

BUY RM1.62 KLCI : 1,255.39

(Initiating Coverage)

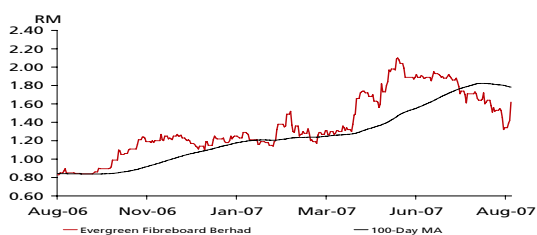
Price Target : 12-Month RM 3.20

Reason for Report : Initiation of Coverage

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

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general@hwangdbsvickers.com.my**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 Pre Ex. (X)	13.0	7.8	6.2	5.2
P/Cash Flow (X)	9.7	6.1	4.8	4.1
EV/EBITDA (X)	9.7	6.1	5.0	3.9
Net Div Yield (%)	3.1	5.2	6.5	7.7
P/Book Value (X)	2.2	1.8	1.5	1.3
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)	777.6 / 223.7
Major Shareholders (%)	
Kuo Family	42.3
Lembaga Tabung Haji	2.89
EPF	2.27
Free Float (%)	24.87
Avg. Daily Vol. ('000)	1,112

Consensus EPS (sen):	2007: 18.7	2008: 25.3
Variance vs Cons (%):	2007: 1.1	2008: 1.0

Sector : Industrial

Bloomberg/Reuters Code: EVF MK/EVGN.KL

Principal Business: MDF Manufacturer

Evergreen Fibreboard**Undemanding Global MDF Play**

➤ **Story:** Evergreen Fibreboard (EFB) is the second largest medium density fibreboard (MDF) manufacturer in Malaysia with 20% share of total industry capacity. Malaysia is currently the second largest MDF exporter in the world. EFB produced 35% of Malaysia's fibreboard export of RM1.1b in 2006.

➤ **Point:** The outlook for MDF is bright. Growth in global wood panel consumption has been driven by MDF. Current global MDF manufacturing capacity is as large as 50m m³ p.a., almost 3x from 17m m³ in 2001. Global MDF production had been growing at an average of 9% p.a. The favorable demand outlook and strong selling prices todate supports our earnings growth projection for EFB of 67% in 2007 and 26% in 2008. Earnings in 2008 would also be driven by a new MDF manufacturing plant to be acquired in Indonesia this year as well as cost savings from consuming its own-produced glue and electricity.

➤ **Relevance:** Valuations are attractive at 6.2x FY08 EPS. We initiate coverage with a BUY rating and RM3.20 target price, based on 12x FY08 EPS. This is consistent with the average multiple for its peers. There is 98% potential upside to our price target.

Bright prospect for MDF. The global market outlook for MDF is favourable. In addition, growing environmental concerns are also leading to increasing MDF usage. MDF is becoming a popular alternative to plywood and solid wood as it is cheaper and more eco-friendly. Generally, MDF prices are at 30-50% discount to the prices of plywood.

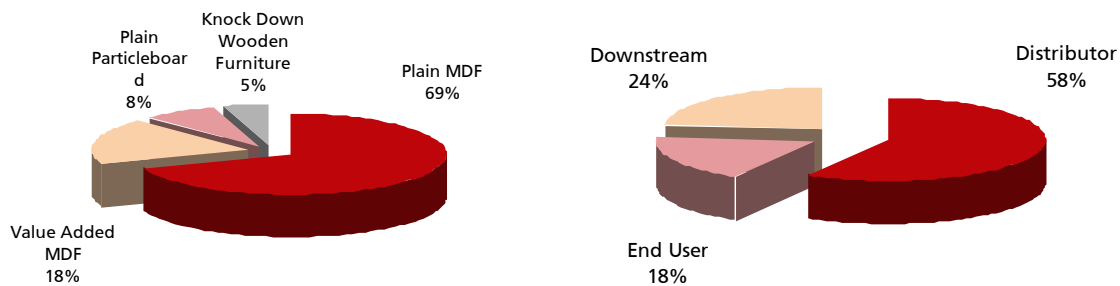
EFB is the key beneficiary. The increasing global demand for MDF would benefit EFB as the Group has exposure in more than 45 countries. EFB's MDF production volume is forecasted to grow by 10% yoy in 2007 and another 10% in 2008. Earnings in 2008 would also be driven by a new MDF manufacturing plant to be acquired in Indonesia this year. The new acquisition would boost the Group's MDF manufacturing capacity by 15.5% to 820,000 m³ p.a. We expect the new plant to contribute 8.2% or RM22.5m to gross profits in 2008, and 9.5% or RM30m to gross profits in 2009.

Gross margins set to expand by 6.4 ppts to 35.5% in 2007 on the back of 22% increase in selling prices from the 2006 level based on ytd-07 price trend. Gross margin is expected to improve further by 0.8ppt to 36.3% in 2008 due to lower raw material costs as EFB will begin to consume its own-produced glue and electricity for its plants in Malaysia and Thailand respectively. Full year impact of the new glue and electricity plants will be reflected in 2009 where we expect gross margin to improve by 1.7ppts to 38.0%.

