

COMPANY OVERVIEW

(Myanmar Kyats, except share data)

Target Price	265,773
Upside (x)	12.29
Valuation	DCF
Close (Sep 24)	20,000
Market Cap	2.00 bn
Sector	Forestry
52 Week High/Low	20,000 / 16,000*
Shares Outstanding	100,000
No. of Shareholders	4,170
Cash Dividend	2,500
Last Dividend	20 Oct 2012

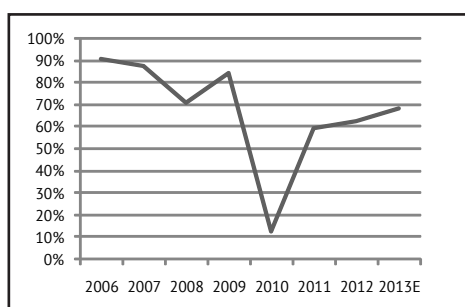
* Fully paid-up / 75% paid-up

Earnings Fundamentals

(Myanmar Kyats, millions except share data)

FY to Mar 31	2011A	2012A	2013F	2014F
Revenue	6,393	6,648	4,352	5,521
EBITDA	775	103	42	851
Net Income	422	398	441	1,049
EPS	4,216	3,981	4,408	10,488
EPS growth (%)	(78)	(6)	11	138
P/E	4.7	5.0	4.5	1.9
ROE (%)	7.9	7.2	1.8	3.8
ROA (%)	3.5	3.2	1.4	3.3
Price/BV	0.37	0.36	0.08	0.07
EV/EBITDA	10.4	78.3	70.3	3.5
Retention (%)	27	22	14	64

Dividend Payout Ratio



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Forest Products Joint Venture Corp. Research Report

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FPJVC: The Cash King with an Uncertain Future

With tremendous cash reserves and strong relationships in Myanmar's timber industry, Forest Products Joint Venture Corp represents a great buy for investors. But an upcoming ban on the sale of teak logs will test the company's adaptability.

Forest Products Joint Venture Corp (FPJVC), a semi-governmental enterprise involved in the extraction and processing of timber, has many challenges ahead. But a revaluation of cash assets from government exchange rates to market rates has sent the company's book value soaring. FPJVC's current share price represents less than 8% of its 2013E book value - a remarkable bargain.

In addition to its cash, FPJVC has recorded consistent profits over the last three years, but purchasing shares remains difficult. The company's future is also in question as an export ban on logs comes into effect in early 2014. We initiate coverage with a fair value of Ks. 265,773 based on a discounted cash flow analysis.

Key Points

- Revaluation of cash reserves and term deposits leaves FPJVC with an extra 19.97 bn on its balance sheet
- Strong relationship with the Ministry of Environmental Conservation and Forestry serves the company well
- FY2014 revenues expected to rise 26% before the export ban on unprocessed logs comes into effect
- Lack of liquidity and set share prices prevent real market conditions from taking hold
- Extremely attractive valuation currently - TP is 12x market price

Forest Products Joint Venture Corporation Ltd. is a 45-10-45 joint-venture between three stakeholders: Myanmar Timber Enterprise (under the Ministry of Environmental Conservation and Forestry), the Forest Department (also under the Ministry of Environmental Conservation and Forestry), and private shareholders. The company first sold shares to the public in 1993, and has 100,000 shares outstanding.

FPJVC works predominantly in the wood products industry, with the majority of its earnings coming from teak and hardwood logging and extraction. In addition to its logging activities, FPJVC earns spread income from reselling logs purchased from Myanmar Timber Enterprise, imports diesel and supplies for government ministries, leases wood processing factories, and owns the Forest Joint Venture Commercial Centre on the corner of Bohtataung Pagoda Rd. and Strand Rd. in downtown Yangon.



FPJVC also has the distinction of being one of two companies listed at the Myanmar Securities Exchange Centre (MSEC). MSEC is a joint venture between state-owned Myanmar Economic Bank (MEB) and Japan's Daiwa Institute of Research (DIR), and was formed in 1996 to provide a share trading platform for Myanmar public companies. MSEC is often mistaken as being Myanmar's 'stock market', but is actually an over-the-counter market without clearing or settlement systems. To buy shares at MSEC, a buyer fills out a form with a bid price and volume and waits for a corresponding seller. If a match occurs, MSEC contacts both parties and the shares are traded, with transactions usually happening in cash. After the trade, the company whose shares have been traded registers the new shareholder and collects a small registration fee.

Unfortunately, MSEC has never managed to garner interest from investors or public companies, and trade volume at the Centre remains extremely low. According to industry sources, MSEC will soon be turned into a securities company, with Daiwa Securities taking over Daiwa Institute of Research's role. It is likely that MSEC will cease trading in its current form after the Yangon Stock Exchange comes online in late 2015.

Overview of Stakeholders

Myanma Timber Enterprise (45% Stake, "Class A" Shares)



Myanma Timber Enterprise (MTE) is one of four institutions under the Ministry of Environmental Conservation and Forestry. It is responsible for harvesting, milling, downstream processing, and exporting Myanmar timber. Formerly known as the State Timber Extraction Organization, it was formed shortly after the country gained its independence in 1948. All legal wood exports in Myanmar require certification from MTE, which has agreements with prominent trading companies such as Htoo Trading

Company and Asia World. MTE issues monthly tenders for companies wishing to purchase Myanmar teak and coordinates payments.

Having the major governing body of the wood industry as a shareholder is obviously advantageous for FPJVC. The two entities work hand-in-glove in timber extraction, with FPJVC cutting logs for MTE in designated areas. Being a government institution that lacks the resources of a private enterprise, MTE relies on FPJVC for many of its commercial activities, including importing supplies and managing customers.

But having MTE as a shareholder also makes FPJVC slow-moving and bureaucratic. Decisions that could be made quickly by private companies must necessarily pass through MTE's accountability labyrinth, which produces internal tension between the entrepreneurial private shareholders and the "Class A" government agencies. With that said, MTE's presence has undoubtedly been a boon for the company – it's hard to imagine an entirely private company receiving the kind of benefits and deals that FPJVC has been able to obtain throughout the years.

Forest Department (10% Stake, "Class A" Shares)



The Forest Department is responsible for managing Myanmar's forests sustainably. It takes inventories of forests, demarcates logging areas, conducts controlled burns to prevent large scale fires, and works with local communities to manage their forest resources. The Forest Department is also responsible for managing the Myanmar Selection System (MSS) which determines what kind of trees can be cut down.

Along with MTE, the Forest Department determines the Annual Allowable Cut (AAC) for logging areas, which stipulates how many tons of teak and other wood can be extracted from a particular location. FPJVC's logging activities are highly dependent on AAC quotas, so having the Forest Department as a shareholder is highly beneficial. Because it is less involved in the commercial side of the wood industry and more involved in forest management, the Forest Department is seen as relatively free of corruption by industry players.

Private Shareholders (45% Stake, "Class B" Shares)

There are a total of 45,000 "Class B" shares outstanding which are available to the general public and can be traded at MSEC. Although par value for "Class B" shares is 10,000 kyats, the company began by selling shares at 5,000 kyats in 1997, with the remaining amount callable in future years according to the company's capital needs.

The company called in another 25% of par value in 1999, meaning that each shareholder paid-in an additional 2,500 kyats. Management informs us that the remaining 25% has been called in 2013, resulting in all shares being fully paid up. In order to prevent hostile takeovers, the company limits individuals to 200 shares, while companies can own up to 500 shares. BOD approval is required if any entity wishes to own more than 20% of the company, which is unlikely to happen because of shareholding restrictions.

