

Evergreen Fibreboard Bhd-----Maintain OUTPERFORM
Raising earnings and target price on the back of acquisition

EPS: ▲ TP: ▲

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- Evergreen completed the acquisition of the 25% minority interest in its Thai subsidiary, Siam Fibreboard for RM36.4m cash. This was a favourable deal for Evergreen, as the purchase consideration was at the NTA of Siam Fibreboard.
- We therefore raised our EPS forecasts by 2% for FY07 (4QFY07 impact), by 6% for FY08, and 10% for FY09 in the full-year absence of minority interest for Siam Fibreboard.
- We raised our target price on Evergreen by 6% from RM2.65 to RM2.80 per share in line with our 6% increased FY08 EPS forecast. We continue to value Evergreen on an FY08 PE of 11x.
- We maintain our OUTPERFORM. This latest acquisition is another example of Evergreen's management pursuing a vertical and horizontal integration strategy that is both earnings and value-enhancing. We still believe that Evergreen can achieve its goal of becoming one of the top ten most efficient and profitable MDF players in the world.

FY08, and 10% for FY09 in the full-year absence of minority interest and due to strong growth projected for Siam Fibreboard when its new state-of-the-art medium density fibreboard (MDF) plant is commissioned in mid-2008. Our FY07 EPS forecast is now 3% above consensus but our FY08 and FY09 EPS forecasts are still 8% and 12% below consensus, respectively.

Raising target price by 6%

We raised our target price by 6% from RM2.65 to RM2.80 per share in line with our 6% upward revision in FY08 EPS forecast. We continue to value Evergreen on an FY08 PE of 11x, which translates into a PE/growth ratio of 0.7x based on our projected average EPS growth of 16% p.a. over FY08-09.

Maintain OUTPERFORM

We maintain our OUTPERFORM as potential upside to our new target price is 56%. This latest acquisition is another example of Evergreen's management pursuing a vertical and horizontal integration strategy that is both earnings and value-enhancing. We still believe that Evergreen can achieve its goal of becoming one of the top ten most efficient and profitable MDF players in the world.

Bbg/RIC	EVF MK / EVGN.KL	Price (10 Sep 07, RM)	1.80		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.80 (2.65)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	56		
Daily trad vol-6m avg (mn)	1.7	52-wk range (RM)	2.10 - 0.84		
Daily trad val-6m avg (US\$ mn)	0.8	Mkt cap (RM/US\$ mn)	864.0/ 245.8		
Free float (%)	50.0	Performance	1M 3M 12M		
Major shareholders	Kuo family 48%	Absolute	19.2 (6.2) 114.3		
		Relative	17.9 (2.0) 57.0		
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	111.5	123.8	149.5
EPS (RM)	0.11	0.12	0.23	0.26	0.31
- Change from prev. EPS (%)	n.a.	n.a.	2	6	10
- Consensus EPS (RM)	n.a.	n.a.	0.23	0.28	0.35
EPS growth (%)	21.1	9.6	86.7	11.0	20.8
P/E (x)	15.9	14.5	7.7	7.0	5.8
Dividend yield (%)	4.6	2.8	3.9	4.3	5.2
EV/EBITDA (x)	10.2	10.1	6.4	5.3	4.1
P/B (x)	2.3	2.0	1.7	1.5	1.2
ROE (%)	17.2	14.9	24.0	22.6	23.2
Net debt/equity (%)	net cash	net cash	25	15	1

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

Completed acquisition of minority interest

Evergreen Fibreboard (Evergreen) today completed the acquisition of the 25% minority interest in its Thai subsidiary, Siam Fibreboard Company Ltd (not listed) for Bt 360m or RM36.4m cash. With this acquisition, Siam Fibreboard is now a wholly-owned subsidiary of Evergreen. This was a very favourable deal for Evergreen as the purchase consideration was at the NTA of Siam Fibreboard as at 30 June 2007. The Thai minorities are prepared to sell out at this cheap price, as their original cost of investment was only RM12m in February 2004, so they have tripled their money in less than four years.

Raising our EPS forecasts by 2-10%

With the completion of this acquisition, we raised our EPS forecasts by 2% for FY07 (absence of the minority interest for 4QFY07), by 6% for

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Companies Mentioned (Price as of 10 Sep 07)
 Evergreen Fibreboard Bhd (EVGN.KL, RM1.80, OUTPERFORM, TP RM2.80)

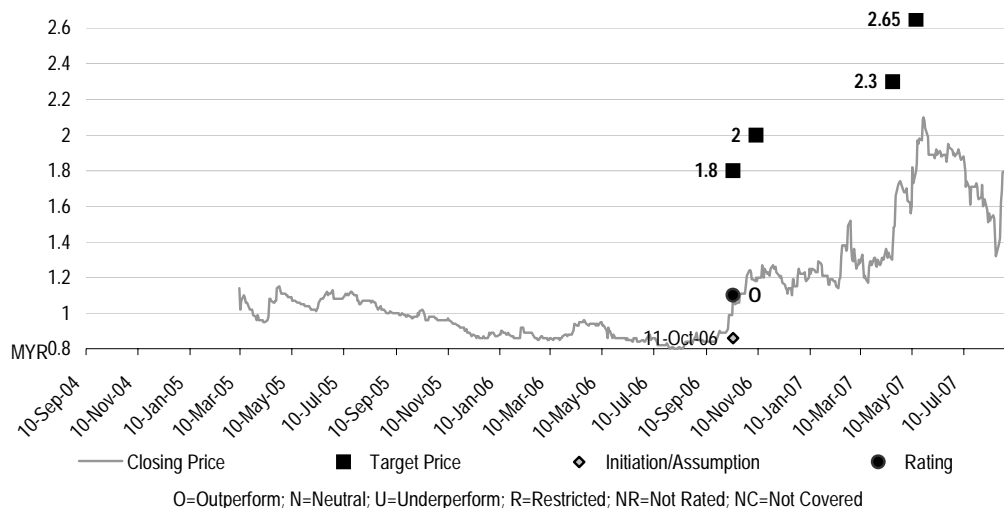
Disclosure Appendix

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See the Companies Mentioned section for full company names.

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
7-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 RM2.80 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 11% in FY08 and 21% in FY09 translates into an average P/E to growth ratio of 0.7x.

Risks: Some of the risks to our RM2.80 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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