Company Background

- Established MDF manufacturer.** The Company was incorporated in Singapore in 1972 as Evergreen Timber Products Co Pte Ltd. It was mainly involved in timber trading and veneer manufacturing. Evergreen then expanded to Malaysia in 1977 where Evergreen Group of Companies was established. The Group's principal activities include manufacturing of medium density fibreboard (MDF), particleboard, furniture, and value-added wood-based products. MDF manufacturing remains its core business contributing 87% of FY06 revenue. The Group was listed on the Main Board on 9th March 2005. Mr. Kuo Wen Chi (Deputy Chairman) and his family members are the major shareholders of the Group with 42.3% share.

Figure 1: Revenue Breakdown in 2006

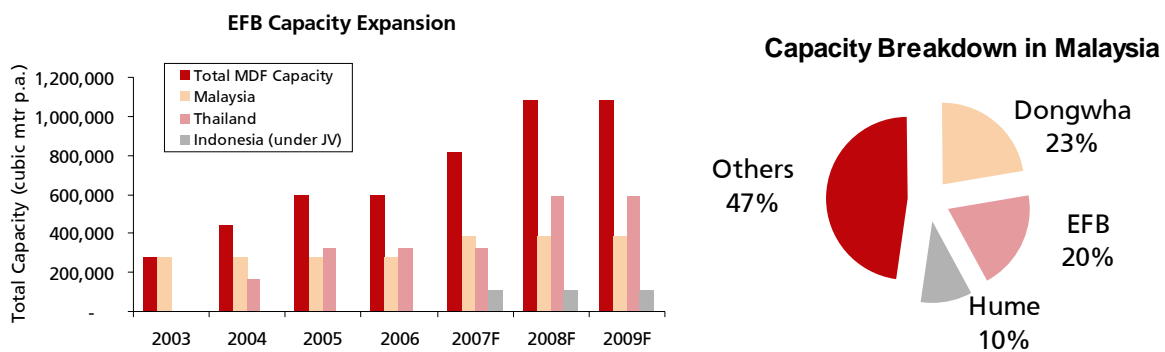


Source: Company

MDF is a popular alternative to solid wood and plywood. MDF is made of compressed fine sawdust, commonly from rubberwood logs that are bonded together with resin glue. It is the most common type of fibreboard produced in Malaysia. Three types of wood-based panels largely produced in Malaysia including plywood, fibreboard, and particleboard. MDF is a cheaper alternative and more eco-friendly as it is made of wood waste compared to natural timber. Plywood and solid wood are constrained by short supply of tropical timber which translates into higher prices. The physical properties of MDF are also close to that of plywood and solid wood making it suitable for furniture and fixtures, household products, building interiors, and profiling, joinery, and millwork applications.

- A global leader.** EFB had expanded to become the second largest MDF manufacturer in Malaysia with 20% share of current total industry capacity. Malaysia is the second largest MDF exporter in the world. In addition, Malaysia's fibreboard export for 2006 was RM1.1b of which 35% was produced by EFB. The Group expanded its markets as well as production capacity through acquisitions, joint ventures, and investments. Since 2003, it had almost tripled its MDF production capacity to 820,000 m³ p.a. and would expand its capacity further by 33% in 2008 when its third line in Thailand is commissioned. It currently has nine manufacturing facilities located in Malaysia, Thailand, and soon, Indonesia. The Group exports to more than 45 countries across the globe. Export revenue account for 84% of its total revenue. Its main export markets include China, Vietnam, and U.S.A.

Figure 2: EFB is the 2nd largest MDF manufacturer in Malaysia



Company Focus

Evergreen Fibreboard

Total Group's Capacity

	2003	2004	2005	2006	2007F	2008F	2009F
MDF (m³ p.a.)	280,000	442,000	600,000	600,000	820,000	1,088,000	1,088,000
<i>Malaysia</i>	280,000	280,000	280,000	280,000	390,000	390,000	390,000
<i>Thailand</i>	-	162,000	320,000	320,000	320,000	588,000	588,000
<i>Indonesia</i>	-	-	-	-	110,000	110,000	110,000
Knock-down wooden furniture (sets p.a.)	1,200,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
Particleboard (m³ p.a.)	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Glue (MT p.a.)	-	-	-	150,000	284,000	284,000	284,000
<i>Malaysia</i>	-	-	-	-	84,000	84,000	84,000
<i>Thailand</i>	-	-	-	150,000	150,000	150,000	150,000
<i>Indonesia</i>	-	-	-	-	50,000	50,000	50,000
Electricity	-	-	-	-	-	9.6MW & 20 tons of steam	9.6MW & 20 tons of steam

