

# Evergreen Fibreboard Berhad

**Malaysia**  
**Manufacturing & trading**  
 16 April 2007

## A global player with decent valuations

### ◆ Malaysia's 2<sup>nd</sup> largest MDF player

Evergreen Fibreboard Berhad (EFB) is the second largest manufacturer of medium density fibreboard (MDF) in Malaysia, and is amongst the top 30 MDF producers in the world. It has an annual MDF capacity of 700,000 cubic metres and particleboard capacity of 120,000 cubic metres, in 8 manufacturing plants in Malaysia and Thailand. Close to 85% of its products are exported to 40 countries, with China being the biggest market (14.21% of Group revenue in 2006), followed by Vietnam (14.16%), USA (9.56%), Pakistan (6.07%), Saudi Arabia (5.99%) and South Korea (4.54%). EFB has 530 clients worldwide, with the top 10 clients contributing 34.9% of its revenue in 2006. EFB was listed on the Main Board on 10 Mar 2005 at an IPO price of RM1.14.

### ◆ Capacity driven growth

In line with its aim to be one of the top 10 producers in the world, EFB is embarking on an aggressive capacity expansion, via organic expansion and M&A activities. By end 2008, EFB would have an installed annual MDF capacity of 1.1m cubic metres (+54%) from 0.7m as of end 2006. EFB is working hard to mitigate the effect of rising raw material costs by expanding into supporting activities such as glue production and biomass electricity generation which are expected to result in significant cost savings. All-in, EFB is expected to register healthy EPS growth of over 20% per annum in the next 2 years.

### ◆ Healthy balance sheet, comfortable to finance heavy capex

Capital expenditure will be rather heavy in the next 2 years, averaging RM140m per annum, mainly to finance organic expansion and new acquisitions. This will be financed via internal funds and bank loans. Given the heavy spending plan, we expect EFB to pay a lower 30-35% of its net profits as dividends than the 50-60% in a normalised year. As for FY06, EFB paid 2 interim tax-exempt dividends of 2.0 sen each (FY05's total tax-exempt dividend: 8.25 sen).

### ◆ BUY

EFB is suitable for investors looking for a growth stock with decent valuations. Prospective PER valuations are not demanding, at 7-9x, versus EPS growth of ~ 20% in the next 2 years.

| Year End Dec 31   | 2004  | 2005  | 2006  | 2007E | 2008E |
|-------------------|-------|-------|-------|-------|-------|
| Sales (RM m)      | 388.6 | 457.7 | 528.1 | 596.6 | 736.1 |
| Pre-tax (RM m)    | 62.8  | 54.2  | 68.6  | 79.2  | 99.7  |
| Net profit (RM m) | 45.0  | 54.5  | 59.8  | 68.3  | 85.8  |
| EPS (sen)         | 9.4   | 11.3  | 12.5  | 14.2  | 17.9  |
| EPS growth (%)    | 107.1 | 21.0  | 9.8   | 14.2  | 25.6  |
| PER (x)           | 13.9  | 11.5  | 10.4  | 9.1   | 7.3   |
| EV/EBITDA (x)     | 7.6   | 7.7   | 7.2   | 7.2   | 5.9   |
| Yield (%)         | 0.0   | 8.8   | 4.3   | 4.6   | 5.4   |

# BUY

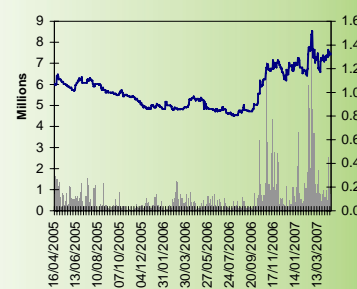
## Special Situation

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|                   |               |
|-------------------|---------------|
| <b>Price</b>      | <b>RM1.30</b> |
| <b>Target</b>     | <b>RM1.60</b> |
| <b>KLCI Index</b> | <b>1307</b>   |

## Historical Chart



| Performance  | 1m   | 3m   | 6m   |
|--------------|------|------|------|
| Absolute (%) | 11.8 | 8.1  | 25.5 |
| Relative (%) | 0.5  | -6.9 | -6.1 |