During FPJVC's IPO, many "Class B" shares were purchased by individuals and companies with interests in the wood industry, so relatively few general shareholders exist. Despite this fact, FPJVC has one of the most extensive shareholder databases of any public company in Myanmar, with 4,170 investors listed. Because FPJVC has a track record of paying 30% dividends on paid-up capital, few people are willing to sell their "Class B" shares, which is part of the reason for the low transaction volumes seen at MSEC.

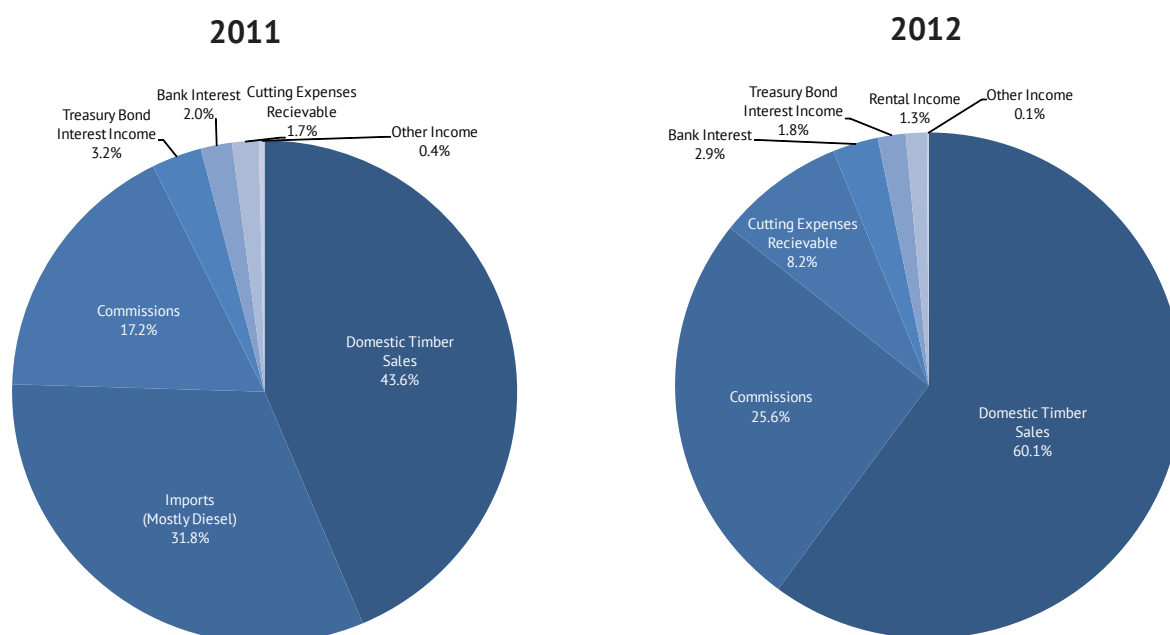


This 30% dividend on paid-up capital would be rather meaningless if share prices were floated, but the company currently caps share prices at 20,000 kyats, which has resulted in a stark undervaluation and virtually no liquidity. In order to develop a strong sell-side, the company must allow its share price to float. Our view is that FPJVC should also issue new shares in order to release the demand bottleneck it currently faces. MSEC informs us that there is a long buy-side waiting list, with no matching sell-side.

Company Background

FPJVC was set up to provide a commercial arm for the Ministry of Environmental Conservation and Forestry (then simply called the Ministry of Forestry), helping it to export various varieties of hardwood and teak. Teak is one of the most expensive woods in the world, renowned for its weather resistance. It's commonly used for the decks of yachts, outdoor furniture and flooring. Teak grows naturally in Myanmar and only three other countries in the world: India, Laos, and Thailand. These three countries have implemented bans on the logging or export of natural teak, which leaves Myanmar as the only country that continues to export it. Because teak is so valuable other countries sow it in commercial plantations, but natural teak is considered superior to plantation teak which results in Myanmar's commanding market position.

Income Breakdown



This is set to change however, as the Myanmar government will initiate a ban on teak log exports from April 1, 2014. After that date, only finished or semi-finished wood products will be permitted for export. Officially, the export ban shouldn't have a major impact on FPJVC's revenues, as it is mainly involved in the timber trade at the extraction and primary processing level rather than as an exporter of raw logs. Indeed, direct exports accounted for a miniscule 0.04% of revenues in FY2011 and 0.01% in FY2012. But the export numbers on FPJVC's books don't tell the whole story.

FPJVC is indeed involved directly in the export of logs, but for two reasons export earnings don't show up on its income statement. First, FPJVC often exports under MTE's name, which means earnings are not recorded on its books. Second, as we discuss in the valuation section of this report, export earnings are underreported due to currency exchange issues.



After the export ban, demand for raw logs will need to be replaced by demand for cut timber. This adjustment will likely cause hiccups, as FPJVC and other local companies shift their focus to processed wood products and begin to compete with the teak products coming from other regional players like Indonesia.

Before the ban is in place we expect FPJVC to liquidate inventories, taking advantage of the last opportunity to export raw logs to international buyers. If FPJVC and other log exporters are unable to sell existing stocks, a downward pressure on domestic prices could begin in mid-2014, as excess supply meets the relatively few local factories capable of producing international standard goods. If a domestic glut develops, we expect MTE and the Forest Department to reduce logging quotas to try to stabilize prices. While domestic

price rises would be beneficial for FPJVC's domestic sales business, a reduction of logging activities would have a direct impact on the company's revenues.

Business Overview

Teak and Hardwood Logging in Permitted Areas

Virtually all of teak and hardwood extracted in Myanmar is the property of the State. Working on the basis of the Myanmar Selection System and Annual Allowable Cut program, the Ministry of Environmental Conservation and Forestry (MOECF) decides how much teak and hardwood to log each year and sets quotas for different areas of the country. But MOECF doesn't have the resources or employees to extract all of the wood it allocates, so it works with private companies who cut the timber themselves. These companies have to bear the costs of extraction, which are substantial because timber logging is often done in far flung areas of the country with underdeveloped transportation networks.

After extraction, the timber remains property of the State, represented by MOECF. But no company is willing to extract timber for free, so MOECF sells the extracted timber back to the extractor at set prices, which are normally below market prices. The extractor then sells the timber on the open market, realizing gains on the spread between the MOECF's price and the prevailing market price. After MOECF has settled its accounts, and after receiving the proper permissions, it reimburses the extraction company for about 40% of the costs incurred during extraction. But industry sources say these payments are often late, sometimes taking 3-4 years to reach extraction companies.



FPJVC is one of the major companies extracting teak and hardwood for MOECF. The hardwood extracted generally consists of Pyinkado (Ironwood), Padauk, Mahogany, Eucalyptus, and other species. FPJVC uses a variety of modern and ancient equipment, from timber cranes to elephants (which it rents out on a contract basis), to cut logs and haul them out of the forest. For the 2012 fiscal year, FPJVC was granted a quota to log 13,500 tons of teak and 16,000 tons of hardwood. However, only 9,537 tons of teak and 15,609 tons of hardwood were actually cut during that period. In FY2012, the company cut timber from a total of five logging areas: North Bago, South Bago, Maw Lite, North Taungoo, and Zee Kone.

