

Evergreen Fibreboard Bhd

EVGN.KL / EVF MK

Green for go!

We initiate coverage of Evergreen with an **OUTPERFORM** rating and a 12-month target price of RM1.80. Surging plywood prices are pulling up MDF prices, just as raw material costs appear to have peaked. The resultant increase in margins, coupled with aggressive capacity expansion, should translate into EPS growth of 17% in FY07 and 39% in FY08. Our EPS forecasts are 14-18% above consensus, so the upcoming financial results could beat market expectations.

- Globally competitive.** Malaysia is the third-largest exporter of medium-density fibreboard (MDF) in the world, which is more environmental friendly and cheaper than plywood. Within Malaysia, Evergreen is the second largest of only ten MDF manufacturers, exporting 83% of its sales with 21% going to China.
- Expanding capacity to drive growth.** Evergreen is aggressively expanding its capacity in Thailand, which has a more plentiful supply of rubberwood logs than Malaysia. Total capacity will be raised by 36% next year, and Evergreen is also looking at acquiring competitors in Malaysia to increase its market share further.
- Margins are turning up.** Rising costs appear to have peaked for its main raw materials, rubberwood logs and glue, while the selling prices of MDF and particleboard have started rising this year along with plywood prices. There is a degree of substitutability between these products, so MDF prices can be expected to catch up with surging plywood prices. As a result, profit margins, which already started to recover in 2Q FY06, are expected to continue recovering.
- OUTPERFORM with 80% potential upside.** Our target price of RM1.80 for Evergreen is based on an FY07E P/E of 13x, which is a slight premium to our Credit Suisse Malaysia Small-Cap Industrial sector FY07E P/E of 12.2x, given its strong projected EPS growth of 17% in FY07E and 39% in FY08E. Catalysts for the share price could be rising MDF prices, falling rubberwood log or glue costs, or upcoming financial results beating market expectations since our EPS forecasts are 14% to 18% above consensus.

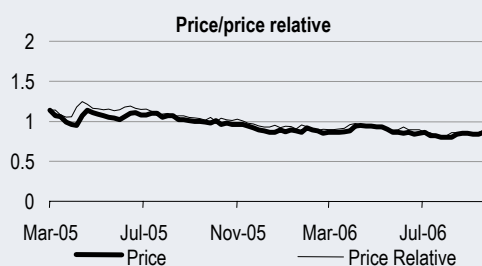
Evergreen Fibreboard Bhd manufactures medium density fibreboard (MDF), knocked-down wooden furniture, and doors. The company, through its subsidiaries, also manufactures particle board and MDF and laminates MDF, particleboard and plywood.

Research team

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Rating	OUTPERFORM*
Price (06 Oct 06)	0.99 (RM)
Target price (12 months)	1.80 (RM)
Market cap (RM mn)	475.20 (US\$ 128.87)
Enterprise value (RM mn)	500.06
52-week price range	1.02 - 0.80
Region/Country	Asia Pacific/Malaysia
Sector	Forest Products
Date	10 October 2006

* Stock ratings are relative to the relevant country index.



The price relative chart measures performance against the KUALA LUMPUR COMPOSITE index
 On 06/10/06 the KUALA LUMPUR COMPOSITE index closed at 970.98
 On 06/10/06 the spot exchange rate was RM 3.69/US\$1

Performance over	1M	3M	12M
Absolute (%)	17.9	16.5	—
Relative (%)	16.1	10.4	-4.6

Year	12/05A	12/06E	12/07E	12/08E
Revenue (RM mn)	457.5	545.8	603.0	701.6
EBITDA (RM mn)	79.1	91.6	112.2	148.1
Operating profit (RM mn)	54.3	63.9	79.2	114.6
Net income (RM mn)	54.5	55.9	65.6	91.0
EPS (CS adj., RM)	0.11	0.12	0.14	0.19
ROIC (%)	11.61	12.51	13.94	18.00
P/E (x)	8.7	8.5	7.2	5.2
P/E rel. (%)	54.2	—	—	—
EV/EBITDA (x)	5.3	5.5	4.3	2.9

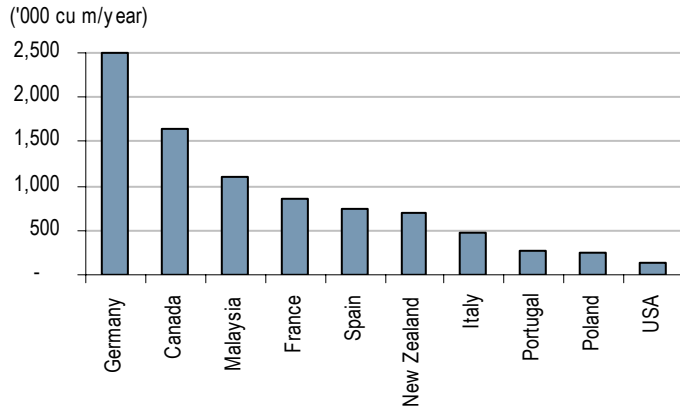
Dividend (12/06E, RM)	0.06	Book value/share (12/05A, RM)	0.8
Dividend yield (12/06E, %)	5.88	Free float (%)	50.00
IC (12/06E, RM mn)	484.95	Number of shares (mn)	480.00
Net debt (12/06E, RM mn)	18.4	EV/IC (12/06E, x)	1.0
Net debt/equity (12/06E, %)	4.52	Current WACC (%)	—

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

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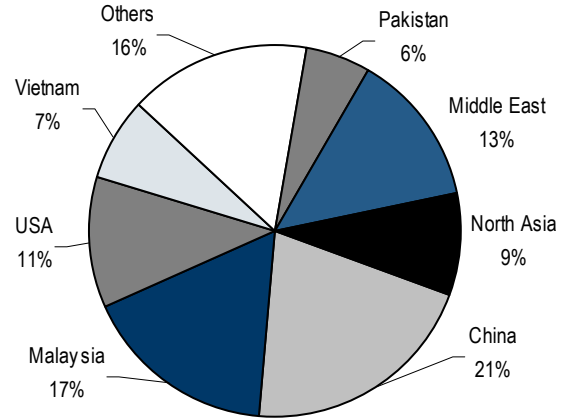
Focus charts