## Stock Information

|                          |                 |
|--------------------------|-----------------|
| Ticker code              | EVGN.KL         |
|                          | EVF MK          |
| Market Cap (US\$m)       | 181             |
| 52-week high (RM)        | 1.61            |
| 52-week low (RM)         | 0.80            |
| Shares issued (m)        | 480             |
| 6m avg daily vol (US\$m) | 0.4             |
| Free float (%)           | 48.8            |
| Major Shareholders (%)   |                 |
|                          | Kuo family (41) |

## Key Indicators

|                          |      |
|--------------------------|------|
| ROE (%)                  | 14.4 |
| Net gearing (%) – Dec 06 | 13%  |
| NTA – Dec 2006 (RM)      | 0.86 |
| Interest cover (x)       | 12.8 |

**Listed in 2005**

Evergreen Fibreboard Berhad (EFB) was listed on the Main Board on 10 Mar 2005. At an IPO price of RM1.14 per share, EFB raised RM107m, of which RM32m were used to repay borrowings, RM9 for purchase of equipment, RM61m for working capital and RM5m for listing expenses.

**An export player**

EFB is the second largest manufacturer of medium density fibreboard (MDF) in Malaysia, and is amongst the top 30 MDF producers in the world. It now has a MDF capacity of 700,000 cubic metres (6 lines) and particleboard capacity of 120,000 cubic metres per annum, in 8 manufacturing plants in Malaysia and Thailand. Close to 85% of its products are exported to 40 countries, with China being the biggest market. The Group has about 530 clients worldwide, with the top 10 and 3 clients contributing 34.9% and 19.4% of its revenue in 2006 respectively.

**Table 1: Sales by market**

| Y/E Dec (% of revenue) | 2004 | 2005 | 2006 |
|------------------------|------|------|------|
| Malaysia               | 22.6 | 16.7 | 15.0 |
| China                  | 18.7 | 20.9 | 14.2 |
| Vietnam                | 7.8  | 7.3  | 14.2 |
| USA                    | 8.9  | 11.5 | 9.6  |
| Pakistan               | 3.6  | 5.6  | 6.1  |
| Saudi Arabia           | 4.3  | 2.0  | 6.0  |
| South Korea            | 4.2  | 3.8  | 4.5  |
| Others                 | 29.9 | 32.2 | 30.4 |

Source: EFB

**Banking on rising capacity and selling price**

2007 is expected to be a better year for EFB, thanks to increased capacity, higher selling price and tight control on cost.

**Table 2: Projections**

| Y/E Dec                      | 2005       | 2006       | 2007       | 2008       |
|------------------------------|------------|------------|------------|------------|
| <b>Revenue (RMm)</b>         | <b>458</b> | <b>528</b> | <b>597</b> | <b>736</b> |
| MDF                          | 393        | 459        | 519        | 661        |
| Plain particleboard          | 33         | 42         | 50         | 49         |
| Furniture                    | 28         | 24         | 25         | 23         |
| Others                       | 3          | 3          | 3          | 3          |
| <b>Output (cubic metres)</b> |            |            |            |            |
| MDF - Malaysia               | 237932     | 228609     | 290000     | 340000     |
| MDF - Thailand               | 274792     | 297327     | 300000     | 350000     |
| MDF - Indonesia              | 0          | 0          | 0          | 80000      |
| Plain particleboard          | 96026      | 106954     | 107000     | 110000     |
| <b>Selling price (US\$)</b>  |            |            |            |            |
| MDF                          |            | 242        | 255        | 260        |
| Particleboard                |            | 110        | 135        | 135        |
| <b>Cost</b>                  |            |            |            |            |
| Rubberwood (RM)              |            |            | 145        | 155        |
| Glue (RM/tonne)              |            |            | 1300       | 1270       |
| <b>Forex (RM/US\$)</b>       |            |            | 3.45       | 3.30       |

**i. Capacity expansion**

EFB aims to be one of the top 10 producers in the world in the medium term. In order to achieve its target, it has embarked on an aggressive capacity expansion, via organic expansion and M&A activities.

