

Evergreen Fibreboard Bhd ----- Maintain OUTPERFORM
Continued improvement in quarterly earnings trend

EPS: ▲ TP: ◀▶

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- 3QFY06 results exhibited continued improvement in profit margin, as rising MDF selling prices are being pulled up by rapidly escalating plywood prices.
- We are raising our FY06 EPS forecast by 9% given the better-than-expected MDF selling prices, with more exciting EPS growth of 24-37% p.a. projected in FY07 and FY08. Just annualising 3QFY06 net profit and adding the contribution from its Takeuchi acquisition already puts our FY07 forecast easily within reach.
- There are several positive share price drivers that are already in motion: (1) rising MDF prices, (2) falling raw material costs, and (3) earnings accretive acquisitions to become one of the top ten MDF players in the world.
- We reiterate our OUTPERFORM as Evergreen is trading on an FY07 P/E of only 7.6x with EPS growth of 24-37% p.a. over the next two years. Daily trading value has improved to US\$0.5 m over the past month, and MDF is an environmentally friendly solution to plywood, which is constrained by tropical timber forests.

As the margin recovery was stronger than we expected due to better MDF selling prices, we are raising our FY06 EPS forecast by 9% but maintaining our FY07 and FY08 forecasts. Hence, despite a weak 1QFY06, Evergreen could end FY06 with a 12% EPS growth and even more exciting growth of 24-37% p.a. in FY07 and FY08. Just annualising 3QFY06 net profit and adding the contribution from its Takeuchi MDF Sdn Bhd (not listed) acquisition already puts our FY07 forecast easily within reach. Comparing 9MFY06 on a YoY basis, sales and PBT were up 17%, with flattish operating margin dragged down by the weak 1QFY06. Net profit growth was lower because 9MFY05 enjoyed a write-back of tax overprovisions.

Figure 2: Financial results summary

RM'm (YE Dec)	9MFY05	9MFY06	YoY (%)	FY06f
Revenue	335.0	391.1	16.7	550.5
Op profit	43.1	49.0	13.6	68.6
Int expense	(2.2)	(1.9)		(2.6)
PBT	41.3	48.5	17.4	71.3
Tax	2.9	(2.8)		(3.5)
Tax rate (%)	-7	6		5
Net profit	40.5	42.5	4.9	60.9
EPS (sen)	8.9	8.9	-0.3	12.7
Net DPS (sen)	6.2	4.0		6.3
Op profit margin (%)	12.9	12.5		12.5
PBT margin (%)	12.3	12.4		12.9

Source: Company data, Credit Suisse estimates.

Bbg/RIC	EVF MK / EVGN.KL	Price (13 Nov 06, RM)	1.20		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.00 (2.00)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	67		
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)	576.0/ 157.8		
Free float (%)	50.0	Performance	1M 3M 12M		
Major shareholders	Kuo family 48%	Absolute	21.2 50.0 25.0		
		Relative	15.0 38.4 10.2		
Year	12/04A	12/05A	12/06E	12/07E	12/08E
Revenues (RM mn)	388.6	457.5	550.5	666.5	786.3
EBITDA (RM mn)	81.7	79.1	96.3	127.2	166.1
Net profit (RM mn)	45.0	54.5	60.9	75.7	103.4
EPS (RM)	0.09	0.11	0.13	0.16	0.22
- Change from prev. EPS (%)	n.a.	n.a.	9	1	1
- Consensus EPS (RM)	n.a.	n.a.	0.12	0.15	
EPS growth (%)	107.1	21.1	11.7	24.4	36.6
P/E (x)	12.8	10.6	9.5	7.6	5.6
Dividend yield (%)	0.0	6.9	5.3	6.6	9.0
EV/EBITDA (x)	7.3	6.6	6.2	5.4	3.8
P/B (x)	2.2	1.5	1.4	1.3	1.2
ROE (%)	0.0	17.2	15.5	17.7	21.9
Net debt/equity (%)	3	net cash	4	24	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

3QFY06 earnings continue positive trend

3QFY06 results show a continued improvement in profit margin as rising medium density fibreboard (MDF) selling prices are being pulled up by rapidly escalating plywood prices. Operating profit margin has recovered from 9.4% in 1QFY06 to 15.2% in 3QFY06.