Figure 1: Malaysia is a major MDF exporter in the world



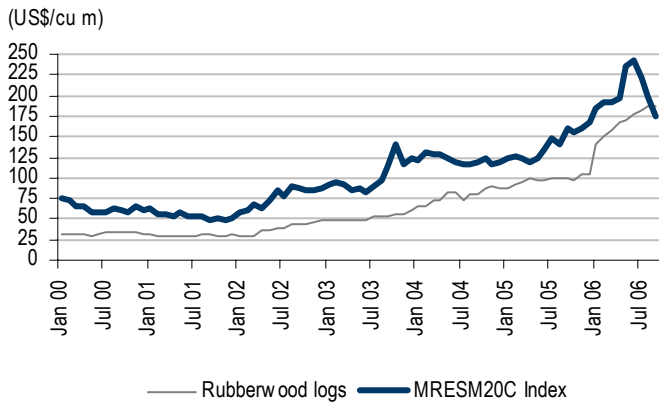
Source: Malaysian Timber Industry Board

Figure 2: Evergreen's exports are globally competitive



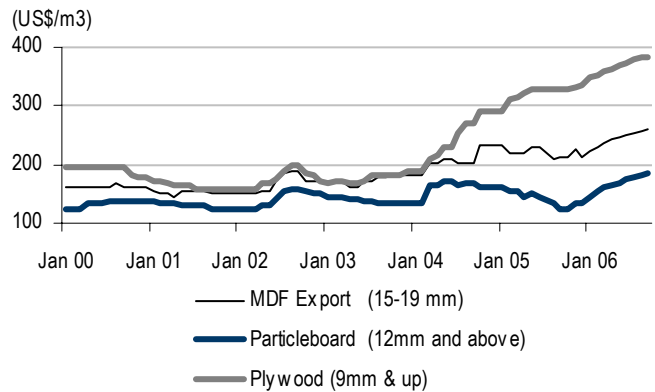
Source: Company data

Figure 3: Surging rubberwood log cost peaking



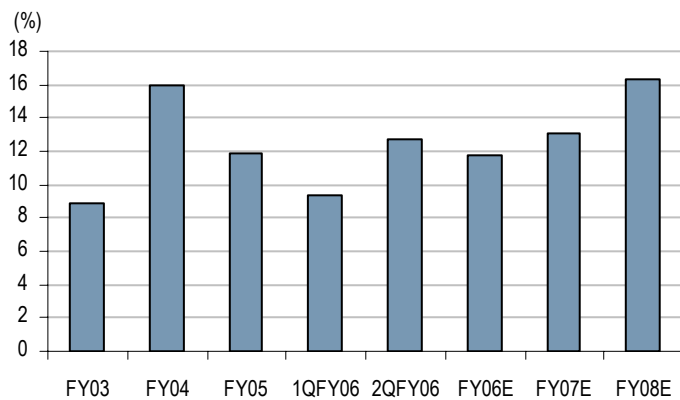
Source: International Tropical Timber Organisation, Bloomberg

Figure 4: MDF selling prices started rising



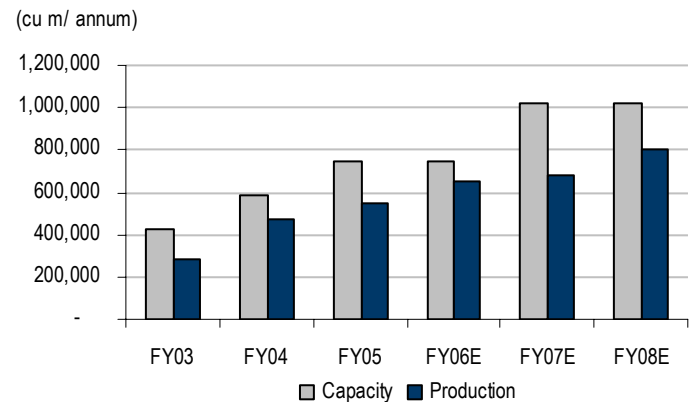
Source: International Tropical Timber Organisation

Figure 5: Operating profit margin starting to recover



Source: Company data, Credit Suisse estimates

Figure 6: Capacity and production expanding



Source: Company data, Credit Suisse estimates

Green for go!

We are initiating coverage of Evergreen Fibreboard Berhad (Evergreen) with an OUTPERFORM rating, and we have set a 12-month price target of RM1.80.

Globally competitive

Evergreen is the second-largest MDF player in Malaysia, which is globally competitive

Malaysia is the third-largest exporter of medium density fibreboard (MDF) in the world. As its raw material comes from plantation timber and residues, it is more environmentally friendly and cheaper than plywood, which relies on tropical timber. Malaysia's global competitive advantage lies in its rubberwood processing industry, and Evergreen is the second largest of only ten MDF manufacturers in Malaysia. 83% of its sales are exported, with 21% to China, attesting to its competitiveness.

Expanding capacity to drive growth

Evergreen is aggressively expanding capacity and production in Thailand which has more raw material supply

Evergreen is aggressively expanding its capacity in Thailand, which has a more plentiful supply of rubberwood logs than Malaysia. It is also looking at acquiring other competitors in Malaysia to increase its market share further and improve productivity.

Figure 7: Evergreen production capacity and production

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Malaysia						
Capacity (cu m p.a.)	424,000	424,000	424,000	424,000	424,000	424,000
Production (cu m p.a.)	284,917	334,630	333,958	360,400	360,400	360,400
Utilisation (%)	67	79	79	85	85	85
Thailand						
Capacity (cu m p.a.)	0	162,000	324,000	324,000	592,000	592,000
Production (cu m p.a.)	0	138,400	217,000	291,600	318,400	444,000
Utilisation (%)	n.a.	85	67	90	54	75

Source: Company data, Credit Suisse estimates

Margins are turning up

Margins are turning up, as raw material costs peak and selling prices continue to rise

Rising costs appear to have peaked for the company's main raw materials, rubberwood logs and glue, while the selling prices of MDF and particleboard have started rising this year, along with plywood prices. There is a degree of substitutability between these products, so MDF prices can be expected to catch up with surging plywood prices. As a result, operating profit margins, which already started to recover in 2Q FY06, should continue recovering.

OUTPERFORM with 80% potential upside

OUTPERFORM with potential upside of 80% to our target price

We rate Evergreen as OUTPERFORM with 80% potential upside to our target price of RM1.80 per share. This is based on an FY07E P/E of 13x, which is a slight premium to our Credit Suisse Malaysia Small-Cap Industrial sector FY07E P/E of 12.2x, given its strong projected EPS growth of 17% in FY07E and 39% in FY08E. Catalysts for the share price could be rising MDF prices, falling rubberwood log or glue costs, or the company's upcoming quarterly financial results beating market expectations. Our FY06E and FY07E EPS forecasts are 14% and 18% above consensus respectively.