The 75%-owned Siam Fibreboard is adding a third line, with a designed capacity of 268,000 cubic metres per annum. When completed in mid 2007 at a cost of RM120m, the new plant is able to produce super thin high density MDF mainly for the export markets. The additional

3 line will raise Siam Fibreboard's capacity by 80% from the current 320,000 (2 lines) to 588,000 cubic metres.

Besides organic expansion in Thailand, EFB is also adding capacity via acquisitions.

- 2007 will see the full-year benefit from the RM107m cash acquisition of Takeuchi MDF Sdn Bhd (TMSB, now known as Evergreen Fibreboard (JB) Sdn Bhd)'s assets which were completed in Dec 2006. The purchase price values TMSB at FY05 PER of 7.4x, based on revenue and net profit of RM53m and RM1.45m respectively. TMSB has a design capacity of 100,000 cubic metres p.a. and is able to manufacture extra thin MDF (between 2.2mm and 4.0mm thick) which uses acacia and mixed tropical wood (instead of rubber wood) as raw materials. TMSB also has secured logs and wood chips supply contracts from 86,000 acres of plantations expiring in 2012.
- EFB is also moving into Indonesia. In mid Mar 2007, it entered into an MOU for a joint venture agreement whereby a joint venture company will acquire a MDF factory with an installed capacity of 110,000 cubic metres p.a. and resin plant with an annual capacity of ~50,000 tonnes. Due diligence should be completed in May 2007, and further details on purchase price will be announced later.

**Table 3: Installed capacity**

| Y/E Dec                        | 2004       | 2005       | 2006       | 2007       | 2008        |
|--------------------------------|------------|------------|------------|------------|-------------|
| <b>MDF ('000 cubic metres)</b> | <b>442</b> | <b>600</b> | <b>700</b> | <b>968</b> | <b>1078</b> |
| - Malaysia                     | 280        | 280        | 380        | 380        | 380         |
| - Thailand                     | 162        | 320        | 320        | 588        | 588         |
| - Indonesia                    | 0          | 0          | 0          | 0          | 110         |
| <b>Particleboard ('000 cm)</b> |            |            |            |            |             |
| - Malaysia                     | 144        | 144        | 144        | 144        | 144         |

Source: EFB

**ii. Price and Cost**

Wood, glue and electricity are EFB's major cost components, accounting for 60-70% of its total costs.

**Table 4: Cost components**

| (%)                | MDF   | Particleboard |
|--------------------|-------|---------------|
| Wood               | 30-35 | 18-19         |
| Glue/resin         | 25-28 | 28-33         |
| Energy/electricity | 10-15 | 10-12         |
| Labour & overheads | 30    | 40            |

Source: EFB

Table 5: Price trends

|          | Rubber wood Price index | Glue price index | EFB's MDF price (2.5mm) | EFB's MDF price (18mm) | Particle-board (15-18mm) |
|----------|-------------------------|------------------|-------------------------|------------------------|--------------------------|
| Mar 2004 | 98.1                    | 100.6            | 240                     | 190                    | 153                      |
| Jan 2005 | 101.7                   | 107.8            | 255                     | 195                    | 130                      |
| Dec 2005 | 126.0                   | 106.4            | 230                     | 180                    | 125                      |
| Jan 2006 | 132.6                   | 111.1            | 230                     | 180                    | 130                      |
| Feb 2006 | 128.0                   | 110.2            | 235                     | 180                    | 130                      |
| Mar 2006 | 117.4                   | 110.0            | 240                     | 185                    | 135                      |
| Apr 2006 | 121.1                   | 110.2            | 240                     | 190                    | 140                      |
| May 2006 | 127.9                   | 111.9            | 245                     | 195                    | 145                      |
| Jun 2006 | 136.7                   | 108.3            | 245                     | 200                    | 150                      |
| Jul 2006 | 144.7                   | 106.4            | 250                     | 205                    | 150                      |
| Aug 2006 | 152.8                   | 104.1            | 260                     | 205                    | 150                      |
| Sep 2006 | 155.4                   | 105.3            | 265                     | 210                    | 145                      |
| Oct 2006 | 151.4                   | 116.1            | 275                     | 220                    | 140                      |
| Nov 2006 | 152.1                   | 123.2            | 295                     | 235                    | 140                      |
| Dec 2006 | 139.3                   | 124.4            | 300                     | 245                    | 135                      |
| Jan 2007 |                         |                  | 305                     | 250                    | 135                      |
| Feb 2007 |                         |                  | 310                     | 255                    | 135                      |
| Mar 2007 |                         |                  | 320                     | 255                    | 135                      |