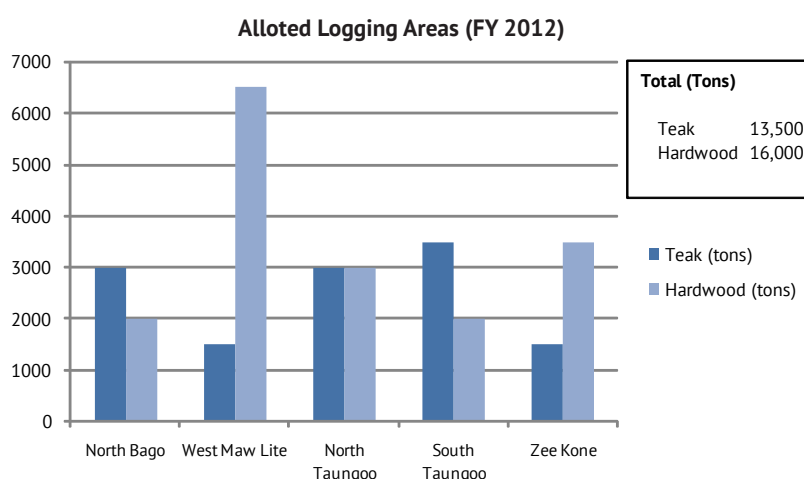
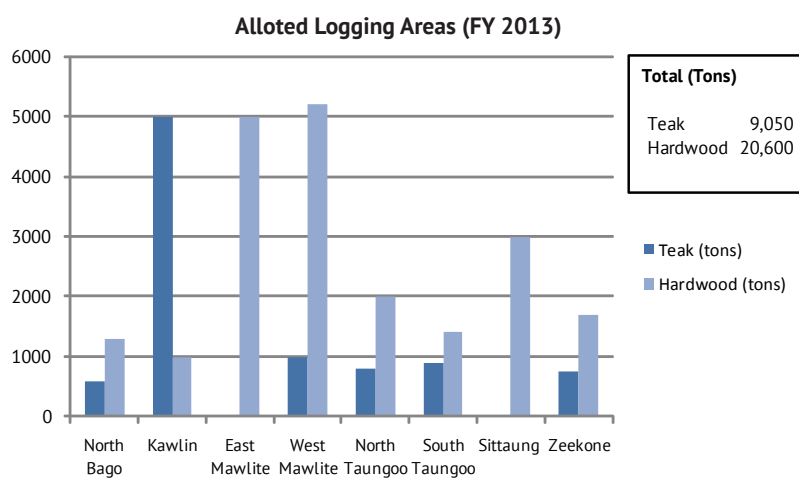
Locations of FPJVC's Logging Activities in FY2012



After extracting logs and repurchasing them from the government, FPJVC has three main options: it can sell the logs on site to domestic companies and agents, it can transport them to its own sawmills for processing, or it can transport them to Yangon for export. Whether FPJVC decides to sell raw logs or process them depends on prevailing market prices. In FY2012, FPJVC was only able to recover 56% of the raw wood that came through its mills, meaning 1,000 tons of logs would be reduced to 560 tons of processed wood. Prices for processed wood must necessarily be double the prices of raw logs in order for processing to make sense for FPJVC, so sound capital budgeting decisions and keeping close tabs on market fluctuations are essential for the firm.

It remains to be seen whether the company's quota to log teak will be reduced when the 2014 export ban comes into effect. One of the aims of the ban is to preserve Myanmar's dwindling forest resources, so MOECF has announced that it will gradually reduce logging quotas nationwide. But FPJVC occupies a special place in Myanmar's timber industry, and its quotas may not be reduced if the company is effective in lobbying MOECF. This scenario seems likely. Because organizations under MOECF hold a majority of FPJVC's shares, MOECF has a vested interest in keeping FPJVC's quotas high.

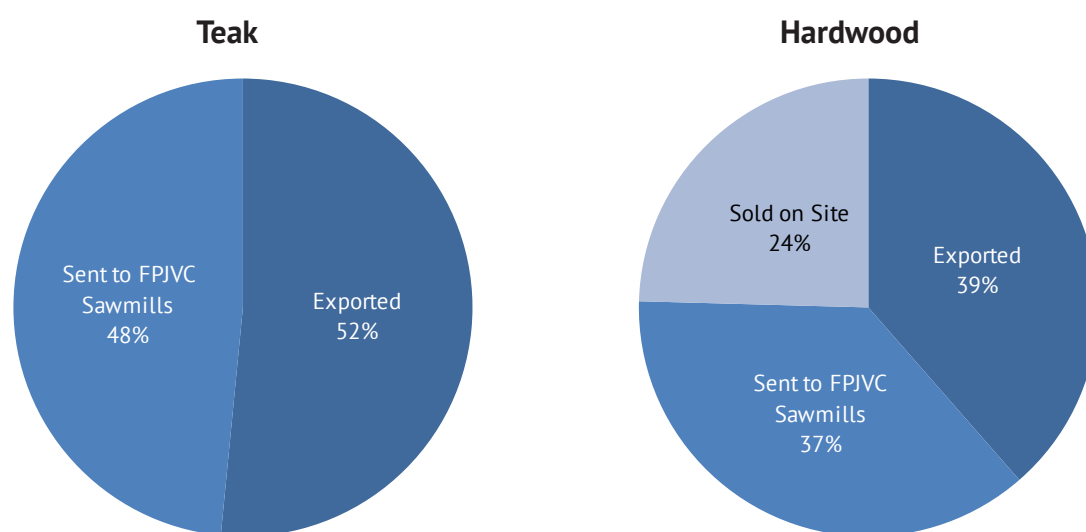
In FY2013, FPJVC's teak quota has been reduced by 33% from FY2012's figure, but its hardwood quota has been increased by 29%. We expect teak quotas to fall a further 10-15% per year over the next five years, but hardwood quotas should remain stable. Although logging accounts for a major portion of FPJVC's revenues, costs are also very high, which means logging isn't particularly profitable. Our valuation considers the impact of reduced quotas while recognizing that company profitability is derived from other activities.



Milling

Logs that aren't directly sold after extraction or exported end up at FPJVC's sawmills. The company operates two mills - one in Yangon's South Dagon Township and another at Paya-gyi, just north of Bago. The mills are involved in debarking raw logs and cutting trees into manageable sizes. After this first-stage processing, FPJVC sells the timber to local lumber mills which then cut it into standard size boards for furniture making and construction. FPJVC currently sells to a network of 100 local lumber mills and 3 industrial zone mills.

Distribution of Logs After Cutting



FPJVC does not occupy an optimal place in the value chain at present. It extracts raw logs and engages in first-stage processing, but it does not produce finished decking or furniture, opting instead to rent out its factories to other producers. We see the opportunity for FPJVC to become more vertically integrated. If it can leverage its existing network of overseas customers, it could easily find markets for parquet flooring, skirting, teak doors, deck chairs, and other value-added products. FPJVC's current processing operations leave it in the position of a commodity producer, with little control over pricing.

Timber Exports

FPJVC exports teak and hardwood logs to international customers on an FOB basis. Although actual earnings from this business are high, the company has traditionally used the official exchange rate in recording transactions, meaning its income statement shows exports as only a small percentage of revenues. This will finally change in FY2013 when the company begins to record transactions at market rates, which will show export earnings at around 18% of total revenues, up from under 1% in the past.

In addition to exporting logs itself, FPJVC also provides export services to MTE which involves finding buyers, arranging transactions, and handling paperwork. FPJVC earns commissions and fees for these services, which in the past have amounted to many times FPJVC's own exports. The commissions FPJVC earns are a major driver of revenues, accounting for 17.1% of income in 2011 and 25.5% of income in 2012. This business segment will be highly affected by the export ban. Because of the high COGS in its logging business, FPJVC partially relies on these commissions for profitability. Although commission income will take a hit after 2014, the entire revenue stream will not be wiped out. FPJVC will likely continue to help MTE export, the products will just be sawn timber instead of whole logs.

