

Evergreen Fibreboard

1H08 results in line; improvement expected in 2H08

- Evergreen reported 2Q08 net profit of M\$26MM, down 15% Q/Q and 20% Y/Y. 1H08 net profit came in at M\$56MM, representing 46% of our full year forecast of M\$121MM. The lower net profit is mainly due to the higher Y/Y logs (+10%), glue (+7%) and freight costs (+17%). Meanwhile, revenue came in lower Y/Y due to the 6% Ringgit strength against the USD.
- Results in line; subsequent quarters to improve: We view the 1H08 results as in line as we expect 2H08 to show improved profitability. Falling commodity prices and weaker M\$ should ease pressure on margins. In the last 2 months, M\$ has weakened 2% against the US\$ while the fall in oil and latex prices could translate to lower glue and rubberwood prices going forward. Moreover, 2H08 net profit will likely be boosted by the savings from its glue and biomass plants and full quarter contribution from its Indonesian plant.
- Valuations reflecting 'bear' case: Company is trading at FY08E P/E of 5x, which we deem attractive given its net dividend yield of 6%. Moreover, the company's FY09E EPS could be enhanced by as much as 6% (post dilution) with the Hume acquisition (expected completion 4Q08), which would imply FY09E P/E of 3.7x at current share price level. Maintain OW, Dec-08 PT of M\$2.50, based on 10x P/E, a 30% discount to market average P/E of 14.2x. Key risk is the further deterioration of global economic conditions.

Table 1: Evergreen (EVF MK; EVGN.KL)

	2Q08	1Q08	% Q/Q	2Q07	% Y/Y
Turnover	186.3	179.2	4%	192.6	-3%
Gross profit	57.6	53.3	8%	74.0	-22%
Margin (%)	31%	30%		38%	
PBT	24.4	30.1	-19%	43.5	-44%
Margin (%)	13%	17%		23%	
Net profit	25.8	30.3	-15%	32.1	-20%
Core net profit	25.8	22.4	15%	32.1	-20%
EPS (sen)	5.37	6.31	-15%	6.69	-20%

Source: Company

Overweight

M\$1.24

22 August 2008
Price Target: M\$2.50

Malaysia

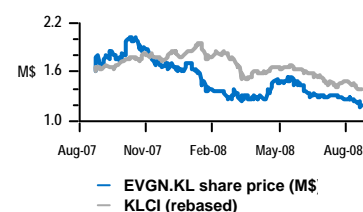
Forest Products

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Price Performance



Company data

52-week range	M\$1.16-2.09
Market cap (M\$MM)	595
Market cap (US\$MM)	178
Shares outstanding (MM)	480
Free float	58%
Avg daily value (M\$MM)	0.5
Avg daily value (US\$MM)	0.1
Avg daily volume	0.3
KLCI	1073.21
Exchange rate	M\$3.35/US\$1

Source: Bloomberg

Valuations

	2008E	2009E
Old EPS (M\$)	0.25	0.31
New EPS (M\$)	0.25	0.31
% change	0%	0%
P/E (x)	4.9	4.0
ROE (%)	21	22
P/B (x)	1.0	0.8
Dec. 08 PT	2.5	

Source: JPMorgan estimates.

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See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 2: Evergreen - quarterly results summary

	2Q08	1Q08	% Q/Q	2Q07	% Y/Y	1H07	1H08	% Y/Y
Turnover	186.3	179.2	4%	192.6	-3%	359.3	365.5	2%
Gross profit	57.6	53.3	8%	74.0	-22%	135.3	110.8	-18%
Margin (%)	31%	30%		38%		38%	30%	
PBT	24.4	30.1	-19%	43.5	-44%	79.0	54.5	-31%
Margin (%)	13%	17%		23%		22%	15%	
Net profit	25.8	30.3	-15%	32.1	-20%	60.5	56.1	-7%
Core net profit	25.8	22.4	15%	32.1	-20%	60.5	48.2	-20%
EPS (sen)	5.37	6.31	-15%	6.69	-20%	12.61	11.68	-7%