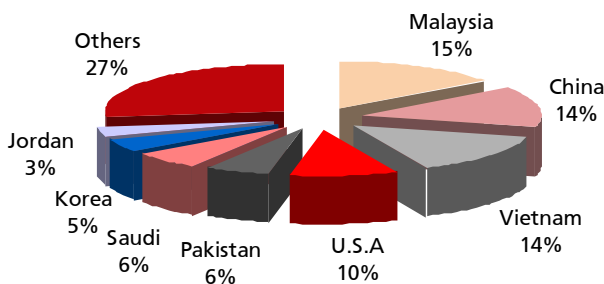
Source: Company, Various

Figure 3: Key Milestones

- 1980** Started 1st Fancy Veneer mill in Malaysia (Dawa Timber)
- 1987** Established world's 1st & Largest Veneered Doorskin MDF Line producing over 20,000 skins a day (Evergreen Decor Product)
- 1993** Commissioned 1st MDF Production Line (Evergreen Fibreboard)
- 1994** Paint Coating Line installed
- 1995** Established Veneer Lamination Line & 1st HDF Moulded Doorskin Line in Malaysia
- 1996** Paper/Foil Overlay Line installed
- 1998** Knock Down Furniture Line started
- 1999** Flush Door Line installed
- 2000** Commissioned 2nd MDF Production Line
- 2002** Evergreen Hevea Resources Incorporated
- 2003** Commissioned 1st Particleboard Line (Allgreen Timber Products)
1st Melamine Line installed in Malaysia
- 2004** Commissioned 1st MDF Production Line in Thailand (Siam Fibreboard)
1st Melamine Line installed in Thailand
- 2005** Commissioned 2nd MDF Production Line in Thailand
- 2006** Commissioned 1st JV Glue Resin plant in Thailand.
Took over MDF operations (2 lines) from Merbok (Takeuchi).
- 2007** Joint Venture & acquired PT Hutrindo Jaya Fibreboard & PT Uforin Prajen Adhesive Industry.

Source: Company

Figure 4: EFB has a diversified customer base



Source: Company

- **Increasingly competitive through vertical integration.** EFB is currently constructing its own glue resin plant and biomass power plant for internal consumption. Production costs are expected to be reduced as glue resin and electricity will be produced internally. Both glue resin and electricity are the main cost

Company Focus

Evergreen Fibreboard

components of MDF accounting for 25-28% and 10-15% of total operating costs respectively. The glue resin plant with a total capacity of 84,000 tonnes p.a. is located at Johor and targeted to be fully operational by early-08. The biomass power plant with capacity of 9.6MW of electricity and 20 tons of steam, located at Thailand, is expected to be fully operational by end-07. The energy generated from the plant will be used for its two existing lines in Thailand. Electricity rate in Thailand is 40% higher than Malaysia.

- **Led by experienced and hands-on management team.** The team, especially the Kuo family, has been in the wood-based industry for more than 19 years. Mr. Kuo Wen Chi (Executive Deputy Chairman), the founder of the Group, brings more than 57 years of experience in the industry. The Group is well-managed by an experienced team with a good foresight where they capitalize on opportunities through regional acquisitions and capacity expansion.

Figure 5: Key Management Team

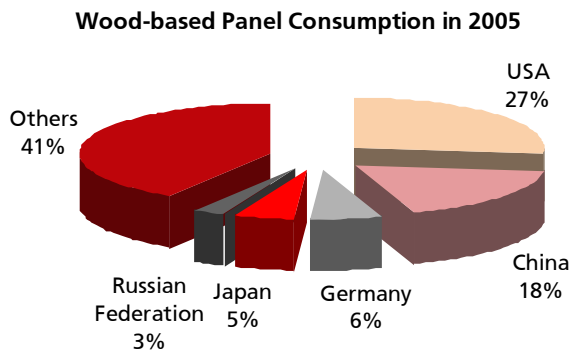
Manager	Designation	Past Experience	Ownership Including Family Members (Direct & Indirect)
Mohd Alkaf Bin Mohd Kahar	Independent Non-Executive Chairman	He became a member of the Board on 15 February 1998 and was appointed as Chairman on 15 April 2004. He has 13 years of experience as a government servant, and 10 years of experience in the banking industry before joining the Group.	2.0%
Kuo Wen Chi	Executive Deputy Chairman	He is the founder of EFB and was appointed as Non-Executive Deputy Chairman on 15 April 2004. He is the founder of Evergreen Group of companies where he established Evergreen Timber Products Co Pte Ltd, in Singapore in 1972. He has more than 57 years of experience in the wood-based industry.	42.3%
Kuo Jen Chang	Managing Director	He became a member of the Board on 15 May 1991 and was appointed as Managing Director on 15 April 2004. He started his career in 1987 when he joined Evergreen Timber Products Co Pte Ltd. To date, he has more than 19 years of experience in the wood-based industry.	42.3%
Kuo Jen Chiu	Chief Operating Officer	He became a member of the Board on 15 May 1991 and was appointed as Executive Director on 15 April 2004. He started his career in Evergreen Timber Products Co Pte Ltd in 1990. He has more than 16 years of experience in the wood-based industry.	42.3%