It remains to be seen how the international market will respond to a large volume of sawn timber coming out of Myanmar. But the fact remains that Myanmar's timber will still mainly consist of natural teak, as opposed to the plantation teak being exported elsewhere. We don't see a slackening of demand for natural teak, although Myanmar's outdated saw mills are relatively inefficient by international standards, potentially making profitability difficult for companies like FPJVC who are trying to transition from selling raw logs.



Factory Rentals

FPJVC owns four factories that it rents out on a yearly basis to private companies. Because the land occupied by these factories is owned by the government and not the company, selling the factories isn't feasible. Although FPJVC receives steady rental incomes from these factories, they do not make up a significant portion of the company's revenues, accounting for less than 1% of income in FY2011 and FY2012.

Wood Factory 2, South Dagon Township, Yangon

From 2005-2009, this factory was leased to Sanfoco Wood Industries, but the lease was discontinued in 2010, and a new lease agreement with Amazing Tree Co., Ltd. was drawn up from 1 September 2011. FPJVC earns US \$2,450 per month from this factory, which produces high grade sawn timber, parquet flooring and table tops for the local market as well as for export.

Wood Factory 2-B (Hardwood), Amarapura, Mandalay

Factory 2-B is mainly involved in curving hardwood. It has been leased out to Golden Nobel Pte, Ltd, since 2005. In April 2012, FPJVC renegotiated its lease with Golden Noble, and the company now makes US \$1,500 per month in rent from the factory.

Wood Factory 2-B (Teak), Amarapura, Mandalay

Located on the same compound as the hardwood factory, this teak factory is also leased out to Golden Nobel Pte. FPJVC has adjusted Golden Nobel's rent on this factory multiple times since it was first lease in 2005. During the first five years of the lease, FPJVC collected US \$2,000 per month which fell to US \$1,620 from 2010-2012. FPJVC has returned to the \$2,000 per month figure since 2012. Teak factories tend to generate more revenue than hardwood facilities, which explains the difference in rental charges from two factories in the same compound.

Wood Factory 3, Shwe Pyi Tha Township, Yangon

This factory, located in the Watayar Industrial Zone in Yangon's Shwe Pyi Tha Township was leased to Win & Win Co. Ltd. from September 2010 to June 2012 at US \$2,000 per month. Beginning from July 2012, the factory has been leased at US \$2,600 per month.

Import Business

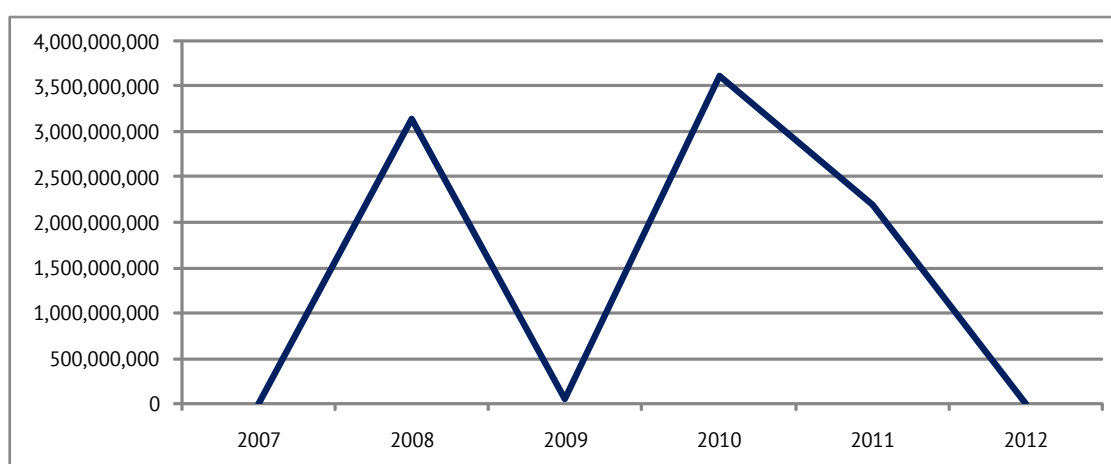
FPJVC operates a sporadic import business which imports diesel for the local market and equipment for government ministries. In some years, FPJVC's import business is an important source of income. For example in FY2011, the company earned 2.1 billion kyats from its import operations, accounting for 31.7% of revenues. But in FY2012 the company's import revenues fell to zero as it discontinued its diesel operations.

FPJVC is involved in the import business because of the unique economic policies of the former government. First, due to arcane exchange laws and isolationist policies, government ministries and private citizens were prohibited from possessing foreign currency. This meant that if a ministry needed supplies from a foreign country, private trading companies (which were allowed to hold foreign currency) would buy the supplies using dollars and then sell them back to the ministry in kyat, thus complying with the law. FPJVC saw an opportunity to provide this service for various ministries and entered the import business.

Another reason FPJVC is involved in importing is the former government's 'export-first' policy. Under this policy, a company had to export goods before it would be eligible to import them. The amount of goods eligible for import was in direct proportion to exports, which were measured by 'export earning credits'. If a company exported US \$1 million worth of beans, for example, it would get that US \$1 million in earning credits, which could then be used to import US \$1 million worth of other goods.

Because FPJVC was involved in exporting a lot of teak and hardwood, and because it had close relationships with the Ministry of Commerce and other ministries, it received earnings credits which were used to import various goods, but mostly diesel. Importing diesel, which was then sold on to government filling stations, was very profitable for the company due to a relatively small number of players in the market. But this situation has

Import Sales (Myanmar Kyats)



rapidly changed. As the economy has opened up and filling stations have been privatized, FPJVC must now compete with a host of well-funded private companies. Lacking warehousing facilities and petroleum expertise, the company has decided against continuing the diesel import business.

Thus the future of FPJVC's import business is uncertain. While it is still eligible to import, and has the cash reserves to do so, it will need to find a profitable niche where it has a competitive advantage. Our view is that the company would fare well importing products that an emerging wood processing industry will need – table, radial arm and band saws, blades and components, lacquer and paint sprayers. Because FPJVC understands the timber industry in Myanmar, it can provide products to an existing base of customers, rather than overextending itself in industries where it is uncompetitive.

Forest Joint Venture Commercial Centre (FJVCC)



FPJVC owns the Forest Joint Venture Commercial Centre, a 12 story office building on the corner of Bohtataung Pagoda Rd. and Strand Rd. in Yangon. The building is managed by Forest Products Joint Venture Business Centre Company Ltd, a subsidiary of FPJVC. Because of the Centre's ideal location, it should have been able to capitalize on the tremendous rise in rents in downtown Yangon over the last two years. At the moment foreign companies and NGOs are struggling to squeeze their employees into any available space - including setting up makeshift offices in apartments, condos and residential houses. FJVCC

is a far more attractive option than any of these, but it suffers from a lack of professional management and maintenance, and tends to rent offices out to suboptimal tenants, including reserving many offices for itself.

Thus the Centre's potential is unrealized. To its credit, the company has recognized the situation, and has initiated a tender for a professional building administration company to manage the building under a service agreement. The winning bidder of this tender is not yet known, but we view this as a step in the right direction to creating an international standard office building that can attract high-paying tenants.

FPJVC's Strengths

Close Relationship with MOECF

FPJVC has unquestionably benefited from its close ties to the Ministry of Environmental Conservation and Forestry. The company is in a good position to receive logging concessions from the Ministry, and FPJVC lists many current and former Ministry employees among its directors and staff. This relationship will continue to benefit the company as it navigates its way through the new realities in the Myanmar wood industry.

