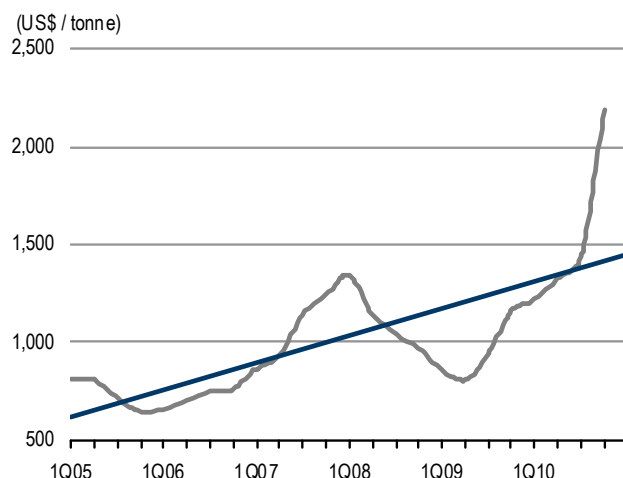
Viscose staple fibre prices have been on an upward trend since 2000 ...

**Figure 51: Viscose staple fibre price (US\$ per tonne)**



Source: CCF, Credit Suisse estimates

**Figure 52: Dissolving wood pulp price (US\$ per tonne)**



Source: CCF, Credit Suisse estimates

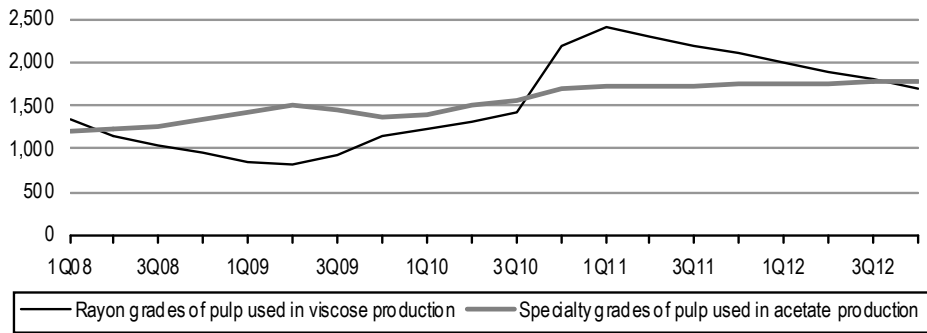
Dissolving wood pulp prices are in a general rising trend as a result of the upgrading of downstream viscose staple fibre products (Figure 52). Similar to viscose staple fibre, dissolving wood pulp prices have recovered quickly from the economic crisis since 1Q09.

... as have dissolving wood pulp prices

Prices for specialty grades of pulp are generally more stable than those for rayon grades of pulp (Figure 53). This is because rayon pulp grade customers tend to use a number of suppliers with prices typically negotiated on a quarterly basis, whereas specialty pulp grade customers tend to use only a few qualified suppliers with long-term relationships with prices negotiated on an annual basis. Due to the tight supply and high cotton prices, the spot price of rayon grades of pulp in China is now at about a 40% premium over specialty grades of pulp.

Prices for specialty grades of pulp are generally more stable than those for rayon grades of pulp

**Figure 53: Price outlook for rayon and specialty grades of pulp (US\$ per tonne)**



Source: PCI Fibres

PCI Fibres believes that viscose staple fibre demand should pick up, and hence there is good support for the rayon grade of pulp price at US\$1,650/tonne, when production switches to comfortable clothing for this year’s summer season. CCF believes that the ongoing economic recovery is expected to lead to increased prices for viscose staple fibre. PCI also expects the specialty grades of dissolving pulp price per tonne to move towards US\$1,700 by the end of 2012.

CCF believes that the ongoing economic recovery will lead to increased prices for viscose staple fibre

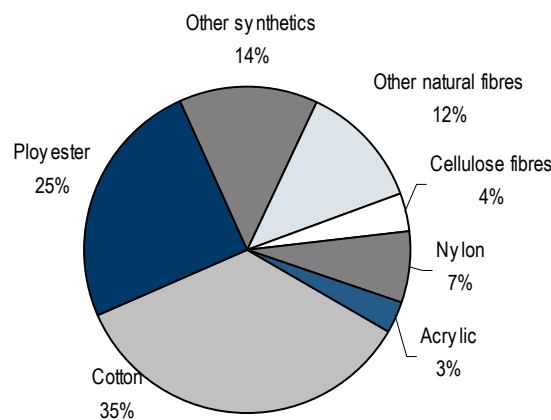
**Tight supply and high cotton prices supporting dissolving wood pulp prices**

We expect dissolving wood pulp prices to have good support at current levels. Apart from the favourable supply and demand balance of the dissolving wood pulp industry, high cotton prices are another factor driving the dissolving wood pulp price up.

Favourable supply and demand balance, and high cotton prices offer support to dissolving wood pulp prices

Cotton is the most important raw material for the textile industry, accounting for 35% of all world fabric production (Figure 54). Dissolving wood pulp is used as a raw material for viscose staple fibre, for which textile is still the main application. Viscose staple fibres currently account for a much smaller portion of fabric production globally.

**Figure 54: World fabric production split by market value in 2009 (%)**



Source: Clothesource

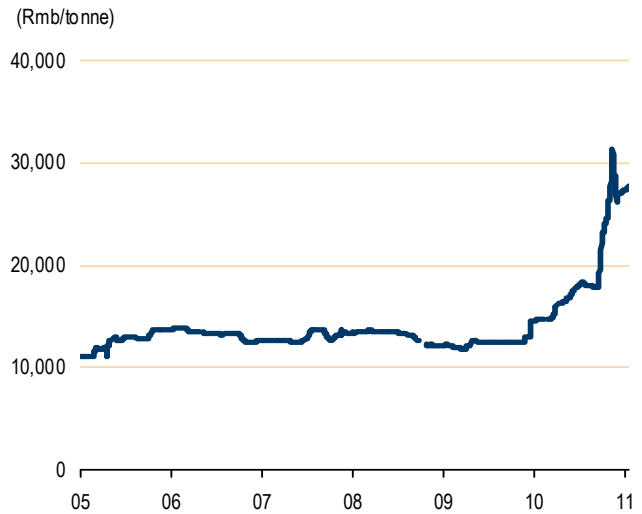
Year-to-date, cotton prices have appreciated substantially (Figure 55 and Figure 56). The latest estimates from the US Department of Agriculture show that global cotton stocks are likely to decline to the lowest levels since 1996-97.

**Figure 55: International cotton price**



Source: Bloomberg

**Figure 56: China's grade 328 cotton price**

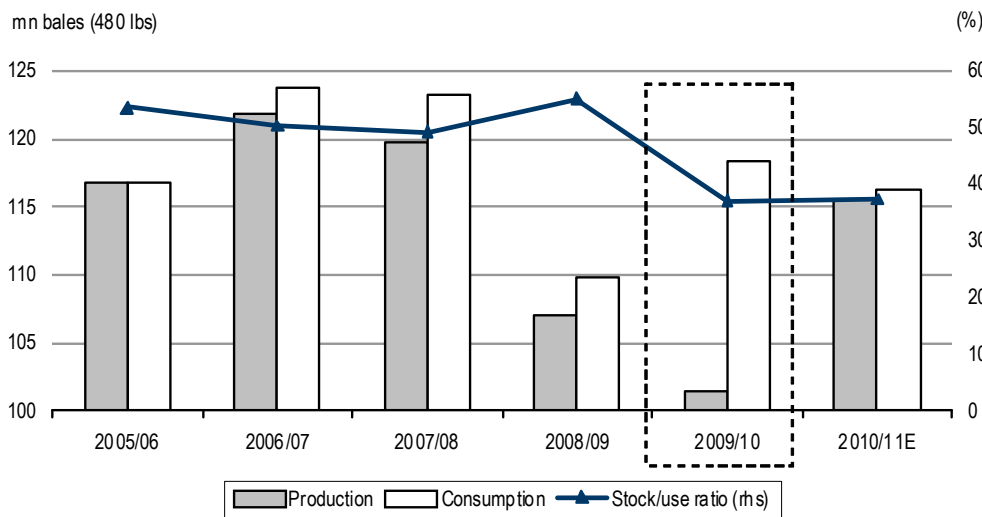


Source: Shanghai JC Intelligence

Although world production is forecast to increase 14% YoY, production level is still low compared to global consumption. Production should be up for most of the major producers, due to rising cotton prices as well as better credit availability. The exception is Pakistan due to the recent floods. Nevertheless, production level will still not be able to match consumption. As a result, the US Department of Agriculture forecasts world cotton stocks at 43.4 mn bales in 2011 – its lowest level since 1997.

Cotton production level not likely to be able to match consumption

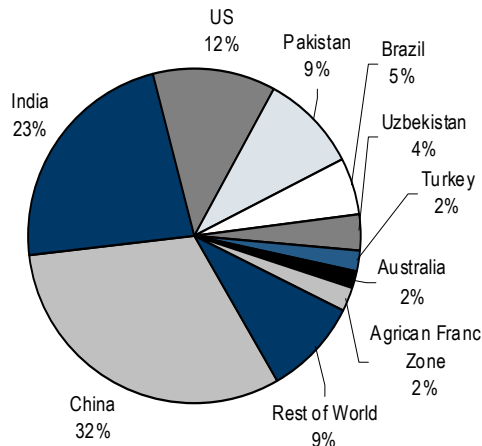
**Figure 57: Global cotton industry – Stock is declining sharply**



Source: US Department of Agriculture, July year end

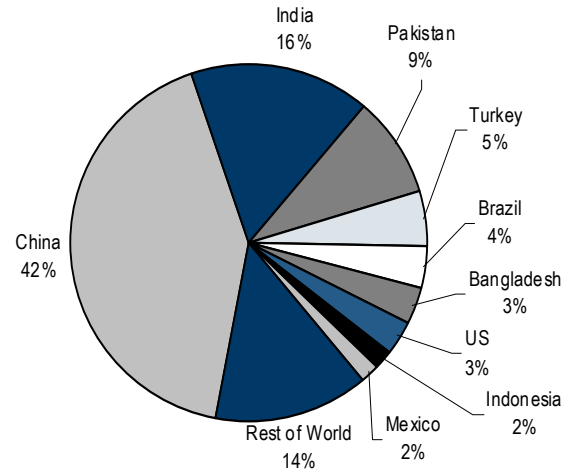
The situation is even more critical in China, which is an important country for cotton production and consumption (Figure 58 and Figure 59). Cotton stocks are expected to decline to 15.8 mn bales, the lowest level in 16 years.

**Figure 58: World's producers of cotton (2009-10)**



Source: US Department of Agriculture

**Figure 59: World's consumers of cotton (2009-10)**

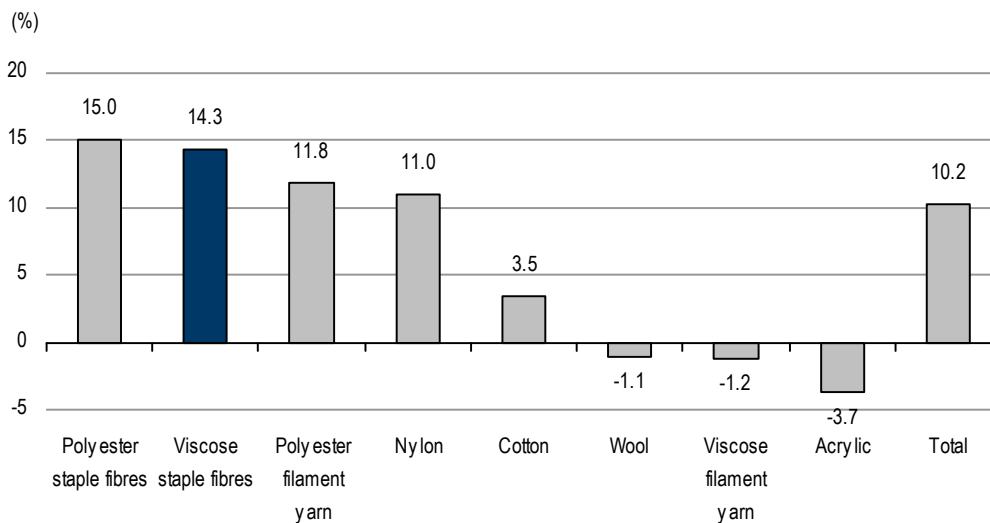


Source: US Department of Agriculture

China has seen the production of other fibre segments in the country grow much faster compared to cotton. In particular, viscose staple fibre has seen the fastest growth rate in the last four years (Figure 60). Yet, viscose staple fibre remains a small portion of all fabric production in China. Viscose staple fibres account for less than 6% of all Chinese-made apparel, based on estimates by industry consultancy, Clothesource.

Fast-growing viscose staple fibre remains a small portion of all fabric production in China

**Figure 60: China major fibre production 2005-09 CAGR (%)**



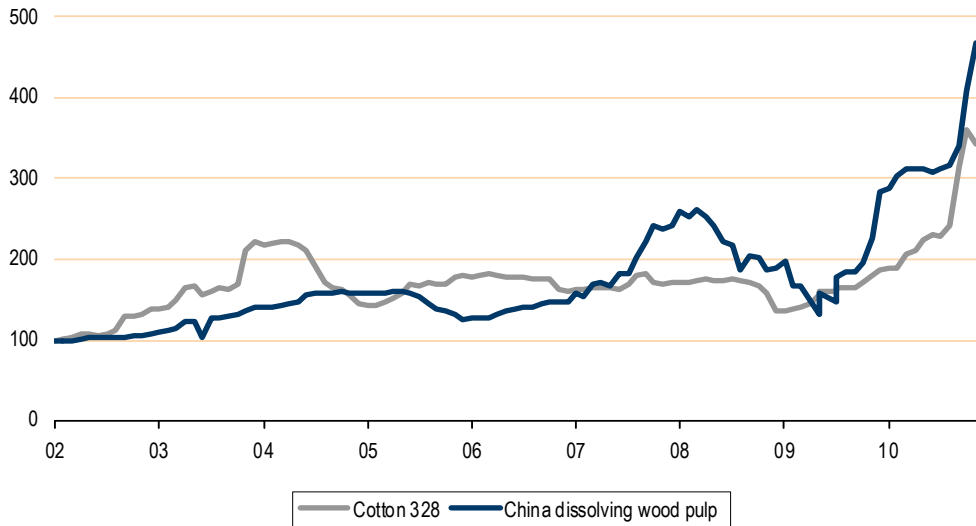
Source: Clothesource from Fibre Organon and YNFX

The strong cotton price bodes well for dissolving wood pulp. Historically, the dissolving wood pulp price tends to track the cotton price fairly closely (Figure 61). With cotton prices near their all-time high, we believe there is additional support for dissolving wood pulp prices to stay at or near the current levels.

Strong cotton price bodes well for dissolving wood pulp



**Figure 61: Relative price movement of cotton versus dissolving wood pulp**



Source: PCI Fibres, Shanghai JC Intelligence

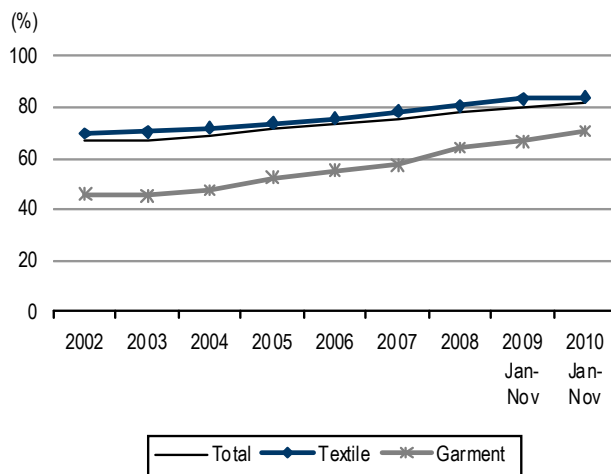
## Growth driver: China textile manufacturing

Textile is the main application for viscose staple fibre, which in turn drives demand for dissolving wood pulp. We hold a positive view on the growth prospects of China's textile manufacturing.

