

Evergreen Fibreboard Bhd-----Maintain OUTPERFORM

Production disruption but marginal impact on our forecasts

EPS: ▼ TP: ◀▶

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- Production was disrupted by fire last week, affecting 7% of group production for three months, i.e. 4QFY07 earnings will be adversely affected. 3QFY07 earnings should still be relatively strong.
- We are reducing our FY07 EPS forecast by 2%, but raising our FY08 EPS forecast by 2%. Evergreen's insurance covers both the equipment and profits lost, so once the line resumes operation in January 2008, Evergreen will be able to claim the profits lost and book it into FY08.
- As the fire is a one-off event and effectively has no impact on the valuation of Evergreen because of insurance, we are maintaining our target price of RM2.80 per share and OUTPERFORM rating.
- The stock is trading on an FY08 P/E of only 6.6x with an average EPS growth of 17% p.a. over the next two years, driven by its vertical and horizontal expansion and is not dependant on an increase in MDF selling prices. The correction in MDF prices has been shallow (5% from the peak) and appears to be stabilising.

months). Hence, once the line resumes operation in January 2008, Evergreen will be able to claim the profits lost and book it into FY08. This is why we have raised our FY08 EPS forecast by 2%.

Maintain target price and OUTPERFORM rating

As the fire is a one-off event and effectively has no impact on the valuation of Evergreen because of insurance, we are maintaining our target price of RM2.80 per share and OUTPERFORM rating. The stock is trading on an FY08 PE of only 6.6x with an average EPS growth of 17% p.a. over the next two years. This earnings growth is driven entirely by Evergreen's capacity expansion in Thailand and Indonesia, and cost-reduction investments in Thailand which are within its control. It is not dependant on any increase in US\$ product selling price, i.e. medium-density fibreboard (MDF).

Evergreen's MDF prices have corrected in line with the correction in plywood prices, but not as deep as it had not run up as sharply, e.g. 2.5mm MDF price appears to be stabilising at US\$305 per cu metre which is only 5% off the high of US\$320 per cu metre.

Bbg/RIC	EVF MK / EVGN.KL	Price (26 Sep 07, RM)	1.74		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.80 (2.80)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	61		
Daily trad vol-6m avg (mn)	1.7	52-wk range (RM)	2.10 - 0.89		
Daily trad val-6m avg (US\$ mn)	0.8	Mkt cap (RM/US\$ mn)	835.2/ 243.0		
Free float (%)	50.0	Performance	1M 3M 12M		
Major shareholders	Kuo family 48%	Absolute	(2.8) (8.9) 95.5		
		Relative	(6.3) (5.7) 42.9		
Year	12/05A	12/06A	12/07E	12/08E	12/09E
Revenues (RM mn)	457.5	528.1	689.7	772.2	899.0
EBITDA (RM mn)	79.1	86.6	153.5	186.6	213.3
Net profit (RM mn)	54.5	59.7	109.6	126.0	149.7
EPS (RM)	0.11	0.12	0.23	0.26	0.31
- Change from prev. EPS (%)	n.a.	n.a.	-2	2	0
- Consensus EPS (RM)	n.a.	n.a.	0.23	0.28	0.35
EPS growth (%)	21.1	9.6	83.5	15.0	18.8
P/E (x)	15.3	14.0	7.6	6.6	5.6
Dividend yield (%)	4.7	2.9	3.9	4.5	5.4
EV/EBITDA (x)	9.9	9.7	6.3	5.0	4.0
P/B (x)	2.2	2.0	1.7	1.4	1.2
ROE (%)	17.2	14.9	23.6	23.0	23.3
Net debt/equity (%)	net cash	net cash	25	16	1

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

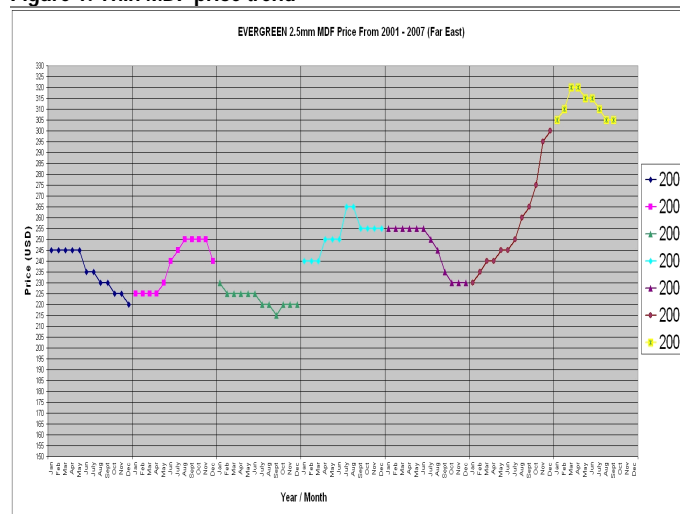
Production was disrupted by fire

Last week, a press caught fire which disrupted production of one line at Evergreen's Takeuchi plant in Johor, which they acquired at the end of 2006. The production capacity of this line is 4,200 cu metres per month or 7% of Evergreen's group production. Management expects the line to take three months to repair, i.e. production will be down 7% in 4Q07.

Reducing FY07 EPS by 2% but raising FY08 by 2%

As a result, we are reducing our FY07 EPS forecast by 2% but raising our FY08 EPS forecast by 2%. 3QFY07 earnings should still be relatively strong but the production disruption will adversely affect 4QFY07 earnings. Nevertheless, Evergreen's insurance covers both the equipment and profits lost (based on its profit over the last six

Figure 1: Thin MDF price trend



Source: Company data

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Companies Mentioned (Price as of 26 Sep 07)
 Evergreen Fibreboard Bhd (EVGN.KL, RM 1.74, OUTPERFORM, TP RM 2.80)

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		
17-Apr-07	1.38	2.3		
14-May-07	1.8	2.65		
11-Sep-07	1.85	2.8		

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

Method: Our target price of RM2.80 per share for Evergreen Fibreboard is based on applying a price to earnings ratio (P/E) of 11x to our forecast FY08 earnings per share (EPS). This is a 10% premium to the average FY08 P/E of 10x for other Malaysian timber companies because we believe Evergreen has better long term growth potential. Evergreen's projected EPS growth of 11% in FY08 and 21% in FY09 translates into an average P/E to growth ratio of 0.7x.

Risks: Some of the risks to our RM2.80 target price for Evergreen Fibreboard that we can identify are: 1) a U.S. 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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