

Company Focus

Malaysia Equity Research PP 11272/7/2008

4 Oct 2007

BUY RM1.85 KLCI : 1,366.96

Price Target : 12-Month RM 3.20

Reason for Report : Plywood prices to stabilise

Potential Catalyst: Growing MDF consumption, capacity expansion, and vertical integration.

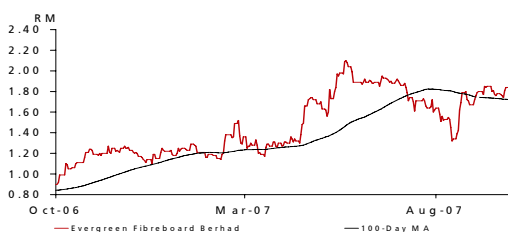
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FORECASTS AND VALUATION

FY Dec (RM m)	2006A	2007F	2008F	2009F
Turnover	528.1	632.6	759.0	831.6
EBITDA	90.5	152.3	192.5	223.2
Pre-tax Profit	67.7	118.7	149.1	177.5
Net Profit	59.7	99.6	125.5	149.5
Net Pft (Pre Ex.)	59.7	99.6	125.5	149.5
EPS (sen)	12.4	20.8	26.2	31.1
EPS Pre Ex. (sen)	12.4	20.8	26.2	31.1
EPS Gth Pre Ex (%)	10	67	26	19
Diluted EPS (sen)	12.4	20.8	26.2	31.1
Net DPS (sen)	5.0	8.5	10.5	12.5
BVPer Share (sen)	72.5	88.2	105.9	126.5
PE (X)	14.9	8.9	7.1	5.9
PE Pre Ex. (X)	14.9	8.9	7.1	5.9
P/Cash Flow (X)	11.1	7.0	5.5	4.7
EV/EBITDA (X)	10.9	6.8	5.5	4.4
Net Div Yield (%)	2.7	4.6	5.7	6.8
P/Book Value (X)	2.6	2.1	1.7	1.5
Net Debt/Equity (X)	CASH	0.1	0.1	CASH
ROAE (%)	18.4	25.8	26.9	26.8

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs)	480
Mkt. Cap (RMm/US\$m)	888 / 261
Major Shareholders	
Kuo Family (%)	42.3
Lembaga Tabung Haji (%)	2.9
EPF (%)	2.3
Free Float (%)	24.9
Avg. Daily Vol. ('000)	1,294

Earnings Rev (%):	2007: 0.0	2008: 0.0
Consensus EPS (sen):	2007: 18.5	2008: 26.0
Variance vs Cons (%):	2007: 12.4	2008: 0.8

Sector : Industrials

Bloomberg/Reuters Code: EVF MK/EVGN.KL

Principal Business: MDF Manufacturer

Evergreen Fibreboard

Potential upside to MDF prices

➤ **Story:** We expect support for plywood prices as China cuts export tax rebate and Russia raises export duty. There should also be a boost from a potential 20-25% cut in Sarawak plywood production.

➤ **Point:** MDF prices may also rise if plywood prices pick up as more substitution for plywood is expected. Generally, MDF prices are at 30-50% discount to plywood. Growing environmental concerns are also leading to more MDF usage, and YTD average MDF price is still 22% higher than in 2006.

➤ **Relevance:** Maintain Buy on EFB with RM3.20 price target based on 12x FY08 EPS. We like EFB for its attractive valuation at 7.1x FY08 EPS, bright prospects in the global MDF market, and it being the second largest MDF manufacturer in Malaysia. Catalysts for the stock include higher production volume growth and selling prices, additional contribution from its new Indonesian subsidiary, and cost savings from producing its own glue and energy.

Plywood prices to at least stabilize. A cut in China's export tax rebate from 11% to 5% and Russia raising export duty from 6.5% to 20% simultaneously effective July 2007 should help stabilize plywood prices. China is the world's largest plywood exporter with 30% share, while Russia is a major exporter of wood log to China with 70% share of total export. Further increment in export duty by Russia to 25% in April 2008 and 80% in January 2009 should help provide further boost for prices. This is also supported by the recent move of plywood producers in Sarawak to cut production by 20-25% to ease softening plywood prices. Sarawak produces close to 70% of Malaysia's plywood export, and Malaysia is the second largest plywood exporter in the world after China. Given the recent positive developments, we expect plywood prices to at least stabilize going forward despite slowing demand in Japan and U.S.

Potential upside to MDF prices if plywood prices pick up. MDF prices may increase if plywood prices pick up in anticipation of more substitution for plywood. MDF is becoming a popular alternative to plywood and solid wood because it is cheaper and more eco-friendly. Plywood and solid wood are constrained by short supply of tropical timber, which translate into higher prices. Generally, MDF prices are at 30-50% discount to plywood. Growing environmental concerns are also leading to more MDF usage.