Financial summary

Figure 8: Key financial statistics

	Year-end 31 Dec (RM mn)	FY03	FY04	FY05	FY06E	FY07E	FY08E	
Sales growing on the back of capacity expansion, low effective tax rate	Sales	250.7	388.6	457.5	545.8	603.0	701.6	
	EBITDA	35.8	81.7	79.1	91.6	112.2	148.1	
	EBIT	22.4	62.1	54.3	63.9	79.2	114.6	
	Tax rate (%)	-1	19	-9	5	5	5	
	Net profit	21.7	45.0	54.5	55.9	65.6	91.0	
	Our EPS forecasts above consensus	EPS (RM)	0.05	0.09	0.11	0.12	0.14	0.19
	EPS growth (%)	0	107	21	3	17	39	
Attractive dividend payout	Consensus EPS (RM)	n.a.	n.a.	n.a.	0.10	0.12	n.a.	
	Diff. from consensus (%)	n.a.	n.a.	n.a.	14	18	n.a.	
	Net dividend/share (RM)	0.10	0.00	0.08	0.06	0.07	0.09	
	Net dividend payout ratio (%)	230	0	73	50	50	50	
Thailand operations to match Malaysia's	Geographical PBT							
	Malaysia	21.6	40.0	36.0	38.8	46.4	57.7	
	Thailand	0.0	22.3	18.1	25.8	32.5	57.8	
	Others	0.0	0.5	0.0	1.0	1.0	1.0	
Low P/E, high dividend yield	Valuation ratios (x)							
	P/E	n.a.	n.a.	8.7	8.5	7.2	5.2	
	Net dividend yield (%)	n.a.	n.a.	8.3	5.9	6.9	9.6	
	Price/book ratio	n.a.	n.a.	1.3	1.2	1.1	1.0	
ASP varies according to product mix besides general price trends	Earnings drivers							
	Capacity (cu m p.a.)	424,000	586,000	748,000	748,000	1,016,000	1,016,000	
	Production (cu m p.a.)	284,917	473,030	550,958	652,000	678,800	804,400	
	MDF ASP (US\$/cu m)	880	822	830	837	888	872	
	Rubberwood costs (RM/t)	63	90	90	109	115	115	
	Glue costs (RM/t)	913.0	990.3	1,093.0	1,112.4	1,126.0	1,126.0	
	US\$/RM exchange rate	3.80	3.80	3.79	3.68	3.65	3.65	
EBITDA margin (%)	14.3	21.0	17.3	16.8	18.6	21.1		
Strong balance sheet, with good ROE and ROA	ROE and liquidity analysis							
	Net debt (cash)	n.a.	7.5	(61.5)	18.4	2.0	(57.5)	
	Gearing (%)	n.a.	3	-16	5	0	-12	
	Net ROE (%)	n.a.	n.a.	17.2	14.2	15.5	19.7	
	Net ROA (%)	n.a.	n.a.	11.3	10.3	11.2	14.1	
	Interest coverage ratio (x)	n.a.	25.6	30.1	35.0	41.0	52.9	
	Current ratio (x)	n.a.	1.8	3.8	2.2	2.2	2.4	
	Inventory turnover (days)	37	33	41	41	41	41	
Debtor turnover (days)	35	46	39	39	39	39		
	Creditor turnover (days)	n.a.	n.a.	27	27	27	27	

Source: Company data, Credit Suisse estimates

Globally competitive

Malaysia is the third-largest exporter of MDF in the world, which is more environmental friendly and cheaper than plywood

Malaysia's rubberwood supply is projected to fall after 2008

Evergreen is the second-largest of only ten MDF manufacturers in Malaysia

Malaysia is third-largest exporter of MDF in the world

Malaysia is the third-largest exporter of MDF in the world, behind Germany and Canada. MDF is a reconstituted wood-based panel board, made from recycled wood fibres bonded together with resin under high heat and pressure to form a flat dense sheet. As its raw material is from plantation timber and residues, it is more environmentally friendly and cheaper than plywood, which relies on tropical timber. Particleboard is another panel board reconstituted using coarser sawdust, is cheaper than MDF but cannot go as thin. MDF is fast becoming the material of choice for kitchen cabinets and cupboards due to its superior qualities over plywood such as moldability. Malaysia's global competitive advantage lies in its rubberwood processing industry, which has made it the centre (and model) for the processing and utilisation of rubberwood worldwide. Ironically, Malaysia's total acreage of rubber plantation declined from 1.5 mn ha in 1999 to 1.3 mn ha in 2003, and according to the study in Figure 9 below, the supply of rubberwood is projected to start falling from 2008.

Figure 9: Projected wood production from rubber plantations in Malaysia

Year	Estate ('000 cu m)	Small holdings ('000 cu m)	Total ('000 cu m)
1996	2,899	4,208	7,107
1998	1,951	6,685	8,636
2000	2,683	6,062	8,745
2002	1,847	4,961	6,808
2004	1,488	3,451	4,939
2006	1,431	5,157	6,588
2008	1,720	7,261	8,981
2010	1,334	4,748	6,082
2012	581	2,626	3,207

Source: Asia-Pacific Forestry Sector Outlook Study, Arshad & Othman (1996)

Evergreen is the second-largest MDF player in Malaysia

Evergreen is the second largest of only ten MDF manufacturers in Malaysia. MDF is a relatively new sector in the Malaysian timber industry, as most of the mills were only established in the 1990s. Some of the other Malaysian manufacturers are listed below.

Figure 10: Malaysian-based MDF manufacturers

Company	Mill location
Evergreen Fibreboard Bhd	Johor
Segamat Panel Boards Sdn Bhd	North Johor
Merbok MDF Sdn Bhd	Merbok, Kedah
Guthrie MDF Sdn Bhd	Kulim, Kedah
Dongwha Fibreboard Sdn Bhd	Nilai, N.Sembilan
Hume Fibreboard	Nilai, N.Sembilan
Robin Resources (M) Sdn Bhd	Mentakab, Pahang
Daiken Miri Sdn Bhd	Miri, Sarawak

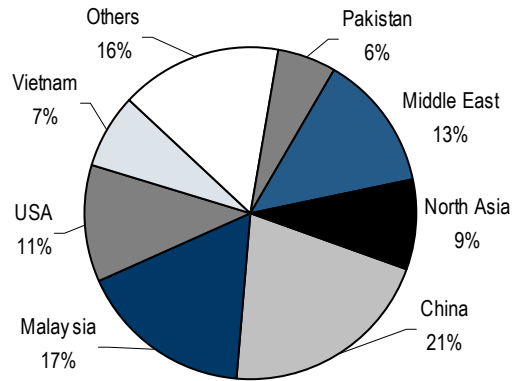
Source: Asia Pacific MDF Exporters Association

Evergreen exports 83% of sales, with 21% to China, which is testament to its global competitiveness

Diversified export base including China

Evergreen exports 83% of its sales to 60 countries, with its major export markets being China and the US. Del Mar International (US) (not listed) is its largest customer, accounting for 10% of sales, and has been dealing with Evergreen for 12 years. The top ten customers account for 30% of sales, with the remaining 70% spread across more than 500 customers. The fact that 21% of sales are to China attests to the manufacturing competitiveness of Evergreen and the fact that 11% of sales are to the US is an indication of its quality, since certification of timber products is becoming increasingly important in Europe and North America.