Source: Company

Prospects

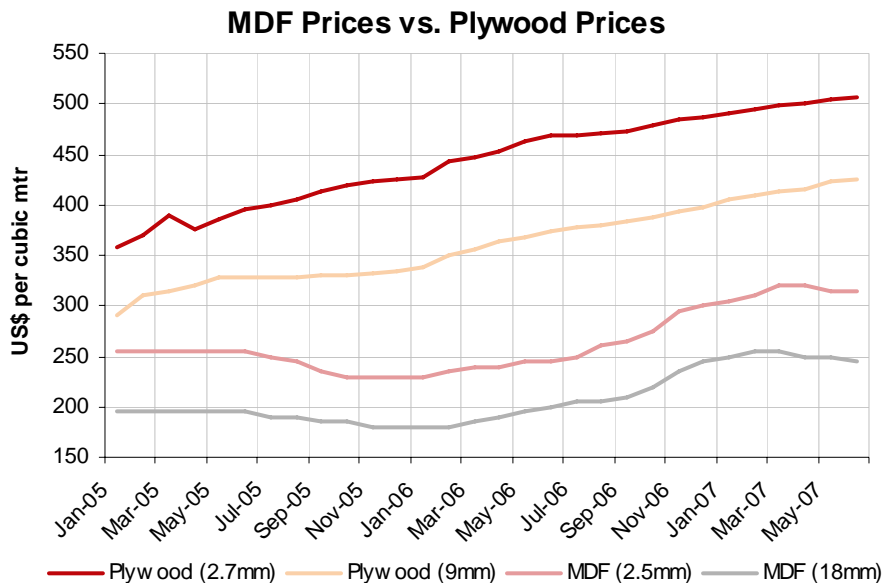
- Bright prospect for MDF.** The global market outlook for MDF is favourable. We understand that current global MDF manufacturing capacity is as large as 50m m³ p.a., almost 3x from 17m m³ in 2001 while global MDF production had been growing at an average of 9% p.a. to 36.5m m³ in 2006. In addition, growing environmental concerns are also leading to more MDF usage. MDF is becoming a popular alternative to plywood and solid wood as it is cheaper and more eco-friendly. Plywood and solid wood are constrained by short supply of tropical timber which translates into higher prices. Generally, MDF prices are at 30-50% discount to the prices of plywood.

Figure 6: Major MDF markets



Source: Food And Agriculture Organization Of The United Nations

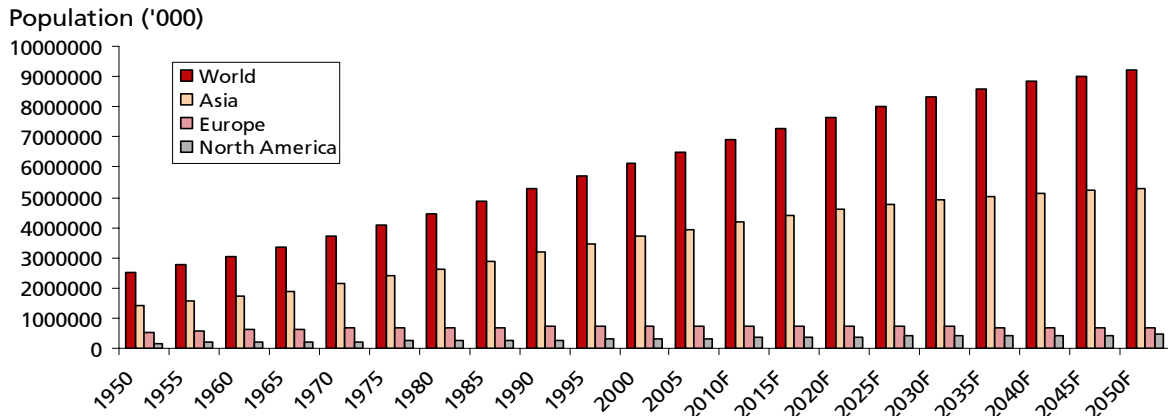
Figure 7: MDF prices are at 30-50% discount to the prices of plywood



Source: Company

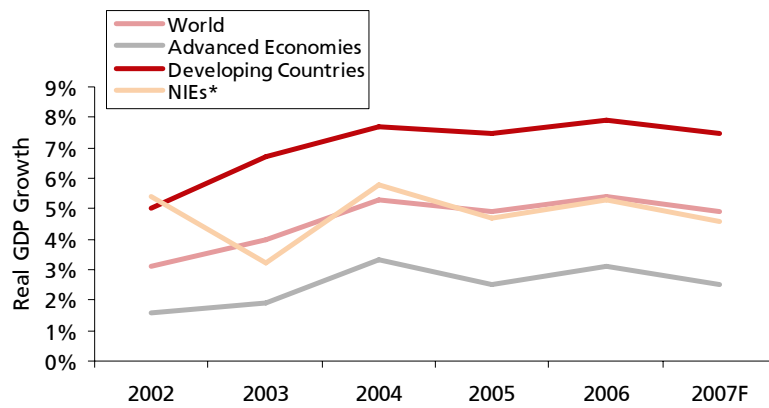
The global demand for wood products is also correlated with population and economic growth. As the world population is projected to increase by 6% between 2005 and 2010, mainly from the fast-growing population in Asia, demand for furniture and fixtures, and household products are also set to increase. In addition, steady world economic growth forecasted in 2007, would further continue to drive demand.