Despite a recent push towards less government intervention in the private sector, Myanmar's timber industry will continue to be watched over closely by MOECF for the foreseeable future. Whatever position a company occupies in the industry, relationships with MOECF are essential – much more so than in other industries like agriculture. With this in mind, FPJVC is well positioned to capitalize on future opportunities and tenders.



Strong Cash Position

At revalued market rates (see valuation section) FPJVC currently has over 25 billion kyats (US \$26 million) in cash. The company needs to hold a certain amount of cash to pay the high expenses it incurs in its logging operations, but excess cash can be used to fund new ventures.

Although we feel that FPJVC is mostly competent in the timber industry and should leverage its position there to increase revenues, we see diversification as an alternative, particularly in the trading space where the company already has some experience. Trading is also attractive because of a lack of foreign participation, which could allow the company to build a strong foundation without being pushed out by large multinationals.

Whether the company decides to diversify or stay in the timber industry, its cash position is strong enough to fund a string of acquisitions which could help to jumpstart revenues and make up for a lack of export earnings.

Transparency

Investors should take heart in the fact that FPJVC is quickly becoming one of the most transparent companies in Myanmar. Part of this is due to the influence of MSEC, which has always wanted to create a transparent environment to allow investors to make good decisions. MTE and the Forest Department also understand the new administration's policies on corruption and want to ensure that the company has clean hands.

The result of this combination of influences is that FPJVC is open with investors, and has well prepared financial statements. If the company decides to list on the Yangon Stock Exchange, it will need to further open its books and probably switch to writing its annual reports in English, although listing requirements in that regard are not yet confirmed.

Risks

Myanmar Log Export ban

As we have discussed, the log export ban will have a major impact on FPJVC's export earnings, customers and suppliers. At the moment Myanmar has a competitive advantage in the international market because it is the only provider of natural teak logs in the world. When the ban takes effect, Myanmar's processed teak will need to compete with the wood coming out of Indonesia, Guatemala, Brazil and a host of other countries. Because Myanmar's sawmills are inefficient and relatively expensive to operate, processed Myanmar teak could become uncompetitive.

Myanmar does have a few advantages however. As previously mentioned, Myanmar's natural teak is considered superior to the plantation teak, which will help it to maintain market share. Another advantage is geography. India is by far the largest importer of teak in the world, and Myanmar's proximity to India means its shipping costs are low, which will help it to remain competitive.

The real challenge the Myanmar teak industry faces is keeping the costs of extraction and processing down. Plantation teak is relatively easy to extract and often has good access to transportation infrastructure, whereas natural teak is often extracted in areas that are difficult to reach, pushing up costs. Because they need to run diesel generators due to power outages, and because their machinery is often outdated, Myanmar's wood factories run up high costs which are then passed on to teak buyers. While many buyers are willing to pay a premium for natural teak, they are not willing to pay exorbitant prices caused by inefficiency.



Depletion of Teak and Hardwood Forests

According to Parliament's Natural Resources and Environmental Conservation Committee, Myanmar's forest coverage decreased to 24 percent in 2008 from 51 percent in 2005, due to excess harvesting and heavy illegal logging. Although FPJVC works with MOECAF to create forest conservation programs, once teak is cut it takes a minimum of 15 years to replace, meaning that FPJVC runs the risk of having no products to sell.

MOECAF certainly understands the repercussions of deforestation, but it also feels the need to balance commercial interests with conservation. The need to reduce logging quo-

tas is apparent, and this will certainly have an effect on timber extraction companies. But as we previously stated, we expect FPJVC's quotas to be the last to be reduced, giving the company time to adjust its operations.

Key Management Personnel

FPJVC's Board of Directors consists of 6 "Class A" shareholders and 6 "Class B" shareholders. While these shareholders have an intimate familiarity with Myanmar's wood industry, our view is that the board would benefit from outside opinions and experiences. Businessmen from a diverse range of industries would keep the board from being too insulated and help it to understand larger economic trends.

As it stands, the board lacks the independent advisors necessary to create dialogue and modernize the company. This lack of outside perspective will be especially crucial if the firm decides to list on the Yangon Stock Exchange. A listing would bring a myriad of benefits to the company, but also bring it under greater scrutiny. The company will need to present a coherent vision of its future to analysts, brokers and investors. It remains to be seen whether the current board is up to the challenges of such an environment.

Directors ("Class A" Shareholders)

U Than Saw, General Manager (Finance), Myanma Timber Enterprise

U Sein Wett, General Manager (Planning), Myanma Timber Enterprise

U Maung Ngwe, General Manager (Wood-Based Industry), Myanma Timber Enterprise

U Khin Maung Tin, General Manager (Logging), Myanma Timber Enterprise

U Win Myint, Director, Department of Forestry, Yangon Region

U Sein Htun Lin, Director, Planning and Accounting Department, Ministry of Forestry

Directors ("Class B" Shareholders)

U Lin Win, Chairman, Lin Win Co. Ltd.

U Win Swe, Win & Win Co. Ltd.

U Min Taw Kaung, Managing Director, Win Enterprise Co. Ltd.

U Sein Lwin, Managing Director, Diamond Mercury Wood Products Co. Ltd.

U Kyaw San U, Deputy General Manager (Rtd.), Myanma Timber Enterprise

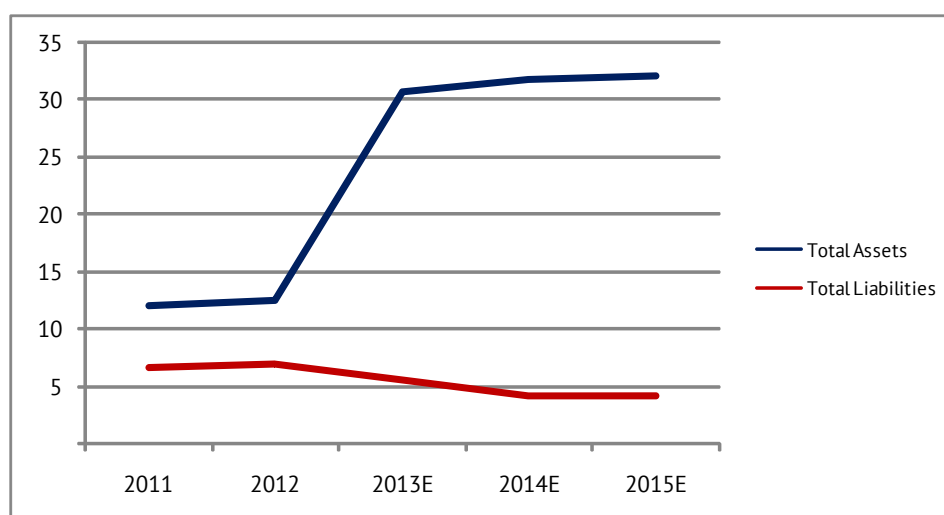
U Aung Min Kyaw Thu, General Manager, Department of Logging, FPJVC

Financial Analysis and Valuation

FPJVC's FY2012 balance sheet and income statement, while healthy, are somewhat deceptive. Due to the accounting policies of the former government, FPJVC's earnings and assets are far understated.

Until the implementation of a managed float on April 1, 2012, there were two exchange rates in Myanmar. The official government rate was 5-6 kyat per dollar, while black market rates fluctuated between 700-1200 kyat per dollar. The government used the official exchange rate on its books, meaning that an export sale of US \$1 million was only recorded as being worth 6 million kyat. On the open market, 6 million kyat would only be worth about \$6,500 – meaning only 0.06% of actual revenues were recorded.

