

Corporate Highlights

Visit Note

Evergreen Fibreboard

MDF Prices Rise On Strong Demand



RHB Research
Institute Sdn Bhd
A member of the
RHB Group
Company No: 233327 -M

30 October 2006

Share Price : RM1.21
Fair Value : RM1.43
Recom : **Outperform**
(Upgraded)

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- ◆ **Higher MDF prices.** Average MDF (medium-density fibreboard) prices have risen 16% since January 2006 and 22% yoy. This is due to strong demand for MDF from fast-developing markets like the Middle East and Asia including China. Evergreen's management stated that its business is also benefiting from plywood substitution as average plywood prices have risen by more than 30% yoy.
- ◆ **Strong earnings growth ahead.** Rubberwood prices have stabilised at around RM125/tonne as rubber prices have fallen by more than 25% since June 06. In addition, glue costs are also expected to remain stable as crude oil prices appear to have peaked. We believe that Evergreen's cost-control efforts will also help support earnings for FY06 and FY07. We have raised our average MDF price assumptions for FY06-07 to US\$235/cubic metre and US\$240/cubic metre (vs. US\$210 for each year). As a result, our FY06 and FY07 EPS forecasts have been raised by 20.1% and 23.9% respectively.
- ◆ **Upgrade to Outperform.** On this basis we estimate FY07-08 EPS growth of 16% and 21% respectively. We are rolling over our fair value estimate to FY07 (from FY06 previously). Given the strong growth outlook, we believe Evergreen deserves to trade at a smaller discount to the plywood manufacturers. We have therefore raised our target PER to 10x FY07 EPS (vs. 8x previously) implying a new fair value estimate of RM1.43/share.

Table 1 : Investment Statistics (EVERGRN; Code: 5101)								Bloomberg: EVF MK			
FYE	Turnover	Pre-tax profit	Net profit	EPS	Growth	PER	C.EPS*	P/NTA	P/CF	ROE	GDY
Dec	(RMm)	(RMm)	(RMm)	(sen)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
2005a	457.5	54.1	49.1	10.7	(8.4)	10.2	-	1.5	10.3	17.4	5.2
2006f	592.8	75.0	59.1	12.3	15.4	9.8	10.9	1.5	7.5	14.7	5.0
2007f	667.8	89.1	68.8	14.3	16.4	8.4	12.7	1.4	5.6	15.6	5.0
2008f	752.7	110.5	83.3	17.4	21.2	7.0	19.0	1.1	4.5	17.1	5.0
Issued Capital (m shares)				480.0	Major Shareholders				(%)		
Market Capitalisation (RMm)				580.8	Kuo Family				42.3		
Daily Trading Volume (m shares)				0.3							
52-week Price Range (RM / s)				0.79-1.22							

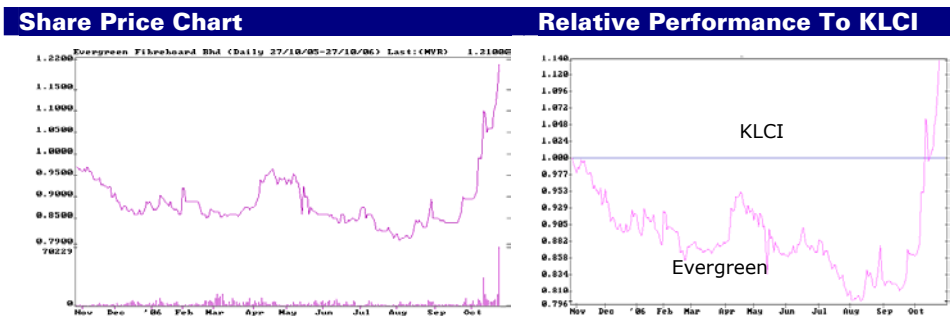
Main Board Listing / Trustee Stock / Syariah-Approved Stock By The SC

* Consensus Based On IBES Estimates

- ◆ **Possible acquisition.** Evergreen’s management stated that they are in negotiation to acquire at least one competitor. Among the ten MDF manufacturers in Malaysia, Evergreen is the second largest with capacity of 560,000 cubic metres. However, no further details were given concerning the acquisition.
- ◆ **Profit assumptions.**

Current	Assumptions:
Capacity:	2006
Malaysia (240,000 cubic metres)	Malaysia (90% utilisation)
Thailand (320,000 cubic metres)	Thailand - old line (95% utilisation)
Thailand – new line mid-2007 (additional 280,000 cubic metres)	2007
	Malaysia (92% utilisation)
	Thailand - old line (89% utilisation)
	Thailand - new line (30% utilisation over 6 months)
2008-Thailand 600,000 cubic metres	2008
	Malaysia (92% utilisation)
	Thailand (77% utilisation)
MDF Prices:	2006 - US\$235/cubic metre
US\$210/cubic metre p.a. (previously)	2007 - US\$240/cubic metre
	2008 - US\$240/cubic metre

- ◆ **Raw materials.** Evergreen’s new line of 280,000 cubic metre capacity in Thailand will require an estimated 480,000 tonnes of rubberwood. We believe that the supply of rubberwood from Thailand will be stable as it has more than 4m acres of planted rubber estates. In addition, Evergreen is also seeking to obtain a rubber plantation concession that will help the company secure long-term supply of rubberwood.



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