

Evergreen Fibreboard -----Maintain OUTPERFORM

1H08 results a touch weak; Hume approved by shareholders

EPS: ▼ TP: ▼

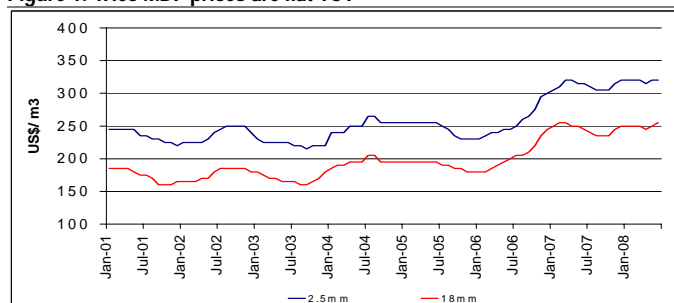
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- 1H08 results were a touch weak but according to management, cost savings and additional volumes are scheduled to kick in for 2H08. Revenues and net profits make up 48% and 45% of our full-year expectations, respectively. 1H08 revenues grew 2% YoY, largely due to volume growth as prices have so far been flat YoY. Pre-tax profits fell 31% YoY due to higher glue costs, higher raw material costs, a weaker US\$/RM and also start-up costs for its Indonesian plant and glue plant in Malaysia.
- Evergreen's shareholders approved the acquisition of Hume on 22 August. Evergreen is paying a historical P/E multiple of 15x for Hume, which is well above Evergreen's own valuations and in our opinion, not cheap. However, management believes it is a fair price as Hume's plant, land and machinery are worth RM213 mn at market value (based on an independent valuation) versus RM96mn at book.
- Evergreen is trading at 4.9x P/E, but remains at the low end of its P/E range. Our new target price of RM1.85 (from RM2.30) reflects potential dilution from new shares and lower sector valuations. Maintain OUTPERFORM.

4Q08 in its Thai plant) are expected to kick in for 2H08, according to management. Revenues and net profits make up 48% and 45% of our full-year expectations. 1H08 revenues grew 2% YoY, largely due to volume growth as pricing has so far been relatively flat YTD YoY.

Pre-tax profits fell 31% YoY due to higher glue costs, higher raw material costs, a weaker US\$/RM and also start-up costs for its Indonesian MDF plant and glue plant in Malaysia (which, according to management, is expected to drive cost savings in subsequent quarters).

Figure 1: 1H08 MDF prices are flat YoY



Source: Company data.

Shareholders approve the Hume acquisition

Evergreen's shareholders approved the acquisition of Hume Fibreboard from Hume Industries on 22 August 2008. Evergreen is paying RM230 mn (including debt assumed) for Hume's MDF operations, translating into a historical P/E multiple of 15x, which is not cheap in our view, well above Evergreen's own valuations. However, management believes it is a fair price, as it is based on an independent valuation which states that Hume's plant, land and machinery are worth RM213 mn at market value versus RM96 mn at book. Evergreen will be paying for Hume via a combination of cash and shares (increasing its issued shares by 7%). Evergreen has made no secret that it wants to be among the top-ten MDF producers in the world. This acquisition will boost its production capacity by 240k m3 to 1.3mn m3 per year.

Evergreen is trading at 4.9x PE (based on the new enlarged capital), but is close to the bottom end of its P/E range. We have raised FY09 net profits by 5.5% to incorporate Hume, but have lowered our target price to RM1.85 to reflect the potential dilution from new shares and lower sector valuations. Maintain OUTPERFORM.

Bbg/RIC	EVF MK / EVGN.KL	Price (22 Aug 08, RM)	1.18		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	1.85 (2.30)		
Shares outstanding (mn)	513.00	Est. pot. % chg. to TP	57		
Daily trad vol-6m avg (mn)	0.8	52-wk range (RM)	2.04 - 1.18		
Daily trad val-6m avg (US\$ mn)	0.4	Mkt cap (RM/US\$ mn)	605.3/ 181.2		
Free float (%)	50.0	Performance	1M 3M 12M		
Major shareholders	Kuo family 48%	Absolute	(9.9) (20.3) (16.9)		
		Relative	(7.2) (4.7) (4.5)		
Year	12/06A	12/07A	12/08E	12/09E	12/10E
Revenues (RM mn)	528	732	761	1,058	1,181
EBITDA (RM mn)	86.6	195.4	181.1	214.0	238.2
Net profit (RM mn)	59.7	118.5	124.3	132.9	154.4
EPS (RM)	0.12	0.23	0.24	0.26	0.30
- Change from prev. EPS (%)	n.a.	n.a.	-6	-1	-2
- Consensus EPS (RM)	n.a.	n.a.	0.27	0.31	0.35
EPS growth (%)	9.6	98.4	4.9	6.9	16.2
P/E (x)	10.1	5.1	4.9	4.6	3.9
Dividend yield (%)	4.2	5.9	6.2	6.6	7.6
EV/EBITDA (x)	7.1	3.5	3.7	2.6	1.8
P/B (x)	1.4	1.1	1.0	0.8	0.7
ROE (%)	14.9	24.7	21.6	20.0	20.1
Net debt/equity (%)	net cash	16	11	net cash	net cash