We believe demand for textile products will remain strong in the foreseeable future, due to robust domestic retail sales and recovery in the overseas market. Domestic consumption accounts for around 80% of textile production in China (Figure 62). We believe income growth and rising consumption habits in China are the key growth drivers. On the other hand, we see exports continuing to rebound from their trough and we believe the sustainability of the rebound may surprise the market on the upside.

Demand for textile products will remain strong in China due to robust domestic retail sales and recovery in the overseas market ...

**Figure 62: Textile industry—Domestic sales proportion**

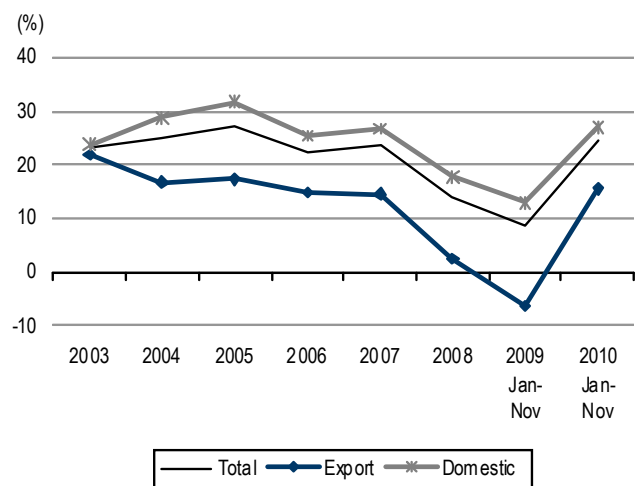


Source: CEIC (Designated size and above)

### Domestic textiles consumption growth is strong

Domestic consumption of garments and textiles in China has maintained a healthy growth rate of 26.5% YoY in retail sales from January to November 2010. We believe the key driver behind growth in consumption is income growth and the change in consumption

**Figure 63: Textile industry's sales value growth YoY**

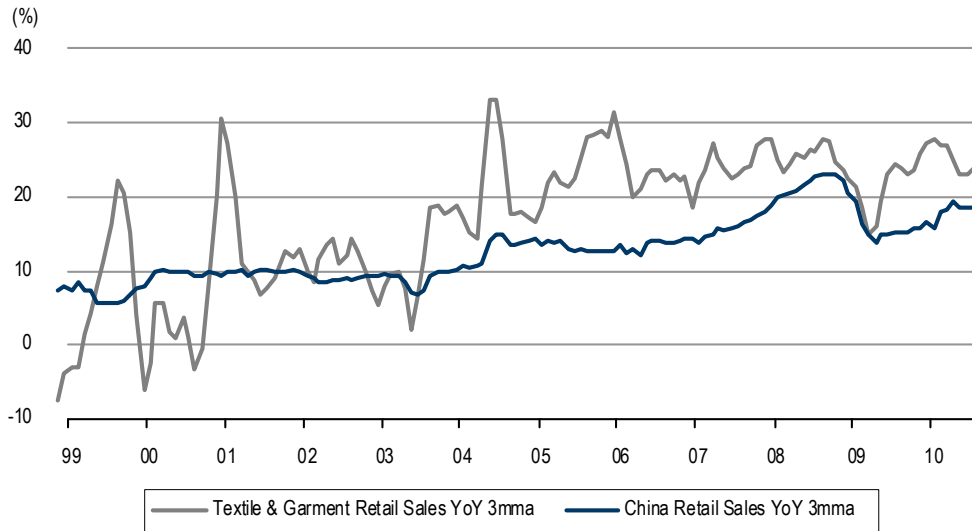


Source: CEIC (Designated size and above)

... which is likely to boost demand for viscose staple fibre products

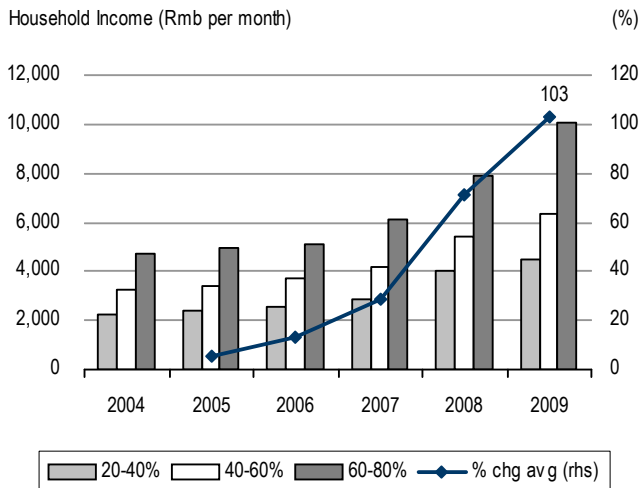
behaviour rather than the government's stimulus plan (although that has helped). Chinese consumers are transforming their perceptions and consumption habits. They have been raising their low "wearable" requirements for clothes and garments to more awareness of "fashion" and "styles". The escalation in consumption and upgrade in demand have led to a greater requirement for quality products. We believe this is likely to boost demand for viscose staple fibre products, which are considered to be of higher quality compared to other synthetic products.

**Figure 64: China's textile and garment retail sales versus total domestic retail sales**



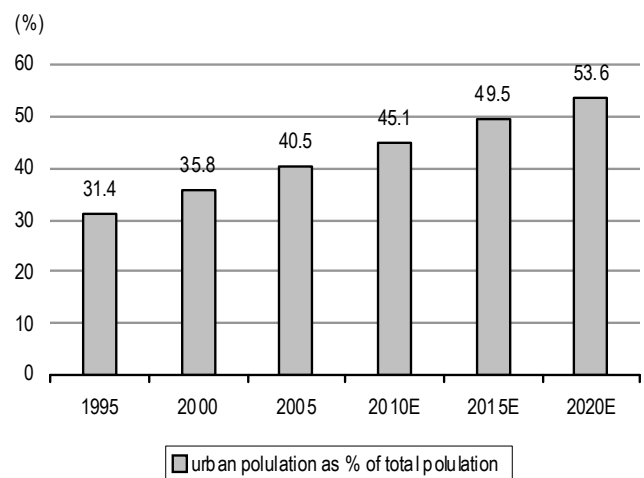
Source: CEIC, Credit Suisse estimates

**Figure 65: China's household income growth**



Source: Credit Suisse China Consumer Survey

**Figure 66: China's urbanisation ratio**



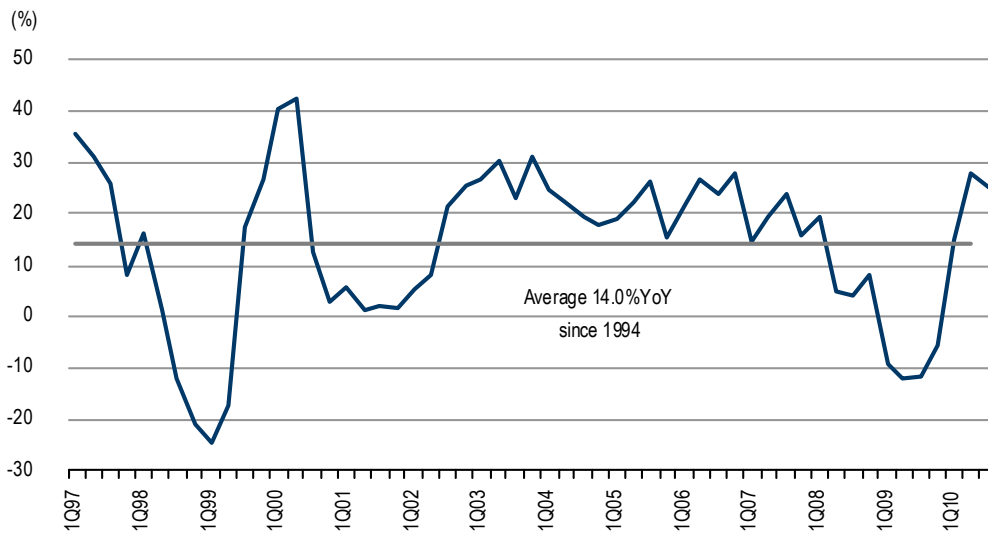
Source: CEIC, Credit Suisse estimates (China Market Strategy)

**Overseas demand recovery on track**

The export market started contracting in late 2007 when sub-prime threats started to cannibalise consumption in the US first. However, since 3Q09, the signs of recovery are becoming stronger globally. We believe the rebound is largely due to delayed consumption and better consumer confidence. China's textile and garment export growth has remained strong at 23.6% YoY. We believe recovery in overseas consumption demand for textiles and garments is promising for the entire industry's growth in 2010.

Overseas consumption demand for textiles and garments has recovered since 3Q09 ...

**Figure 67: China's textile and garment export growth YoY**

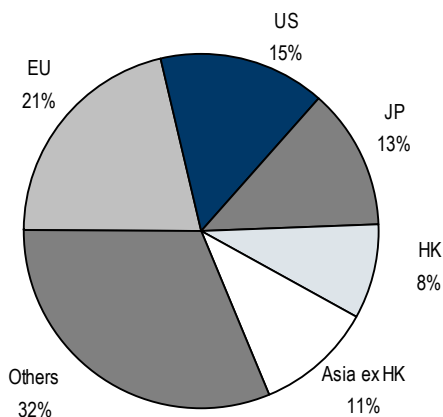


Source: CEIC

We believe the current trend of overseas consumption recovery will be sustained as: (1) based on the views of Credit Suisse global and regional strategists, there are “no signs of double dipping” in the global economy; (2) the recent sovereign debt issues in Europe are unlikely to derail the global recovery; (3) the year-to-date financial reports of large retailers suggest that consumption recovery is strong and is not a temporary year-end inventory build-up; and (4) China should continue its support of textile exports such as maintaining or raising the export tax rebate rate.

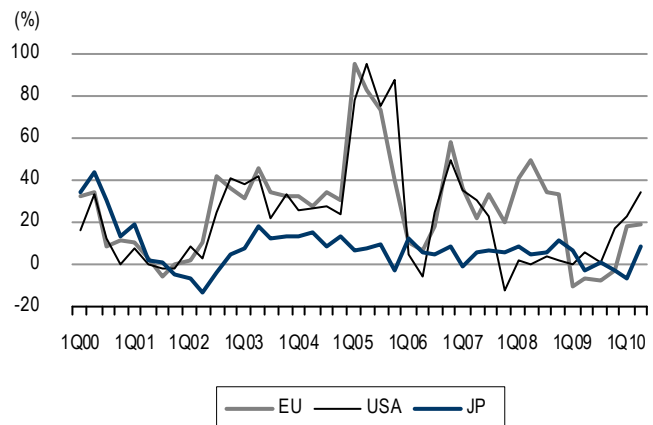
... and will be sustained, in our view

**Figure 68: China textile and garment export breakdown**



Source: CEIC, as of 2009 annual data

**Figure 69: China textile, garment exports YoY by country**



Source: CEIC, as of 2010 quarterly data

## Growth driver: Cigarette filters in China

Specialty grades of dissolving pulp are used to produce viscose staple fibres for non-woven applications, including cigarette filters in the fast-growing Chinese tobacco market. We estimate that Sateri will increase the production of its specialty grades of dissolving wood pulp by 150% to 160,000 tonnes in 2011, so as to increase its exposure to this potential market in China.

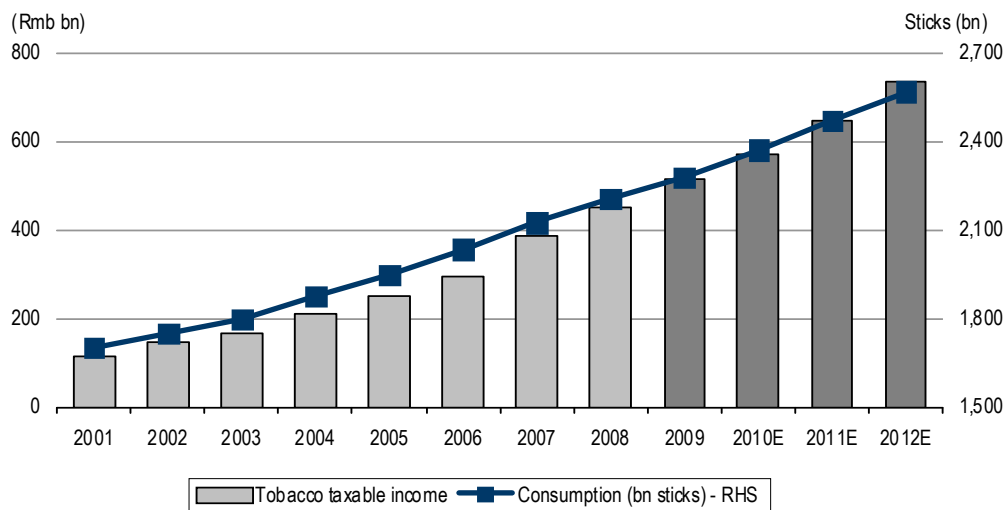
The Chinese tobacco market is by far one of the most important industries for China. From 2001 to 2009, the Chinese tobacco industry's taxable income saw a CAGR of 21% and is the country's number one tax contributor, accounting for more than 8% of its total tax revenue. In 2009, the industry generated Rmb513 bn in taxable income for the

Sateri is increasing specialty grades of dissolving wood pulp production for the fast-growing Chinese tobacco market

Chinese tobacco is a growing tax income generator

government, an increase of 14% YoY (Figure 70). In view of it being such a lucrative tax source, we do not see any reason for the government to impose aggressive laws that would adversely affect the industry.

**Figure 70: Smoking it up—Chinese tobacco industry is seeing no pause in growth**



Source: STMA, TobaccoChina, Credit Suisse estimates

We estimate that there are approximately 350 mn smokers in China, and the number is increasing at approximately 1% p.a. However, we expect tobacco consumption to rise at around 3-4% p.a. over the next five years, with no signs of stopping. While the 4% growth p.a. may seem small, we believe this is relatively high given that China is the only major country that continues to see growth in tobacco consumption, while countries in North America, Europe and other industrialised nations have seen minor reductions.

China tobacco consumption expected to rise at 3-4% p.a. over the next five years

Interestingly, a recent study by the China Preventive Medicine Association pointed out that 57% of male doctors in China smoke, which gives doctors almost no incentive to encourage the general public to quit. Given this, we believe it is unlikely that smokers will quit the habit in the near future.

57% of male doctors in China smoke

In our view, the key issue for Sateri is to partner with the right tobacco groups. The State Tobacco Monopoly Administration (STMA), through China National Tobacco Corporation (CNTC), has especially said that key brands will be further nurtured, in order to achieve the so-called “532” and “641” targets over the next five years, which mean:

Key China cigarette brands will be further nurtured

- Five major cigarette brands, each producing over 2 mn master cases annually; three major cigarette brands, each producing over 3 mn master cases annually; two major cigarette brands, each producing over 5 mn master cases annually, and;
- Six major cigarette brands, each achieving over Rmb40 bn annually; four major cigarette brands, each achieving over Rmb60 bn annually; one substantial cigarette brand achieving over Rmb100 bn annually.

It is evident that the higher-end and more popular brands will see above-industry growth (Figure 71).

**Figure 71: Growth of top cigarette brands continue to gather steam**

Grade	Master cases ('000)		YoY change (%)
	2009	2008	
Grade 1	3,690.5	3,136.0	17.7
Grade 2	1,689.0	1,372.3	23.1
Grade 3	12,339.9	10,394.3	18.7
Grade 4	17,664.3	17,243.9	2.4
Grade 5	10,210.8	11,942.3	(14.5)
<b>Total</b>	<b>45,594.5</b>	<b>44,088.8</b>	<b>3.4</b>
Grades 1 + 2 + 3	17,719.4	14,902.6	18.9
Market share of grades 1 + 2 + 3 (%)	38.9	33.8	5.1 p.p.