Figure 11: Evergreen's 2005 sales by geographical breakdown



Source: Company data

Expanding capacity to drive growth

Evergreen has been expanding its capacity in Thailand ...

... where rubberwood log supply is projected to be rising

A second line was commissioned in 2005 and a new plant will be added in 2007

On the lookout for acquisitions in Malaysia

Expansion in Thailand

Evergreen has been expanding its capacity in Thailand, which kills two birds with one stone. Not only does this enable it to increase production and global market share, but it provides better access to rubberwood raw material. This is because Thailand's rubber plantation acreage exceeds Malaysia's at an estimated 1.9 mn ha, and its rubber tree replanting efforts have been more successful, reflected in a projected increase in rubberwood supply as far out as 2017.

Figure 12: Projected rubberwood availability in Thailand

Year	Plantations <5 years old ('000 ha)	Plantations >5 years old ('000 ha)	Total ('000 ha)	Felled area ('000 ha)	Available sawn logs ('000 cu m)	Potential sawn wood ('000 cu m)
1992	784	1,104	1,888	48	2,360	710
1997	864	1,024	1,888	56	2,800	840
2002	1,008	880	1,888	67.2	3,320	1,000
2007	1,136	752	1,888	75.2	3,890	1,170
2012	1,360	528	1,888	75.2	4,180	1,250
2017	1,552	336	1,888	75.2	4,460	1,340

Source: Asia-Pacific Forestry Sector Outlook Study; Promachotikool & Doungpet (1996)

In February 2004, Evergreen acquired a 75% stake in Siam Fibreboard Co. Ltd (SFC) (not listed) in Thailand, which manufactures thick MDF in Amphur Hatyai, Songkhla. A second line, with a capacity of 162,000 cu m p.a., was commissioned in April 2005, and the additional capacity was quickly taken up. A RM120 mn fully automated plant using the latest technology capable of producing super-thin high-density fibreboard will add a further 268,000 cu m p.a. of capacity in mid-2007.

Figure 13: Evergreen production capacity and utilisation

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Malaysia						
Capacity (cu m p.a.)	424,000	424,000	424,000	424,000	424,000	424,000
Production (cu m p.a.)	284,917	334,630	333,958	360,400	360,400	360,400
Utilisation (%)	67	79	79	85	85	85
Thailand						
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Production (cu m p.a.)	0	138,400	217,000	291,600	318,400	444,000
Utilisation (%)	n.a.	85	67	90	54	75

Source: Company data, Credit Suisse estimates

Malaysian acquisitions in the pipeline

With its balance sheet in a net cash position, there is scope for the company to enhance its return on equity via acquisitions. Management is looking to acquire other Malaysian competitors in order to provide larger scale, wider geographical access to rubberwood raw material and lower costs via bulk purchases.

By having more plants, each plant can then specialise in a particular line of MDF, which improves production efficiency, since buyers require volume and Evergreen would not have to switch products on the same line so often.

Margins are turning up

MDF uses mainly branches and smaller diameter rubberwood logs unsuitable for the solid wood furniture industry

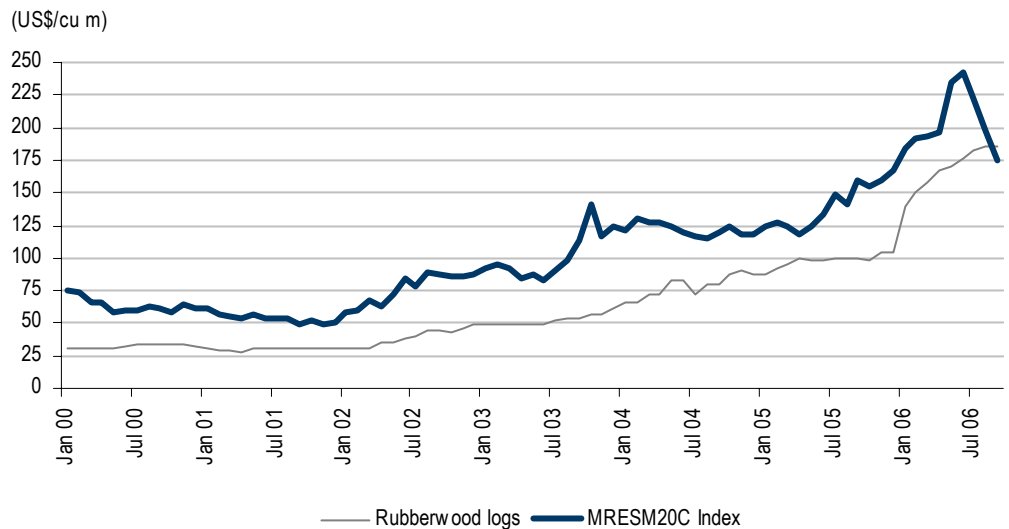
Rubberwood log prices have been rising since 2002 but appear to have peaked ...

Rising costs appear to have peaked

Evergreen's main raw materials are rubberwood logs and urea formaldehyde (UF) resin, which are available locally. MDF uses mainly branches and smaller diameter rubberwood logs unsuitable for the solid wood furniture industry. In Malaysia, the supply of rubberwood logs derived from rubber plantations is slowly declining, but Evergreen can use alternative materials, such as off-cuts and shavings, in addition to other types of plantation wood. 80% of Evergreen's wood requirement is now from rubberwood and 20% is from other alternatives. To gain more control over its raw material supply, Evergreen is negotiating for a forestry concession in Malaysia to undertake the reforestation of rubber trees and fast-growing species in order to reduce its dependency on rubberwood suppliers.

Natural rubber prices have corrected sharply from their peak this year. Since 2002, prices have been driven up by strong global demand (for items such as automotive tyres, rubber gloves, etc.) against a limited supply, since newly planted rubber trees require five to seven years before they can start yielding latex. The price of synthetic rubber (oil-based), a substitute, has also been rising in line with crude oil prices. The increase in the value of natural rubber, in turn, has delayed the felling of rubber trees and raised the price of rubberwood logs in tandem. The surge in rubberwood log prices in 1H06 was already reflected in Evergreen's 1H FY06 results, because the company generally purchases logs only 15 days ahead of production. With the sharp correction in natural rubber prices, rubberwood log prices may have peaked.