Total Assets & Liabilities (Myanmar Kyats, billions)



The gap in the exchange rate was not FPJVC's fault, but because of its close links with government agencies, it had no choice but to record sales at government exchange rates. Thus any export sale made by FPJVC would be recorded at the official exchange rate, and export earnings would be drastically underreported.

This discrepancy also shows up in another place – the firm's bank account balances. FPJVC recorded dollar and euro bank account balances at the official exchange rate, leading to far lower current asset amounts than market exchange rates would suggest. But the government allows exporters to open foreign currency accounts at Myanmar Foreign Trade Bank (MFTB), so export earnings can be held in foreign currency. FPJVC has not actually converted most of its foreign currency into kyat, which means it did not take a loss on the exchange rate in reality.

Because the new market exchange rate has been officially accepted by all government agencies, FPJVC can now accurately report its export earnings and bank account balances. This means that book value for FY2013-2014 will show an enormous increase. We calculate that cash balances and term deposits have been underreported by a staggering 19.97 billion kyats (about US\$ 20.59 million). The company's revaluation of these assets at unified exchange rates has pushed BVPS up more than 5x.

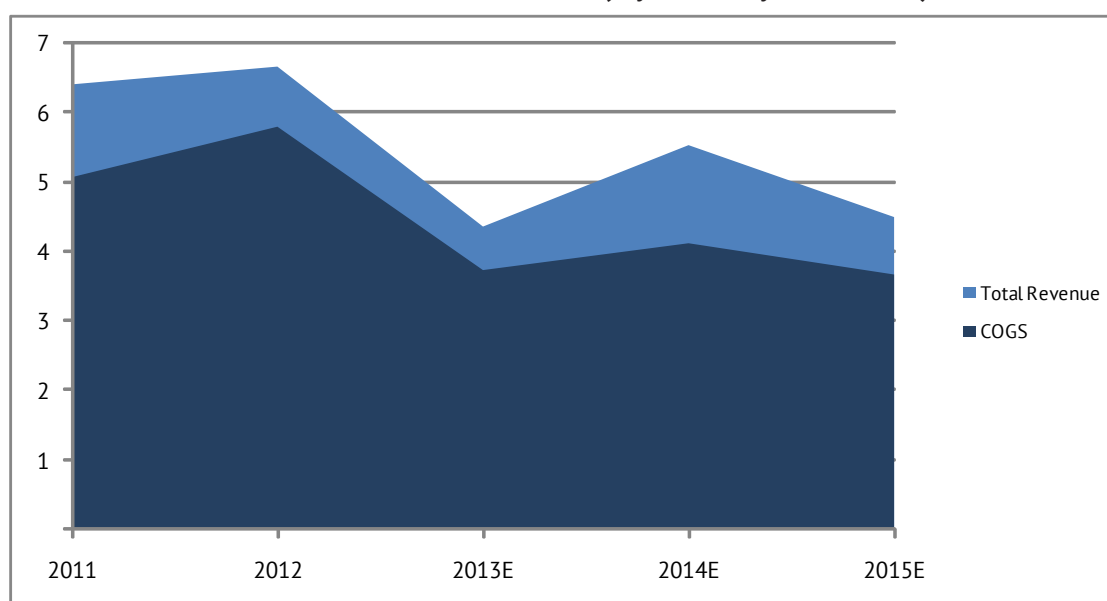
Investment Thesis

Our buy rating for FPJVC is mainly driven by its strong balance sheet. Much of the company's earnings are derived from interest income, with gross margins on operations at an abysmal 0.19% in FY2012. The firm must improve efficiencies moving forward, but we see a number of positives. Our investment thesis for FPJVC rests on 4 tenants:

- 1.) The tremendous discrepancy between book and share value due to the unification of exchange rates
- 2.) The firm's strong relationships with government bodies
- 3.) The continued demand for natural teak in the international marketplace
- 4.) The company's large cash reserves which can be used to fund new revenue sources

These positives will be moderated by the rocky transition to value added products from raw logs, the company's inability to effectively manage costs, and its semi-government status which makes it less efficient than private companies. Over the past few years, FPJVC has recorded solid sales numbers, but its COGS often exceed sales resulting in an unprofitable operation. With COGS offsetting sales, much of FPJVC's profit is derived from its finance income which primarily comes from bank interest and treasury bond coupon payments.

Total Revenues Vs. Cost of Goods Sold (Myanmar Kyats, billions)



Valuation

We adopt a discounted cash flow analysis (DCF) methodology to value FPJVC. We expect the firm's unlevered free cash flow to rise to 14% of gross sales in FY2014 as a liquidation of inventories before the log export ban pushes up margins. UFCF/Sales will fall to 11% in FY2015, and continue to slide thereafter, but the company's equity value will be bolstered by its enormous reserves of cash which make up 89% of BVPS at present.

We assign a WACC of 15.8% based on a risk-free rate of 8.75%, derived from two year treasury bonds. Our cost of equity calculation assigns a market risk premium of 5% which we view as reasonable, considering the still apparent risks of the Myanmar market. Our size premium for FPJVC is 2% based on Ibbotson SBBI Valuation Yearbook data, tempered by the fact that the government retains a majority stake in FPJVC and therefore the company is more conservative and less leveraged than 10th decile companies in other countries.

During FY2012 FPJVC carried foreign currency on its balance sheet at 5.49 kyat/dollar and 7.49 kyat/euro. Current market rates for the two currencies are ~970 kyat/dollar and ~1300 kyat/euro. 2013E cash balances and term deposits held at Myanmar Foreign Trade Bank have been adjusted accordingly.

Forest Products Joint Venture Corp.

Discounted Cash Flow Analysis

(Myanmar Kyats in thousands, fiscal year ending March 31)

	Historical Period			Current	Projection Period				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	4,292,769	7,950,272	6,392,577	6,647,742	5,132,977	6,355,915	5,383,052	5,921,357	6,513,493
% growth	NA	85.2%	(19.6%)	4.0%	(22.8%)	23.8%	(15.3%)	10.0%	10.0%
COGS	3,801,578	4,366,484	5,055,953	5,778,600	3,723,752	4,108,865	3,660,625	4,737,086	5,210,794
Gross Profit	491,191	3,583,788	1,336,624	869,142	1,409,225	2,247,050	1,722,427	1,184,271	1,302,699
% margin	11.4%	45.1%	20.9%	13.1%	27.5%	35.4%	32.0%	20.0%	20.0%
SG&A	805,554	882,466	691,503	856,514	696,362	717,671	673,381	651,349	716,484
EBITDA	(314,363)	2,701,322	645,121	12,628	712,864	1,529,379	1,049,046	532,922	586,214
% margin	(7.3%)	34.0%	10.1%	0.2%	13.9%	24.1%	19.5%	9.0%	9.0%
Depreciation & Amortization	107,976	135,378	129,634	90,180	90,017	92,624	95,310	118,427	130,270
EBIT	(422,339)	2,565,944	515,487	(77,552)	622,847	1,436,755	953,735	414,495	455,945
% margin	(9.8%)	32.3%	8.1%	(1.2%)	12.1%	22.6%	17.7%	7.0%	7.0%
Taxes	127,020	827,697	167,528	120,303	189,046	449,646	292,025	124,349	136,783
NOPAT	(549,359)	1,738,247	347,959	(197,855)	433,801	987,108	661,710	290,147	319,161
Plus: Depreciation & Amortization	107,976	135,378	129,634	90,180	90,017	92,624	95,310	118,427	130,270
Less: Capital Expenditures	150,000	215,201	161,887	165,362	(162,055)	(158,814)	(155,637)	(118,427)	(130,270)
Less: Increase in Net Working Capital					18,675	(12,112)	(16,278)	19,478	21,376
Unlevered Free Cash Flow					380,438	908,807	585,105	309,625	340,537
WACC	15.8%								
Discount Period					0.5	1.5	2.5	3.5	4.5
Discount Factor					0.93	0.80	0.69	0.60	0.52
Present Value of Free Cash Flow					353,609	729,777	405,912	185,572	176,327

