

Evergreen Fibreboard Bhd

(EVRN.KL / EVF MK)

Rating	OUTPERFORM *
Price (9 Mar 07)	1.28 (RM)
Target price	2.00 (RM) [†]
Chg to TP (%)	56.3
Mkt cap (RM mn)	614.4 (US\$175.3)
Enterprise value (RM mn)	631.9
Number of shares (mn)	480.0
Free float (%)	50.0
52-week price range	1.52 - 0.80
Daily trading value-6m avg	0.2

* Stock ratings are relative to the relevant country index
† Target Price is for 12 months

Research Analysts

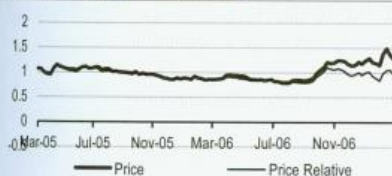
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Green for go!

Evergreen Fibreboard Bhd (Evergreen) is on an acquisition and expansion drive to become one of the top-ten medium-density fibreboard (MDF) players in the world, with projected EPS growth of 33% p.a. over the next two years. MDF is an environmentally friendly long-term solution to plywood, which faces natural constraints resulting in spiralling prices.

- MDF a long-term solution to rising timber prices:** Global MDF prices have risen 24% YoY, pulled up by rising plywood prices. MDF is the closest substitute for plywood. The rise in plywood prices is the result of global demand exceeding tropical timber resources, which are constrained by environmental issues. MDF, being reconstituted plantation wood, is an environmentally friendly and longer-term solution to tropical timber plywood.
- Evergreen is on an acquisition and expansion drive:** With net gearing of only 3%, Evergreen is on an acquisition and expansion drive to become one of the top-ten MDF players in the world. It has recently announced the acquisition of a Malaysian competitor that should add 14% to FY07 earnings onwards, and we expect more corporate developments to unfold in 2007. These should include investments upstream to become more cost-efficient and regional expansion.
- FY07 results likely to be above consensus:** The release of quarterly financial results in 2007 should convince the market that Evergreen can deliver the profits we are forecasting. We are projecting EPS growth of 31% in FY07E and 35% in FY08E, some 10% and 20% above consensus, respectively. Another catalyst would be the announcement of corporate developments which are earnings accretive.
- 60% potential upside to our target price:** Our target price of RM2.00 values Evergreen at an FY07 P/E of 12x or a PEG of only 0.4x, based on its projected average EPS growth of 33% p.a. over the next two years.

Share price performance



The price relative chart measures performance against the KUALA LUMPUR COMPOSITE index which closed at 1,188.8 on 09/03/07

On 09/03/07 the spot exchange rate was RM3.8/US\$1

Performance over	1M	3M	12M
Absolute (%)	11.3	9.4	48.8
Relative (%)	16.2	1.1	15.3

Financial and valuation metrics

Year	12/05A	12/06A	12/07E	12/08E	12/09E
Revenue (RM mn)	457.5	528.1	701.6	811.3	905.5
EBITDA (RM mn)	79.1	90.2	129.8	168.7	193.1
EBIT (RM mn)	54.3	67.0	94.8	133.7	158.8
Net income (RM mn)	54.5	59.8	78.3	105.4	126.9
EPS (CS adj., RM)	0.11	0.12	0.16	0.22	0.26
- consensus EPS	n.a.	n.a.	0.15	0.18	-
EPS growth (%)	21.1	9.8	30.9	34.6	20.4
P/E (x)	11.3	10.3	7.8	5.8	4.8
Dividend yield (%)	6.4	3.1	6.4	8.6	10.3
EV/EBITDA (x)	7.1	7.0	5.6	3.9	2.9
P/B (x)	1.6	1.5	1.3	1.2	1.1
ROE (%)	17.2	15.0	17.9	21.8	23.4
Net debt/equity (%)	net cash	2.6	23.3	6.0	net cash

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

Financial summary

Profit and loss

Year-end 31 Dec (RM mn)	2005A	2006A	2007E	2008E	2009E
Net sales	457.5	528.1	701.6	811.3	905.5
Cost of goods sold	318.3	373.9	515.0	580.1	643.7
Gross profit	139.2	154.2	186.6	231.2	261.8
Operating costs	-	-	-	-	-
Operating profit	54.3	67.0	94.8	133.7	158.8
Non-operating inc./((exp.))	-	-	-	-	-
EBIT	54.3	67.0	94.8	133.7	158.8
Interest/expenses	2.9	2.5	3.1	4.4	(0.5)
Exceptionals	-	-	-	-	-
Pre-tax profit	54.1	68.6	94.7	132.3	162.3
Taxes	(4.9)	3.3	9.0	14.9	18.7
Minorities	(4.5)	(5.5)	(7.4)	(12.0)	(16.7)
Net profit	54.5	59.8	78.3	105.4	126.9
Net profit ex. excep.	54.5	59.8	78.3	105.4	126.9
EPS (RM)	0.11	0.12	0.16	0.22	0.26