Figure 8: The global demand for wood products is also supported by population growth



Source: World Bank

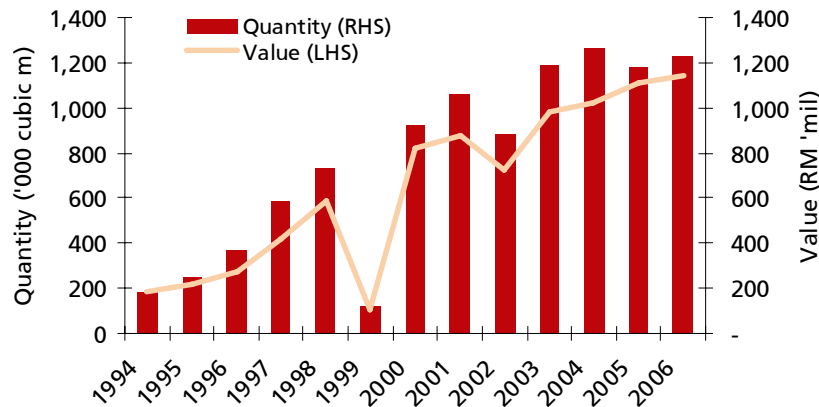
Figure 9: The world economy is forecasted to grow by 4.9% in 2007



Note: *Newly Industrialized Economy: Hong Kong, South Korea, Singapore, and Taiwan
Sources: Ministry of Finance, Bank Negara Malaysia, World Economic Outlook April 2007

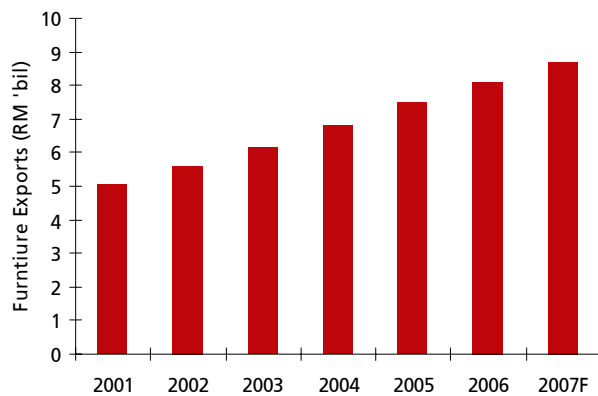
- Malaysia is the key beneficiary** as it is currently the 2nd largest MDF exporter in the world mainly to Japan, China, UAE, Vietnam and Pakistan. Malaysia exported RM1.1b worth of fibreboard in 2006, a 4% increase from 2005. In addition, Malaysia's furniture exports are projected to grow by 7-9% in 2007 from RM8.1b recorded in 2006, signalling continued strong external demand for wood-based products. Wooden furniture accounts the largest with 80% of the total exports. The wooden furniture exports rose 9.7% to RM6.4b in 2006. We expect initiatives from the government to promote local furniture would further boost exports. For instance, the Malaysian International Furniture Fair held every year had generated 30% out of total furniture export sales.

Figure 10: Rising Malaysia's fibreboard export value over the past 5 years



Note: Results up to 1998 only takes MDF into account
 Source: Malaysian Timber Industry Board

Figure 11: Malaysia's furniture exports are projected to grow by 7-9% in 2007

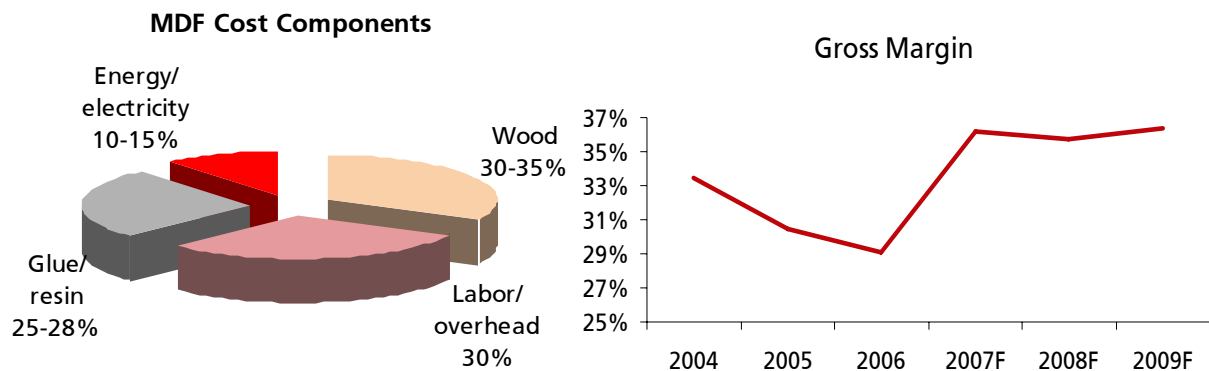


Note: Between 2001 and 2005, furniture exports grew at an average annual rate of 10.3%.
 Source: Malaysia External Trade Development Corporation, Ministry of Plantation Industries and Commodities

- **EFB to ride on strong MDF demand** given that it is the second largest MDF manufacturer in Malaysia with 20% share of total industry capacity and 35% of the total fibreboard export value. The increasing global demand for MDF would strongly benefit EFB as the Group has exposure in more than 45 countries. We project EFB's MDF production volume to grow by 10% in 2007 and another 10% in 2008 given bright prospects in the MDF markets worldwide. In 2007, we have also assumed 22% increase in selling prices from the 2006 level based on ytd June 2007 price trend. We assume prices to remain at the same level in 2008 and 2009. Our price assumption is conservative as there could be more upside risks given expected strong demand worldwide.