Enterprise Value		Implied Equity Value and Share Price		Implied Perpetuity Growth Rate	
Cumulative Present Value of FCF	1,851,196	Enterprise Value	2,979,722	Terminal Year FCF(2017E)	309,625
Terminal Value		Less: Total Debt	-	WACC	15.8%
Terminal Year EBITDA (2017E)	586,214	Less: Preferred Securities	-	Terminal Value	2,344,857
Exit Multiple	4.0x	Less: Noncontrolling Interest	-	Implied Perpetuity Growth Rate	2.2%
Terminal Value	2,344,857	Plus: Cash and Cash Equivalents	23,597,593		
Discount Factor	0.48	Implied Equity Value	26,577,316	Implied EV/EBITDA	
Present Value of Terminal Value	1,128,526	Shares Outstanding (thousands)	100	Enterprise Value	2,979,722
% of Enterprise Value	37.9%	Implied Share Price	265,773	LTM (3/31/2013) EBITDA	712,864
Enterprise Value	2,979,722			Implied EV/EBITDA	4.2x

Income Statement Breakdown

Fiscal	2011	2012	
Revenue			
Sales	5,034,988	4,104,760	Mostly from three categories: domestic wood sales, wood exports, and diesel imports
Other Income, net	1,357,589	2,542,982	Service income, commissions, rental income from factories and FJVCC
Total Revenue	6,392,577	6,647,742	
Cost of Sales	(5,055,953)	(5,778,600)	High COGS due to expenses incurred for the timber extraction business - COGS often exceed timber sales
Gross Profit/ (Loss)	1,336,624	869,142	
SG&A	(691,503)	(856,514)	Historically averages about 15% of sales, mostly gas and diesel for vehicles, salaries, utilities
Operating Income	645,121	12,628	
Finance Cost	(2,194)	(3,019)	Interest on bank accounts, treasury bond coupons
Interest Income	361,484	336,516	
Depreciation	(123,230)	(84,392)	Straightline depreciation schedule, PPE only accounts for 6% of assets
Amortization	(3,093)	(3,093)	
Gain/ (Loss) on Currency Exchange	6,154	54,979	
Debtors/Creditors Revaluation	(341,330)	35,870	
Pre-Tax Income	542,912	349,489	
Gain/(Loss) on Disposal of fixed assets	46,543	169,123	Sale of 10 vehicles
Provision for Income Tax (Estimated)	(167,528)	(120,303)	
Income Tax (FE)	(319)	(212)	
Net Profit	421,608	398,097	
Shares Outstanding ('000s)	100	100	Company does not currently issue new shares
Earnings per Share	4,216	3,981	
EBITDA	735,301	142,262	Large decline in EBITDA resulting from high COGS and SG&A in FY 2012
EBITDA Margin	15%	3%	

Balance Sheet Breakdown

Fiscal	2011	2012	
ASSETS			
Non-Current Assets			
Goodwill	12,370	57,374	Amortized at 10% per annum
PPE	635,876	742,580	Includes buildings in Mandalay, vehicles, generators, factory equipment
Investments	1,647,622	1,752,298	Mostly treasury bonds
Total Non-Current Assets	2,295,868	2,552,252	
Current Assets			
Prepaid Expenses and Prepayments	3,316,584	3,447,907	
Debtors	4,768	4,143	
Accounts Receivable	740,340	800,307	Stocks of hardwood and teak with the majority being held in Mawlite and South Dagon
Inventories	2,335,838	2,037,148	
Deposits	54,187	49,191	
Bank and Cash Balances	3,186,315	3,572,029	Severely understated due to the use of 'official' exchange rates
Total Current Assets	9,638,032	9,910,725	
Total Assets	11,933,900	12,462,977	
EQUITY			
Paid-up Capital			
A Shares - 55,000 (75% paid-up)	412,500	412,500	The company has allowed shareholders to pay in gradually. In FY2012 7,500 of the 10,000 par value had been paid in by most shareholders
B Shares - 45,000 (75% paid-up)	337,500	337,500	
Receivables Call-up	(6,915)	(6,785)	
Reserve and Retained Earnings			
General Reserve	1,244,608	1,335,246	50mm of net profit is dedicated to environmental conversation while 30mm goes to poverty reduction, resulting in lower retained earnings numbers.
Revaluation Reserve	859,509	859,509	
Retained Earnings	558,133	653,294	
Investment Fund	1,964,023	1,964,023	
Total Shareholders' Equity	5,369,357	5,555,287	Could potentially be used to fund new business lines
LIABILITIES			
Current Liabilities			
Expenses Payable	1,025,658	1,360,630	Includes very old (circa 2006) payables to MTE that should be written off
Accounts Payable	3,828,946	4,336,586	
Deposit Payables	1,278,993	535,214	
Tax Payable - Commercial Tax	(213,732)	9,293	
Tax Payable - Income Tax	370,345	287,831	
Proposed Dividend	274,333	378,136	30% on paid-up capital, which means 30% on 7,500 per share. Paid-up capital will increase to 10,000 per share in FY2013, pushing up dividend payouts
Total Current Liabilities	6,564,543	6,907,690	
Total Equity and Liabilities	11,933,900	12,462,977	
Book Value Per Share			
	53,694	55,553	With a fixed share price of 20,000, FPJVC is trading far under book value even before currency revaluation

Major Balance Sheet Changes Resulting from Revaluation

Fiscal	Actual		Estimated	Projected	
	2011	2012	2013	2014	2015
Current Assets					
Prepaid Expenses and Prepayments	3,316,584	3,447,907	2,257,336	2,208,219	1,795,684
Debtors	4,768	4,143	5,393	6,018	6,643
Accounts Receivable	740,340	800,307	523,959	907,487	737,952
Inventories	2,335,838	2,037,148	1,907,840	378,120	860,944
Term Deposits	54,187	49,191	→ 5,324,498	5,391,012	6,118,856
Bank and Cash Balances	3,186,315	3,572,029	→ 18,273,095	20,578,283	20,580,550
Total Current Assets	9,638,032	9,910,725	→ 28,292,122	29,469,139	30,100,629
Reserve and Retained Earnings					
General Reserve	1,244,608	1,335,246	1,255,131	1,443,401	1,414,533
Revaluation Reserve	859,509	859,509	→ 19,955,130	21,551,540	21,208,889
Retained Earnings	558,133	653,294	871,137	1,619,960	2,000,983
Investment Fund	1,964,023	1,964,023	1,964,023	1,924,217	2,259,833
Total Shareholders' Equity	5,369,357	5,555,287	→ 25,038,500	27,532,058	27,877,036
Book Value Per Share	53,694	55,553	→ 250,385	275,321	278,770

For FY2013 we expect tepid sales from a decrease in extraction, due to reduced logging quotas. Because extraction in FY2013 will be relatively low, COGS numbers will also be reduced, which will help keep profitability stable.

In FY2014 we expect gross sales to rise 40% over FY2013 numbers based on inventory liquidations, and total revenues to rise 26%. Because older inventories will be liquidated, we expect the company's costs to be moderate, resulting in higher margins.