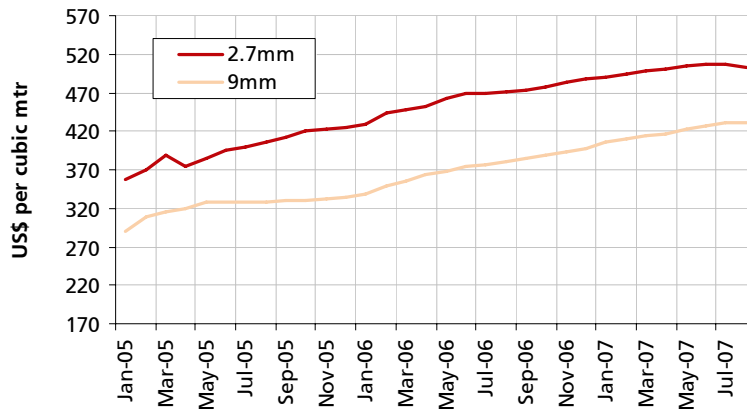
YTD MDF price remains strong. This could be attributed to rising demand for MDF as it is increasingly used as a substitute to plywood and solid wood. Sustained high oil prices may help support higher MDF prices. YTD average MDF prices is still 22% higher compared to 2006.

EFB is biggest beneficiary. Rising MDF prices should benefit EFB because it is the second largest MDF manufacturer in Malaysia, and Malaysia is the second largest MDF exporter in the world. Our sensitivity analysis shows that a 1% increase in average selling prices could boost earnings by 6.8% to RM134.1m for FY08F. Given strong MDF prices YTD, we expect another quarter of strong profits for EFB in 3QFY07.

Company Focus

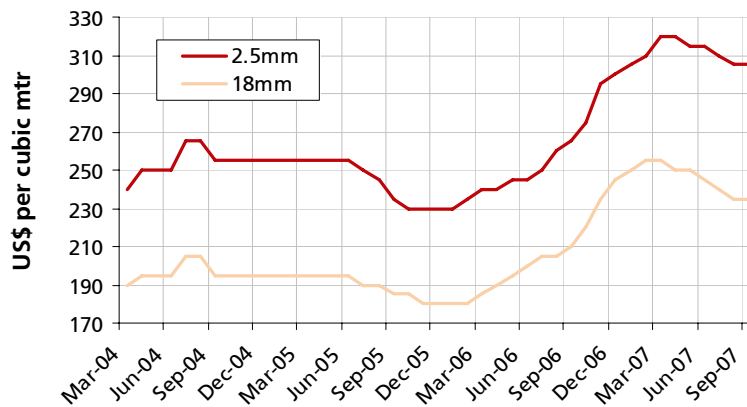
Evergreen Fibreboard

Figure 1: Plywood prices to at least stabilize



Source: Company

Figure 2: YTD MDF prices still strong



Source: Company

Figure 3: Sensitivity analysis

Item	% Change (each year)	Net Profit (RM 'mil)			Change (%)		
		2007F	2008F	2009F	2007F	2008F	2009F
Average selling Price	+1%	103.5	134.1	163.3	3.9	6.8	9.3
	-1%	95.7	117.0	135.9	-3.9	-6.8	-9.1
MDF Production volume	+1%	103.5	130.3	154.7	3.9	3.8	3.5
	-1%	95.7	120.7	144.2	-3.9	-3.8	-3.5

Source: HwangDBS Vickers

Company Focus

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Income Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Turnover	528.1	632.6	759.0	831.6
Cost of Goods Sold	(374.7)	(408.3)	(483.3)	(515.9)
Gross Profit	153.4	224.3	275.8	315.6
Other Opg (Exp)/Inc	(85.1)	(102.1)	(122.7)	(134.5)
EBIT	68.3	122.2	153.0	181.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	2.1	2.3	2.6	2.8
Net Interest (Exp)/Inc	(2.7)	(5.8)	(6.5)	(6.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	67.7	118.7	149.1	177.5
Tax	(2.5)	(10.0)	(12.1)	(14.4)
Minority Interest	(5.5)	(9.1)	(11.5)	(13.7)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	59.7	99.6	125.5	149.5
Net profit before Except.	59.7	99.6	125.5	149.5
EBITDA	90.5	152.3	192.5	223.2
Sales Gth (%)	15.4	19.8	20.0	9.6
EBITDA Gth (%)	11.0	68.3	26.4	15.9
EBIT Gth (%)	21.1	78.9	25.3	18.4
Effective Tax Rate (%)	3.8	8.4	8.1	8.1