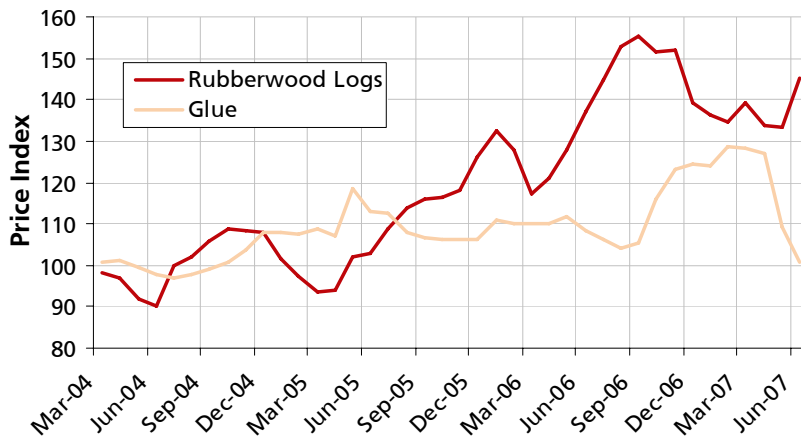
- **Gross margin to expand from vertical integration.** Gross margins are expected to improve by 0.8ppt to 36.3% in 2008 given that EFB will begin to consume its own-produced glue and electricity for its plants in Malaysia and Thailand respectively. The integration would allow EFB to save some RM15m in 2008. In 2009, gross margin is expected to expand further by 1.7ppts to 38.0% in 2009 assuming higher cost savings of RM25m resulting from a full year impact of the new glue and electricity plants. We also project gross margin to increase by 6.4 ppts to 35.5% in 2007 on the back of higher selling prices.

Figure 12: Main cost components for MDF and trend in gross margins



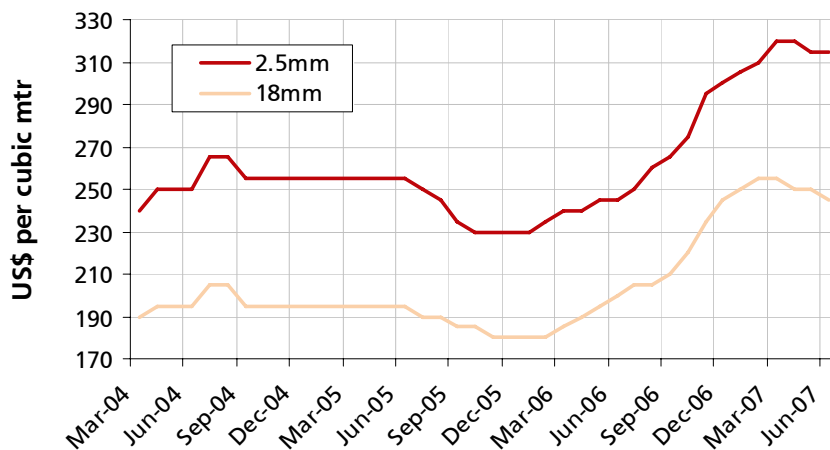
Source: Company, HwangDBS Vickers

Figure 13: Rising raw material prices...



Source: Company

Figure 14: ...offset by higher MDF prices



Source: Company

- Newly acquired Indonesian plant to boost earnings.** This year, EFB would be acquiring the assets of PT Hutrindo Jaya Fibreboard, a MDF manufacturer in Indonesia, and PT Uforin Prajen Adhesive Industry, a glue producer in Indonesia, via its 51%-owned Indonesian subsidiary P.T. Hijau Lestari Raya Fibreboard. The new acquisition would boost the Group's MDF manufacturing capacity by 15.5% to 820,000 m³ p.a. As production is only scheduled to start in end-07, we expect earnings to come in latest by 2Q08. The new plant is expected to contribute 8.2% or RM22.5m to gross profits in 2008, and 9.5% or RM30m to gross profits in 2009.

Company Focus

Evergreen Fibreboard

- **Moving upstream.** The Group plans to move upstream by acquiring a lease of 50-60 years of a plantation forest. EFB is currently at a discussion stage with several parties to acquire 22,000 acres of land. Should the deal come through, the forest could provide supply for 20% of EFB's wood consumption. This is positive for EFB as it ensures security of wood supply in the longer term and reduces exposure to wood log price fluctuations. We will factor this into our forecast once the deal is confirmed.

Key Risks

- **Increase in prices of rubberwood logs**, which is the main type of wood used by EFB, could cause production costs to increase. However, this can be mitigated as MDF manufacturers are able to pass on the increase in raw material prices to customers. Alternatively, the Group could substitute for other wood species such as Acacia. EFB also use wood wastes or branches which are cheaper than wood logs.
- **Increase in crude oil price** could affect the price of resin, which is the main component for glue. Increase in oil prices could cause the prices of resin and glue to increase. However, resin price movement is slower compared to oil prices which may provide EFB time to adjust. EFB also partly mitigates this risk by having its own glue plant which is expected to be fully operational by early-08. In addition, MDF manufacturers could transfer the cost increment to customers. Other than that, the movement in oil prices would have a minimal impact on the Group's electricity generation costs from its biomass power plant (currently under construction) in Thailand as the plant produces electricity from biomass fuels i.e. plant materials and animal products, rather than fossil fuels.
- **Electricity tariff hikes** could cause cost of electricity which accounts 10-15% of total production costs to increase. A 12% tariff hike was imposed in June 2006. The last hike before June 2006 was imposed 7 years ago. In Thailand, EFB mitigates this risk by building its own power plant to supply electricity for its existing two lines.
- **Currency fluctuations** could impact overseas income given that overseas revenue accounts 85% of the Group's total revenue. However, EFB partly mitigates this risk by hedging half of its total overseas revenue.
- **Disease outbreaks.** In 2003, EFB's earnings were affected by Severe Acute Respiratory Syndrome (SARS) outbreak which had hit the East and South East Asian countries. Net profit dropped significantly by 55.5% yoy to RM21.7m during the year due to lower export revenues. The SARS outbreak had caused a slowdown in business activities which affected the East and South East Asian economies. Such outbreak would affect the overall industry.