Note 1: Evergreen produces Medium Density Fibreboard, it has manufacturing plants in Malaysia, Thailand and Indonesia.. Note 2: Dividend yield is net

1H08 results are a touch weak

Evergreen's 1H08 results were a touch weak but cost savings (from a new glue plant) and additional volumes (a new line is scheduled for

Figure 2: 1H08 results review

Period	6M	6M	% change	3M	3M	% change	
FY08	1H08	1H07	YoY	2Q08	1Q08	QoQ	Reason
Rating	[OUTPERFORM]						
Target price	[RM1.85]						
Turnover	365.5	359.3	2	186.3	179.2	4	Higher YoY due to volume growth, flat prices; higher QoQ due to Indonesian plant
Pre-tax	54.5	79.0	-31	24.4	30.1	-19	Lower YoY due to higher glue costs and start-up costs for Indonesian plant
PBT margin	14.9	22.0		13.1	16.8		
Taxation	1.2	-8.6	NM	0.8	0.4	NM	Low tax rate due to tax exempt status for most of its companies
Tax rate	2.2	-10.9	NM	3.4	1.2	NM	
Net profit	55.0	70.3	-22	25.2	29.8	-15	Lower due to higher costs but expect contributions from new Thai line in 4Q
Attributable profits	56.1	60.5	-7	25.8	30.3	-15	
EPS (sen)	11.7	12.6	-7	5.4	6.3	-15	

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 21 Aug 08)
 Evergreen Fibreboard Bhd (EVGN.KL, RM 1.18, OUTPERFORM, TP RM 1.85)
 Hume Industries bhd (HUME.KL, RM 3.72)

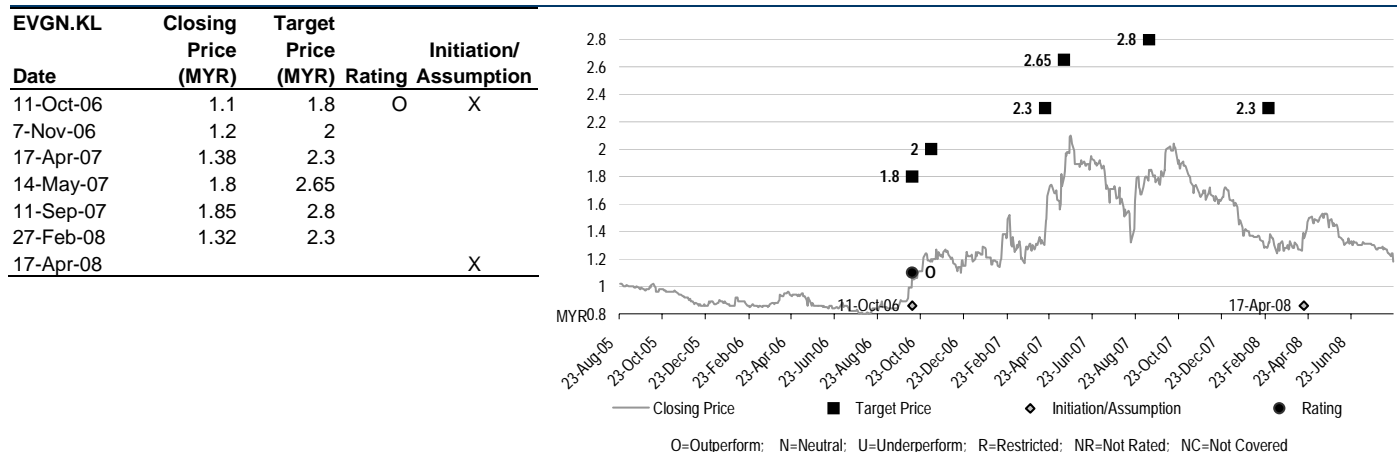
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for EVGN.KL



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

Method: Our target price of RM1.85 per share for Evergreen Fibreboard is based on applying a price to earnings ratio (P/E) of 8x to our forecast FY09 earnings per share (EPS) of 26 sen and is at a 10% discount to the average FY09 PE of 7.9x for the Asian timber sector.

Risks: Some of the risks to our RM1.85 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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