

Evergreen Fibreboard Bhd-----Maintain OUTPERFORM
1Q FY07 results 50% above consensus!
EPS: ▲ TP: ▲

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- 1QFY07 results were 50% above market expectations! A 33% increase in MDF selling prices drove revenue up 35% YoY and jacked up operating profit margin from 9.4% to 21.8%, resulting in a tripling of PBT.
- Evergreen's expansion plans are progressing, with the acquisition of Indonesian facilities boosting MDF capacity by 16% in FY08, and a state-of-the-art line in Thailand adding a further 33% to capacity in FY09.
- We are raising our target price from RM2.30 to RM2.65 by rolling forward to FY08 and applying a PE of 11x, which is a 10% premium to the sector PE of 10x because we believe Evergreen has better long-term growth potential.
- We maintain our OUTPERFORM rating, as this strong 1QFY07 should convince investors that Evergreen is capable of delivering strong earnings growth on the back of high timber prices. On top of this, it is expanding capacity and investing upstream to become more cost competitive.

Figure 1: Financial results summary

| Year-end 31 Dec (RM mn) | 1Q06 | 1Q07 | YoY (%) | CS FY07E | Cons. FY07E |
|----------------------------|-------|-------|---------|-------------|----------------|
| Revenue | 123.6 | 166.8 | 35 | 686.6 | 654.4 |
| Op profit | 11.6 | 36.3 | 213 | 109.2 | |
| Int expense | (0.6) | (1.7) | | (2.6) | |
| PBT | 11.3 | 35.4 | 214 | 108.6 | |
| Tax | (0.4) | (1.9) | | (9.3) | |
| Tax rate (%) | 4 | 5 | | 9 | |
| Minorities | (0.8) | (5.2) | 550 | (8.3) | |
| Net profit | 10.1 | 28.4 | 181 | 91.2 | 77.2 |
| EPS (sen) | 2.1 | 5.9 | 181 | 19.0 | 16.1 |
| Net DPS (sen) | 2.0 | 0.0 | | 5.7 | 6.0 |
| Op profit margin (%) | 9.4 | 21.8 | | 15.9 | |
| PBT margin (%) | 9.1 | 21.2 | | 15.8 | |

Source: Company data, Credit Suisse estimates.

Expansion plans progressing

Subsequent to our previous note Evergreen has proceeded to execute its expansion plans in Indonesia and Thailand, which we had already accounted for in our forecasts:

- 1) On 23 April 2007, Evergreen entered into a 51:49 joint venture to acquire MDF & resin plants in Indonesia for US\$21 m. The 110,000 cu metre p.a. MDF plant should add 16% to Evergreen's MDF capacity, bringing its total MDF capacity to 814,000 cu metres p.a. Although the plant has not been operating for a few years, it only requires some minor repairs and should start operating in 4Q07. Its advantage is that it has its own resin plant and access to cheap rubberwood logs, which lowers Evergreen's cost of production since these are two major cost components.
- 2) On 3 May 2007, Evergreen signed an S&P with Dieffenbacher GmbH (not listed) of Germany for the supply and commissioning of a 268,000 cu m p.a. MDF line for over RM120 m. This will be state-of-the-art with the world's fastest speed and one of the world's first super-thin 1.5mm high density fibreboard lines. When commissioned in 3Q08, it should increase Evergreen's MDF capacity by a further 33% to 1.08m cu metres p.a.; improve efficiency; and broaden Evergreen's product range into Super E0 formaldehyde, moisture-resistant, and fire-retardant MDF. The line has been granted 8-year pioneer status, which exempts profit from tax.

Raising target price and maintain OUTPERFORM

We are raising our earnings forecasts by only 2-3% to allow for further RM/USD appreciation, which could temper margin improvement. However, our 12-month target price is raised from RM2.30 to RM2.65 by rolling forward FY07 to FY08 and applying an FY08 PE of 11x, which is a 10% premium to the average 10x PE of Malaysian timber companies. The premium is because we believe Evergreen has better long-term growth potential. We maintain our OUTPERFORM rating, as this strong 1QFY07 should convince investors that Evergreen is capable of delivering strong earnings growth on the back of high timber prices. On top of this, it is expanding capacity and investing upstream to become more cost competitive.