Figure 15: Sensitivity Analysis

Item	% Change (each year)	Net Profit (RM 'mil)			Change (%)			PE (x)		
		2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F
Average selling Price	+1%	103.5	134.1	163.3	3.9	6.8	9.3	7.5	5.8	4.8
	-1%	95.7	117.0	135.9	-3.9	-6.8	-9.1	8.1	6.6	5.7
MDF Production volume	+1%	103.5	130.3	154.7	3.9	3.8	3.5	7.5	6.0	5.0
	-1%	95.7	120.7	144.2	-3.9	-3.8	-3.5	8.1	6.4	5.4
MYR/ USD	+1%	103.5	129.8	154.0	3.9	3.4	3.1	7.5	6.0	5.0
	-1%	95.7	121.3	144.9	-3.9	-3.4	-3.1	8.1	6.4	5.4
Electricity Costs	+1%	99.2	125.2	149.2	-0.4	-0.3	-0.2	7.8	6.2	5.2
	-1%	100.0	125.9	149.8	0.4	0.3	0.2	7.8	6.2	5.2
Wood	+1%	98.6	123.2	145.7	-1.1	-1.9	-2.5	7.9	6.3	5.3
	-1%	100.7	127.9	153.2	1.1	1.9	2.5	7.7	6.1	5.1
Glue	+1%	98.8	124.7	148.6	-0.9	-0.7	-0.6	7.9	6.2	5.2
	-1%	100.5	126.4	150.4	0.9	0.7	0.6	7.7	6.2	5.2

Source: HwangDBS Vickers

Key Assumptions

- **We project 10% growth in MDF production volume in 2007 and 10% in 2008** given bright prospects in the MDF markets worldwide. Production volume is expected to grow steadily at 7% in 2009.
- **Forecast is based on 22% increase in selling prices** from the 2006 level based on ytd June 2007 price trend. Our price assumption is conservative as there could be more upside risks given expected strong demand worldwide. A 1% increase in average selling price could boost earnings by 4% to RM103.5m in 2007 and 7% to RM134.1m in 2008.
- **Gross margins set to expand** by 6.4 ppts to 35.5% in 2007 on the back of 22% increase in selling prices from the 2006 level. Gross margin is projected to improve further by 0.8ppt to 36.3% in 2008 due to lower production costs given that EFB will be partly consuming its own-produced glue and electricity. Full year impact of the new glue and electricity plants will be reflected in 2009 where gross margin would improve by 1.7ppts to 38.0%.

Figure 16: Segmental Analysis

FY Dec	2006A	2007F	2008F	2009F
Revenues				
MDF	459.3	559.6	681.3	748.8
Plain Particleboard	42.2	46.4	51.0	56.1
Knock Down Wooden Furniture	24.2	24.2	24.2	24.2
Others	2.5	2.5	2.5	2.5
Total	528.1	632.6	759.0	831.6
<i>Overall Gross Margins</i>	<i>29.1%</i>	<i>35.5%</i>	<i>36.3%</i>	<i>38.0%</i>

Source: Company, HwangDBS Vickers

Figure 17: Key assumptions

	2007F	2008F	2009F
MDF prices (in USD)			
2.5mm	313.6	313.6	313.6
18mm	249.3	249.3	249.3
Change in MDF Prices from 2006 level (in USD)			
2.5mm	22%	22%	22%
18mm	22%	22%	22%
MYR/ USD exchange rate	3.36	3.31	3.31
Revenue from new Indonesian plant	-	RM75.0m	RM100.0m
Gross Margin	-	30%	30%
MDF Production Growth			
Malaysia	10%	10%	7%
Thailand	10%	10%	7%
Potential cost savings	-	RM14.8m	RM24.5m
Capex	RM113.2m	RM132.5m	RM36.0m

Source: Company, HwangDBS Vickers

Quarterly / Interim Performance

- **Strong 1H07.** 1H07 net profit came in at RM60.5m (+142% yoy), accounting for 61% of our full year forecast and above market expectations. The strong growth was largely attributed to higher selling prices which had increased on average by 22%. As a result, gross margins had expanded by 9.4ppt to 37.7%.

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 Oper. (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, HwangDBS Vickers

Company Focus

Evergreen Fibreboard

Valuation

- **Initiate coverage with a BUY and a target price of RM3.20** based on 12x 2008 EPS. This is consistent with the average multiple for its peer group. Earnings are forecasted to grow by 67% to RM99.6m in 2007 and 26% to RM125.5m in 2008. In 2009, earnings are expected to increase by 19% to RM149.5m.