Source: TobaccoChina, Credit Suisse estimates

# Potential upside on favourable product prices

If the profit contribution from the disposed trading unit DP Macao is excluded, we estimate that Sateri's net profit will increase 36% YoY to US\$331 mn in 2011 with higher selling prices and increased capacity. We believe that China plays such as Hengan (1044.HK, HK\$61.70, NEUTRAL, TP HK\$60.40), Huabao (0336.HK, HK\$11.88, NEUTRAL, TP HK\$12.70), Nine Dragons (2689.HK, HK\$12.30, UNDERPERFORM [V], TP HK\$10.80) and Lee & Man Paper (2314.HK, HK\$5.95, UNDERPERFORM [V], TP HK\$5.55) are closer comparisons with Sateri. Although they do not produce the same products as Sateri does, they have a similar exposure to the fast-growing Chinese consumption market. We set our 12-month target price for Sateri at HK\$10.55, based on a target P/E of 14x 2011E EPS, or 0.85x PEG. If its current product selling prices are sustained in 2011, we estimate that Sateri's net profit in 2011 will be 52% higher than our current conservative projection, making the stock trade at a 6.9x 2011E P/E. With 33% potential upside to our 12-month target price of HK\$10.55, we initiate coverage of Sateri with an OUTPERFORM rating.

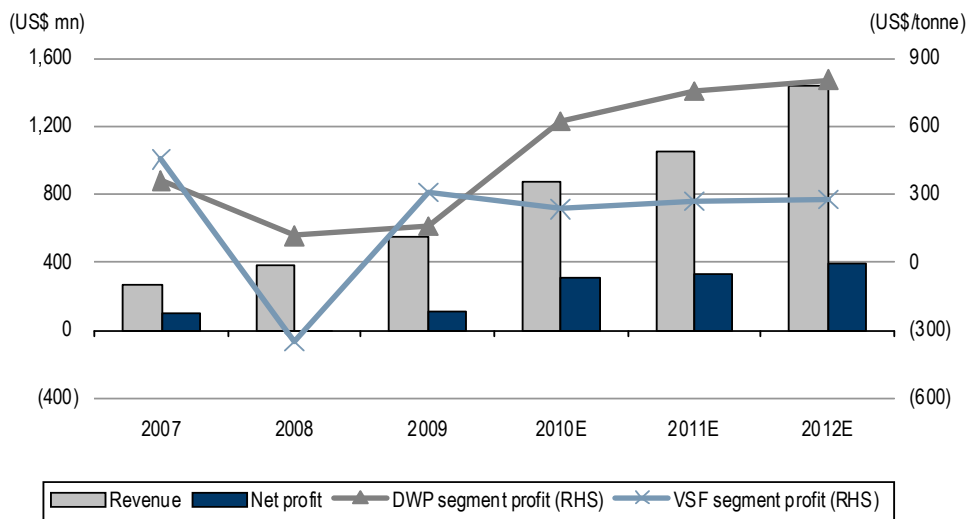
With 33% potential upside to our 12-month target price of HK\$10.55, we initiate coverage of Sateri with an OUTPERFORM rating

## 2010 profit driven by dissolving wood pulp ASP and production increase

Sateri's revenue rose 44% YoY to US\$552 mn in 2009 as its dissolving wood pulp volume output increased 1.9x after the expansion of its Bahia Specialty Cellulose mill. Segment profit per tonne of viscose staple fibre also strongly recovered from a loss during the economic crisis in 2008 to more than US\$300. Sateri returned to profitability in 2009 surpassing its net profit of 2007, despite a relatively weak first-half when the market began to recover from the crisis (Figure 72).

Sateri returned to profitability in 2009 when the market began to recover from the crisis

**Figure 72: Sateri's business performance and product segment profit per tonne**



Source: Company data, Credit Suisse estimates

As the selling prices of dissolving wood pulp rose significantly by 90% YoY and viscose staple fibre grew 27% YoY amid a continued economic recovery, coupled with the 54% increase in dissolving wood pulp sales volume, Sateri posted a record half-year profit of US\$165 mn in 1H10, versus a loss of US\$15 mn in 1H09. While we expect the average selling prices of Sateri's cellulose products to remain at similar levels in 1H10, we project full-year profit of US\$305 mn, implying a 15% HoH decline in profit in 2H10 (Figure 73). This is because the company's pulp trading unit DP Macao will cease to contribute from 4Q10 after the disposal.

We project full-year profit of US\$305 mn in 2010

**Figure 73: Sateri's 2H10 profit should fall HoH after disposing of DP Macao in 3Q10**

Year-end Dec (US\$ mn)	2010E	2009	YoY % chg.	2H10E	1H10	HoH % chg.
<b>Turnover</b>	<b>875</b>	<b>552</b>	<b>58.4</b>	<b>434</b>	<b>441</b>	<b>-1.6</b>
- Cellulose products	692	424	63.2	327	365	-10.5
- Viscose staple fibre	182	128	42.7	107	75	41.5
<b>Gross profit</b>	<b>462</b>	<b>210</b>	<b>119.8</b>	<b>219</b>	<b>243</b>	<b>-9.7</b>
Operating profit	355	147	142.1	165	190	-13.1
Finance cost	(32)	(42)	-24.9	(16)	(15)	8.3
Profit before tax	323	104	209.5	149	175	-14.9
Taxation	(15)	3	n.a.	(6)	(8)	-19.7
Minority interest	(3)	(1)	474.0	(2)	(2)	13.9
<b>Net profit</b>	<b>305</b>	<b>107</b>	<b>185.8</b>	<b>140</b>	<b>165</b>	<b>-15.0</b>
Net profit of DP Macao	62	35	73.6	18	44	-59.7
<b>Net profit ex-DP Macao</b>	<b>244</b>	<b>71</b>	<b>241.5</b>	<b>123</b>	<b>121</b>	<b>1.2</b>
Gross margin (%)	52.8	38.1	14.7 pp	50.5	55.0	-4.5 pp
Op margin (%)	40.6	26.6	14.0 pp	38.0	43.1	-5.0 pp
Net margin (%)	34.9	19.4	15.6 pp	32.4	37.4	-5.1 pp

Source: Company data, Credit Suisse estimates

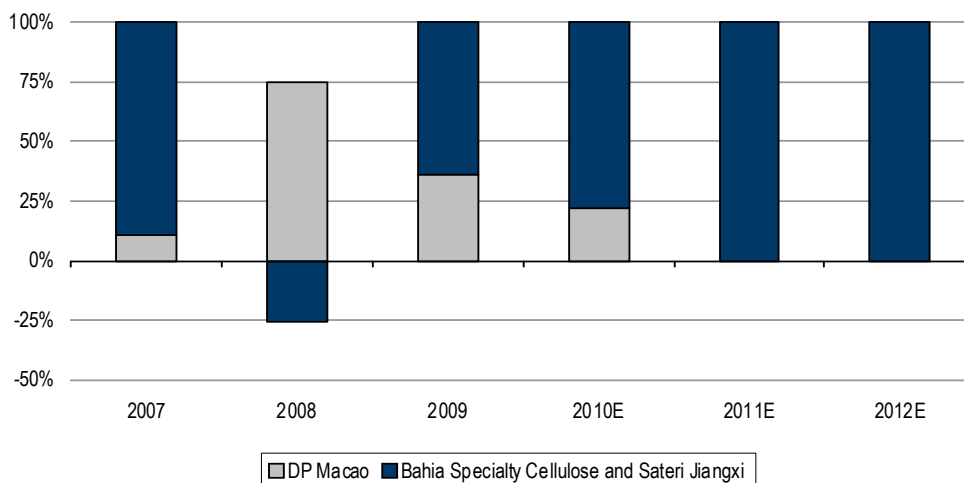
## Disposal of DP Macao

Sateri disposed of its pulp trading unit, DP Macao, to a company related to its ultimate controlling shareholder at MOP13 mn, or approximately the net book value of DP Macao, in September 2010.

DP Macao's principal business is to trade the paper pulp and dissolving wood pulp produced by PT Toba Pulp Lestari (TPL), a company related to Sateri's controlling shareholder, which does not have its own international sales, marketing or technical service team to service its dissolving wood pulp customers outside Indonesia.

The connected pulp trading unit DP Macao disposed of in September 2010 ...

**Figure 74: Segment profit contribution of DP Macao to Sateri**



Source: Company data, Credit Suisse estimates

Sateri's future strategy will be to focus on dissolving wood pulp and viscose staple fibre production and not engage in trading to avoid trading risks. After the disposal, it has retained DP Macao's international sales team for dissolving wood pulp to minimise operational disruption to its operations and DP Macao's existing paper pulp customers.

... as Sateri aims to focus on cellulose production and not engage in businesses with a trading risk

DP Macao contributed US\$35 mn, or 33% of Sateri's total net profit in 2009. After the disposal, DP Macao will cease to contribute to Sateri from 4Q10. We estimate that the net profit contribution from DP Macao will be US\$62 mn, or 20% of our projected profit of US\$305 mn for the group in 2010.

DP Macao estimated to contribute 20% of group's profit in 2010

To minimise any potential competition from TPL in relation to Sateri's dissolving wood pulp business, Sateri's subsidiary SC International Macao has been appointed as DP Macao's agent to sell the dissolving wood pulp produced by TPL and acquired by DP Macao outside Indonesia. By receiving a commission of 2% on the sales, SC International Macao will have the right of first refusal to sell such dissolving wood pulp as DP Macao's agent.

Sateri to receive 2% commission as sales agent of DP Macao after the disposal

## New capacity to drive growth in 2011-12

While Sateri's profit will be largely driven by the normalisation of profitability of dissolving wood pulp and viscose staple fibre this year, the start of new capacity will help extend its profit growth trend in 2011 and 2012, in our view.

Commencement of new capacity should help extend Sateri's profit growth trend in 2011 and 2012...

We project Sateri's dissolving wood pulp volume output to grow 5% YoY in 2011 and another 3% YoY in 2012 following the deployment of an additional capacity of 20,000 tonnes through debottlenecking. Installation of line C and line D in its Sateri Jiangxi mill should help its viscose staple fibre output to increase to about 140,000 tonnes in 2011, and grow another 86% when the new plant in Fujian begins production in 2012 (Figure 75).

**Figure 75: Sateri's production output of dissolving wood pulp and viscose staple fibre**

Year-end Dec (tonnes)	2007	2008	2009	2010E	2011E	2012E
<b>Dissolving wood pulp</b>						
<b>Bahia Specialty Cellulose</b>						
- Line 1	115,000	115,000	115,000	115,000	115,000	115,000
- Line 2		350,000	350,000	350,000	370,000	370,000
<b>Total capacity</b>	<b>115,000</b>	<b>465,000</b>	<b>465,000</b>	<b>465,000</b>	<b>485,000</b>	<b>485,000</b>
<b>Output</b>	<b>115,709</b>	<b>171,078</b>	<b>408,468</b>	<b>446,400</b>	<b>470,450</b>	<b>485,000</b>
Utilisation rate (%)	101	37	88	96	97	100
<b>Viscose staple fibre</b>						
<b>Sateri Jiangxi</b>						
- Lines A + B	60,000	60,000	60,000	70,000	80,000	80,000
- Line C				30,000	40,000	40,000
- Line D				30,000	40,000	40,000
<b>Sateri Fujian</b>	-	-	-	-	-	<b>200,000</b>
<b>Total capacity</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>130,000</b>	<b>160,000</b>	<b>360,000</b>
<b>Output</b>	<b>72,782</b>	<b>60,766</b>	<b>67,273</b>	<b>75,000</b>	<b>140,000</b>	<b>260,000</b>
Utilisation rate (%)	121	101	112	58	88	72

Source: Company data, Credit Suisse estimates

As discussed in the previous section, we expect prices of both dissolving wood pulp and viscose staple fibre to find support at the current levels, due to high cotton prices, the favourable demand-supply balance of dissolving wood pulp, and increasing demand for end-applications of viscose staple fibre in China.

... with projected stable product prices

In our 2011-12 earnings forecasts for Sateri, we assume that the selling prices and margins per tonne of its specialty cellulose products will remain stable at about the 2010 levels (Figure 76).



**Figure 76: Sateri's sales and costs by product category**

Year-end Dec	2007	2008	2009	2010E	2011E	2012E
<b>Revenue (US\$ mn)</b>						
Cellulose products						
- Bahia Specialty	94	118	314	568	673	715
- DP Macao	13	139	110	125	-	-
	107	257	424	692	673	715
Viscose staple fibre	165	125	128	182	382	724
	<b>272</b>	<b>382</b>	<b>552</b>	<b>875</b>	<b>1,056</b>	<b>1,439</b>
<b>Sales volume ('000 tonnes)</b>						
Cellulose products						
- Bahia Specialty	79	121	354	393	414	427
- DP Macao	9	194	186	97	-	-
	88	315	540	489	414	427
Viscose staple fibre	73	61	67	75	140	260
<b>Average selling price (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	1,183	973	886	1,446	1,626	1,675
- DP Macao	1,468	720	593	1,291	-	-
	1,212	818	785	1,415	1,626	1,675
Viscose staple fibre	2,271	2,055	1,897	2,428	2,731	2,786
<b>Cost of sales (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	383	453	497	536	588	594
- DP Macao	650	569	365	588	-	-
	411	524	452	546	588	594
Viscose staple fibre	1,778	2,286	1,454	1,939	2,134	2,181
<b>Gross profit (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	800	520	389	909	1,039	1,082
- DP Macao	818	151	228	703	-	-
	801	294	333	869	1,039	1,082
Viscose staple fibre	493	(231)	443	489	597	605
<b>Segment profit (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	311	113	144	621	754	806
- DP Macao	799	118	189	637	-	-
	361	116	160	624	754	806
Viscose staple fibre	454	(352)	309	236	271	278

Source: Company data, Credit Suisse estimates

With volume output growth assumptions and stable selling prices and margins, we expect Sateri's net profit to rise 8% YoY to US\$331 mn in 2011. The relatively moderate profit increase is due to the disposal of the pulp trading unit, DP Macao, which we project will contribute US\$62 mn of the net profit in 2010.

If profit contribution from the disposed DP Macao is excluded, we estimate that Sateri's net profit will grow 36% YoY to US\$331 mn in 2011, and 18% YoY to US\$391 mn in 2012 (Figure 77). We believe the completion of the new Sateri Fujian mill and expansion of the second production line in the Bahia Specialty Cellulose mill by end-2012 and end-2013, respectively, will provide significantly more production capacity in 2011-12 for Sateri to grow beyond 2012.

Profit to rise moderately by 8% YoY in 2011 after the disposal of DP Macao ...