| Bbg/RIC | EVF MK / EVGN.KL | Price (11 May 07, RM) | 1.82 | | |
|---------------------------------|------------------|------------------------|----------------|--------|----------|
| Rating (prev. rating) | O (O) | TP (RM) (prev. TP) | 2.65 (2.30) | | |
| Shares outstanding (mn) | 480.00 | Est. pot. % chg. to TP | 46 | | |
| Daily trad vol-6m avg (mn) | 1.5 | 52-wk range (RM) | 1.82 - 0.80 | | |
| Daily trad val-6m avg (US\$ mn) | 0.6 | Mkt cap (RM/US\$ mn) | 873.6/ 258.7 | | |
| Free float (%) | 50.0 | Performance | 1M 3M 12M | | |
| Major shareholders | Kuo family 48% | Absolute | 35.8 58.3 95.7 | | |
| | | Relative | 30.9 44.9 39.5 | | |
| Year | 12/05A | 12/06A | 12/07E | 12/08E | 12/09E |
| Revenues (RM mn) | 457.5 | 528.1 | 686.6 | 777.2 | 911.3 |
| EBITDA (RM mn) | 79.1 | 86.6 | 137.2 | 183.3 | 213.8 |
| Net profit (RM mn) | 54.5 | 59.7 | 94.0 | 115.8 | 136.2 |
| EPS (RM) | 0.11 | 0.12 | 0.20 | 0.24 | 0.28 |
| - Change from prev. EPS (%) | n.a. | n.a. | 3 | 2 | 3 |
| - Consensus EPS (RM) | n.a. | n.a. | 0.16 | 0.22 | 0.26 |
| EPS growth (%) | 21.1 | 9.6 | 57.4 | 23.2 | 17.7 |
| P/E (x) | 16.0 | 14.6 | 9.3 | 7.5 | 6.4 |
| Dividend yield (%) | 4.5 | 2.7 | 3.2 | 4.0 | 4.7 |
| EV/EBITDA (x) | 10.3 | 10.2 | 7.2 | 5.2 | 4.0 |
| P/B (x) | 2.3 | 2.1 | 1.8 | 1.5 | 1.3 |
| ROE (%) | 17.2 | 14.9 | 20.5 | 21.8 | 22.0 |
| Net debt/equity (%) | net cash | net cash | 20 | 12 | net cash |

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

1QFY07 results 50% above consensus!

Annualized 1QFY07 EPS was 50% above consensus! Revenue was up 35% YoY driven by higher MDF selling prices (the average 2.5mm MDF price for 1QFY07 was 33% higher YoY) and maiden contribution from newly acquired MDF operations at the end of 2006. Operating profit and PBT tripled, as operating profit margins improved sharply from 9.4% to 21.8%, resulting from higher MDF selling prices. Net profit and EPS jumped a lesser 2.8x because of higher minority interest from its Thailand operations, which enjoyed stronger earnings growth than Malaysia because of a drop in rubberwood log cost.

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Companies Mentioned (Price as of 10 May 07)
 Evergreen Fibreboard Bhd (EVGN.KL, RM1.82, OUTPERFORM, TP RM2.65)

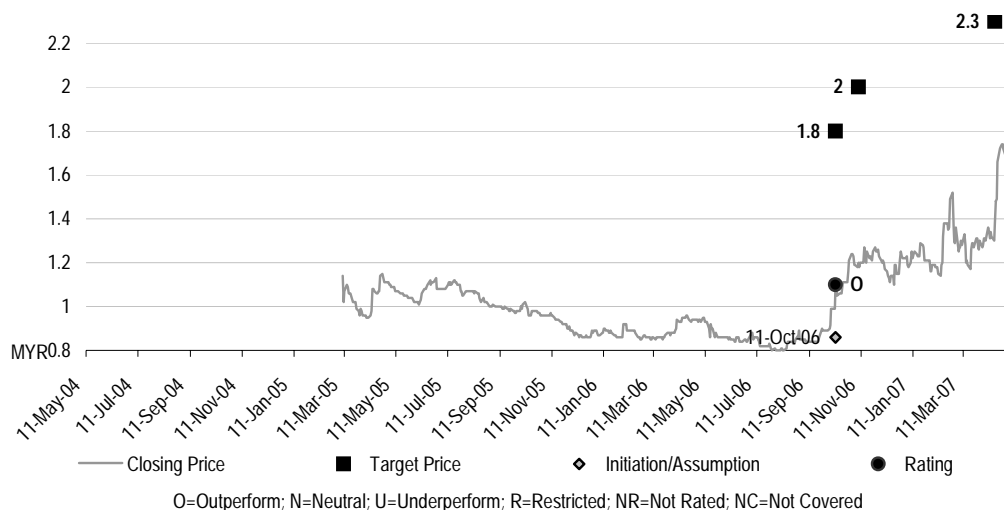
Disclosure Appendix

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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 |
| 07-Nov-06 | 1.2 | 2 | | |
| 17-Apr-07 | 1.38 | 2.3 | | |

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

Method: Our target price of RM2.65 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 23% in FY08 and 18% in FY09 translates into an average P/E to growth ratio of 0.55x.

Risks: Some of the risks to our RM2.65 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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