Cash Flow Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Pre-Tax Profit	67.7	118.7	149.1	177.5
Dep. & Amort.	22.2	30.1	39.4	42.0
Tax Paid	(1.9)	(1.4)	(10.0)	(12.1)
Assoc. & JV Inc/(loss)	(2.1)	(2.3)	(2.6)	(2.8)
Non-Cash Wkg.Cap.	1.1	(36.3)	(16.7)	(9.0)
Other Operating CF	(4.4)	(4.4)	(4.4)	(4.4)
Net Operating CF	82.6	104.4	154.9	191.2
Capital Exp.(net)	(122.7)	(113.2)	(132.5)	(36.0)
Other Invts.(net)	5.0	5.0	5.0	5.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	(8.0)	(8.0)	(8.0)	(8.0)
Net Investing CF	(125.7)	(116.3)	(135.6)	(39.0)
Div Paid	(19.2)	(24.0)	(40.8)	(50.4)
Chg in Gross Debt	88.3	17.2	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0
Net Financing CF	69.1	(6.8)	(40.8)	(50.4)
Net Cashflow	25.9	(18.6)	(21.5)	101.8

Quarterly / Interim Income Statement (RM m)

FY Dec	3Q2006	4Q2006	1Q2007	2Q2007
Turnover	137.9	137.0	166.8	192.6
Cost of Goods Sold	(95.6)	(96.8)	(105.4)	(118.6)
Gross Profit	42.3	40.3	61.4	74.0
Other Oper. (Exp)/Inc	(21.4)	(20.2)	(25.1)	(29.4)
EBIT	20.9	20.0	36.3	44.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.8	0.7	0.8	0.8
Net Interest (Exp)/Inc	(0.6)	(0.6)	(1.7)	(1.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	21.0	20.1	35.4	43.5
Tax	(1.4)	(0.6)	(1.9)	(6.8)
Minority Interest	(1.3)	(0.8)	(5.2)	(4.6)
Net Profit	18.3	18.8	28.4	32.1
Net profit bef Except.	18.3	18.8	28.4	32.1
EBITDA	21.7	20.8	37.2	45.4
Sales Gth (%)	6.5	(0.7)	21.7	15.5
EBITDA Gth (%)	29.2	(4.2)	79.1	22.1
EBIT Gth (%)	26.5	(4.1)	81.2	22.6
Gross Margins (%)	30.7	29.4	36.8	38.4
EBIT Margins (%)	15.2	14.6	21.8	23.1

Source: Company, DBS Vickers

Balance Sheet (RM m)

FY Dec	2006A	2007F	2008F	2009F
Net Fixed Assets	361.4	444.5	537.6	531.6
Invts in Assocs & JVs	15.9	18.2	20.7	23.5
Other LT Assets	23.0	22.7	22.5	29.7
Cash & ST Invts	147.4	128.8	107.3	209.1
Other Current Assets	119.9	164.4	187.7	199.7
Total Assets	667.5	778.5	875.7	993.5
ST Debt	14.4	10.9	10.9	10.9
Other Current Liab	55.8	72.6	81.2	86.6
LT Debt	130.1	150.9	150.9	150.9
Other LT Liabilities	15.7	7.9	0.3	0.0
Shareholder's Equity	426.0	501.6	586.3	685.4
Minority Interests	25.5	34.6	46.1	59.8
Total Cap. & Liab.	667.5	778.5	875.7	993.5
Non-Cash Wkg. Cap	65.5	101.8	118.5	127.5
Net Cash/(Debt)	2.9	(33.0)	(54.4)	47.3

Rates & Ratios

FY Dec	2006A	2007F	2008F	2009F
Gross Margin (%)	29.1	35.5	36.3	38.0
EBITDA Margin (%)	17.1	24.1	25.4	26.8
EBIT Margin (%)	12.9	19.3	20.2	21.8
Net Profit Margin (%)	11.3	15.7	16.5	18.0
ROAE (%)	18.4	25.8	26.9	26.8
ROA (%)	10.1	13.8	15.2	16.0
ROCE (%)	15.5	21.9	22.4	23.3
Div Payout Ratio (%)	40.2	41.0	40.1	40.1
Interest Cover (x)	25.4	21.1	23.7	28.0
Debtors Turn (avg days)	33.2	29.9	29.9	31.1
Creditors Turn (avg days)	26.4	27.8	26.5	27.6
Inventory Turn (avg days)	56.0	59.8	56.9	59.5
Current Ratio (x)	3.8	3.5	3.2	4.2
Quick Ratio (x)	2.9	2.7	2.3	3.3
Net Debt/Equity (X)	CASH	0.1	0.1	CASH
Capex to Debt (%)	84.9	70.0	81.9	22.3
N.Cash/(Debt)PS (sen)	0.6	(6.9)	(11.3)	9.9
Opg CFPS (sen)	17.0	29.3	35.8	41.7
Free CFPS (sen)	(8.4)	(1.8)	4.7	32.3

PE Chart (x)



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