Source: EFB

Both wood and glue prices have risen in the last 12 months, and EFB is taking steps to mitigate the rising cost of its raw materials via expansion into supporting activities.

- A new glue plant of RM15m, with an annual capacity of 50,000 tonnes, vis-a-vis EFB's annual consumption in Malaysia of 40,000 tonnes. This plant will start production in end 2007 and will result in some savings in production cost. EFB is already self sufficient in glue in Thailand with its requirement fully met by 25%-owned Dynea Krabi.
- A new biomass power plant using plantation and MDF wastes, under GRE Energy Co Ltd. This is expected to start supplying electricity (9.6 MW) and steam (20 tonnes) in Jan 2008, supplying mainly to Siam Fibreboard in Thailand which consumes ~12 MW. The agreement to buy GRE Energy for RM13.7m was signed in Mar 2007, and the total cost of the project is ~ Baht 400m. Besides cutting electricity bill by ~RM10m per annum, GRE is given tax exemption for 8 years ending 2014.
- EFB is looking moving upstream, into plantation forest. It is now actively seeking for land which will eventually cater for ~25% of its annual wood requirement.

### iii. Capex/Tax/Dividends

Capital expenditure will be rather heavy in the next 2 years, averaging RM140m per annum, mainly to finance organic expansion and new acquisitions. This will be financed via internal funds and bank loans.

Table 6: Capital expenditure

| Y/E Dec (RMm)             | 2004      | 2005      | 2006       | 2007E      | 2008E      |
|---------------------------|-----------|-----------|------------|------------|------------|
| <b>Total capex</b>        | <b>81</b> | <b>40</b> | <b>139</b> | <b>162</b> | <b>120</b> |
| <b>External expansion</b> | <b>75</b> | <b>4</b>  | <b>107</b> | <b>135</b> | <b>0</b>   |
| - Malaysia                | 0         | 0         | 107        | 0          | 0          |
| - Thailand                | 75        | 4         | 0          | 42         | 0          |
| - Indonesia               | 0         | 0         | 0          | 93         | 0          |
| <b>Internal expansion</b> | <b>6</b>  | <b>36</b> | <b>32</b>  | <b>27</b>  | <b>120</b> |
| - Machinery               | 5         | 7         | 12         | 25         | 0          |
| - Expansion               | 1         | 29        | 20         | 2          | 120        |

Source: EFB

EFB's tax charge will remain subnormal in the next few years as a result of the pioneer status which allows for income tax exemption of 70% of its income until 23 Dec 2009. In addition, Evergreen Fibreboard (JB) Sdn Bhd also enjoys investment tax allowance while GRE is given tax exemption for 8 years ending 2014.

Under normal business conditions, EFB intends to pay 50-60% of its net profits as dividends. However, this will be scaled back to 30-35% of net profit if there is heavy capex during the financial year. As for FY06, EFB paid 2 interim tax exempt dividends of 2.0 sen each (FY05's total tax exempt dividend: 8.25 sen) Given the heavy capital expenditure in 2007 and 2008, we expect EFB to keep its dividends at 30-35% of net profit.

### Recommendation

EFB offers a mix of strong growth, low PERs and reasonable dividend yields. Prospective PER valuations are not demanding, at 7-9x, versus EPS growth of ~ 20% in the next 2 years.