Source: Company

EVF – capacity breakdown

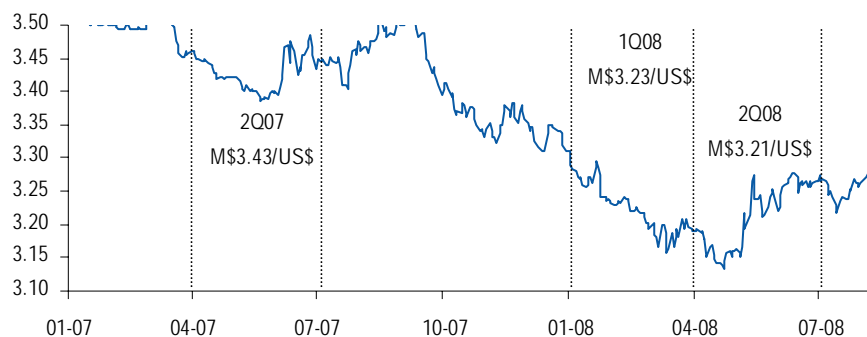
	2007	2008E	2009E
Misia	390,000	390,000	640,000
Thai	320,000	320,000	580,000
Indo		110,000	110,000
Total	710,000	820,000	1,330,000
growth	18%	15%	62%

Source: Company

2Q revenue came in 4% higher Q/Q but declined 3% Y/Y. The growth in Q/Q revenue was mainly due to the commencement of its Indonesian plant as well as the resumption of operation at one of its production lines after the fire in September 2007. Note that although its plant in Indonesia adds 15% capacity to the group's total capacity, revenue contribution was small, at only 3%, mainly due to the lower pricing of its boards (boards were sold at a lower rate as plant was undergoing trial run during the quarter). Meanwhile, the Y/Y revenue decline is due to the M\$ strength against the USD.

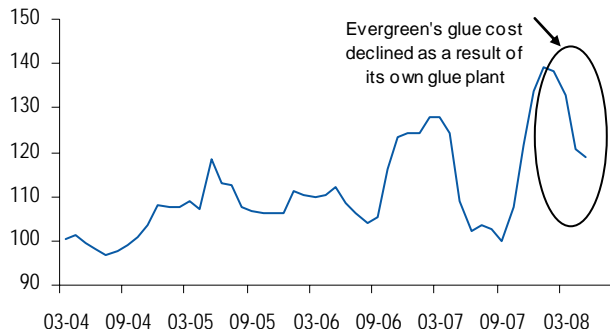
PBT, however, declined mainly due to the higher raw material costs – log costs increased 10% Y/Y, glue (although has shown declining trend is still higher Y/Y) costs increased 7% while freight has also increased at an estimated 17%.

