

**Evergreen Fibreboard Bhd ----- Maintain OUTPERFORM**
**Acquisition raises earnings and target price**

EPS: ▲ TP: ▲

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- Evergreen is acquiring a competitor's assets to broaden its product range to include the manufacture of "extra thin" MDF using acacia rather than rubberwood as raw material.
- We raised our FY07 and FY08 forecasts by 14% and 12% respectively, assuming the acquisition is completed in 1QFY07. Evergreen is paying RM107m cash for the assets which generated a net profit of RM14.5m in FY05 or a net P/E of 7.4x. We project net gearing by end-FY07 to remain a comfortable 25%.
- Evergreen's share price has yet to react positively to this announcement, probably consolidating its gains after a sharp run-up to just above its IPO price of RM1.14 where there could be stale bulls.
- We maintain our OUTPERFORM rating since there is still a potential upside of 68% to our revised target price of RM2.00, following our upward revision in forecasts. The stock has appreciated 20% since 10 October 2006 and average daily trading value has improved to US\$0.5m from US\$50,000.

**Rationale for the acquisition**

The acquisition will enable Evergreen to broaden its product range to include the manufacture of "extra thin" medium density fibreboard (MDF) with thickness between 2.2-4.0mm. This MDF uses a different raw material—i.e., mainly acacia mixed with some tropical wood instead of rubberwood, which is what Evergreen currently uses. This MDF, which is more moisture resistant and strong, is ideal as a substitute to plywood. It also has a low formaldehyde emission to cater to the Japan market, where Evergreen is underrepresented. The plant, which is located in Johor, has a capacity of 100,000 cu metres p.a. and a log supply contract with an 86,000 acre plantation expiring in 2012.

**Estimated to boost EPS from FY07 onward**

The acquisition is expected to be completed in 1Q07 and will boost Evergreen's earnings. The assets are being acquired on an FY05 PE of 7.4x based on the acquisition cost of RM107m and net profit of RM14.5m which Takeuchi made in FY05. We therefore raised our FY07 and FY08 EPS forecasts by 14% and 12%, respectively. Evergreen's net gearing at end-FY07 is still projected to remain at a comfortable 25%.

Evergreen is negotiating to acquire another MDF plant with capacity of 130,000 cu metres p.a. If successful, they may delay the commissioning of their new 268,000 cu metre p.a. MDF plant in Thailand, since they would then have acquired additional capacity of 230,000 cu metres p.a. in Malaysia. While the acquisitions cost more than starting a new plant, the benefits are ready customers and earlier profit contribution.

**Raising target price and maintain OUTPERFORM**

With our increased EPS forecasts, we consequently raised our target price by 11% to RM2.00. Evergreen has appreciated 20% since 10 October 2006 and average daily trading value has improved to US\$0.5m from US\$50,000. With our revised target price, the potential upside is 68%, so we maintain our OUTPERFORM rating. Under the present climate of pressures on scarce resources—e.g., tropical timber forests, which has resulted in skyrocketing tropical timber and plywood prices, Evergreen's MDF provides a more environmentally friendly substitute to plywood made from plantation wood. It is also benefiting from rising plywood prices, while its costs are more linked to crude oil prices, which have peaked.

Bbg/RIC	EVF MK / EVGN.KL	Price (6 Nov 06, RM)	1.19		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.00 (1.80)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	68		
Daily trad vol-6m avg (mn)	0.4	52-wk range (RM)	1.24 - 0.80		
Daily trad val-6m avg (US\$ mn)	0.1	Mkt cap (RM/US\$ mn)	571.2/ 156.6		
Free float (%)	50.0	<b>Performance</b>	<b>1M 3M 12M</b>		
Major shareholders	Kuo family 48%	Absolute	33.0 48.7 24.0		
		Relative	28.9 39.4 13.5		
<b>Year</b>	<b>12/04A</b>	<b>12/05A</b>	<b>12/06E</b>	<b>12/07E</b>	<b>12/08E</b>
Revenues (RM mn)	388.6	457.5	545.8	666.5	786.3
EBITDA (RM mn)	81.7	79.1	91.6	127.2	166.1
Net profit (RM mn)	45.0	54.5	55.9	74.7	102.3
EPS (RM)	0.09	0.11	0.12	0.16	0.21
- Change from prev. EPS (%)	n.a.	n.a.	0	14	12
- Consensus EPS (RM)	n.a.	n.a.	0.12	0.15	
EPS growth (%)	107.1	21.1	2.6	33.6	37.0
P/E (x)	12.7	10.5	10.2	7.7	5.6
Dividend yield (%)	0.0	6.9	4.9	6.5	9.0
EV/EBITDA (x)	7.2	6.5	6.5	5.4	3.7
P/B (x)	2.2	1.5	1.4	1.3	1.2
ROE (%)	0.0	17.2	14.2	17.6	21.8
Net debt/equity (%)	3	net cash	5	25	9

Note 1: Evergreen Fibreboard Bhd. manufactures medium density fiberboard (MDF), knocked-down wooden furniture, and doors. The Company, through its subsidiaries, also manufactures particle board and MDF and laminates MDF, particleboard, and plywood. Note 2: Dividend yield is net

**Acquisition of assets from Takeuchi**

Evergreen Fibreboard Bhd (Evergreen) has entered into an agreement with Takeuchi MDF Sdn Bhd (Takeuchi) (Not listed) to acquire the land, buildings, plant, equipment, contracts and inventories of Takeuchi for RM107m cash. Takeuchi's original cost of investment in the said assets was RM115.2m, the net book value as at 31<sup>st</sup> December 2005 was RM37.0m, and Takeuchi made a net profit of RM14.5m in FY12/05. Takeuchi is owned by Merbok Hillir Bhd (not listed), which also owns a larger 250,000 cu metre p.a. facility in Merbok (Kedah), which Evergreen was bidding for but lost out to a Korean competitor that offered a higher price.

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**Companies Mentioned (Price as of 06 Nov 06)**

Evergreen Fibreboard Bhd (EVGN.KL, RM1.19, OUTPERFORM, TP RM2.00)

**Disclosure Appendix**

**Important Global Disclosures**

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



EVGN.KL Date	Closing Price Price (MYR)	Target Price Price (MYR)	Rating	Initiation/ Assumption
11-Oct-06	1.1	1.8	OUTPERFORM	X

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

**Method:** Our target price of RM2.00 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 0.4x.

**Risks:** Some of the risks to our RM2.00 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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