Figure 14: Rubberwood log prices and natural rubber price index



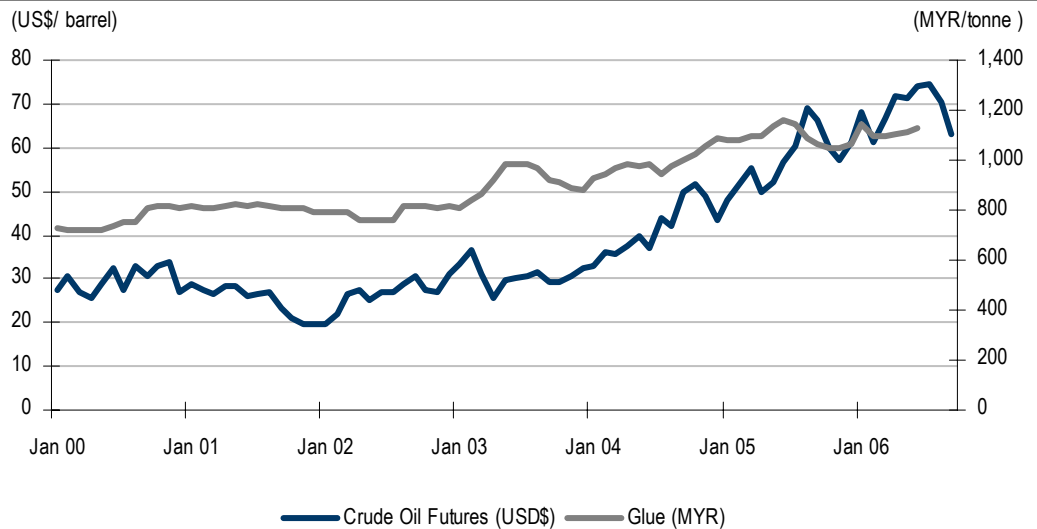
Source: International Tropical Timber Organisation, Bloomberg

Crude oil prices have also corrected sharply from their peak this year. This should lower the cost of UF resin, which is petrochemical-based and used for Evergreen's glue requirements. Evergreen sources its glue from four different suppliers, and Malaysia itself has a urea resin production capacity of 600,000 tonnes p.a. In Thailand, Evergreen

... just as glue prices also appear to be peaking

invested RM4.1 mn for a 25% interest in Dynea Krabi Co. Ltd (not listed), a joint venture with its glue resin supplier to establish a glue resin plant. The plant started operations in mid-2006, and could help to lower Evergreen's glue costs by 10%.

Figure 15: Evergreen's glue cost per tonne and crude oil futures price



Source: Company data, Bloomberg

The other main operating cost is fuel and energy, which have been rising. To mitigate this, Evergreen is investing RM40 mn to set up a biomass power plant in its Thai factory for its own electricity requirement. The biomass plant is targeted to start in 4Q07 and could result in savings of as much as 50%, or a payback period of three to four years.

Selling prices catching up this year

Meanwhile, selling prices of MDF, which are determined by global demand ...

Selling prices of MDF are determined globally by demand and supply. MDF is used mainly in furniture and fixtures (kitchen cabinets, office and household furniture, cupboards, shelves), building interiors (partitions, wall and ceiling panelling, doors), profiling and millwork applications (furniture mouldings, window and door components) and household products (picture frames, toys, game boards). There are approximately 2,000 furniture manufacturers in Malaysia that use MDF, although a slowdown in the US housing sector and US consumption might have a dampening effect on Asian exporters.

... and supply ...

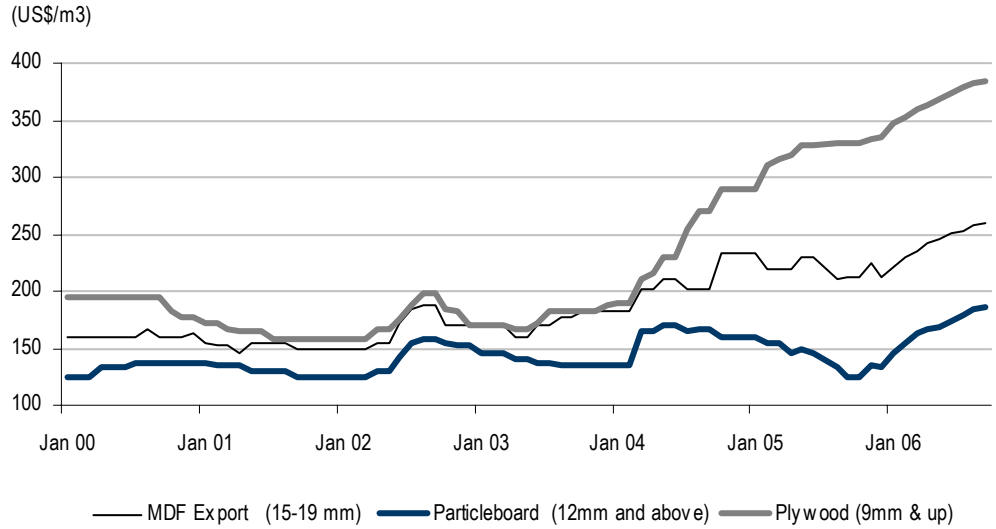
On the supply side, there are ten MDF players in Malaysia, with the barriers to entry being: 1) the high capital set-up costs (e.g. a medium-sized MDF manufacturing plant would cost RM120-150 mn, excluding land and building, for one full line, with annual output of 100,000 cu metres p.a.), 2) export markets require high volumes of production in order to meet purchasers' requirements, and 3) countries such as Japan and Europe also have technical requirements for MDF, with lower emissions of formaldehyde.

In the figure below, plywood prices have been rising since 2004, but it has only been in 2006 that MDF and particleboard prices have started rising. There is some degree of substitutability between the three products, although their respective supply/demand conditions explain the deviation of price trends (e.g. the relative weakness of particleboard prices in 2005 when new regional supply came on-stream). Nevertheless, as tropical timber plywood prices continue to climb ahead of MDF prices, we expect

... have started rising this year, as there is substitutability with plywood, which has seen an even sharper rise in price

more substitution, which should pull up MDF prices further. Like plywood, there is value-added MDF and different thicknesses (thinner commands higher pricing per cu m) with different pricing. Evergreen's Malaysian operation has 75% of capacity dedicated to thin and value-added MDF, while the Thailand operation is mostly thick MDF.