Figure 18: Peers' Valuation

Company	FYE	Local Currency	Share Price* (22/08/07)	Mkt Cap (US\$ 'mil)	EPS*			PE (x)			P/ B (x)
					2006	2007F	2008F	2006	2007F	2008F	
Vanachai Group PCL	Dec	THB	4.66	190.5	0.55	0.71	0.78	8.5	6.6	6.0	1.2
Sumalindo Lestari Jaya Tbk PT	Dec	IDR	3,275.00	426.2	(56.00)	181.52	270.73	-	18.0	12.1	9.0
Pfleiderer Grajewo SA	Dec	PLN	62.80	1,108.2	1.88	2.96	3.39	33.4	21.2	18.5	5.2
Evergreen Fibreboard	Dec	MYR	1.62	223.7	0.12	0.21	0.25	13.0	7.8	6.2	2.0
Average (exc. EFB)								-	15.3	12.2	5.1

Note: * in local currency

Source: Bloomberg, HwangDBS Vickers

Financials

- **Revenue to jump** by 19.8% to RM632.6m in 2007 on the back of 10% yoy growth in MDF production volume and 22% increase in selling prices. In 2008, we project revenue to grow by 20.0% to RM759.0m driven by 10% yoy growth in MDF production volume as well as contribution from newly acquired MDF manufacturing plant in Indonesia. Revenue is expected to increase steadily by 9.6% to RM831.6m in 2009 assuming 7% growth in MDF production volume.
- **Enjoying tax exemption.** As the Group has been granted a Pioneer status, 70% of its income are tax exempted between 26th May 2004 to 23rd December 2009. In addition, its new glue plant in Johor is also granted a Pioneer status with 5 years of tax exemption, while the income from the new biomass power plant is fully tax exempted for 8 years ending 2014. The Group would also enjoy 8 years of tax exemption once its third line in Thailand comes on-stream in 2008.

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

Source: Company, HwangDBS Vickers

Company Focus

Evergreen Fibreboard

- **More room to grow.** We believe further expansion is still possible given EFB's low net gearing of 0.1x. There is still lack of physical presence in its main overseas markets such as China, U.S.A, and Vietnam. However, we feel that expanding its production capacity and building up through vertical integration is crucial for EFB to first create a strong position in the market.

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

Source: Company, HwangDBS Vickers

Company Focus

Evergreen Fibreboard

- **Capex.** We have assumed a total capex of RM281.7m to be spread over the next three years. The capex will be used largely to finance the Group's new biomass power plant and new third line in Thailand as well as the new glue resin plant in Johor.
- **Dividend on the rise** given the Group's strong cash position. We project dividend payout to remain at 40% for the next three years given Group's heavy capex requirement. This translates into 8.5 sen per share in 2007 (5.2% yield), 10.5 sen per share in 2008 (6.5% yield), and 12.5 sen per share in 2009 (7.7% yield).

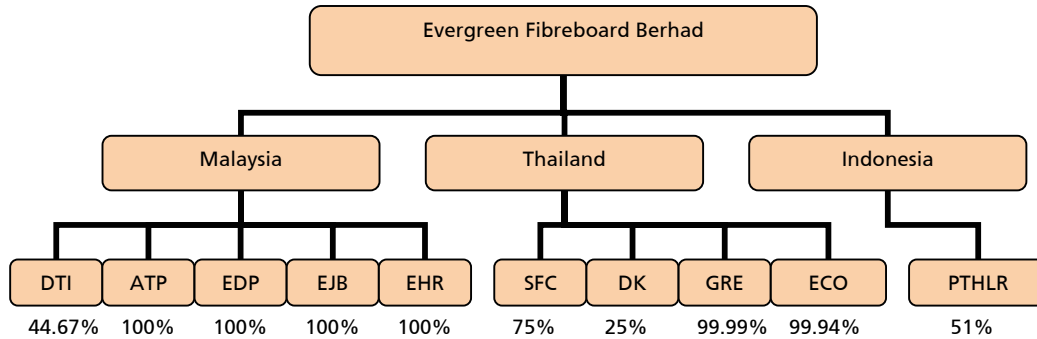
Cash Flow Statement (RM m)

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)
Chg in 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

Source: Company, HwangDBS Vickers

Appendix

EFB's Business Structure



Notes :-

Malaysia Abbreviations:-

- ATP - AllGreen Timber Products Sdn Bhd
- EDP - Evergreen Décor Products (M) Sdn Bhd
- EMP - Evergreen Molded Panels Sdn Bhd
- DTI - Dawa Timber Industries (M) Sdn Bhd
- EJB - Evergreen Fibreboard (JB) Sdn Bhd
- EHR - Evergreen Hevea Resources Sdn.Bhd.

Thailand Abbreviations:-

- DK - Dynea Krabi Co.Ltd
- SFC - Siam Fibreboard Co., Ltd
- GRE - GRE ENergy Co.,Ltd
- ECO - ECO Generation Co., Ltd.

Indonesia Abbreviations:-

- PTHLR - PT Hijau Lestari Raya Fibreboard.

Source: Company

Company Focus

Evergreen Fibreboard

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)
Chg in 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)



DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

* *Share price appreciation + dividends*

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