... or increase 36% YoY in 2011 and 18% in 2012, if contribution from DP Macao is excluded

**Figure 77: Estimated production and earnings growth of Sateri (2007-12E)**

Year-end Dec (US\$ mn)	2007		2008		2009		2010E		2011E		2012E	
<b>Revenue</b>	% of total		% of total		% of total		% of total		% of total		% of total	
Cellulose products												
- Bahia Specialty	94	34.4	118	30.8	314	56.9	568	64.9	673	63.8	715	49.7
- DP Macao	13	4.9	139	36.5	110	20.0	125	14.2	-	-	-	-
	107	39.3	257	67.3	424	76.9	692	79.2	673	63.8	715	49.7
Viscose staple fibre	165	60.7	125	32.7	128	23.1	182	20.8	382	36.2	724	50.3
	<b>272</b>	<b>100.0</b>	<b>382</b>	<b>100.0</b>	<b>552</b>	<b>100.0</b>	<b>875</b>	<b>100.0</b>	<b>1,056</b>	<b>100.0</b>	<b>1,439</b>	<b>100.0</b>
<b>Gross profit</b>	Margin		Margin		Margin		Margin		Margin		Margin	
Cellulose products	(%)		(%)		(%)		(%)		(%)		(%)	
- Bahia Specialty	63	67.6	63	53.5	138	43.9	357	62.9	430	63.9	462	64.6
- DP Macao	7	55.7	29	21.0	42	38.4	68	54.4	-	-	-	-
	71	66.1	92	35.9	180	42.5	425	61.4	430	63.9	462	64.6
Viscose staple fibre	36	21.7	(14)	-11.2	30	23.3	37	20.1	84	21.9	157	21.7
	<b>107</b>	<b>39.1</b>	<b>78</b>	<b>20.5</b>	<b>210</b>	<b>38.1</b>	<b>462</b>	<b>52.8</b>	<b>514</b>	<b>48.6</b>	<b>619</b>	<b>43.0</b>
<b>Segment profit</b>	Margin		Margin		Margin		Margin		Margin		Margin	
Cellulose products	(%)		(%)		(%)		(%)		(%)		(%)	
- Bahia Specialty	25	26.3	14	11.6	51	16.3	244	43.0	312	46.3	344	48.1
- DP Macao	7	54.4	23	16.4	35	31.9	62	49.4	-	-	-	-
	32	29.8	37	14.2	86	20.4	306	44.1	312	46.3	344	48.1
Viscose staple fibre	33	20.0	(21)	-17.1	21	16.3	18	9.7	38	9.9	72	10.0
	65	23.8	15	4.0	107	19.4	323	37.0	350	33.2	416	28.9
Unallocated items	43		(27)		(3)		-		-		-	
<b>Profit before tax</b>	<b>108</b>	<b>39.6</b>	<b>(12)</b>	<b>-3.1</b>	<b>104</b>	<b>18.9</b>	<b>323</b>	<b>37.0</b>	<b>350</b>	<b>33.2</b>	<b>416</b>	<b>28.9</b>
Taxation	(4)		3		3		(15)		(16)		(21)	
Minority interest	(9)		5		(1)		(3)		(3)		(5)	
<b>Net profit</b>	<b>95</b>	<b>34.9</b>	<b>(4)</b>	<b>-1.0</b>	<b>107</b>	<b>19.4</b>	<b>305</b>	<b>34.9</b>	<b>331</b>	<b>31.3</b>	<b>391</b>	<b>27.2</b>
Net profit of DP Macao	n.a.		n.a.		35		62		-		-	
<b>Net profit ex-DP Macao</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>71</b>	<b>16.2</b>	<b>244</b>	<b>32.5</b>	<b>331</b>	<b>31.3</b>	<b>391</b>	<b>27.2</b>

Source: Company data, Credit Suisse estimates

## Capital expenditure schedule

Sateri plans to spend about US\$703 mn to expand its dissolving wood pulp and viscose staple fibre operations in the next three years (Figure 78). It expects the expansion to increase its annual capacity of dissolving wood pulp by 18% to 550,000 tonnes by end-2013, and its design capacity of viscose staple fibre by 177% to 360,000 tonnes by end-2012 (Figure 38).

Spending US\$703 mn to increase capacity by end-2013 ...

**Figure 78: Sateri's expansion plans**

Expansion project	Commencement	Completion	Estimated capex (US\$ mn)
<b>Bahia Specialty Cellulose</b>			
20,000 tonnes debottlenecking	October 2010	March 2011	20
<b>Bahia Specialty Cellulose</b>			
65,000 tonnes debottlenecking	2H11	December 2013	250
<b>Sateri Fujian</b>			
200,000 tonnes greenfield project	Ongoing	December 2012	433

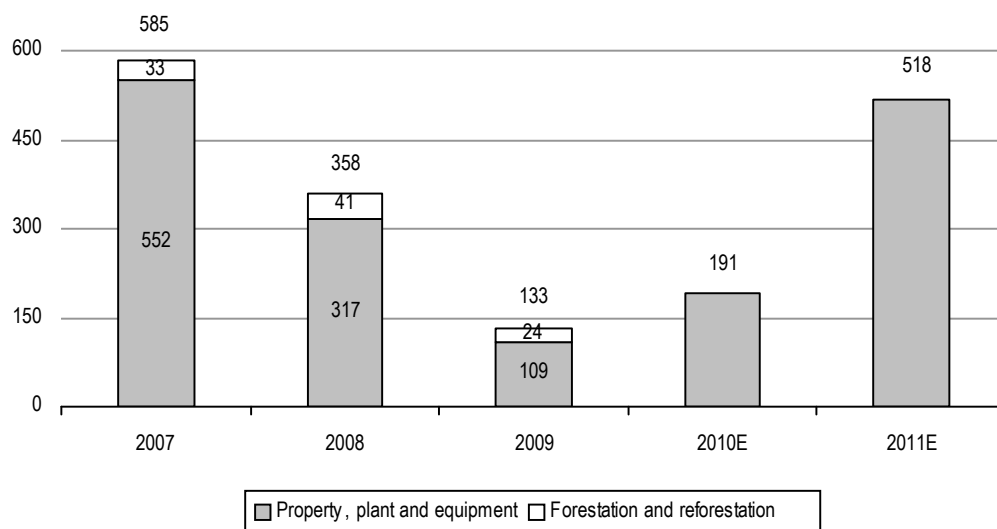
Source: Company data, Credit Suisse estimates

Bahia Specialty Cellulose mill is expanding its production capacity by 20,000 tonnes at US\$20 mn through debottlenecking due to be completed by March 2011. It is spending another US\$250 mn to further expand capacity of its second production line by 65,000 tonnes to increase the total mill capacity to 550,000 tonnes by December 2013. Sateri is planning to build a greenfield viscose staple fibre mill with annual production capacity of 200,000 tonnes in Fujian province, China. This project comprises two phases, with design production capacity of 45,000 tonnes and 155,000 tonnes, respectively. The total capex planned for the Fujian project is US\$433 mn.

... with US\$270 mn in dissolving wood pulp and US\$433 mn in viscose staple fibre

In view of the above-mentioned expansion plans, we estimate that Sateri will incur capex of US\$191 mn in 2010 and US\$518 mn in 2011 (Figure 79).

**Figure 79: Sateri's capital expenditure schedule (US\$ mn)**



Source: Company data, Credit Suisse estimates

The company is also exploring the feasibility of building an integrated dissolving wood pulp and viscose staple fibre mill in Jiangsu province, China. The feasibility study for this project is at a preliminary stage subject to necessary approvals being granted by the relevant government authorities. The amount of investment in this Jiangsu mill is unknown. Given the capex of US\$250 mn needed to expand capacity by 65,000 tonnes in the Bahia Specialty Cellulose mill in Brazil (or US\$3,850 per tonne), we believe the investment to set up a greenfield integrated mill in Jiangsu, China, will likely be sizeable.

Also exploring the feasibility of building an integrated mill in Jiangsu province

After the IPO in December 2010, in which about US\$440 mn was raised by issuing new shares representing an enlarged 16.2% of total issued capital, we estimate that Sateri would have a net gearing of 7% at the end of 2010. Due to the higher capex of US\$518 mn, we estimate that its net gearing will increase to 17% at end-2011, and then improve to 7% by end-2012.

Gearing to rise to 17% by end-2011

## Sensitivity analysis of earnings

### Dissolving wood pulp and viscose staple fibre prices

Sateri's profit is essentially driven by its sales volume and unit margins of dissolving wood pulp and viscose staple fibre. The selling price of dissolving wood pulp is a function of the cost of wood (the principal raw material), and supply-demand dynamics. Similarly, the selling price of viscose staple fibre is determined by the cost of dissolving wood pulp (the principal raw material) and supply-demand dynamics.

Sateri's profit is essentially driven by sales volume and unit margins of dissolving wood pulp and viscose staple fibre

Although there are more variables that affect the margins of Sateri's cellulose products, Figure 80 illustrates how changes in the average selling price of dissolving wood pulp

affect our estimated YoY earnings growth in 2011, with the assumption of fixed unit non-pulp production costs.

**Figure 80: Sensitivity analysis of Sateri's estimated earnings in 2011**

Change of selling price of dissolving wood pulp from the base case (%)	Average selling price in 2011 (US\$ / tonne)	2011 net profit (US\$ mn)	YoY growth (%)	2011E P/E (x)
+40	2,276	546	124.0	6.4
<b>+32 (current blended selling price)</b>	<b>2,145</b>	<b>503</b>	<b>106.4</b>	<b>6.9</b>
+30	2,114	492	101.9	7.1
+20	1,951	438	79.7	8.0
+10	1,789	384	57.6	9.1
<b>Base case</b>	<b>1,626</b>	<b>331</b>	<b>35.6</b>	<b>10.5</b>
-10	1,463	276	13.3	12.6
-20	1,301	222	-8.9	15.7

Source: Credit Suisse estimates

Our base case is a 12% YoY increase in the selling prices of both dissolving wood pulp to US\$1,626/tonne and viscose staple fibre to US\$2,731/tonne, which leads to a net profit growth of 36% YoY in 2011E based on our sales volume assumptions. Our base case average selling price for dissolving wood pulp assumes that:

- (1) the sales mix of Sateri's rayon and specialty grades of dissolving wood pulp will be 70/30 in 2011;
- (2) the average selling price of its dissolving wood pulp will be US\$1,820/tonne in 1Q11;
- (3) the average selling price of its dissolving wood pulp will be US\$1,560/tonne in 2Q-4Q11.

If the average selling price of dissolving wood pulp rises 10% from our base case of US\$1,626/tonne with unchanged unit production costs, we estimate that Sateri would post net profit growth of 58% YoY to US\$384 mn in 2011. A change in the selling price of dissolving wood pulp (the major profit contributor with larger operations), has a more significant impact on its earnings growth than a price change in viscose staple fibre.

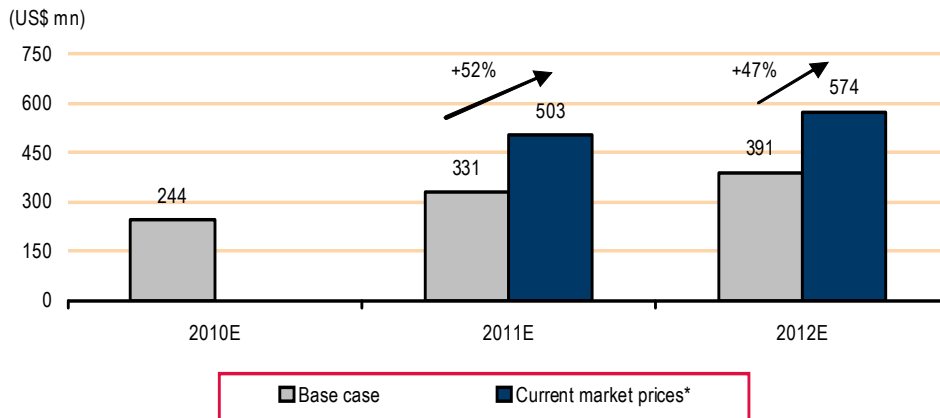
We note that Sateri's selling prices of rayon and specialty grades of dissolving pulp are about US\$1,550/tonne and US\$2,400/tonne, respectively, and its selling price of viscose staple fibre is about US\$3,450/tonne. The prices are about 26-32% higher than the projected prices of dissolving wood pulp (assuming a sales mix of rayon and specialty grades of 70/30) and viscose staple fibre we use in our profit forecasts for 2011. If market prices were to stay at these levels throughout 2011 and 2012, with non-pulp production costs unchanged, we estimate that Sateri's net profit would be US\$503 mn in 2011 and US\$574 mn in 2012 (Figure 81)—52% and 47% higher than our base case profit forecasts for 2011 and 2012, respectively. In this scenario, Sateri's projected 2010-12 earnings CAGR would be 41%, versus 17% in our base case.

Our base case is a 12% YoY increase in selling prices of dissolving wood pulp and viscose staple fibre

If dissolving wood pulp ASP rises 10% from our base case, Sateri's 2011 profit is estimated to grow 58% YoY

2011 projected profit would be 52% higher if current market prices are sustained

**Figure 81: Change of projected profit with different product selling price assumptions**



\* Assuming the market prices of dissolving wood pulp and viscose staple fibre remain unchanged throughout 2011 and 2012 with non-pulp production cost unchanged  
 Source: Credit Suisse estimates

**Exchange rates**

Sateri’s profitability is subject to exchange rate fluctuations, although it enters into currency forward contracts to hedge some of its currency exposure risk. While most of its sales were based on the US dollar, Brazilian real-denominated revenue accounted for 5% of its total revenue, but real-denominated cost of sales was 50% of its total cost of sales in 2009. The real has appreciated about 42% against the US dollar since early 2009 (Figure 82). Assuming there is no currency hedging, we estimate that for every 1% appreciation in the real, Sateri’s net profit would reduce by 0.9%.

For every 1% appreciation in the real, Sateri’s net profit would decrease 0.9%

**Figure 82: Brazilian real to US dollar exchange rates**



Source: Datastream, Credit Suisse estimates

**Valuation and recommendation**

There are no companies which exactly match Sateri’s profile in the region. We believe the comparable companies should consist of two groups of companies:

- (1) **international peers** which are involved in the production of dissolving wood pulp and/or viscose staple fibres;
- (2) **Chinese companies** supplying their products with end-applications to the China consumption market, on which their growth outlook hinges.

Comps are international peers and Chinese companies supplying their products with end-applications to the Chinese consumption market

Comparing it with international peers, we find that Sateri has superior margins and returns on equity (Figure 83). We believe this is because Sateri has the lowest unit production cost for dissolving wood pulp among the top-ten global players thanks to its vertically integrated operations and being located at low-cost centres (as discussed in previous sections). Some of these peers have different pulp and paper product ranges, geographical locations and size of operations, which result in different business cycles from Sateri's. Some of them will likely see profit declining in 2010, based on Credit Suisse's forecasts, versus our estimated profit growth of 242% YoY for Sateri. Their valuations lie in a wide spectrum that make direct comparison with Sateri's inapplicable, in our view (Figure 84).

Due to different product ranges, geographical locations and size of operations, valuations of international peers lie in a wide spectrum that make direct comparison inapplicable

**Figure 83: Profitability metrics of Sateri's comps**

Company	Ticker	Gross margin (%)		EBITDA margin (%)		Net margin (%)		ROE (%)	
		2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
<b>Sateri</b>	<b>1768.HK</b>	<b>48.6</b>	<b>43.0</b>	<b>47.9</b>	<b>41.0</b>	<b>31.3</b>	<b>27.2</b>	<b>18.5</b>	<b>18.9</b>
<b>Closer comps</b>									
Hengan	1044.HK	44.3	43.9	26.0	25.5	18.3	17.8	26.7	28.3
Huabao	0336.HK	75.3	73.0	66.3	65.1	53.5	51.7	34.8	34.4
Lee & Man Paper	2314.HK	21.9	21.5	19.2	18.8	12.6	12.6	17.5	18.4
Nine Dragons Paper	2689.HK	21.4	21.0	25.3	24.7	12.3	12.3	14.9	15.6
<b>Average</b>		<b>40.7</b>	<b>39.9</b>	<b>34.2</b>	<b>33.5</b>	<b>24.2</b>	<b>23.6</b>	<b>23.5</b>	<b>24.2</b>
Maximum		75.3	73.0	66.3	65.1	53.5	51.7	34.8	34.4
Minimum		21.4	21.0	19.2	18.8	12.3	12.3	14.9	15.6
<b>International peers</b>									
Buckeye Technologies	BKI	19.9	20.8	19.6	20.4	8.2	9.0	13.4	12.9
Rayonier	RYN	29.0	30.1	35.1	35.6	15.0	17.1	15.9	20.0
Sappi	SPP	n.a.	n.a.	12.3	12.6	2.8	3.9	13.6	10.8
Holmen	HOLMb.ST	n.a.	n.a.	18.9	16.6	7.9	5.9	9.0	6.7
Fibria	FIBR3	32.6	28.3	42.5	37.8	13.7	8.6	6.5	3.8
<b>Average</b>		<b>27.2</b>	<b>26.4</b>	<b>25.7</b>	<b>24.6</b>	<b>9.5</b>	<b>8.9</b>	<b>11.7</b>	<b>10.8</b>
Maximum		32.6	30.1	42.5	37.8	15.0	17.1	15.9	20.0
Minimum		19.9	20.8	12.3	12.6	2.8	3.9	6.5	3.8

Source: Company data, Credit Suisse estimates.

