

Evergreen Fibreboard Bhd-----Maintain OUTPERFORM
2QFY07 results remain strong; stock on 6x P/E
EPS: ▲ TP: ◀▶

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- 2QFY07 results remained strong, with a 23% improvement in PBT compared to 1QFY07. Slightly lower MDF prices were more than offset by better production efficiency and cost management. This pushed net profit for 1HFY07 to a jump of 150% YoY.
- Evergreen is moving upstream to secure raw material, although its first MoU to operate a plantation forest accounts for only 12% of its requirement and is facing some difficulties.
- We are raising our FY07 EPS forecast by 16% as we have assumed a higher RM/USD exchange rate of RM3.43 (average for FY07 to date is RM3.46) compared with RM3.30 previously. 2HFY07 may be weaker than 1HFY07 because current MDF prices are 3% lower, rubber wood cost is 6% higher, but glue cost is 16% cheaper. Wet weather in 4Q FY07 may also be a dampener.
- We are maintaining our FY08 and FY09 EPS forecasts, target price of RM2.65 per share (11x FY08 P/E), and OUTPERFORM rating.

| Bbg/RIC | EVF MK / EVGN.KL | Price (20 Aug 07, RM) | 1.34 | | |
|---------------------------------|------------------|------------------------|--------------------|---------------|---------------|
| Rating (prev. rating) | O (O) | TP (RM) (prev. TP) | 2.65 (2.65) | | |
| Shares outstanding (mn) | 480.00 | Est. pot. % chg. to TP | 98 | | |
| Daily trad vol-6m avg (mn) | 1.7 | 52-wk range (RM) | 2.10 - 0.83 | | |
| Daily trad val-6m avg (US\$ mn) | 0.8 | Mkt cap (RM/US\$ mn) | 643.2/ 183.0 | | |
| Free float (%) | 50.0 | Performance | 1M 3M 12M | | |
| Major shareholders | Kuo family 48% | Absolute | (16.8) (31.3) 59.5 | | |
| | | Relative | (3.8) (21.6) 26.1 | | |
| Year | 12/05A | 12/06A | 12/07E | 12/08E | 12/09E |
| Revenues (RM mn) | 457.5 | 528.1 | 696.1 | 773.1 | 905.8 |
| EBITDA (RM mn) | 79.1 | 86.6 | 155.6 | 183.5 | 213.2 |
| Net profit (RM mn) | 54.5 | 59.7 | 109.5 | 116.3 | 136.3 |
| EPS (RM) | 0.11 | 0.12 | 0.23 | 0.24 | 0.28 |
| - Change from prev. EPS (%) | n.a. | n.a. | 16 | 0 | 0 |
| - Consensus EPS (RM) | n.a. | n.a. | 0.23 | 0.28 | 0.35 |
| EPS growth (%) | 21.1 | 9.6 | 83.4 | 6.2 | 17.2 |
| P/E (x) | 11.8 | 10.8 | 5.9 | 5.5 | 4.7 |
| Dividend yield (%) | 6.2 | 3.7 | 5.1 | 5.4 | 6.4 |
| EV/EBITDA (x) | 7.4 | 7.5 | 4.8 | 3.8 | 2.9 |
| P/B (x) | 1.7 | 1.5 | 1.3 | 1.1 | 0.9 |
| ROE (%) | 17.2 | 14.9 | 23.6 | 21.4 | 21.6 |
| Net debt/equity (%) | net cash | net cash | 18 | 9 | 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

2QFY07 results remained strong

Comparing 2QFY07 against 1QFY07, sales continued to strengthen 16% and operating profit margin further improved from 21.8% to 23.1%, resulting in a 23% improvement in PBT. Although MDF selling prices were slightly lower, this was more than offset by better production efficiency and cost management. As a result, 1HFY07 delivered a 42% YoY jump in sales, a doubling in operating profit margin, and a 188% jump in PBT YoY. Net profit jumped a slower 150% due to a higher tax rate and minorities from the Thailand operations.