After FY2014 the company will need to make structural adjustments which will result in lower sales numbers. Income will not be completely decimated however, as FPJVC still has a strong domestic sales business which will escape some of the effects of the export ban.

Because it has such a strong cash position, we would expect FPJVC to make substantial investments in the near term to boost slumping revenues from its wood business. But the company has historically held lots of cash to pay for the high costs it incurs during timber extraction, so it may decide to park its cash in treasury bonds. If the company does decide to make investments, it remains to be seen whether they will take the form of acquisitions or new ventures. What the company ultimately decides to do with its cash will largely determine its future attractiveness to investors.

Income Statements

Myanmar Kyats, thousands

Fiscal	Actual		Estimated	Projected	
	2011	2012	2013	2014	2015
Revenue					
Sales	5,034,988	4,104,760	2,668,094	3,735,332	2,614,732
Other Income, net	1,357,589	2,542,982	1,684,166	1,785,216	1,874,477
Total Revenue	6,392,577	6,647,742	4,352,260	5,520,548	4,489,209
Cost of Sales	(5,055,953)	(5,778,600)	(3,723,752)	(4,108,865)	(3,660,625)
Gross Profit/ (Loss)	1,336,624	869,142	628,508	1,411,683	828,584
SG&A	(691,503)	(856,514)	(696,362)	(717,671)	(673,381)
Operating Income	645,121	12,628	(67,854)	694,012	155,203
Finance Cost	(2,194)	(3,019)	(3,170)	(3,328)	(3,495)
Interest Income	361,484	336,516	780,717	835,367	893,843
Depreciation	(123,230)	(84,392)	(86,924)	(89,531)	(92,217)
Amortization	(3,093)	(3,093)	(3,093)	(3,093)	(3,093)
Gain/ (Loss) on Currency Exchange	6,154	54,979	60,477	66,525	73,177
Debtors/Creditors Revaluation	(341,330)	35,870	(50,000)	(50,000)	(50,000)
Pre-Tax Income	542,912	349,489	630,154	1,449,951	973,417
Gain/(Loss) on Disposal of fixed assets	46,543	169,123	-	48,870	-
Provision for Income Tax (Estimated)	(167,528)	(120,303)	(189,046)	(449,646)	(292,025)
Income Tax (FE)	(319)	(212)	(335)	(352)	(369)
Net Profit	421,608	398,097	440,773	1,048,823	681,023
Shares Outstanding ('000s)	100	100	100	100	100
Earnings per Share	4,216	3,981	4,408	10,488	6,810
EBITDA	774,755	102,808	42,340	851,335	359,510
EBITDA Margin	15%	3%	2%	23%	14%

Balance Sheets

Myanmar Kyats, thousands

Fiscal	Actual		Estimated	Projected	
	2011	2012	2013	2014	2015
ASSETS					
Non-Current Assets					
Goodwill	12,370	57,374	12,370	12,370	12,370
PPE	635,876	742,580	687,738	689,228	640,558
Investments	1,647,622	1,752,298	1,653,859	1,545,753	1,346,763
Total Non-Current Assets	2,295,868	2,552,252	2,353,966	2,247,351	1,999,691
Current Assets					
Prepaid Expenses and Prepayments	3,316,584	3,447,907	2,257,336	2,208,219	1,795,684
Debtors	4,768	4,143	5,393	6,018	6,643
Accounts Receivable	740,340	800,307	523,959	907,487	737,952
Inventories	2,335,838	2,037,148	1,907,840	378,120	860,944
Term Deposits	54,187	49,191	5,324,498	5,391,012	6,118,856
Bank and Cash Balances	3,186,315	3,572,029	18,273,095	20,578,283	20,580,550
Total Current Assets	9,638,032	9,910,725	28,292,122	29,469,139	30,100,629
Total Assets	11,933,900	12,462,977	30,646,088	31,716,490	32,100,320
EQUITY					
Paid-up Capital					
A Shares - 55,000 (75% paid-up)	412,500	412,500	550,000	550,000	550,000
B Shares - 45,000 (75% paid-up)	337,500	337,500	450,000	450,000	450,000
Receivables Call-up	(6,915)	(6,785)	(6,921)	(7,059)	(7,200)
Reserve and Retained Earnings					
General Reserve	1,244,608	1,335,246	1,255,131	1,443,401	1,414,533
Revaluation Reserve	859,509	859,509	19,955,130	21,551,540	21,208,889
Retained Earnings	558,133	653,294	871,137	1,619,960	2,000,983
Investment Fund	1,964,023	1,964,023	1,964,023	1,924,217	2,259,833
Total Shareholders' Equity	5,369,357	5,555,287	25,038,500	27,532,058	27,877,036
LIABILITIES					
Current Liabilities					
Expenses Payable	1,025,658	1,360,630	906,411	989,754	888,753
Accounts Payable	3,828,946	4,336,586	2,888,903	1,983,508	1,781,098
Deposit Payables	1,278,993	535,214	1,152,188	485,670	750,000
Tax Payable - Commercial Tax	(213,732)	9,293	142,842	(256,235)	60,767
Tax Payable - Income Tax	370,345	287,831	286,502	681,735	442,665
Proposed Dividend	274,333	378,136	230,742	300,000	300,000
Total Current Liabilities	6,564,543	6,907,690	5,607,588	4,184,432	4,223,284
Total Equity and Liabilities	11,933,900	12,462,977	30,646,088	31,716,490	32,100,320
Book Value Per Share	53,694	55,553	250,385	275,321	278,770

Cash Flow Statements

Myanmar Kyats, thousands

Fiscal	Actual		Estimated	Projected	
	2011	2012	2013	2014	2015
Cash Flow from Operating Activities					
Net profit before tax	542,912	349,489	630,154	1,449,951	973,417
Depreciation and Amortization	129,634	90,180	110,193	157,323	204,307
Adjustments	31,856	(37,589)	12,820,348	30,000	30,000
Operating Profit	704,402	402,080	13,560,695	1,637,274	1,207,724
Changes in Working Capital					
Decrease/(Increase) in Receivables	(91,966)	168,259	276,348	(383,528)	169,535
Decrease/(Increase) in Inventories	(111,070)	298,690	129,308	1,529,720	(482,824)
Increase in Payables	297,373	332,496	1,447,683	905,395	202,409
Cash Flow from operating activities	798,739	1,201,525	15,414,033	3,688,862	1,096,844
Income Tax Paid	(400,319)	(553,029)	(378,092)	(869,970)	(584,050)
Net Cash Flow from Operating Activities	398,420	648,496	15,035,941	2,818,891	512,794
Cash Flow from Investing Activities					
Acquisitions of Subsidiary Companies	213,314	(104,676)	-	(105,000)	(105,000)
Payment for Purchase of Fixed Assets	(161,887)	(165,362)	(162,055)	(158,814)	(155,637)
Proceeds from Disposal of Fixed Assets	65,000	174,356	50,000	50,000	50,000
Deferred Expense	-	(48,097)	-	-	-
Net Cash Flow from Investing Activities	116,427	(143,779)	(112,055)	(213,814)	(210,637)
Cash Flow from Financing Activities					
Proceeds from Share Issue	120	130	110	110	110
Dividend Paid	(216,062)	(119,133)	(222,930)	(300,000)	(300,000)
Net Cash Flow from Financing Activities	(215,942)	(119,003)	(222,820)	(299,890)	(299,890)
Net Increase/(Decrease) in Cash	298,905	385,714	14,701,066	2,305,188	2,267
Opening Cash	2,887,410	3,186,315	3,572,029	18,273,095	20,578,283
Closing Cash	3,186,315	3,572,029	18,273,095	20,578,283	20,580,550

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