We believe that China plays such as Hengan, Huabao, Nine Dragons and Lee & Man Paper are closer comparisons with Sateri, although they do not produce the same products Sateri does. They have similar exposure to the fast-growing Chinese consumption market: Hengan is the paper-based personal hygiene producer, and Huabao is a flavour and fragrance supplier for cigarette and food markets in China. End-applications for Sateri's dissolving wood pulp and viscose staple fibre also expose them to the Chinese non-woven and acetate tow markets.

Hengan in paper-based personal hygiene and Huabao in cigarette and food markets in China

Although Sateri's dissolving wood pulp is not the paper pulp that Nine Dragons and Lee & Man are involved in, they run similar business models of supplying upstream materials to end-applications for the Chinese consumption market (Sateri's dissolving wood pulp and viscose staple fibre are used to manufacture a variety of textile and non-woven applications; Nine Dragons and Lee & Man produce containerboard for packaging use in a variety of sectors in China, where they derive about 80% of their total revenue, comparable with 86% for Sateri in 2009).

Nine Dragons and Lee & Man run similar business models of supplying upstream materials to end-applications for the Chinese consumption market

Figure 84: Valuations of Sateri's comps

Company	Ticker	Mkt cap (US\$ mn)	Price		P/E (x)		EPS growth (%)		EPS	
			local curr.	Industry	CY11E	CY12E	CY11E	CY12E	PEG (x)	CAGR (%) CY10-12E
Sateri	1768.HK	3,498	7.96	Cellulose products	10.6	8.9	14.8*	18.3	0.6*	16.5*
<b>Closer comps</b>										
Hengan	1044.HK	9,716	61.70	Personal hygiene	24.4	20.5	20.7	18.7	1.0	19.7
Huabao	0336.HK	4,807	11.88	Flavour & fragrance	19.5	15.5	22.9	26.4	0.6	24.7
Lee & Man Paper	2314.HK	3,484	5.95	Containerboard	13.4	11.3	12.0	18.2	0.8	15.1
Nine Dragons Paper	2689.HK	7,377	12.30	Containerboard	15.6	13.2	22.8	18.2	0.6	20.4
<b>Average</b>		<b>6,346</b>			<b>18.2</b>	<b>15.1</b>	<b>19.6</b>	<b>20.4</b>	<b>0.8</b>	<b>20.0</b>
Maximum		9,716			24.4	20.5	22.9	26.4	1.0	24.7
Minimum		3,484			13.4	11.3	12.0	18.2	0.6	15.1
<b>International peers</b>										
Buckeye Tech	BKI	868	21.97	Specialty fibres	12.0	10.2	46.9	17.8	0.3	31.5
Rayonier	RYN	4,591	56.98	Forestry & cellulose	24.2	19.3	7.1	25.4	1.2	15.9
Sappi	SPP	2,656	5.15	Pulp & paper products	13.3	9.0	151.8	46.8	0.1	92.3
Holmen	HOLMb.ST	3,033	238.50	Forestry & paper	13.0	14.3	108.6	-8.9	0.4	37.8
Fibria	FIBR3	7,705	27.75	Pulp & paper products	12.2	17.4	56.7	-30.1	3.7	4.7
<b>Average</b>		<b>3,771</b>			<b>14.9</b>	<b>14.0</b>	<b>54.8</b>	<b>10.2</b>	<b>1.4</b>	<b>22.5</b>
Maximum		7,705			24.2	19.3	151.8	46.8	3.7	92.3
Minimum		868			12.0	9.0	7.1	-30.1	0.1	4.7

\* Exclude the net profit contribution from DP Macao; note: prices as of market close on 14 January 2011

Source: Company data, Credit Suisse estimates.

These closer comps in China have lower margins than Sateri. Before the completion of Sateri's expansion in its Bahia Specialty Cellulose by 2013, the four China comps have an average 2010-12 earnings CAGR of 20%, 3 p.p. higher than Sateri's 17%. We consider it reasonable to refer to the PEG of these comps as the fair valuation of Sateri, given the similarity of their exposure to and leadership in their products in the Chinese consumption market, despite some differences in profitability and three-year growth profile.

#### Initiating coverage with an OUTPERFORM rating

Excluding the contribution of the disposed trading unit, DP Macao, we expect Sateri's net profit to rise 36% YoY to US\$331 mn, and a smaller EPS growth of 15% YoY to US\$0.097 in 2011 due to the dilution of new share issuance in the IPO in December 2010.

We set our 12-month target price for Sateri at HK\$10.55, based on a target P/E of 14x 2011E EPS. With a projected 2010-12E EPS CAGR of 16.5%, the target multiple for Sateri translates into a PEG of 0.85x, close to the average PEG of 0.8x of these four closer comps. We note that Sateri has relatively higher business volatility and a shorter track record. Nevertheless, we believe the target multiple is fair given its superior margins and profitability, financial position, higher market share in the Chinese market, and growth potential after the completion of the expansion of its Bahia Specialty Cellulose mill, and most importantly, the potential upside of our earnings forecasts based on the conservative product selling price assumptions.

Sateri currently trades at an undemanding valuation of 10.6x 2011E P/E. If its current product selling prices are sustained in 2011, we estimate that Sateri's net profit in 2011 will be 52% higher than our current projection, making the stock trade at 6.9x 2011E P/E. With 33% potential upside to our 12-month target price of HK\$10.55, we initiate coverage of Sateri with an OUTPERFORM rating.

We believe it is reasonable to refer to the PEG of these comps as the fair valuation of Sateri

2011 net profit to grow 36%

Target price = HK\$10.55, or 14x 2011E P/E, 0.85x PEG

Initiating coverage with an OUTPERFORM rating

# Key risks

We highlight the following potential key risk factors related to Sateri:

- **Macroeconomic risks.** Both dissolving wood pulp and viscose staple fibre are globally traded commodities and their prices are subject to global forces. Should there be a marked slowdown in global economic activity (for instance, triggered by a double-dip recession in the US), we believe demand for both dissolving wood pulp and viscose staple fibre could be affected, which may result in substantially lower selling prices.

Macroeconomic related risks
- **Expansion risks.** There is a risk that the company may look to expand capacity aggressively in the future, beyond the current stated expansion plan. Historically, the controlling shareholder's other businesses (for instance, the paper pulp business APRIL) have from time to time undergone significant expansions.

Expansion risks
- **Competition risks.** There is a risk that competitors may be attracted to enter or expand their presence in the dissolving wood pulp or the viscose staple fibre industries. This risk has increased recently, in our view, as prices for both commodities have climbed to their highest level in many years. Sateri's competitive positioning in viscose staple fibre is not as strong. It is just one of the many players in the industry, unlike for dissolving wood pulp, in which it is one of the leading players.

Competition risks
- **Acquisition risks.** In addition to organic expansion, Sateri may also choose to acquire other companies in order to grow. We believe there is a risk that such a potential acquisition may not succeed and may result in a weaker balance sheet or profitability for the company.

Acquisition risks
- **Customer concentration risks.** Sateri has had a relatively concentrated list of customers. In 2009, its top five customers accounted for 43% of total revenue and the largest customer accounted for 21% of total revenue (including contribution from DP Macao). We believe there is a risk that Sateri may lose customers from time to time. In general, the company does not have long-term committed contracts from its customers.

Customer concentration risks
- **Currency mismatch risks.** Sateri's revenue is denominated mostly in USD. On the other hand, real- and renminbi-denominated costs accounted for more than 65% of total cost of sales (based on 1H10 data). There is a risk of a currency mismatch should these exchange rates move significantly against the US dollar. In particular, Sateri would suffer in a weak US dollar environment.

Currency mismatch risks
- **Raw material risks.** There is a risk that Sateri may not be able to obtain sufficient raw materials for its dissolving wood pulp or viscose staple fibre manufacturing or may only be able to do so at higher prices.

Raw material risks
- **Reputational risks.** Sateri's reputation may be adversely affected, from time to time, by media speculation, claims or other public statements related to the controlling shareholder, Mr Sukanto Tanoto.

Reputational risks
- **Other risks.** We believe the company may also be exposed to other risks, in addition to those mentioned above.

Other risks



## Macroeconomic risks

Both dissolving wood pulp and viscose staple fibre are globally traded commodities and their prices are subject to global forces. Should there be a marked slowdown in global economic activity (for instance, triggered by a double dip recession in the US), we believe demand for both dissolving wood pulp and viscose staple fibre could be affected. This could result in substantially lower prices.

Marked slowdown in global economic activity may lower selling prices of dissolving wood pulp and viscose staple fibre substantially

Our base case currently calls for a 12% YoY increase in the selling prices of both dissolving wood pulp and viscose staple fibre in 2011. This leads to an estimated net profit growth of 36%. If dissolving wood pulp and viscose staple fibre prices are 20% lower than our base case projections, Sateri's earnings could decline by 9% YoY this year (substantially worse than our base case projection of 36% earnings growth).

**Figure 85: Sensitivity analysis of Sateri's estimated earnings in 2011**

Change of selling price of dissolving wood pulp from the base case (%)	Average selling price in 2011 (US\$ / tonne)	2011 net profit (US\$ mn)	YoY growth (%)	2011E P/E (x)
+40	2,276	546	124.0	6.4
<b>+32 (current blended selling price)</b>	<b>2,145</b>	<b>503</b>	<b>106.4</b>	<b>6.9</b>
+30	2,114	492	101.9	7.1
+20	1,951	438	79.7	8.0
+10	1,789	384	57.6	9.1
<b>Base case</b>	<b>1,626</b>	<b>331</b>	<b>35.6</b>	<b>10.5</b>
-10	1,463	276	13.3	12.6
<b>-20</b>	<b>1,301</b>	<b>222</b>	<b>-8.9</b>	<b>15.7</b>

Source: Credit Suisse estimates

Our official view remains that the US will experience a soft landing. Our economists and strategists have noted that so far, leading indicators are consistent with a more benign slowdown in the US economy. Further, as we have discussed in the previous sections, China is the most important market for Sateri, accounting for 86% of revenue in 2009. China is becoming an increasingly important market for dissolving wood pulp and viscose staple fibre. Even if there is a worse-than-expected economic slowdown in the US, China could still fare relatively better, helping cushion the decline in the prices of these commodities. Lastly, we believe that market share gain of viscose staple fibre at the expense of natural and synthetic fibres could help limit the potential downside to the prices of dissolving wood pulp and viscose staple fibre.

There are secular forces which could help limit the potential downside to dissolving wood pulp and viscose staple fibre prices

## Expansion risks

There is a risk that the company may look to expand capacity aggressively in the future, beyond the current stated expansion plan. Historically, the controlling shareholder's other businesses (for example, the paper pulp business, APRIL) have from time to time undergone significant expansions.

Sateri may look to expand capacity aggressively

Sateri expects to increase its design annual capacity of dissolving wood pulp by 18% to 550,000 tonnes by end-2013, and viscose staple fibre by 177% (off a much lower base) to 360,000 tonnes by end-2012 (Figure 86).

**Figure 86: Sateri's expansion plans**

Expansion project	Commencement	Completion	Estimated capex (US\$ mn)
<b>Bahia Specialty Cellulose</b>			
20,000 tonnes debottlenecking	October 2010	March 2011	20
<b>Bahia Specialty Cellulose</b>			
65,000 tonnes debottlenecking	2H11	December 2013	250
<b>Sateri Fujian</b>			
200,000 tonnes greenfield project	Ongoing	December 2012	433

Source: Company data, Credit Suisse estimates

The company is exploring, but has not yet finalised, the possibility of starting a greenfield integrated dissolving wood pulp and viscose staple fibre mill in Jiangsu province, China. This could result in significantly higher capital expenditure commitment beyond what is stated in the previous table.

In our view, Sateri has expanded its capacity in a careful and measured pace to date. The company started with one viscose staple fibre mill in China. It then acquired the dissolving wood pulp (and related) assets in Brazil at what is considered to be attractive valuation. The company's debt level has remained relatively low throughout this time. Net debt-to-equity stood at less than 30% at end-2009. The company has not finalised any further expansion plans beyond what has already been announced.

## Competition risks

There is a risk that competitors may be attracted to enter into or expand their presence in the dissolving wood pulp or the viscose staple fibre industries. This risk has increased recently, in our view, as prices for both commodities have recently climbed to their highest level in many years. Sateri's competitive positioning in viscose staple fibre is not the strongest. It is just one of many players in the industry, unlike for dissolving wood pulp, in which it is one of the leading players.

Global paper companies with significant presence in the dissolving wood pulp industry include: Domsjö, Sappi, Tembec, Borregaard, Buckeye Technologies and Rayonier. In viscose staple fibre, Sateri competes with, among others: Birla, Lenzing (LENV.VI, Eu 86.05, Not Rated) and Tangshan Sanyou.

While we should not completely discount the possibility of new or additional capacities in the dissolving wood pulp or viscose staple fibre industries, we believe the likelihood of an oversupply situation is low, at least in the near future. For dissolving wood pulp, the capital cost for a new plant can be expensive (we estimate up to US\$4,000 per tonne of capacity). It may take up to three years for a greenfield plant to start production. We also believe, as discussed in the previous sections, that Sateri holds several key competitive advantages against its competitors in the dissolving wood pulp industry.

We do acknowledge that Sateri's competitive positioning in viscose staple fibre is not the strongest given that it is just one of many players in the industry and not a leading player. On this point, however, we believe the structural positive change in the industry (viscose staple fibre taking share from other fibres) is likely to be able to absorb new capacity in the near future.

## Acquisition risks

In addition to organic expansion, Sateri may also choose to acquire other companies or other assets in order to grow. We believe there is a risk that such potential acquisition may not succeed and may result in a weaker balance sheet or profitability for the company.

It is exploring the possibility of starting a greenfield integrated mill in Jiangsu

It has been expanding its capacity in a careful and measured pace to date

Sateri's competitive positioning in viscose staple fibre is not the strongest

We believe the likelihood of an industry oversupply situation is low

It may also choose to acquire other companies or other assets in order to grow

Like in its expansion plans, we believe the company is likely to be measured and careful in looking at potential acquisitions as well. Sateri's track record in acquisitions (acquiring the Brazilian assets from Klabin (KLBN4.SA, R\$5.78, Not Rated) is good. The company may prefer to acquire assets, as opposed to whole companies, should it decide to take the acquisition route in expanding. We believe acquiring assets may carry less risk compared to acquiring entire companies.

## Customer concentration risks

Sateri has had a relatively concentrated list of customers. In the year ending December 2009, the top five customers for the company accounted for 43% of total revenue and the largest customer accounted for 21% of total revenue (including contribution from DP Macao). We believe there is a risk that Sateri may lose customers from time to time. The company does not have long-term committed contracts from its customers.

There is a risk that Sateri may lose customers from time to time

We believe Sateri's volume and pricing are decided by industry-wide developments, as dissolving wood pulp and viscose staple fibre are globally traded commodities. Sateri deals mainly with spot sales, short-term sales and monthly/quarterly sales contracts. In other words, the company is used to dealing without any long-term contract commitment from its customers.