Figure 1: Financial results summary

| RM'm (YE Dec) | 1H06 | 1H07 | YoY (%) | CS FY07f | Cons FY07f |
|----------------------|-------|-------|---------|----------|------------|
| Revenue | 253.2 | 359.3 | 42 | 696.1 | 691.3 |
| Op profit | 28.1 | 80.8 | 188 | 111.3 | 111.3 |
| Int expense | (1.3) | (3.5) | 170 | (2.6) | n/a |
| PBT | 27.4 | 79.0 | 188 | 111.8 | 121.0 |
| Tax | (1.4) | (8.6) | 524 | (9.5) | n/a |
| Tax rate (%) | 5 | 11 | | 8 | n/a |
| Minorities | (1.9) | (9.8) | 425 | (8.3) | n/a |
| Net profit | 24.2 | 60.5 | 150 | 94.0 | 108.0 |
| EPS (sen) | 5.0 | 12.6 | 150 | 19.6 | 22.5 |
| Net DPS (sen) | 2.0 | 2.5 | 25 | 5.9 | 7.0 |
| Op profit margin (%) | 11.1 | 22.5 | | 16.2 | |
| PBT margin (%) | 10.8 | 22.0 | | 16.3 | |

Source: Company data, Credit Suisse estimates.

Moving upstream to secure raw material

Subsequent to our previous note, Evergreen has started moving upstream to secure raw material:

1. On 8 June 2007, Evergreen entered into an MoU to buy 100% of Schrader Forest Management (not listed), which operates 12,200 acres of plantation forest (acacia and other timber species) in Selangor, Malaysia.
2. On 22 June 2007, Evergreen bought the rights to harvest and extract rubber trees on 640 ha of land in Negeri Sembilan, Malaysia for RM11.7 m cash. This is to provide consistent raw material supply especially during monsoon season.

However, progress on the MoU is being hampered by unfavourable terms and conditions. Anyhow, on a five-year cutting cycle, the 12,200 acres of plantation forest can sustain raw material supply for 100,000 cu metres p.a. of MDF or only 12% of Evergreen's capacity.

Raising FY07 EPS forecasts

We are raising our FY07 EPS forecast by 16% as we have assumed a higher RM/USD exchange rate of RM3.43 (average for FY07 to date is RM3.46) compared with RM3.30 previously. We are providing room for a weaker 2HFY07 compared with 1HFY07 because current MDF prices are 3% lower than the 1HFY07 and rubber wood cost is 6% higher although glue cost is 16% cheaper. Wet weather in 4QFY07 may also hamper production.

Maintain OUTPERFORM

As we are keeping our FY08 and FY09 EPS forecasts unchanged, we are maintaining our 12-month target price of RM2.65, which is based on a FY08E P/E of 11x. We thus maintain an OUTPERFORM rating, with Evergreen's long-term growth prospects remaining favourable. Management expects steady MDF selling prices in 2H2007 supported by strong demand from the Middle East and Asia, and rubber wood and glue costs to remain under control. Note, however, that while our FY07 EPS forecast is now in-line with consensus, our FY08 and FY09 EPS forecasts are 13% and 20% lower than consensus, respectively.

Companies Mentioned (Price as of 20 Aug 07)
Evergreen Fibreboard Bhd (EVGN.KL, RM1.34, OUTPERFORM, TP RM2.65)

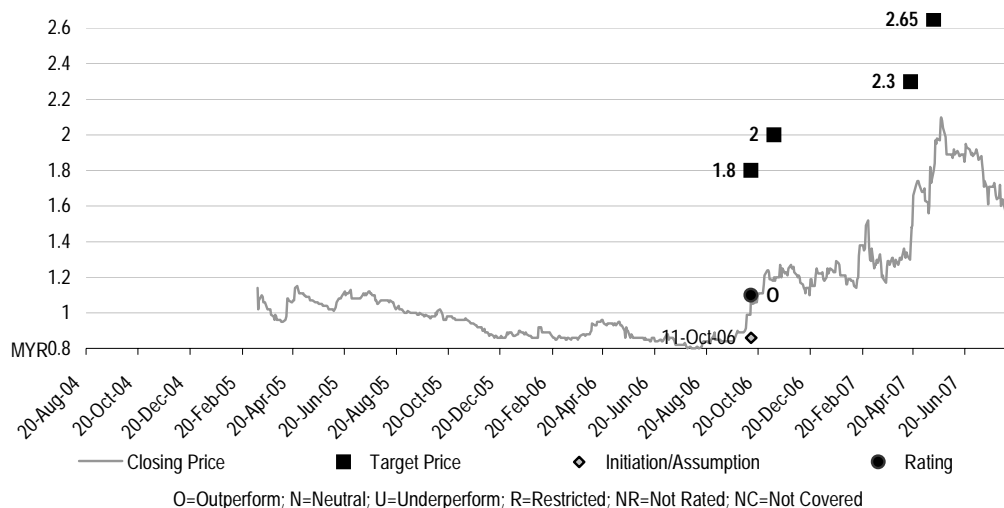
Disclosure Appendix

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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 | | |
| 14-May-07 | 1.8 | 2.65 | | |

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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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