Figure 16: MDF, particleboard and plywood prices



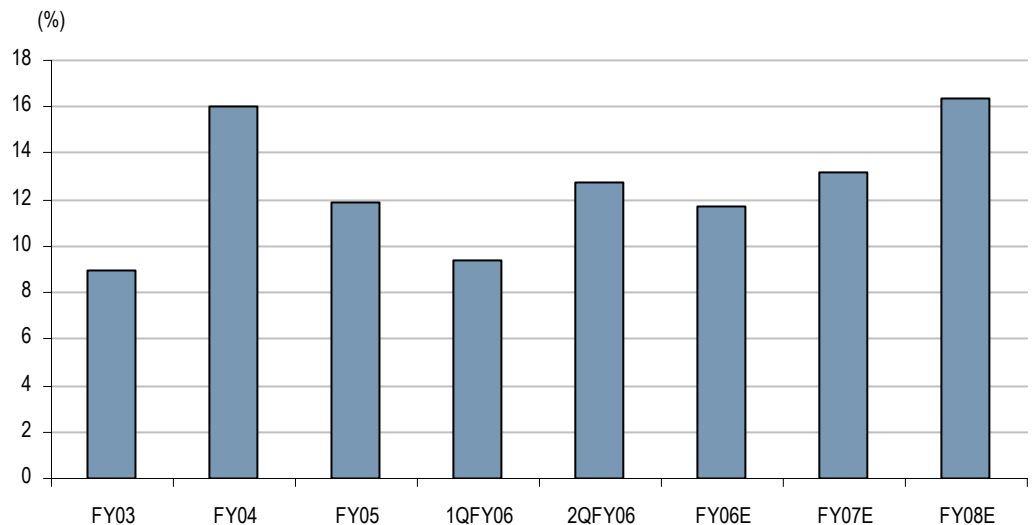
Source: International Tropical Timber Organisation

The net result is that the squeeze in 2005 margins has started to reverse

The net result is margins are starting to improve

The net impact of the rising costs in 2005 and flat selling prices was a squeeze in Evergreen's 2005 operating profit margin, resulting in Evergreen being unable to meet its prospectus forecast of RM65 mn net profit in FY05. With MDF and particleboard selling prices rising in 2006 and costs appearing to peak, the operating profit margin has already started to improve in 2Q FY06 and should continue to do so.

Figure 17: Evergreen operating profit margin



Source: Company data, Credit Suisse estimates

OUTPERFORM with potential 80% upside

Evergreen's ROE is on a par with competitors but its operating margin has scope to improve

Comparison against global competitors

Below is a comparison of Evergreen against other listed competitors, i.e. Vanachai Group PCL (VNG TB, Bt4.40, not rated), which operates in Thailand, Pfeleiderer Grajewo SA (GRJ PW, PLN45.50, not rated), whose operations span Europe and the US, and Norbord Inc. (NBD CN, C\$8.14, not rated) in Canada. Germany and Canada are the top two MDF exporting nations ahead of Malaysia. In 2005, Evergreen's operating profit margin was squeezed, as explained earlier, but compared to Vanachai there is scope for Evergreen's operating margin to improve. Despite its relatively low operating margin in 2005, Evergreen's ROE in 2005 was on a par with Vanachai's and Pfeleiderer's.

Figure 18: Comparison with global peers

Company	Ticker	Country	Mkt cap (US\$ mn)	P/E (x)			EPS growth (%)	Operatin margin (%)	ROE (%)
				2005	2006	2007	2007	2005	2005
Evergreen	EVF MK	Malaysia	119.1	7.9	7.7	6.6	17.4	11.6	17.2
Vanachai	VNG TB	Thailand	151.6	8.3	6.7	5.2	28.8	16.1	16.6
Pfleiderer Grajewo	GRJ PW	Poland	735.6	24.7	n.a.	n.a.	n.a.	12.5	16.2
Norbord Inc	NBD CN	Canada	1,022.2	5.0	8.4	14.7	-43.2	27.8	47.9

Source: Bloomberg, Credit Suisse estimates for Evergreen, IBES estimates for Vanachai and Norbord

We rate Evergreen OUTPERFORM with 80% potential upside to our target price

Valuation and rating

We rate Evergreen as OUTPERFORM with 80% potential upside to our target price of RM1.80 per share. Our target price is based on an FY07E P/E of 13x, which is a slight premium to our Credit Suisse Malaysia Small-Cap Industrial sector FY07E P/E of 12.2x, given Evergreen's strong projected EPS growth of 17% in FY07 and 39% in FY08. This translates into an average P/E-to-growth ratio of only 0.5x for Evergreen, and is also at a discount to Pfeleiderer's historical P/E of 24.7x and Norbord's FY07E P/E of 14.7x, since Evergreen is a smaller player. Although Vanachai is trading on a cheaper P/E than Evergreen, analysts covering Vanachai generally have 'buy' ratings, implying that Vanachai is also undervalued.

Catalysts for the share price could be rising MDF prices, falling rubberwood log or glue costs, or the upcoming quarterly financial results beating market expectations. Our FY06 and FY07 EPS forecasts are 14% and 18% above consensus respectively.

Being a global commodity manufacturer, we identify some of the risks to our rating and target price

Investment risks

Some of the risks to our rating and target price include:

- *Political risk in Thailand.* The unrest in southern Thailand and political turmoil are potential risks, but have so far not affected Evergreen's operations.
- *US or China housing market slowdown.* The US accounts for only 11% of Evergreen's sales, although a slowdown in the US housing market will probably have a knock-on effect on furniture exporters from Asia (i.e. China accounts for 21% of Evergreen's sales). So far, Evergreen has not detected any pullback of orders from its US customers.

- *Foreign exchange risk.* Export sales are in US\$, while costs are in RM and Thai Baht (Bt), so a depreciation of the RM against the US\$, or Bt against the RM would have a positive impact on earnings and vice versa. Refer to Appendix II for a sensitivity analysis.
- *Rubberwood log costs.* Being a commodity, prices can be volatile according to supply and demand, with factors such as wet weather affecting the availability of logs. Besides having an impact on Evergreen's cost of sales, production volume could also be affected. Refer to Appendix II for a sensitivity analysis.
- *Glue costs.* Prices of resins are driven by crude oil prices, which is also a commodity, with volatile prices being determined by supply and demand. Refer to Appendix II for a sensitivity analysis.
- *The effective tax rate might be higher without tax incentives.* Evergreen enjoys various tax incentives that afford it a lower effective tax rate. However this could be higher in the future. In Malaysia, Evergreen's pioneer status, which exempts 70% of income from tax, runs from December 2004 to December 2009. In Thailand, profit was exempt from income tax until 3 June 2006, after which the effective tax rate is expected to range from 3-15% over the following three years, because of other tax-deduction incentives.