Sateri's volume and pricing are decided by industry-wide developments

## Currency mismatch risks

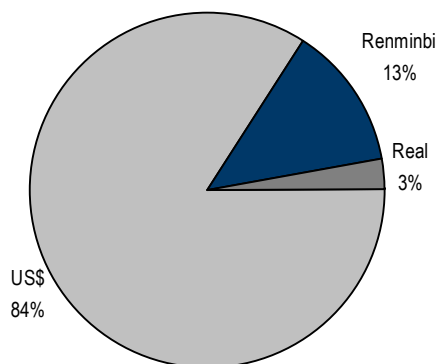
Sateri's revenue is denominated mostly in US dollars. Brazilian real-denominated revenue accounted for just 3% of total revenue in 1H10. In the same period, renminbi-denominated revenue accounted for 13% of total revenue. On the other hand, real- and renminbi-denominated costs accounted for 54% and 12% of total cost of sales. There is a risk of currency mismatch, should these exchange rates move significantly against the US dollar. In particular, Sateri would suffer in a weak US dollar environment.

Real- and renminbi-denominated costs accounted for 54% and 12% of total cost of sales in 1H10

Sateri actively hedges its real exposure. The company generally enters into a short position in the US dollar against the real in the forward or option market. As a result, it has had to book unrealised changes in the fair value of these derivative instruments in the past. Management noted that the company's exposure to the renminbi is more difficult to hedge; however, its renminbi exposure (on a net basis) is smaller compared to its real exposure.

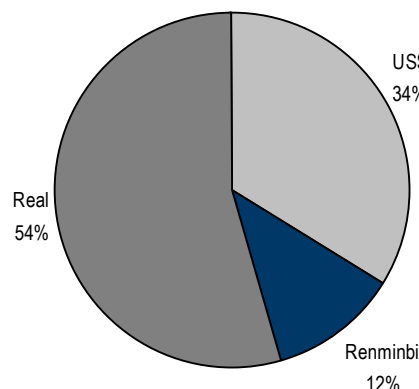
It generally enters into a short position in the US dollar against the real in the forward or option market

Figure 87: Revenue breakdown by currency in 1H10



Source: Company data

Figure 88: Cost of sales breakdown by currency in 1H10



Source: Company data

## Raw material risks

We believe there is a risk that the company may not be able to obtain sufficient raw materials for its dissolving wood pulp or viscose staple fibre manufacturing, or may only be able to do so at higher prices. The company noted that the following events could potentially affect its raw materials procurement:

- Changes to environmental regulation.
- Fluctuation in the market price of chemicals.
- Limited availability of plantation land.
- Catastrophic events.
- Fluctuation in exchange rates.

We believe the company's careful and measured capacity expansion so far has enabled it to manage raw material availability well. Going forward, we expect this to continue. The current high selling price for both dissolving wood pulp and viscose staple fibre (market prices are above our forecast prices for both 2011 and 2012) should create a buffer for margins, in case the prices of raw materials increase substantially.

## Reputational risks

We believe Sateri's reputation may be adversely affected, from time to time, by media speculation, claims or other public statements related to the controlling shareholder, Mr Sukanto Tanoto or his family. In our view, these speculations, claims and other statements do not relate directly to Sateri and do not impact the company's operations. Further, while Mr Tanoto is the ultimate controlling shareholder, we believe Sateri has been run by a group of professional managers and directors.

## Other risks

We believe the company may be exposed to other risks in addition to those previously mentioned. These include:

- Unexpected weather patterns, which could result in higher production costs. This primarily affects the company's plantation operations and dissolving wood pulp production cost.
- Potential loss of key personnel.

May not be able to obtain sufficient raw materials

Sateri's reputation may be affected by the speculations, claims or statements related to the ultimate shareholder

Unexpected weather patterns risks and change in key personnel

# Appendix I: Financial statements

**Figure 89: Sateri's income statement**

Year-end 31 Dec (US\$ mn)	2007	2008	2009	2010E	2011E	2012E
<b>Revenue</b>						
Cellulose products						
- Bahia Specialty	94	118	314	568	673	715
- DP Macao	13	139	110	125	-	-
	107	257	424	692	673	715
Viscose staple fibre	165	125	128	182	382	724
	<b>272</b>	<b>382</b>	<b>552</b>	<b>875</b>	<b>1,056</b>	<b>1,439</b>
+/- chg (%)	<i>n.a.</i>	40.5	44.4	58.4	20.7	36.3
<b>Volume ('000 tonnes)</b>						
Cellulose products						
- Bahia Specialty	79	121	354	393	414	427
- DP Macao	9	194	186	97	-	-
	88	315	540	489	414	427
Viscose staple fibre	73	61	67	75	140	260
<b>Average selling price (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	1,183	973	886	1,446	1,626	1,675
- DP Macao	1,468	720	593	1,291	-	-
	1,212	818	785	1,415	1,626	1,675
Viscose staple fibre	2,271	2,055	1,897	2,428	2,731	2,786
<b>Gross profit</b>	<b>107</b>	<b>78</b>	<b>210</b>	<b>462</b>	<b>514</b>	<b>619</b>
<i>Margin (%)</i>	39.1	20.5	38.1	52.8	48.6	43.0
Change in fair value of forestation and reforestation assets	-	-	23	-	-	-
Other operating income	66	11	(2)	3	10	10
Selling & dist. expenses	(14)	(28)	(44)	(57)	(71)	(91)
Administrative expenses	(43)	(45)	(41)	(53)	(67)	(86)
<b>Operating profit</b>	<b>116</b>	<b>16</b>	<b>147</b>	<b>355</b>	<b>386</b>	<b>453</b>
<i>Margin (%)</i>	42.5	4.2	26.6	40.6	36.5	31.4
Depreciation & amortisation	17	29	63	91	120	138
<b>EBITDA</b>	<b>132</b>	<b>45</b>	<b>210</b>	<b>446</b>	<b>506</b>	<b>590</b>
<i>Margin (%)</i>	48.5	11.7	38.0	51.0	47.9	41.0
Finance cost	(12)	(23)	(42)	(32)	(36)	(36)
Associates	4	(5)	-	-	-	-
Profit before tax	108	(12)	104	323	350	416
Taxation	(4)	3	3	(15)	(16)	(21)
Minority interest	(9)	5	(1)	(3)	(3)	(5)
<b>Net profit</b>	<b>95</b>	<b>(4)</b>	<b>107</b>	<b>305</b>	<b>331</b>	<b>391</b>
+/- chg (%)	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	185.8	8.3	18.2
<i>Margin (%)</i>	34.9	(1.0)	19.4	34.9	31.3	27.2
Net profit of DP Macao	<i>n.a.</i>	<i>n.a.</i>	35	62	-	-
<b>Net profit ex-DP Macao</b>	<b><i>n.a.</i></b>	<b><i>n.a.</i></b>	<b>71</b>	<b>244</b>	<b>331</b>	<b>391</b>
+/- chg (%)	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	241.5	35.6	18.2
<i>Ex-DP Macao margin (%)</i>	<i>n.a.</i>	<i>n.a.</i>	16.2	32.5	31.3	27.2
Weighted average no. of shares (mn)	2,863.5	2,863.5	2,863.5	2,897.0	3,415.9	3,415.9
Weighted average EPS ex-DP Macao (US\$)	0.033	(0.001)	0.025	0.084	0.097	0.114
+/- change (%)	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	237.6	14.8	18.3

Source: Company data, Credit Suisse estimates

**Figure 90: Sateri's balance sheet**

Year-end 31 Dec (US\$ mn)	2007	2008	2009	2010E	2011E	2012E
Property, plant and equipment	1,048	1,351	1,376	1,478	1,877	2,020
Forestation and reforestation assets	104	139	178	172	172	172
Other non-current assets	56	103	146	152	152	152
<b>Non-current assets</b>	<b>1,209</b>	<b>1,593</b>	<b>1,700</b>	<b>1,801</b>	<b>2,200</b>	<b>2,343</b>
Account receivables	113	132	235	345	412	561
Inventories	42	69	53	70	95	144
Cash and equivalents	60	75	109	484	326	438
Others	224	178	10	10	10	10
<b>Current assets</b>	<b>440</b>	<b>454</b>	<b>407</b>	<b>910</b>	<b>843</b>	<b>1,154</b>
<b>Total assets</b>	<b>1,648</b>	<b>2,046</b>	<b>2,106</b>	<b>2,711</b>	<b>3,043</b>	<b>3,497</b>
Short-term debt	86	157	179	129	129	129
Account payables	129	182	203	315	380	518
Others	33	50	49	37	38	43
<b>Current liabilities</b>	<b>248</b>	<b>390</b>	<b>431</b>	<b>481</b>	<b>547</b>	<b>690</b>
Long-term debt	319	311	279	469	469	469
Loans from related parties	-	213	143	-	-	-
Others	2	54	68	68	68	68
<b>Non-current liabilities</b>	<b>321</b>	<b>579</b>	<b>490</b>	<b>537</b>	<b>537</b>	<b>537</b>
<b>Total liabilities</b>	<b>569</b>	<b>968</b>	<b>921</b>	<b>1,017</b>	<b>1,084</b>	<b>1,227</b>
<b>Net assets</b>	<b>1,079</b>	<b>1,078</b>	<b>1,186</b>	<b>1,693</b>	<b>1,959</b>	<b>2,270</b>
Share capital	409	409	409	171	171	171
Reserves	635	639	745	1,488	1,751	2,057
<b>Shareholders' fund</b>	<b>1,044</b>	<b>1,048</b>	<b>1,154</b>	<b>1,659</b>	<b>1,921</b>	<b>2,227</b>
Minority interests	35	30	31	34	38	42
	<b>1,079</b>	<b>1,078</b>	<b>1,186</b>	<b>1,693</b>	<b>1,959</b>	<b>2,270</b>

Source: Company data, Credit Suisse estimates

**Figure 91: Sateri's cash flow statement**

Year-end 31 Dec (US\$ mn)	2007	2008	2009	2010E	2011E	2012E
Pre-tax profit	108	(12)	104	323	350	416
Taxes paid	(2)	(0)	(0)	(27)	(15)	(16)
Depreciation & amortisation	17	29	63	91	120	138
Associate adjustment	(4)	5	-	-	-	-
<b>Gross cash flow</b>	<b>118</b>	<b>22</b>	<b>167</b>	<b>387</b>	<b>456</b>	<b>539</b>
Net change in working capital	n.a.	7	(66)	(15)	(26)	(60)
<b>Operating cash flow</b>	<b>118</b>	<b>29</b>	<b>101</b>	<b>372</b>	<b>430</b>	<b>478</b>
Capital expenditure	(513)	(299)	(102)	(192)	(519)	(281)
<b>Free cash flow</b>	<b>(395)</b>	<b>(270)</b>	<b>(1)</b>	<b>179</b>	<b>(90)</b>	<b>198</b>
Dividends paid	-	-	-	-	(68)	(85)
Investments	(40)	(46)	(27)	-	-	-
Disposals	2	-	-	-	-	-
Issue share capital	-	-	-	437	-	-
Others	87	267	72	(381)	-	-
<b>Net cash flow</b>	<b>(345)</b>	<b>(48)</b>	<b>44</b>	<b>235</b>	<b>(158)</b>	<b>112</b>
Net cash/(debt) at start	n.a.	(345)	(394)	(349)	(114)	(272)
Net cash/(debt) at year end	(345)	(394)	(349)	(114)	(272)	(160)

Source: Company data, Credit Suisse estimates

**Figure 92: Sateri's ratio analysis**

Year-end 31 Dec (%)	2007	2008	2009	2010E	2011E	2012E
Revenue growth	n.a.	40.5	44.4	58.4	20.7	36.3
Gross profit growth	n.a.	(26.5)	168.4	119.8	11.2	20.5
EBITDA growth	n.a.	(66.4)	380.3	112.6	12.4	17.0
EBIT growth	n.a.	(86.8)	879.7	142.0	7.4	17.8
Net profit growth	n.a.	n.a.	n.a.	185.8	8.3	18.3
SG&A / revenue	20.9	19.1	15.4	12.6	13.1	12.3
Gross margin	39.1	20.5	38.1	52.8	48.6	43.0
EBITDA margin	47.7	11.4	37.9	50.9	47.4	40.7
EBIT margin	41.6	3.9	26.5	40.5	36.0	31.1
Net profit margin	34.9	(1.0)	19.4	34.9	31.3	27.2
Net interest cover (x)	11.9	0.7	3.5	11.5	12.6	14.5
Effective tax rate	3.9	21.1	(2.9)	4.5	4.5	5.0
Current ratio (x)	1.2	1.1	1.4	1.3	1.3	1.4
Net debt-to-equity	32.0	36.5	29.4	6.7	13.9	7.0
Inventory turnover days	94	83	57	62	64	64
Receivable days	152	126	155	144	142	142
Payable days	174	174	134	131	131	131
ROE	n.a.	(0.4)	9.7	21.7	18.5	18.9
ROA	n.a.	(0.2)	5.1	12.7	11.5	12.0

Source: Company data, Credit Suisse estimates

**Figure 93: Sateri's sales and costs by product category**

Year-end 31 Dec	2007	2008	2009	2010E	2011E	2012E
<b>Revenue (US\$ mn)</b>						
Cellulose products						
- Bahia Specialty	94	118	314	568	673	715
- DP Macao	13	139	110	125	-	-
	107	257	424	692	673	715
Viscose staple fibre	165	125	128	182	382	724
	<b>272</b>	<b>382</b>	<b>552</b>	<b>875</b>	<b>1,056</b>	<b>1,439</b>
<b>Sales volume ('000 tonnes)</b>						
Cellulose products						
- Bahia Specialty	79	121	354	393	414	427
- DP Macao	9	194	186	97	-	-
	88	315	540	489	414	427
Viscose staple fibre	73	61	67	75	140	260
<b>Average selling price (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	1,183	973	886	1,446	1,626	1,675
- DP Macao	1,468	720	593	1,291	-	-
	1,212	818	785	1,415	1,626	1,675
Viscose staple fibre	2,271	2,055	1,897	2,428	2,731	2,786
<b>Cost of sales (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	383	453	497	536	588	594
- DP Macao	650	569	365	588	-	-
	411	524	452	546	588	594
Viscose staple fibre	1,778	2,286	1,454	1,939	2,134	2,181
<b>Gross profit (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	800	520	389	909	1,039	1,082
- DP Macao	818	151	228	703	-	-
	801	294	333	869	1,039	1,082
Viscose staple fibre	493	(231)	443	489	597	605
<b>Segment profit (US\$/tonne)</b>						
Cellulose products						
- Bahia Specialty	311	113	144	621	754	806
- DP Macao	799	118	189	637	-	-
	361	116	160	624	754	806
Viscose staple fibre	454	(352)	309	236	271	278

Source: Company data, Credit Suisse estimates



## Appendix II: Background of Sateri

Sateri was incorporated in Bermuda on 8 June 2010 as a holding company for the dissolving wood pulp and viscose staple fibre businesses established by Mr Sukanto Tanoto, and is the flagship company for such businesses in Mr Tanoto's group of companies. Sateri primarily conducts its businesses through three principal operating subsidiaries: Bahia Specialty Cellulose and Copener, both in Brazil, and Sateri Jiangxi in China.

