

22 Aug 2005

Evergreen Fibreboard

EVF MK
RM1.02
BUY

Price Chg (%)	EVF	KLCI
1 mth	(7)	(6)
3 mth	(3)	(8)
12 mth	N/A	N/A

Syariah	Yes
Issued Cap (m shares)	480
Market Cap (RM'm)	489.6
3M Avg Daily Volume (shrs)	397,384
52wk High/Low (RM)	1.15 / 0.89
Net Cash / (Debt) (RM'm)	26.0
Net Gearing (x)	N/A
Book NTA (RM/share)	0.76
Free float (%)	51
Major s/holders <i>Kuo family (48.5%)</i>	

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2Q results below expectation

Y/E : Dec (RM'm)	2Q FY05	1Q FY05	Q-o-Q Chg	6M FY05
Turnover	108.5	104.7	4%	213.1
EBIT	13.2	16.2	(18%)	29.3
Net income/(expense)	(0.7)	(0.7)	0%	(1.5)
Share of assoc earnings	0.1	0.1	44%	0.2
Pretax profit	12.6	15.5	(19%)	28.1
Taxation	5.0	(1.2)	n/m	3.8
Minority interest	(1.4)	(1.1)	24%	(2.5)
Net profit	16.2	13.2	22%	29.4
EPS (sen)	3.6	3.0	22%	6.6
DPS (sen)	3.1	3.1	-	6.25
NTA/share (RM)	0.76	0.78	(3%)	0.76
EBIT margin	12.2%	15.4%		13.8%
Pretax margin	11.6%	14.8%		13.2%
Effective tax rate	(39.5%)	7.5%		(13.5%)

	Results	% of FY	Comments
vs Affin	Below	46	<ul style="list-style-type: none"> Due to a fire incident at the Thai plant's boilers during the quarter. This caused a temporary loss of production. This was partly offset by a tax writeback of about RM5.4m recognised during the quarter, relating to overprovision of prior year taxes.
vs consensus	-	-	
Forecast revision	05	06	<ul style="list-style-type: none"> Downgrade due to loss and delay of commercial production for Thai plants as well as raising our assumption of glue and rubberwood costs for next year. However, guidance is for a potential 8 sen DPS this year. Thus far, the group has paid/declared 6.25 sen. While the fire incident is certainly a setback, the longer term prospects of the group remain positive. Demand for MDF in the region is still healthy and is expected to grow at 15% pa on average for the next three years. The group's dividend yield is also attractive at nearly 8%. Our target price for the stock is RM1.30, based on an undemanding P/E of 10x FY06 earnings.
Revision (%)	(11)	(12)	
Net profit	56.4	62.5	
Consensus	N/a	N/a	
Recommendation	After	Before	
	BUY	BUY	

Evergreen (RM1.02)

Y/E Dec (RM'm)	Pretax Profit	Net Profit	EPS (sen)	EPS Chg (%)	P/E (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2003	21.6	21.7	4.5	22	22.5	13.0	0.0	0.0
2004	62.8	45.0	9.4	107	10.9	5.5	0.0	0.0
2005E	65.3	56.4	11.7	25	8.7	5.2	8.0	7.8
2006E	79.7	62.5	13.0	11	7.8	4.3	8.0	7.8

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Results highlights

Q-o-Q	2Q FY05	1Q FY05	Chg	Comments
Turnover	108.5	104.7	4%	Relatively subdued 2Q due to a fire incident, which affected production at the group's Thai factory. As a result, the commercial production of the second line has been delayed by a few months.
EBIT	13.2	16.2	(18%)	EBIT margins fell 3 %-pts to 12% due to the fire incident as highlighted earlier. Furthermore, glue and rubber wood costs have risen slightly during the quarter causing higher production costs.

Looking forward...

- **Downgrading our FY05 by 11%.** We have lowered our overall utilisation rate to 79% from 84% previously, mainly due to the 2Q fire incident as well as the delay in commencing commercial production for the second line in Thailand.

...and FY06 forecast by 12%. We have factored in higher raw material costs, particularly from glue costs due to the rising crude oil prices. Glue, as a proportion of total production costs, is expected to rise to 37% in FY06 compared to an estimated 35% in FY05 (FY04: 30-33%).

However, guidance is for group dividend per share to reach 8 sen this year. We have adjusted our DPS forecast accordingly.

- **MDF prices are still holding up relatively well.** Currently, MDF prices are still averaging about US\$180-200/cu m, relatively steady compared to the beginning of the year. By comparison, chipboard (a lower value product) prices have eased significantly to US\$130/cu m from US\$150/cu m earlier due to recent plant expansions in Thailand and Malaysia.

Prospects for the MDF market remain relatively bright. It is estimated that the world demand for MDF products is growing at about 8% pa, mainly substituting natural wood products where supply and prices are unfavourable. For the Asia Pacific region alone, demand is expected to grow at 15% for the next three years.

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