Appendix I: Financial statements

Figure 19: Profit and loss statement

Year-end 31 Dec (RM mn)	FY03	FY04	FY05	FY06E	FY07E	FY08E
Sales	250.7	388.6	457.5	545.8	603.0	701.6
Cost of sales	n.a.	(258.7)	(318.3)	(394.1)	(427.7)	(484.1)
Gross profit	n.a.	130.0	139.2	151.7	175.3	217.5
Admin costs		(48.2)	(60.1)	(60.1)	(63.1)	(69.4)
EBITDA	35.8	81.7	79.1	91.6	112.2	148.1
Depreciation	(13.4)	(18.9)	(23.4)	(27.7)	(33.0)	(33.5)
Amortisation	0.0	(0.7)	(1.5)	0.0	0.0	0.0
Operating profit	22.4	62.1	54.3	63.9	79.2	114.6
Inv. income	0.0	2.4	2.1	3.3	2.3	3.5
Interest expense	(1.0)	(2.8)	(2.9)	(2.6)	(2.6)	(2.6)
Associates	0.2	1.0	0.6	1.0	1.0	1.0
PBT	21.6	62.8	54.1	65.6	79.9	116.5
Tax	0.1	(12.2)	4.9	(3.3)	(7.0)	(13.2)
Tax rate (%)	-0.6	19.5	-9.0	5.0	5.0	5.0
PAT	21.7	50.6	59.0	62.3	72.9	103.3
MI	0.0	(5.6)	(4.5)	(6.4)	(7.3)	(12.3)
Net profit	21.7	45.0	54.5	55.9	65.6	91.0
EPS (sen)	4.5	9.4	11.3	11.6	13.7	19.0
EPS growth (%)		107	21	3	17	39
Sales growth (%)	10	55	18	19	10	16
EBITDA margin (%)	14.3	21.0	17.3	16.8	18.6	21.1
Op profit margin (%)	8.9	16.0	11.9	11.7	13.1	16.3
PBT margin (%)	8.6	16.2	11.8	12.0	13.3	16.6

Source: Company data, Credit Suisse estimates

Figure 20: Cash flow statement

Year-end 31 Dec (RM mn)	FY03	FY04	FY05	FY06E	FY07E	FY08E
Operating						
Profit before tax	n.a.	62.8	54.1	65.6	79.9	116.5
Depreciation	n.a.	19.6	24.8	27.7	33.0	33.5
Tax	n.a.	(12.2)	(1.2)	(3.3)	(7.0)	(13.2)
Associate profit	n.a.	(1.0)	(0.6)	(1.0)	(1.0)	(1.0)
Div. from associates	n.a.	0.0	0.0	0.0	0.0	0.0
Working capital	n.a.	(61.8)	(26.3)	(6.0)	(0.7)	(10.9)
Investing						
(Acquisition)/disposal of fixed assets	n.a.	(28.1)	(36.3)	(135.0)	(55.0)	(20.0)
(Acquisition)/disposal of investments	n.a.	(25.0)	(12.2)	0.0	0.0	0.0
Financing						
Dividends paid	n.a.	0.0	(30.0)	(27.9)	(32.8)	(45.5)
Proceeds frm public issue	n.a.	0.0	101.6	0.0	0.0	0.0
Others	n.a.	0.0	(4.9)	0.0	0.0	0.0
Net cash flow	n.a.	(45.8)	69.0	(79.9)	16.4	59.4
Net cash/(debt) at end	n.a.	(7.5)	61.5	(18.4)	(2.0)	57.5

Source: Company data, Credit Suisse estimates

Figure 21: Balance sheet

Year-end 31 Dec (RM mn)	FY03	FY04	FY05	FY06E	FY07E	FY08E
Property, plant & equipment	n.a.	254.1	263.0	370.3	392.3	378.8
Investments in associates	n.a.	8.9	13.6	13.6	13.6	13.6
Goodwill	n.a.	0.9	4.9	4.9	4.9	4.9
LT assets	n.a.	263.8	281.4	388.7	410.7	397.2
Inventories	n.a.	34.7	50.4	51.8	58.6	65.9
Trade receivable	n.a.	48.5	49.1	67.3	61.3	88.4
Other receivables	n.a.	11.4	16.3	16.3	16.3	16.3
Inv. in bond fund	n.a.	0.0	5.0	5.0	5.0	5.0
Cash, deposits, money market funds	n.a.	88.4	117.7	37.8	54.2	113.7
ST assets	n.a.	183.1	238.5	178.2	195.4	289.2
Trade payable	n.a.	(28.9)	(28.0)	(40.3)	(33.5)	(49.7)
Other payables	n.a.	(25.3)	(20.9)	(20.9)	(20.9)	(20.9)
Borrowings	n.a.	(42.4)	(13.1)	(13.1)	(13.1)	(13.1)
Other ST liabilities	n.a.	(4.7)	(0.4)	(7.2)	(20.4)	(38.9)
ST liabilities	n.a.	(101.2)	(62.4)	(81.5)	(87.9)	(122.6)
Shareholders' funds	n.a.	256.2	378.3	406.3	439.0	484.6
MI	n.a.	18.3	20.1	20.1	20.1	20.1
LT debt	n.a.	(53.5)	(43.1)	(43.1)	(43.1)	(43.1)
Deferred tax	n.a.	(17.6)	(16.0)	(16.0)	(16.0)	(16.0)
LT liabilities	n.a.	(71.2)	(59.1)	(59.1)	(59.1)	(59.1)
Ratios						
Inventory turnover (days)	37.0	33.0	41	41	41	41
Debtor turnover (days)	35.0	46.0	39	39	39	39
Creditor turnover (days)	n.a.	n.a.	27	27	27	27
Interest coverage (x)	n.a.	25.6	30.1	35.0	41.0	52.9
Net gearing (%)	n.a.	3	-16	5	0	-12
Net ROE (%)	n.a.	n.a.	17.2	14.2	15.5	19.7
Net ROA (%)	n.a.	n.a.	11.3	10.3	11.2	14.1

Source: Company data, Credit Suisse estimates

Appendix II: Sensitivity analysis

Our sensitivity analysis indicates that earnings are most sensitive to changes in MDF selling prices and the RM:US\$ exchange rate

Evergreen's EPS appears to be most sensitive to changes in MDF selling prices and the RM:US\$ exchange rate. From our sensitivity analysis, Evergreen's forecast EPS increases by 6-7% for every 1% increase in MDF selling prices, and by 3-4% for every 1% depreciation of the ringgit versus the US\$. The relatively smaller impact from the exchange rate is because 82% of revenue is exported and 55% of raw materials is imported. We have provided below our estimates of Evergreen's forecast EPS sensitivity to key prices such as its average selling price (ASP) of MDF, cost price of rubberwood logs, cost price of glue, RM:US\$ and Bt:RM exchange rates.