Sateri is the flagship company for the dissolving wood pulp and viscose staple fibre businesses in Mr Sukanto Tanoto's group of companies

**Figure 94: Sateri is one of the companies controlled by RGE International**

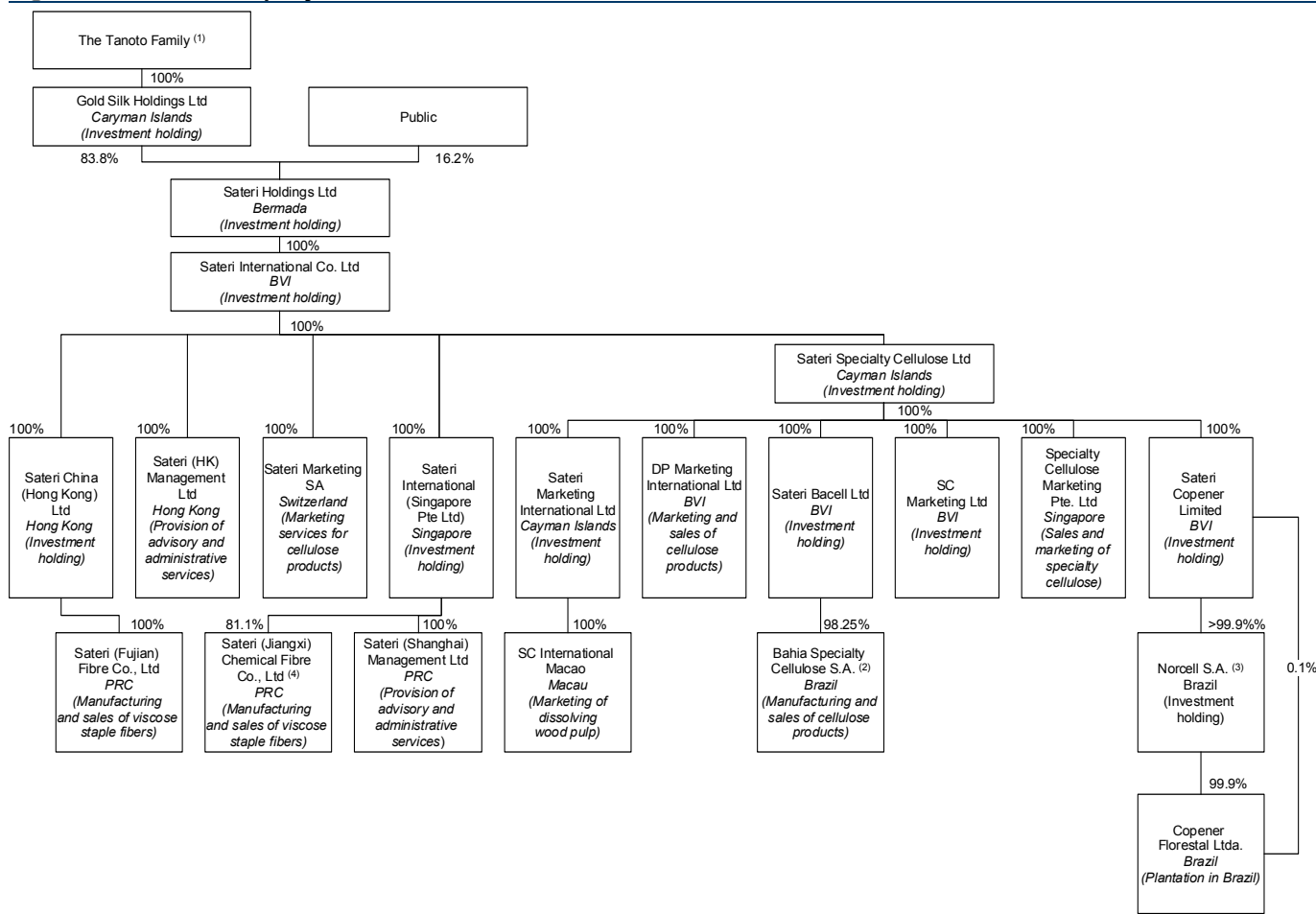


Source: Company data, Credit Suisse estimates

The company began its business with the construction of a viscose staple fibre mill in Sateri Jiangxi, which was incorporated on 23 August 2002. The construction of this mill was completed and it went into commercial production during the first half of 2004. In October and December 2003, through the company's subsidiary, Sateri Bacell Ltd, the company acquired an aggregate of 98.2% of the common shares and 100% of the preferential shares in Bahia Specialty Cellulose. Further, through Sateri Copener Ltd, the company acquired Norcell and Copener. Sateri acquired Kuitu Oy, a viscose staple fibre manufacturer based in Finland in February 2003. However, Sateri subsequently disposed of 70% of its interest in Kuitu Oy to a third party in January 2007 as it decided to focus its operations within the Asian markets. The remaining 30% interest in Kuitu Oy was disposed to a party controlled by Sateri's ultimate controlling shareholder in August 2009.

Corporate development and restructuring

Figure 95: Sateri—Company structure



Notes:

- (1) The Tanoto Family beneficially own 100% of Gold Silk. The Trustee holds 100% of the issued share capital of Gold Silk on trust for beneficiaries including the Tanoto Family.
- (2) Sateri Bacell Limited holds 98.2% of the total issued common shares and 100% of the total issued preferential shares in Bahia Specialty Cellulose S.A..
- (3) Sateri Copener Limited holds all except for three of the total issued common shares and 74.3% of the total issued preferential shares in Norcell S.A..
- (4) Sateri Singapore holds 81.1% of the registered capital in Sateri Jiangxi while Kuitu Oy is the existing holder of the remaining 18.9% of the registered capital in Sateri Jiangxi.

Source: Company data

## Directors and senior management

### Mr John Jeffrey YING, chairman and independent non-executive director

Mr Ying, aged 48, is the founder and managing director of Peak Capital, a private equity firm formed in 1999 that invests in growth and expansion capital transactions in the Greater China region. He has been a director of Mecox Lane (MCOX.OQ, \$6.98, Not Rated), a Chinese apparel and accessories e-commerce company listed on the US NASDAQ exchange, since 1999, and its vice-chairman since October 2010. He has also been a non-executive director of Tai Ping Carpets (0146.HK, HK\$1.98, Not Rated) since 1999. From 2008 to 2009, Mr Ying concurrently served as a managing director of Arctic Capital Limited, a private equity firm, where he was responsible for managing investments in North Asia. He served as a managing director in Asia of The Carlyle Group, a private global investment firm, in Hong Kong from 1998 to 1999, where he was responsible for managing investments in China and Thailand. He was also a director in investment

banking for Merrill Lynch & Co., where he worked from 1984 to 1986 and from 1989 to 1998.

### **Executive directors**

#### **Mr Will Wee Teng HOON, executive director and chief executive officer**

Mr Hoon, aged 47, has been a director and the chief executive officer of the company since June 2010, and the chief executive officer of Sateri International since 2009. He is responsible for the Group's overall management and performance. He was previously the vice chairman of Sateri International from 2008 to 2009. Prior to joining Sateri International, Mr Hoon served as a director and senior management officer of several companies. He was previously the president of Eu Yan Sang International (EYSI.SI, S\$0.80, Not Rated), a traditional Chinese medicine company, in 2007. Mr Hoon was also the executive vice president of Transpac Capital, a private equity firm, from 2000 to 2007 and was responsible for overseeing its overall portfolio of investments. He was the executive chairman of Foodstar Holdings, a seasonings company, from 2001 to 2007. He was the executive director of Hsu Fu Chi (HSFU.SI, S\$3.48, Not Rated), a confectionery company, from 2002 to 2007 and was responsible for directing the entire preparation for its IPO. He was also a managing director and the head of private equity at the Crosby Group from 1998 to 2000 and was responsible for directing and managing its private equity investments. From 1989 to 1998, he worked at management consulting firms (the last of which being Bain & Company) as a key member in the industrial products industry and was responsible for leading assignments.

#### **Mr Craig Edward BARKER, executive director**

Mr Barker, aged 50, has been a director of the company since October 2010. He has been the president of viscose staple fibres of Sateri International since 2006 and is responsible for the management and operations of the company's viscose staple fibre business. Mr Barker has more than 20 years of experience in the viscose staple fibre and related industries. Prior to joining Sateri International, he was a director of Liberty Fibres Corporation ("LFC"), the successor of the US based viscose staple fibre subsidiary of Lenzing AG, from 2002 to 2005, and was the chief executive officer of LFC from 2003 to 2005. As a director of LFC, Mr Barker provided his industry expertise in board discussions and decision making in respect of the company's budgeting and operational issues. After being appointed the chief executive officer of LFC, Mr Barker was mainly responsible for the overall performance of the company's operations, including production, quality control, health, safety and environment, and sales and marketing. From 1989 to 2003, Mr Barker served various marketing and sales positions with Lenzing AG, initially working as a technical sales manager for polyimide fibre products in Lenzing, Austria. In 1993 he was transferred to the Lenzing AG subsidiary, PT South Pacific Viscose ("SPV"), in Indonesia, one of the largest producers of viscose staple fibre in Asia. At SPV, Mr Barker held various positions, including president director.

### **Non-executive directors**

#### **Mr Meng See LOH, non-executive director**

Mr Loh, aged 60, has been engaged as a human resources management consultant by RGE Pte Ltd. and has served as a director of Asia Pacific Resources since 2009. RGE is controlled by Mr Sukanto Tanoto, ultimate shareholder of Sateri. Asia Pacific Resources is ultimately controlled by the Tanoto family. Mr Loh has more than 30 years of work experience in the field of human resources management and has served as senior management officer in two Singapore-listed companies. From 2000 to 2009, he was the senior vice president of human resources of Singapore Airlines (SIAL.SI, S\$15.34, OUTPERFORM, TP S\$18.50). From 1975 to 2000, Mr Loh worked with Keppel Corporation (KPLM.SI, S\$11.58, OUTPERFORM, TP S\$13.50), a Singapore-based investment holding and management company, and served in various executive positions in the company's personnel department. His last position with Keppel Corporation was as

group personnel director from 1993 to 2000, where he was responsible for human resources management. He was a member of the parliament of Singapore from 1988 to 2006, representing the Kampong Glam constituency and the Jalan Besar group representation constituency.

**Mr John Gin Chung SETO, non-executive director**

Mr Seto, aged 62, has been a director of Pacific Eagle Asset Management, which is a company controlled by Mr Sukanto Tanoto, since 2006. He serves as an independent non-executive director of three Hong Kong-listed companies. He has served as an independent non-executive director of Kowloon Development (0034.HK, HK\$10.40, Not Rated) since 2002, of China Everbright Limited (0165.HK, HK\$17.68, Not Rated) since 2003 and of Hop Hing Group (0047.HK, HK\$0.425, Not Rated) since 2006. Mr Seto was also a non-executive director of Hong Kong Exchanges and Clearing (0388.HK, HK\$187.30, OUTPERFORM, TP HK\$197.00) from 2000 to 2003. He was a council member of the Stock Exchange from 1994 to 2000, during which period of time he acted as its first vice chairman from 1997 to 2000. From 1982 to 2001, Mr Seto served as the chief executive officer of HSBC Broking Services (Asia) Limited.

**Mr Wei Lin TEY, non-executive director**

Mr Tey, aged 39, is the executive vice president of RGE Pte Ltd., a company controlled by Mr Sukanto Tanoto, which oversees a group of companies focused on resource-based manufacturing industries (the "RGE group of companies"). He has held senior management positions with the RGE group of companies since 2001 and, in his role as executive vice president of RGE Pte Ltd., he currently has overall management responsibility for all corporate office functions of the RGE group of companies, including corporate finance, treasury and banking, corporate control, legal affairs and human resources. Since 2006, Mr Tey has been a director of Pacific Eagle Asset Management, where he has also been appointed as a responsible officer pursuant to the SFO since 2005. He has been a non-executive director of Asia Pacific Resources International since 2008. Pacific Eagle Asset Management is controlled by Mr Sukanto Tanoto. Asia Pacific Resources is ultimately controlled by the Tanoto family. From 1995 to 2000, he worked with GIC Real Estate, the real estate investment arm of the Government of Singapore Investment Corporation, and his last position with GIC Real Estate was vice president.

**Mr Rohan WEERASINGHE, non-executive director**

Mr Weerasinghe, aged 59, is the senior partner of Shearman & Sterling LLP, which has been engaged by the Group to act as its legal advisor from time to time. He joined Shearman & Sterling LLP as an associate in 1977, was made partner in 1986 and senior partner in 2005. His legal practice focuses on capital markets, corporate governance and other corporate advisory work. He has been involved in many capital markets transactions, including initial public offerings, high-yield debt offerings and a variety of other equity and debt transactions.

**Independent non-executive directors**

**Mr Jeffery Kin Fung LAM, independent non-executive director**

Mr Lam, aged 59, is an independent non-executive director of a number of companies listed on the Stock Exchange, including China Overseas Grand Oceans Group (0081.HK, HK\$6.50, Not Rated), Wynn Macau (1128.HK, HK\$20.05, UNDERPERFORM, TP HK\$14.30), Hsin Chong Construction Group (0404.HK, HK\$1.81, Not Rated) and CC Land (1224.HK, HK\$3.07, Not Rated). Mr Lam has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. Mr Lam is a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Hong Kong Legislative Council, the chairman of the assessment committee of the Mega Events Fund, a member of the board of the West Kowloon Cultural District Authority and a member of the Hong Kong Independent Commission Against Corruption's Advisory Committee on

Corruption. He is also a council member of the Hong Kong Trade Development Council, a general committee member of the Hong Kong General Chamber of Commerce and the vice chairman of The Hong Kong Shippers' Council.

Mr Lam was awarded the Young Industrialist Award of Hong Kong in 1989 and the Outstanding Award — Hong Kong Toy Industry in 1999. In 1996, he was appointed justice of the peace and became a member of the Most Excellent Order of the British Empire. In 2004, he was awarded the Silver Bauhinia Star Award.

**Mr David Hon To YU, independent non-executive director**

Mr Yu, aged 62, has over 25 years of experience in corporate finance, auditing and corporate management. He has been the vice chairman of MCL Partners Limited, a Hong Kong-based financial advisory and investment firm, since 1999. Between 1995 and 1998, he was the deputy managing director of Playmates Group. Between 1983 and 1995, Mr Yu was a partner of Coopers & Lybrand, the predecessor of PricewaterhouseCoopers. He has been a fellow member of the Institute of Chartered Accountants in England and Wales since January 1982 and an associate member of the Hong Kong Institute of Certified Public Accountants since March 1983. He serves as an independent non-executive director of a number of companies listed on the Stock Exchange, including Hong Kong Energy (0987.HK, HK\$0.58, Restricted), Synergis (2340.HK, HK\$0.93, Not Rated), Haier Electronics (1169.HK, HK\$8.95, Not Rated), VXL Capital (0727.HK, HK\$0.315, Not Rated), TeleEye Holdings (8051.HK, HK\$5.55, Not Rated), One Media Group (0426.HK, HK\$0.455, Not Rated), Great China Holdings (0141.HK, HK\$1.13, Not Rated), Media Chinese International (0685.HK, HK\$2.10, Not Rated) (dually listed on the main boards of the Stock Exchange and the Bursa Malaysia Securities Bhd.), and Playmates Holdings (0635.HK, HK\$2.92, Not Rated).

Over the past three years, Mr Yu has also served as an independent non-executive director of several other companies listed on the Stock Exchange, including Cinda International (0111.HK, HK\$1.85, Not Rated) from 2006 to 2008, BALtrans Holdings from 2002 to 2008, and Shun Cheong (0650.HK, HK\$0.58, Not Rated) from 2004 to 2007. He also serves as an independent non-executive director of China Datang Corporation Renewable Power (1798.HK, HK\$2.08, Not Rated).

**Senior Management**

**Mr Ivan ALVES, managing director of Bahia Specialty Cellulose**

Mr Alves, aged 50, has been the managing director of Bahia Specialty Cellulose since 2009, and is responsible for all our Brazilian operations. Prior to joining Bahia Specialty Cellulose, he served as the general manager of LSM Brasil Ltda, a subsidiary of Advanced Metallurgical Group N.V., a Netherlands-based specialty metals company, from 2007 to 2009, where he was responsible for its Brazilian operations. From 2003 to 2007, Mr Alves served as the director of supply chain, Latin America, of Nalco Company (NLC.N, \$30.58, Not Rated), a water treatment and process chemicals company in Latin America where he was responsible for all Latin American operations including procurement, quality systems and distribution in the Caribbean and Latin American region. From 2000 to 2002, he worked for Grupo Votorantim as the general manager of its subsidiary, Cia. Nitro Quimica Brasileira Ltda, a producer of nitrocellulose, hydrofluoric acid and sulphuric acid, in Brazil, where he was responsible for chemical operations of a fluorite mine and a specialty chemicals plant in São Paulo. For the period between 1980 and 2000, Mr Alves worked for Monsanto Company (MON.N, \$74.33, Not Rated), a U.S.-based agriculture biotechnology corporation listed on the New York Stock Exchange, in Brazil and the US and his last position was a project director of the company where he was responsible for several aspects, including manufacturing, logistics, human resources, strategic and business development.