**Profit and loss**

| YE Dec (RM m)                | 2004       | 2005        | 2006        | 2007        | 2008        |
|------------------------------|------------|-------------|-------------|-------------|-------------|
| <b>Sales</b>                 | <b>389</b> | <b>458</b>  | <b>528</b>  | <b>597</b>  | <b>736</b>  |
| Cost of goods sold           | 285        | 353         | 406         | 454         | 556         |
| <b>Gross Profit</b>          | <b>103</b> | <b>104</b>  | <b>122</b>  | <b>143</b>  | <b>180</b>  |
| Operating expenses           | 39         | 48          | 53          | 60          | 74          |
| <b>Operating Profit</b>      | <b>65</b>  | <b>56</b>   | <b>69</b>   | <b>83</b>   | <b>107</b>  |
| Net interest                 | -3         | -3          | -3          | -7          | -10         |
| Interest income              | 0          | 0           | 0           | 0           | 0           |
| Interest expense             | 3          | 3           | 3           | 7           | 10          |
| Net investment income/(loss) | 0          | 0           | 0           | 0           | 0           |
| Net other non-op. JV+Assoc.  | 1          | 1           | 2           | 3           | 3           |
| Net extraordinary            | 0          | 0           | 0           | 0           | 0           |
| Pretax income                | 63         | 54          | 69          | 79          | 100         |
| Income taxes                 | 12         | -5          | 3           | 4           | 5           |
| Minority Interest            | 6          | 5           | 5           | 7           | 9           |
| <b>Net profit</b>            | <b>45</b>  | <b>54</b>   | <b>60</b>   | <b>68</b>   | <b>86</b>   |
| EBITDA                       | 83         | 80          | 94          | 111         | 142         |
| <b>EPS(sen)</b>              | <b>9.4</b> | <b>11.3</b> | <b>12.5</b> | <b>14.2</b> | <b>17.9</b> |

**Balance Sheet**

| YE Dec (RM m)               | 2004       | 2005       | 2006       | 2007       | 2008       |
|-----------------------------|------------|------------|------------|------------|------------|
| <b>Total assets</b>         | <b>447</b> | <b>524</b> | <b>667</b> | <b>782</b> | <b>913</b> |
| Current assets              | 183        | 238        | 264        | 212        | 256        |
| Cash & ST investment        | 88         | 123        | 147        | 81         | 95         |
| Inventories                 | 35         | 50         | 63         | 71         | 88         |
| Accounts receivable         | 60         | 65         | 54         | 60         | 72         |
| Others                      | 0          | 0          | 0          | 0          | 0          |
| <b>Other assets</b>         | <b>264</b> | <b>286</b> | <b>403</b> | <b>570</b> | <b>658</b> |
| LT investments              | 9          | 14         | 16         | 18         | 21         |
| Net fixed assets            | 254        | 263        | 372        | 506        | 591        |
| Others                      | 1          | 9          | 16         | 46         | 46         |
| <b>Total liabilities</b>    | <b>191</b> | <b>146</b> | <b>241</b> | <b>309</b> | <b>379</b> |
| Current liabilities         | 101        | 62         | 68         | 79         | 90         |
| Accounts payable            | 54         | 49         | 50         | 55         | 59         |
| ST borrowings               | 42         | 13         | 16         | 21         | 26         |
| Others                      | 5          | 0          | 2          | 3          | 5          |
| Long-term liabilities       | 89         | 84         | 173        | 230        | 289        |
| Long-term debts             | 54         | 43         | 128        | 178        | 228        |
| Others                      | 36         | 40         | 44         | 51         | 60         |
| <b>Shareholder's equity</b> | <b>256</b> | <b>378</b> | <b>426</b> | <b>473</b> | <b>534</b> |
| Paid-in capital             | 97         | 120        | 120        | 120        | 120        |
| Reserve                     | 160        | 263        | 304        | 351        | 412        |
| Others                      | -1         | -5         | 2          | 2          | 2          |