Figure 22: Sensitivity analysis of Evergreen's forecast EPS

	FY07E	FY08E
Base EPS (sen)	13.7	19.0
MDF		
Base ASP (US\$/cu m)	888	872
Every % chg. impact on EPS		
± 1	± 7.3	± 6.3
± 5	± 38.7	± 31.6
Rubberwood logs		
Base price (RM/t)	115	115
Every % chg impact on EPS		
± 1	₹ 2.2	₹ 2.1
± 5	₹ 10.2	₹ 8.4
Glue		
Base price (RM/t)	1126	1126
Every % chg impact on EPS		
± 1	₹ 1.5	₹ 1.6
± 5	₹ 7.3	₹ 6.3
RM:US\$		
Base rate	3.65	3.65
± 1 (+ means RM depreciate)	± 4.1	± 3.2
± 5 (- means RM appreciate)	± 20.4	± 15.9
Bt:RM		
Base rate	10.0	10.0
± 1 (+ means Bt depreciate)	± 1.4	± 1.4
± 5 (- means Bt appreciate)	± 6.7	± 6.6

Source: Company data, Credit Suisse estimates

Appendix III: Management and ownership

Evergreen is 48%-owned by Kuo Wen Chi's family; Kuo Wen Chi is aided by his sons in running the company

Kuo Wen Chi (aged 70) is the Deputy Chairman and founder of Evergreen. He has more than 40 years' experience in the wood-based industry, starting with a plywood company in Taiwan before moving to Singapore in 1972 to establish his own business, and subsequently venturing into Malaysia to establish Evergreen in 1977. His current responsibilities include overall management, business planning and development of the strategic direction of the group.

Kuo Jen Chang (aged 41) is the Managing Director of Evergreen and son of Kuo Wen Chi. He joined the family business in 1987 as Procurement Manager, and was later responsible for the entire set-up and overall production operations of EFB. He directly owns 17.7% of Evergreen.

Kuo Jen Chiu (aged 38) is the Executive Director of Evergreen and son of Kuo Wen Chi. He joined the family business in 1990 as Marketing Manager and in 1993 was appointed Executive Director to oversee the Financial and Human Resource/Administration and Sales Department. His responsibilities include identifying opportunities and developing new markets. He directly owns 15.2% of Evergreen.

Kuo Huei Chen is a Non-Executive Director of Evergreen and daughter of Kuo Wen Chi. She directly owns 9.0% of Evergreen, while another brother, Kuo Jen Hui directly owns 6.3% of Evergreen. Collectively, the Kuo family thus owns 48% of Evergreen but held individually by the siblings.

Evergreen was listed only last year at an IPO price of RM1.14, and failed to meet its prospectus forecast

FY05 results fell short of management forecast

Evergreen was listed on the Main Board on 10 March 2005 at an IPO price of RM1.14 per share. In its IPO prospectus, management forecast profit before tax of RM80.7 mn for FY05, which it fell short of by 33%. The reasons given for failing to meet the forecast were:

- Revenue was 12% lower than forecast because of 1) a fire at SFC in April 2005, which resulted in one month of production downtime at its first line, 2) prolonged rain in Thailand during October-December 2005 and to a lesser extent in Malaysia, which interrupted log supply and 3) the de-pegging and subsequent strengthening of the ringgit in July 2005.
- Profit margin was also lower than expected because of higher raw material costs, particularly for rubberwood logs (up by 3-4.5%, due to rain) and glue (up by 5%).

Companies Mentioned (Price as of 06 Oct 06)

Evergreen Fibreboard Bhd (EVGN.KL, RM.99, OUTPERFORM, TP RM1.80)
 Norbord Inc (NBD.TO, C\$7.77, NOT RATED)
 Pfeleiderer Grajewo (GRAJ.WA, PLN45.50, NOT RATED)
 Vanachai Group (VNG.BK, Bt4.40, NOT RATED)

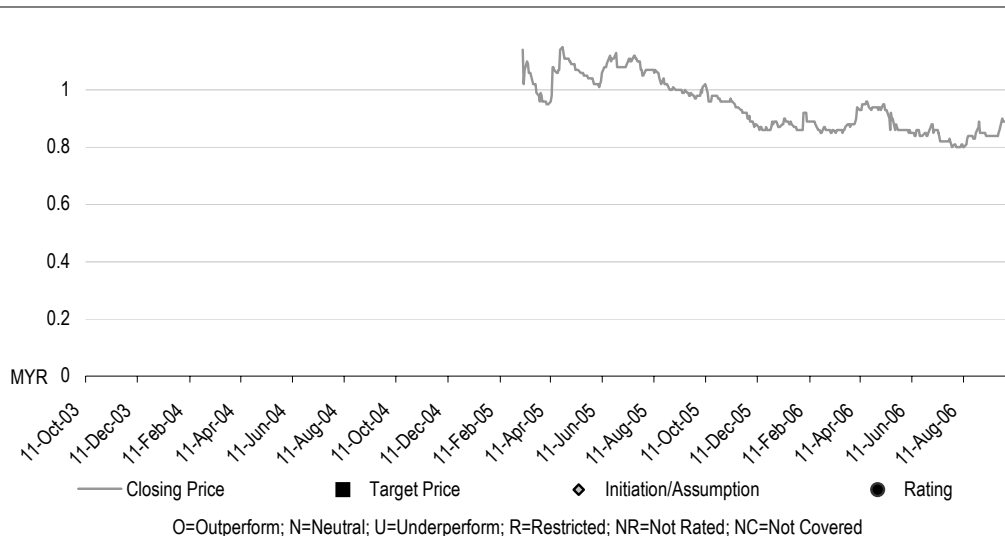
Disclosure Appendix

Important Global Disclosures

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for EVGN.KL



EVGN.KL	Closing Price	Target Price	Initiation/
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Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

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*The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.

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Price Target: (12 months) for (EVGN.KL)

Method: Our target price of RM1.80 per share for Evergreen Fibreboard is based on applying a price to earnings ratio (P/E) of 13x to our forecast FY07 earnings per share (EPS). This is a 7% premium to our Credit Suisse Malaysia Small-cap Industrial sector FY07E P/E of 12.2x, given Evergreen's strong projected EPS growth of 17% in FY07 and 39% in FY08. This translates into an average P/E to growth ratio of 0.5x.

Risks: Some of the risks to our RM1.80 target price for Evergreen Fibreboard that we can identify include: 1) a US or China housing market slowdown, which could translate into lower global demand for MDF and consequently lower selling prices, 2) volatile rubberwood log prices, which would have an impact on costs, and the availability of supply affected by weather conditions which can impact on production volume, 3) volatile glue prices, which can have an impact on costs, 4) RM:US\$ and Bt:RM exchange rate volatility, since exports are priced in US dollars, while costs are based in ringgit and baht, 5) political risks in Thailand, which may affect Evergreen's Thai operations, 6) availability and renewal of tax incentives, which determine Evergreen's effective tax rate.

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