**Mr John Zhong Ze LIU, managing director of Sateri Jiangxi**

Mr Liu, 50, has been the managing director of Sateri Jiangxi since 2009, and is responsible for its business operations. Prior to joining Sateri Jiangxi, Mr Liu served as the managing director for Asia Pacific of Invensys Control Corporation, a manufacturer of controls and electronic components based in the US and a subsidiary of Invensys plc, and was based in the PRC from 2005 to 2009, where he was responsible for its Asia Pacific operations. He held various positions, including being the vice president for global operations at Fedders Corporation, a global manufacturer of air-treatment products, in the US from 1994 to 2005. He also worked for various companies in China, including as a project manager of Konka Group (000016.SZ, Rmb4.70, Not Rated), a manufacturer of electronics and telecommunication products, from 1989 to 1991, where he was responsible for its import and export business and sales in north China. He was also a commercial representative of Changsha Design and Research Institute of Non-Ferrous Metallurgy from 1982 to 1986, where he was responsible for the procurement of advanced factory and mining equipment.

**Mr Cláudio Laert Cotrim PASSOS, finance director of Sateri International**

Mr Passos, aged 43, has been the finance director of Sateri International since 2010, and is responsible for managing investor relations, budgeting and aligning group accounting policies between business units. He has more than 18 years of experience in the finance industry. Mr Passos was the finance director of Bahia Specialty Cellulose from 2004 to 2007, where he was responsible for budgeting, accounting and supervising its legal and IT functions. He was the finance director of Prima Empreendimentos S.A, a real estate developer in Bahia, from 2007 to 2008. In 2008, Mr Passos rejoined Bahia Specialty Cellulose and was appointed as finance and administration director. Prior to joining Bahia Specialty Cellulose, Mr Passos was the financial controller of Griffin do Brasil Ltda., a JV of Griffin Corporation and E. I. du Pont de Nemours and Company in the crop protection business from 1997 to 2003. From 1992 to 1997, he worked as a senior auditor at Ernst & Young. He was a member of the board of directors of the Federation of Industries of the State of Bahia from March 2006 to March 2010.

**Mr Christian CHAVASSIEU, sales and marketing director of Sateri International**

Mr Chavassieu, aged 56, has been the sales and marketing director of Sateri International since 2007. He has extensive experience in the dissolving wood pulp industry and is primarily responsible for Sateri International's marketing and sales of dissolving wood pulp. He worked for Buckeye Technologies, the second largest high purity cellulose producer in the US, from 1996 to 2006, during which period he was responsible for the company's sales of high purity cellulose and his last position with the company was senior vice president. Mr Chavassieu was the president of Chavassieu & Cie SA, a pulp and paper trading company based in France from 1990 to 1996. He also held various finance positions at Schlumberger (SLB, \$86.91, OUTPERFORM, TP \$98.00), an oilfield services company from 1980 to 1987, and Apple Inc Apple Inc. (AAPL, \$348.48, Not Rated) between 1987 and 1990.

**Mr Marcelo Moreira LEITE, technical director of Bahia Specialty Cellulose**

Mr Leite, aged 52, has been the technical director of Bahia Specialty Cellulose since 2009, and is primarily responsible for research and development, process and product quality control, laboratory, product development, customer technical services and process optimisation. He joined Bahia Specialty Cellulose as a process and technology manager in 2006 and was appointed as production director in 2008. Prior to joining Bahia Specialty Cellulose, he served as a process engineer and technology manager with Kvaerner Pulping Ltd, a manufacturer of equipment for the pulp and paper industry, from 1992 to 2006 and was the process engineer and chief of the pulping process department in Jaakko Pöyry Brazil, an engineering and consulting company specialising in the pulp and paper industry, from 1985 to 1992. From 1981 to 1985, Mr Leite worked with Cia Suzano de

Papel e Celulose, a pulp and paper manufacturer, in São Paulo and his last position was process engineer.

**Mr Eugene Hui Tiong ANG, vice president, Sateri International**

Mr Ang, aged 42, has been the vice president for corporate finance of Sateri International since 2007, and is responsible for corporate finance, including capital markets projects, acquisition projects and accounting. He joined Sateri International as the general manager (finance) in 2004. He has 18 years of experience in finance and related industries. Prior to joining Sateri International, he worked with the investment banking arm of BNP Paribas from 1998 to 2004 in both its Singapore and Hong Kong offices. His last position with BNP Paribas was senior vice president, in which he was responsible for corporate finance of the Financial Institutions Group. From 1992 to 1998, he worked with Ernst & Young in its Singapore and London offices and his last position was assistant manager.

**Mr Kari PARVIAINEN, vice president, Sateri International**

Mr Parviainen, aged 55, has been the vice president for sales and marketing of specialty viscose staple fibres for Sateri International since 2010, and is responsible for developing the specialty viscose staple fibre markets. He joined Sateri Jiangxi as the sales and marketing director in 2003. He was appointed the vice president for business planning and development of Sateri International in 2008 and the vice president for marketing in 2008. From 2004 to 2007, Mr Parviainen served as the managing director of Sateri Oy (Finland) and was responsible for its daily operations. From 2001 to 2002, he was the president and chief executive officer of Suominen Oy (SUUY1V.HE, Eu0.57, Not Rated), a major non-woven producer in Europe, which he joined in 1998. He worked for Finlayson Oy, a major textile group in Scandinavia, from 1980 to 1998 and his last position with Finlayson Oy was the company's president from 1993 to 1998.

**Mr Yongning SUN, vice president, Sateri International**

Mr Sun, aged 61, has been the vice president for marketing of rayon grades of pulp and viscose staple fibre for Sateri International since 2009. He is responsible for the marketing of rayon grades of pulp and viscose staple fibre in China. Mr Sun joined Sateri Jiangxi as a consultant in the marketing department in 2002. He was appointed as senior manager for sales and customer service for viscose staple fibres in 2007. Before joining our Group, he worked for Jiujiang Chemical Fibre Factory, a cellulosic fibre producer in China, from August 1984 to December 2001 in various positions, including operation section chief, head of sales and marketing department and factory operation director and was responsible for the sales and marketing of viscose staple fibre. His last position with Jiujiang Chemical Fibre Factory was as operations director responsible for sales, procurement and logistics.

**Mr Silas ZEN, forest manager of Bahia Specialty Cellulose**

Mr Zen, aged 52, has been the forest manager of Bahia Specialty Cellulose since 2008 and became statutory director in 2009. He is responsible for all forestry operations, including research and development, silviculture, harvesting and transportation. He has 26 years of experience working in large multinational pulp and paper and mining companies. From 1996 to 2007, Mr Zen was a research and development manager and forestry director of Vale do Rio Doce Mine Companhia (Brazil), a mining and pulp company, where he was responsible for developing eucalyptus growth technologies and overall effectiveness of forestry operations. From 1984 to 1996, he was a research and development manager of Suzano Pulp and Paper Cia, a pulp and paper company.

**Mr Heping WU, production director of Sateri Jiangxi**

Mr Wu, aged 43, has been the production director of Sateri Jiangxi since 2008 and is responsible for the supervision and management of the manufacturing operations and the utility facilities in Sateri Jiangxi. He joined Sateri Jiangxi in 2003 and was initially in charge of the electronic meters in the company. He was appointed as assistant to the general

manager in 2006, and was promoted to the positions of senior manager in 2007, production director in 2008 and assistant general manager in 2010. Prior to joining Sateri Jiangxi, Mr Wu worked at Jiujiang Chemical Fibre Factory, a cellulosic fibre producer in China, from 1989 to 2003, where his last position was the vice president of one of its sub-factories.

**Mr Sincere WONG, company secretary**

Mr Wong, aged 46, is the vice president, legal of Sateri International and the company secretary of the Company. He joined the Sateri Group in July 2010. Mr Wong has over 13 years of in-house legal counsel experience with three listed companies in Hong Kong, namely, Hutchison Whampoa (0013.HK, HK\$93.55, OUTPERFORM, TP HK\$105.30), China Resources Enterprise (0291.HK, HK\$31.35, Not Rated) and Shui On Construction and Materials (0983.HK, HK\$9.44, Not Rated). His last position was the chief legal officer of Shui On. Mr Wong has been a qualified lawyer in the jurisdictions of Hong Kong and England and Wales since October 1993 and February 1994, respectively.



**Companies Mentioned** (Price as of 14 Jan 11)

Apple Inc. (AAPL, \$348.48, NOT RATED)  
 Buckeye Technologies Inc (BKI, \$21.97, UNDERPERFORM [V], TP \$20.00)  
 CC Land (1224.HK, HK\$3.07, NOT RATED)  
 China Datang Renewables Power (1798.HK, HK\$2.08, NOT RATED)  
 China Everbright Limited (0165.HK, HK\$17.68, NOT RATED)  
 China Overseas Grand Oceans Group (0081.HK, HK\$6.50, NOT RATED)  
 China Resources Enterprise (0291.HK, HK\$31.35, NOT RATED)  
 Cinda International (0111.HK, HK\$1.85, NOT RATED)  
 Eu Yan Sang International (EYSI.SI, S\$0.80, NOT RATED)  
 Great China Holdings (0141.HK, HK\$1.13, NOT RATED)  
 Haier Electronics (1169.HK, HK\$8.95, NOT RATED)  
 Hengan International (1044.HK, HK\$61.70, NEUTRAL, TP HK\$60.40)  
 Hong Kong Energy (0987.HK, HK\$0.58, RESTRICTED)  
 Hong Kong Exchanges and Clearing Ltd (0388.HK, HK\$187.30, OUTPERFORM, TP HK\$197.00)  
 Hop Hing Group (0047.HK, HK\$0.425, NOT RATED)  
 Hsin Chong Construction Group (0404.HK, HK\$1.81, NOT RATED)  
 Hsu Fu Chi (HSFU.SI, S\$3.48, NOT RATED)  
 Huabao International (0336.HK, HK\$11.88, NEUTRAL, TP HK\$12.70)  
 Hutchison Whampoa (0013.HK, HK\$93.55, OUTPERFORM, TP HK\$105.30)  
 Keppel Corporation (KPLM.SI, S\$11.58, OUTPERFORM, TP S\$13.50)  
 Klabin (KLBN4.SA, R\$5.78, NOT RATED)  
 Konka Group (000016.SZ, Rmb4.70, NOT RATED)  
 Kowloon Development (0034.HK, HK\$10.40, NOT RATED)  
 Lee & Man Paper (2314.HK, HK\$5.95, UNDERPERFORM [V], TP HK\$5.55)  
 Lenzing (LENV.VI, Eu86.05, NOT RATED)  
 Mecox Lane Ltd. (MCOX.OQ, \$7.18, NOT RATED)  
 Media Chinese International (0685.HK, HK\$2.10, NOT RATED)  
 Monsanto Company (MON.N, \$74.33, NOT RATED)  
 Nalco Company (NLC.N, \$30.58, NOT RATED)  
 Nine Dragons Paper (2689.HK, HK\$12.30, UNDERPERFORM [V], TP HK\$10.80)  
 One Media Group (0426.HK, HK\$0.455, NOT RATED)  
 Playmates Holdings Ltd (0635.HK, HK\$2.92, NOT RATED)  
 PT Toba Pulp Lestari (INRU.JK, Rp690, NOT RATED)  
 Rayonier (RYN, \$56.98, UNDERPERFORM, TP \$50.00)  
 Sappi Limited (SPP, \$5.15, UNDERPERFORM [V], TP \$5.55)  
 Sateri (1768.HK, HK\$7.96, OUTPERFORM, TP HK\$10.55)  
 Schlumberger (SLB, \$86.91, OUTPERFORM, TP \$98.00)  
 Shui On Construction and Materials (0983.HK, HK\$9.44)  
 Shun Cheong (0650.HK, HK\$0.58, NOT RATED)  
 Singapore Airlines (SIAL.SI, S\$15.34, OUTPERFORM, TP S\$18.50)  
 Suominen Oy (SUY1V.HE, Eu0.57, NOT RATED)  
 Synergis (2340.HK, HK\$0.93, NOT RATED)  
 Tai Ping Carpets (0146.HK, HK\$1.98, NOT RATED)  
 TeleEye Holdings (8051.HK, HK\$5.55, NOT RATED)  
 Tembec (TMB.TO, C\$4.71, NOT RATED)  
 VXL Capital (0727.HK, HK\$0.315, NOT RATED)  
 Wynn Macau (1128.HK, HK\$20.05, UNDERPERFORM, TP HK\$14.30)

## Disclosure Appendix

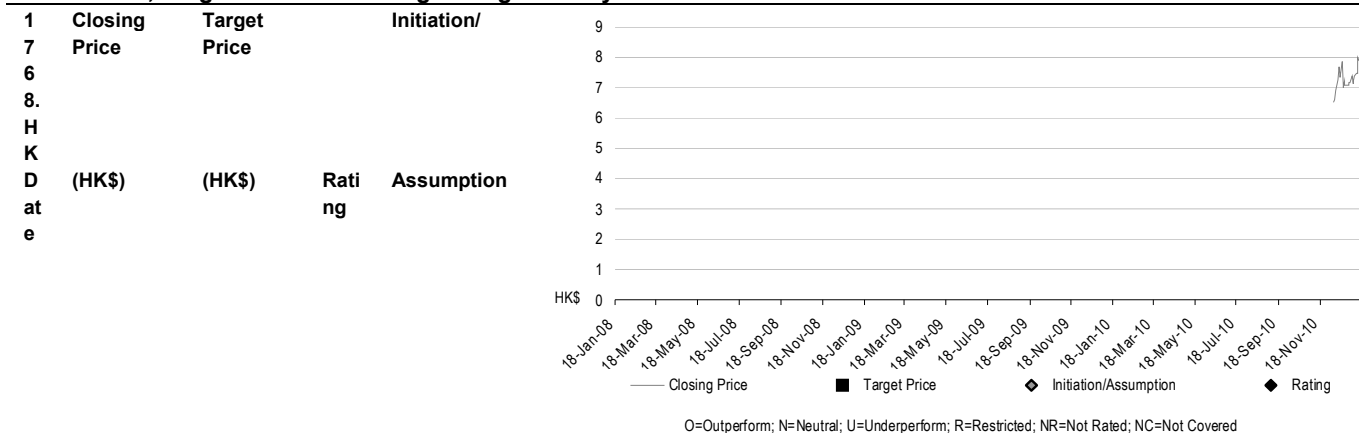
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**3-Year Price, Target Price and Rating Change History Chart for 1768.HK**



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**Price Target:** (12 months) for (1768.HK)

**Method:** Our 12-month target price of HK\$10.55 for Sateri is based on a price-to-earnings (P/E) multiple of 14x 2011E earnings per share (EPS). Our valuation assumes that the company will post a three-year 2010-12E recurrent EPS compound annual growth rate (CAGR) of 17%. The 14x multiple represents 0.85x P/E to CAGR, close to 0.8x of the closer China comps, reflecting its superior margins and profitability, financial position, higher market share in the Chinese market, and growth potential after the completion of the expansion of its Bahia Specialty Cellulose mill, and most importantly, the potential upside of our earnings forecasts based on the conservative product selling price assumptions.

**Risks:** Risks to our HK\$10.55 target price for Sateri include: (1) macroeconomic-related risks, which may result in substantially lower selling prices of Sateri's products; (2) expansion risks, as Sateri may look to expand aggressively beyond the current expansion plans; (3) competition risks; (4) acquisition risks; (5) customer concentration risks; (6) currency mismatch risks; (7) raw material risks; (8) reputational risks; (9) unexpected weather patterns, and key staff changes.

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