Figure 1: M\$/US\$ exchange rate



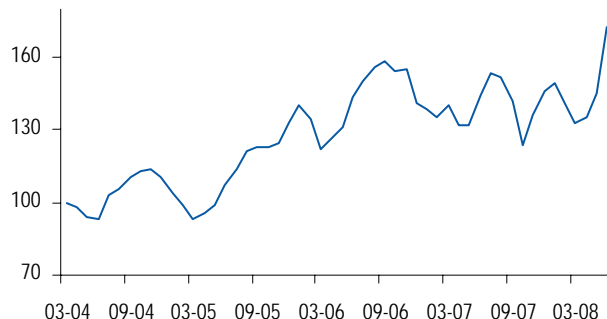
Source: Bloomberg

Figure 2: Evergreen's glue price index



Source: Company

Figure 3: Evergreen's rubberwood price index



Source: Company

Our assumptions

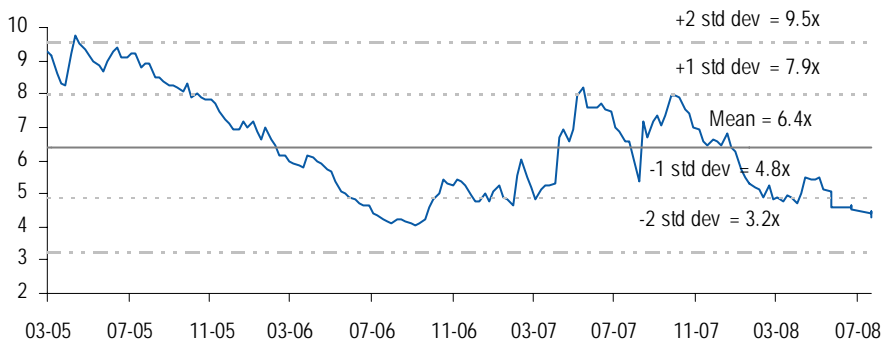
	07	08E	09E	10E
MDF price, US\$/m3	315	347	375	393
MDF price, M\$/m3	1084	1093	1180	1239
Volume	0.61	0.66	0.77	0.90
Utilization rate	87%	87%	71%	83%
Exch rate	3.44	3.15	3.15	3.15

Source: JPMorgan estimates, company.

Why are we Overweight?

- Evergreen expected to benefit from the estimated 7-8% rise in world demand, driven mainly by the furniture industry in China, construction activity in the Middle East and a growing awareness of MDF being 'greener' alternative to natural hardwood
- Good management track record in managing costs/ current movements
- Pricing power expected to improve when Russian raises its log export duty to 80% in Jan-09 from 25% currently, its estimated 40% increase in production capacity (not including Hume, which should increase FY09's growth in capacity to 62%) and cost control initiatives

Figure 4: Evergreen - P/E band chart



Source: Bloomberg, Company, JPMorgan

Since its listing in 2005, the stock has been de-rated from a high of 9.6x, which we believe was largely due to (1) negative sentiment surrounding the particleboard markers (especially the listed ones in Malaysia) and (2) weak plywood prices.

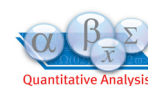
We believe that the de-rating is unwarranted as MDF is neither particleboard nor plywood. MDF is a superior product to particleboard given its moldability and superior strength and the oversupply problem is not present in the MDF market. Meanwhile, Evergreen, unlike most Malaysian manufacturers is less susceptible to country/region specific risks as it exports to 45 countries.

Positive catalysts for the stock

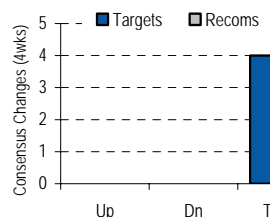
- Company delivering earnings in 2H08 from its cost saving initiatives and easing pressure on margins
- Strong earnings growth moving into 2009E with 62% increase in capacity
- Resilient demand for MDF despite weaker global economic outlook
- Pricing power of non-Chinese MDF manufacturers as we move towards 2009 when Russia would raise export duty for logs to 80% from 25% currently