**Cashflow**

| YE Dec (RM m)                | 2004 | 2005       | 2006        | 2007        | 2008        |
|------------------------------|------|------------|-------------|-------------|-------------|
| <b>Operating cash flow</b>   |      | <b>-1</b>  | <b>92</b>   | <b>98</b>   | <b>112</b>  |
| Net profit                   |      | 54         | 60          | 68          | 86          |
| Depreciation & amortisation  |      | 23         | 25          | 28          | 35          |
| Change in working capital    |      | 85         | -1          | 10          | 24          |
| Others                       |      | -164       | 8           | -8          | -33         |
| <b>Investment cash flow</b>  |      | <b>-36</b> | <b>-133</b> | <b>-162</b> | <b>-120</b> |
| Net capex                    |      | -32        | -133        | -162        | -120        |
| Change in LT investment      |      | -4         | 0           | 0           | 0           |
| Change in other assets       |      | 0          | 0           | 0           | 0           |
| <b>Cash flow after invt.</b> |      | <b>-37</b> | <b>-42</b>  | <b>-64</b>  | <b>-8</b>   |
| <b>Financing cash flow</b>   |      | <b>66</b>  | <b>53</b>   | <b>23</b>   | <b>17</b>   |
| Change in share capital      |      | 102        | 0           | 0           | 0           |
| Net change in debt           |      | -10        | 85          | 50          | 50          |
| Change in other LT liab.     |      | -25        | -32         | -27         | -33         |
| <b>Net cash flow</b>         |      | <b>29</b>  | <b>12</b>   | <b>-41</b>  | <b>10</b>   |

**Key ratios**

| YE Dec (RM m)                | 2004 | 2005  | 2006 | 2007 | 2008 |
|------------------------------|------|-------|------|------|------|
| <b>Growth (% YoY)</b>        |      |       |      |      |      |
| Sales                        |      | 17.8  | 15.4 | 13.0 | 23.4 |
| OP                           |      | -12.6 | 22.4 | 20.6 | 28.2 |
| EBITDA                       |      | -4.3  | 17.9 | 18.3 | 27.4 |
| NP                           |      | 21.0  | 9.8  | 14.2 | 25.6 |
| EPS                          |      | 21.0  | 9.8  | 14.2 | 25.6 |
| <b>Profitability (%)</b>     |      |       |      |      |      |
| Gross margin                 |      | 22.8  | 23.1 | 23.9 | 24.5 |
| Operating margin             |      | 12.3  | 13.1 | 14.0 | 14.5 |
| EBITDA margin                |      | 17.4  | 17.8 | 18.6 | 19.3 |
| Net Profit margin            |      | 11.9  | 11.3 | 11.4 | 11.6 |
| ROA                          |      | 10.4  | 9.0  | 8.7  | 9.4  |
| ROE                          |      | 14.4  | 14.0 | 14.4 | 16.1 |
| <b>Stability</b>             |      |       |      |      |      |
| Gross debt/equity (%)        |      | 11.4  | 30.2 | 37.7 | 42.8 |
| Net debt/equity (%)          |      | -2.0  | 13.0 | 37.3 | 40.6 |
| Int. coverage (X)            |      | 19.7  | 27.1 | 12.8 | 10.7 |
| Int. & ST debt coverage (X)  |      | 3.5   | 3.7  | 3.0  | 3.0  |
| Cash flow int. coverage (X)  |      | -0.3  | 36.0 | 15.0 | 11.3 |
| Cash flow int. & ST debt (X) |      | 0.0   | 4.9  | 3.5  | 3.1  |
| Current ratio (X)            |      | 2.3   | 2.2  | 2.3  | 2.5  |
| Quick ratio (X)              |      | 1.9   | 1.7  | 1.7  | 1.8  |
| Net debt (RMm)               |      | -8    | 55   | 176  | 217  |
| <b>Per share data (sen)</b>  |      |       |      |      |      |
| EPS                          |      | 11.3  | 12.5 | 14.2 | 17.9 |
| CFPS                         |      | 16.1  | 17.2 | 19.5 | 24.5 |
| BVPS                         |      | 0.78  | 0.86 | 0.90 | 1.02 |
| SPS                          |      | 1.0   | 1.1  | 1.2  | 1.5  |
| EBITDA/share                 |      | 0.17  | 0.20 | 0.23 | 0.30 |
| DPS                          |      | 11.5  | 5.6  | 6.0  | 7.0  |

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