Balance sheet

Year-end 31 Dec (RM mn)	2005A	2006A	2007E	2008E	2009E
Cash and inventory	168.1	93.3	30.0	89.7	204.2
Receivables	49.1	63.6	86.1	87.0	106.2
Total current assets	238.5	178.1	137.3	197.9	331.7
Net fixed assets	263.0	374.8	394.8	379.8	365.5
Total LT assets	281.4	393.3	413.2	398.2	383.9
Total assets	519.9	571.4	550.6	596.2	715.6
Short-term debt	13.1	13.1	13.1	13.1	13.1
Payables	28.0	37.8	48.2	48.5	58.7
Total current liabilities	62.4	73.3	13.3	6.2	62.2
Total liabilities	121.5	132.4	72.5	65.4	121.3
Shareholders' funds	398.4	439.0	478.1	530.8	594.3
Total liabilities and equity	519.9	571.4	550.6	596.2	715.6

Cash flow statement

Year-end 31 Dec (RM mn)	2005A	2006A	2007E	2008E	2009E
EBIT	54.3	67.0	94.8	133.7	158.8
Depr./amort.	24.8	23.2	35.0	35.0	34.3
Change in working capital	26.3	4.7	12.2	0.6	9.0
Other cash flow (inc. prov. spend)	-	-	-	-	-
Investment income/FX adj.	2.1	2.0	0.0	0.0	0.0
Cash tax	1.2	3.3	9.0	14.9	18.7
Net interest expense (P&L)	2.9	2.5	3.1	4.4	(0.5)
Operating cash flow	50.9	81.7	105.4	148.9	165.9
Capex	36.3	135.0	55.0	20.0	20.0
Decr. (incr.) in investments	(12.2)	0.0	(107.0)	0.0	0.0
Cash flow from investments	24.2	135.0	(52.0)	20.0	20.0
Preferred dividends	-	-	-	-	-
Dividends	39.6	19.2	39.1	52.7	63.5
Share capital	-	-	-	-	-
Adjustment factor	109.1	2.5	3.1	4.4	(0.5)
Net chg in cash & cash equiv.	69.0	(72.5)	(95.7)	76.2	82.4

Key ratios and valuation

Year-end 31 Dec	2005A	2006A	2007E	2008E	2009E
Growth (%)					
Sales	17.7	15.4	32.8	15.6	11.6
EBIT	(12.6)	23.5	41.4	41.0	18.8
Net profit	21.1	9.8	30.9	34.6	20.4
EPS	21.1	9.8	30.9	34.6	20.4
Margins (%)					
EBITDA margin	17.3	17.1	18.5	20.8	21.3
EBIT margin	11.9	12.7	13.5	16.5	17.5
Pre-tax margin	11.8	13.0	13.5	16.3	17.9
Net margin	11.9	11.3	11.2	13.0	14.0
ROE analysis (x)					
EBIT margin (%)	11.9	12.7	13.5	16.5	17.5
Asset turnover	0.9	0.9	1.3	1.4	1.3
Interest burden	1.0	1.0	1.0	1.0	1.0
Tax burden	1.0	0.9	0.8	0.8	0.8
Financial leverage	1.3	1.3	1.2	1.1	1.2
ROE (%)	17.2	15.0	17.9	21.8	23.4
Liquidity ratios					
Net debt/equity (%)	(16.3)	2.6	23.3	6.0	(9.0)
Interest coverage ratio (x)	27.7	35.4	41.2	38.3	(368.1)

Source: Company data, Credit Suisse estimates

Company description

Evergreen Fibreboard Berhad (EFB) was incorporated in Malaysia in 1991 as a private limited company named Tat Wee Industries (M) Sdn. Bhd. It changed its name to Evergreen Fibreboard Sdn. Bhd. in December 1992 and subsequently changed its status from a private limited company to a public company in April 2004 and assumed its current name.

The principal activities of EFB are the manufacturing of medium-density fibreboard, value-added MDF products and wooden furniture. Its subsidiaries and associate companies are mainly involved in the manufacturing of medium-density fibreboard, particle board, resin and lamination of fancy plywood & MDF.

EFB has a comprehensive range of wood-based products and is known worldwide for its production capacity. The company produces over 800,000 cubic metres of medium-density fibreboard and particle board, with a revenue contribution of over RM600 mn annually.

The company's export markets contribute 83% of the groups' revenue, with a diversified customer base in over 40 countries.

EFB is currently the second-largest medium-density fibreboard producer in Malaysia and a top-five producer in Asia, with six medium-density fibreboard production lines (four in Malaysia and two in Thailand) and one particle board production line.

EFB has a paid-up capital of RM120 mn, comprising 480 mn shares valued at RM0.25 each.

Mr Kuo Jen Chiu

Executive Director

Mr Kuo Jen Chiu is the Executive Director of EFB. He started his career as Marketing Manager with Evergreen Timber Products in Singapore in 1990. In 1993, he was appointed as the Executive Director at EFB to oversee the financial, human resource/administration and sales department. His responsibilities included identifying opportunities and developing new markets. Currently he oversees the Malaysian operation. He brings with him more than 14 years' experience in the industry.

He has a degree in Computer Science from University of Wisconsin.