All Data As Of 22-Aug-08

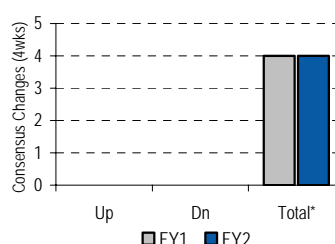
Q-Snapshot: Evergreen Fibreboard Bhd



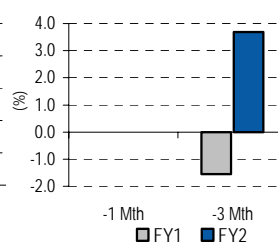
Targets & Recommendations



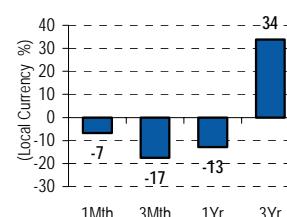
EPS Revisions



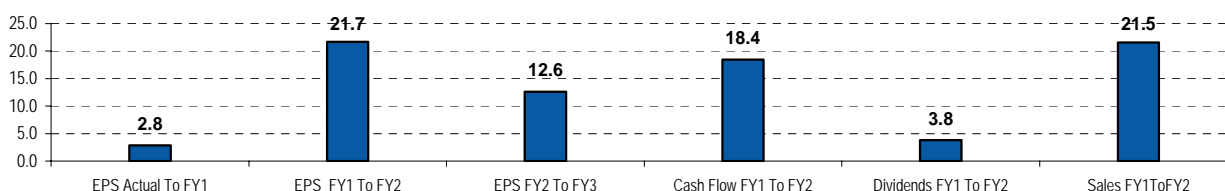
EPS Momentum (%)



Historical Total Return (%)



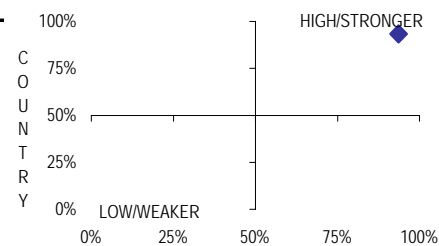
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	98%	98%
Valuations: P/E Vs Sector (12mth fwd EPS)	95%	93%
Valuations: EPS Growth (forecast)	54%	39%
Momentum: 12 Month Price Momentum	48%	65%
Momentum: 1 Month Price Reversion	75%	56%
Quality: Return On Equity (forecast)	75%	76%
Quality: Earnings Risk (Variation in Consensus)	50%	38%
Earnings&Sentiment: Earnings Momentum	76%	70%
Earnings&Sentiment: Change in Recoms	65%	66%
Earnings&Sentiment: Net Revisions Fy2 EPS	76%	65%

JPMorgan Composite Q-Score



COMPOSITE Q-SCORE** (0% To 100%)

93% vs Country Peers, 94% vs (regional) IBES Industry Peers

Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US\$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
002067-CN	Zhejiang Jingxing Paper JSC Ltd.	China	289	7.06	16.1	31%
4383-MY	Jaya Tiasa Holdings Bhd	Malaysia	261	0.04	9.1	28%
TIM-AU	Timbercorp Ltd.	Australia	260	0.67	4.7	9%
5135-MY	Sarawak Plantation Bhd	Malaysia	259	0.18	9.3	13%
2011-MY	Lingui Developments Bhd	Malaysia	243	0.11	6.1	57%
002350-KR	Nexen Tire Corp.	South Korea	240	1.04	8.6	54%
TFC-AU	TFS Corp. Ltd.	Australia	236	0.18	9.2	95%
3950-JP	Pack Corp.	Japan	231	0.26	8.4	42%
009200-KR	Moorim Paper Co. Ltd.	South Korea	202	0.37	8.1	53%
5101-MY	Evergreen Fibreboard Bhd	Malaysia	179	0.11	4.6	94%
3971-JP	Tohcello Co. Ltd.	Japan	150	0.19	6.4	14%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
1643-MY	Landmarks Bhd	Hotels/Resorts/Cruiselines	202	0.23	25.9	17%
5073-MY	Naim Cendera Holdings Bhd	Engineering & Construction	201	0.13	7.0	26%
5112-MY	TH Plantations Bhd	Agricultural Commodities/Milling	196	0.20	6.5	81%
7158-MY	Scomi Group Bhd	Oilfield Services/Equipment	196	1.14	5.4	73%
5983-MY	MBM Resources Bhd	Specialty Stores	179	0.01	4.8	64%
5101-MY	Evergreen Fibreboard Bhd	Building Products	179	0.11	4.6	93%
3158-MY	YNH Property Bhd	Agricultural Commodities/Milling	175	0.82	5.8	52%
7100-MY	Uchi Technologies Bhd	Electronic Components	172	0.17	8.4	26%
5124-MY	Al-Hadharah Boustead REIT	Real Estate Investment Trusts	163	0.07	8.6	72%
6521-MY	Suria Capital Holdings Bhd	Real Estate Development	160	0.05	9.0	14%
7076-MY	CB Industrial Product Holdings Bhd	Industrial Machinery	157	0.16	7.6	87%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>

Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.

* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

Evergreen: Summary of Financials

Profit and Loss statement					Cash flow statement				
MYR in millions, year-end Dec	FY07	FY08E	FY09E	FY10E	MYR in millions, year-end Dec	FY07	FY08E	FY09E	FY10E
Revenues	732	788	973	1,185	EBIT	144	152	187	218
% change Y/Y	38.5	7.8	23.4	21.8	Depreciation & amortisation	28	34	69	69
EBIT	148	155	191	222	Change in working capital	-18	-9	-22	-25
% change Y/Y	109.9	5.0	23.0	16.5	Taxes	-9	-15	-18	-22
EBIT Margin (%)	20.2	19.7	19.6	18.8	Cash flow from operations	145	163	216	240
Net Interest	-7	-9	-8	-6	Capex	-185	-200	-50	-30
Earnings before tax	140	146	183	217	Disposal/ (purchase)	3	4	4	4
% change Y/Y	107.3	4.0	25.4	18.2	Net Interest	-7	-9	-8	-6
Tax	-9	-15	-18	-22	Free cash flow	-44	-43	162	209
as % of EBT	6.7	10.0	10.0	10.0	Equity raised/ (repaid)	0	0	0	0
Net Income (Reported)	119	121	150	177	Debt raised/ (repaid)	84	-38	-46	-30
% change Y/Y	98	2	24	18	Other	-30	0	0	0
Core Net Profit	119	121	150	177	Dividends paid	-34	-36	-45	-53
% change Y/Y	98	2	24	18	Beginning cash	147	142	24	95
Shares Outstanding	480	480	480	480	Ending cash	142	24	95	221
EPS (reported)	0.25	0.25	0.31	0.37	DPS	0.07	0.08	0.09	0.11
% change Y/Y	98	2	24	18					
Core EPS	0.25	0.25	0.31	0.37					
% change Y/Y	98	2	24	18					
Balance sheet					Ratio Analysis				
MYR in millions, year-end Dec	FY07	FY08E	FY09E	FY10E	Year-end Dec	FY07	FY08E	FY09E	FY10E
Cash and cash equivalents	142	24	95	221	Gross margin	35.0	34.9	35.0	35.2
Accounts receivable	125	134	165	201	EBIT margin	20.2	19.7	19.6	18.8
Inventories	82	87	107	130	Operating margin	19.7	19.2	19.2	18.4
Others	0	0	0	0	Net profit margin	16.2	15.4	15.5	14.9
Current assets	348	245	368	553	Sales per share growth	38.5	7.8	23.4	21.8
LT investments	0	0	0	0	Sales growth	38.5	7.8	23.4	21.8
Net fixed assets	528	693	674	635	Net profit growth	98.4	2.2	24.2	17.7
Total assets	908	971	1,074	1,220	EPS growth	98.4	2.2	24.2	17.7
Liabilities					Interest coverage (x)	20	17	25	38
ST loans	88	95	80	80	Net debt to total capital	11	20	5	-10
Payables	120	126	156	190	Net debt to equity	16	27	7	-13
Others	4	4	4	4	Sales/assets	81	81	91	97
Total current liabilities	211	225	239	273	Assets/equity	170	157	149	144
Long term debt	140	94	64	34	ROE	24.7	21.1	22.5	22.6
Other liabilities	17	17	17	17	ROCE	25.1	19.2	21.0	24.7
Total liabilities	375	354	352	373					
Shareholders' equity	533	617	723	847					
BVPS	1.110	1.286	1.506	1.764					

Source: Company, JPMorgan estimates

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Evergreen Fibreboard (EVGN.KL) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
22-May-08	OW	1.48	2.50

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Initiated coverage May 22, 2008. This chart shows JPMorgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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