Figure 1: FY06 quarterly earnings trend

RM'm (YE Dec)	1QFY06	2QFY06	3QFY06
Revenue	123.6	129.6	137.9
Op profit	11.6	16.5	20.9
Net profit	10.1	14.1	18.3
Op profit margin (%)	9.4	12.8	15.2
Net DPS (sen)	2.0	0.0	2.0

Source: Company data.

Reiterating our OUTPERFORM

We reiterate our OUTPERFORM on Evergreen:

1. Shortage of tropical timber has translated into a surge in plywood prices, and this in turn has pulled up MDF prices, which is a cheaper substitute
2. MDF being reconstituted plantation wood is an environmental friendly and longer-term solution to tropical timber plywood, which is constrained by tropical timber forests
3. Evergreen's raw material is rubberwood logs, the price of which is closely tied to natural rubber prices, which have corrected sharply and already resulted in a rerating in share prices of rubber glove manufacturers
4. With a net gearing of only 5%, Evergreen is on an acquisition and expansion drive to become one of the top ten MDF players in the world. It has recently announced one acquisition (Takeuchi) that will add 14% to FY07 earnings onwards, and the outcome of another bid will be known in a month's time
5. Evergreen is trading on an FY07 P/E of only 7.6x, with EPS growth of 24-37% p.a. over the next two years. Daily trading value has improved to US\$0.5 m since we initiated one month ago, with free float of 50% on 480 m shares. Its current share price of RM1.20 is only slightly higher than its IPO price of RM1.14 in March 2005.

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Companies Mentioned (Price as of 13 Nov 06)

Evergreen Fibreboard Bhd (EVGN.KL, RM1.20, OUTPERFORM, TP RM2.00)

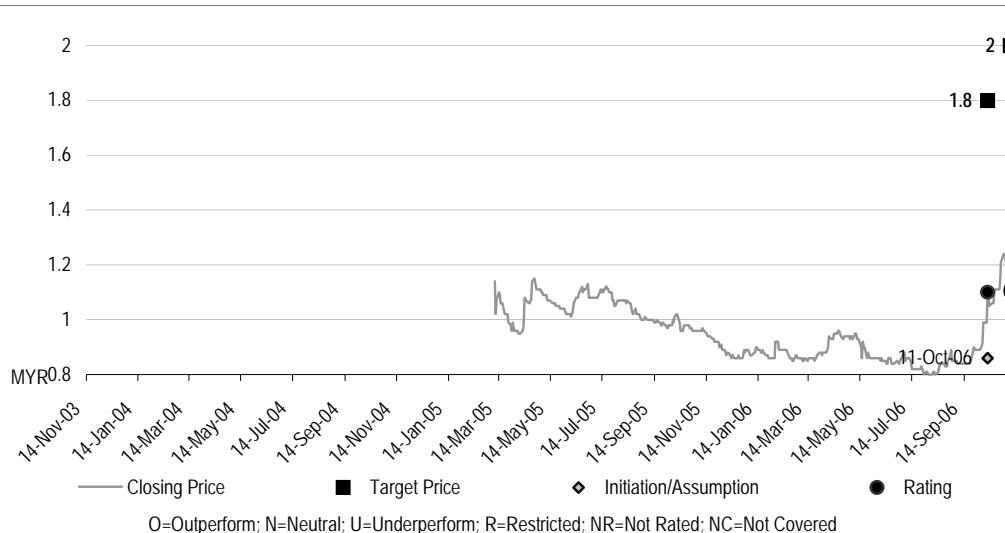
Disclosure Appendix

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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
7-Nov-06	1.2	2		

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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 24% in FY07 and 37% 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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