



November 17, 2009

Materials

Forest Products

Malaysia

Bloomberg

Reuters

EVF MK

EVGN.KL

Recommendation

Sell

Issuer credit rating

Not Rated

12-month target price

MYR1.40 ▲

Current price

MYR1.50

Forecast 12M total return (%)

-6.7

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▲▼ Increase/decrease in target price

Key statistics (MYR mln)

No. shares (mln)	513.0
52-week range (MYR)	0.44 - 1.59

Major shareholders (%)

Kuo Wen Chi & Family	39.5
Lembaga Tabung Haji	9.4
HIMB Trading Ltd	6.4

Source: Company data, S&P Equity Research estimates

Improved Results but Overpriced

- Evergreen Fibreboard reported for 3Q09 a 9.7% YoY increase in revenue to MYR211.9 mln and a 90.8% YoY increase in net profit to MYR30.9 mln. The financial results were above our expectations and market consensus.
- The higher YoY revenue was mainly due to contribution from its acquired Hume Fibreboard and its new Thai third production line. Utilization rate in 3Q09 has increased to above 70% (1H09: around 60%). Gross profit margin in 3Q09 improved significantly to 30.3% from 23.6% in 3Q08 (2Q09: 23.0%) due to cheaper raw material costs and higher utilization rate resulting in improved operational efficiency and cost savings. Evergreen Fibreboard operates in a high operating leverage (high fixed cost) environment where higher utilization rates can result in significant profit margin improvement.
- Looking forward, we expect demand for MDF and particleboard to pick up in line with a gradual recovery in key furniture and housing markets. While Evergreen Fibreboard's utilization rate is expected to improve to above 80% in the next two quarters, we remain cautious on the sustainability of forward book orders. The group's forward financial performance is prone to wide fluctuation, subject to its capacity utilization rate.
- To reflect the significantly better 3Q09 results and much higher-than-expected utilization rate, we raise our FY09 and FY10 net profit projections by 97.9% and 50.3% to MYR65.9 mln and MYR77.4 mln respectively.

Key forecast table (MYR mln)

Fiscal year end December	2008	2009E
Reported EPS (sen)	15.7	12.9
PER (x)	9.6	11.7
Dividend/Share (sen)	0.0	2.0
NTA/Share (MYR)	1.15	1.26
Book Value/Share (MYR)	1.19	1.30

Source: Company data, Standard & Poor's Equity Research estimates * Stock deemed Shariah compliant by the Securities Commission.

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Recommendation & risk

We downgrade our recommendation on Evergreen Fibreboard to Sell from Hold, with a higher 12-month target price of MYR1.40 (previously MYR0.93) after raising our forward earnings forecast. Although Evergreen Fibreboard's operating performance is expected to improve in the next two quarters, we believe its share price (appreciated 72.4% in past two months) has run ahead of our fundamentally-derived fair value. In addition, higher crude oil prices may result in higher raw material costs (more expensive glue) and hurt its profit margin with limited upside MDF pricing ability.

We continue to use price-to-earnings ratio (PER) valuation and include projected dividend to derive our 12-month target price. We have ascribed a PER of 9x (unchanged) to the group's revised FY10 projected earnings. In determining the appropriate PE multiple, we have considered the group's historical PER trading range as well as its peers' traded PERs.

Despite the improved demand in the past few months, average selling price of MDF remained around USD255/cubic meter – reflecting weak pricing power on the MDF producers.

Risks to our recommendation and target price include: (i) better-than-expected demand and pricing for MDF and particleboard, (ii) lower costs of key production inputs, in particular glue and rubber wood logs, and (iii) volatility in the USD/MYR exchange rate.

Key Financial Data

Profit & Loss

Fiscal year end December (MYR mln)	2007	2008	2009E	2010E
Reported Revenue	731.6	730.5	753.6	812.1
Reported Operating Profit	145.0	75.2	90.1	105.1
Depreciation & Amortization	-28.3	-40.1	-50.1	-51.6
Net Interest Income / (Expense)	-4.4	-10.1	-18.7	-19.7
Reported Pre-tax Profit	140.7	63.9	69.8	82.5
Effective Tax Rate (%)	6.7	NM	7.0	8.0
Reported Net Profit	118.7	76.7	65.9	77.4
Reported Operating Margin (%)	19.8	10.3	12.0	12.9
Reported Pre-tax Margin (%)	19.2	8.7	9.3	10.2
Reported Net Margin (%)	16.2	10.5	8.7	9.5

Source: Company data, Standard & Poor's Equity Research estimates

Per-share data & ratios

Fiscal year end December	2006	2007	2008	2009E
Book Value (MYR)	0.89	1.11	1.19	1.30
Cash Flow (sen)	17.0	30.6	23.9	22.6
Reported Earnings (sen)	12.4	24.7	15.7	12.9
Dividend (sen)	5.0	7.0	0.0	2.0
Payout Ratio (%)	40.2	28.3	0.0	15.6
PER (x)	12.1	6.1	9.6	11.7
P/Cash Flow (x)	8.8	4.9	6.3	6.6
P/Book Value (x)	1.7	1.4	1.3	1.2
Dividend Yield (%)	3.3	4.7	0.0	1.3
ROE (%)	14.9	24.8	13.4	10.3
Net Gearing (%)	12.9	19.7	64.5	54.5

Source: Company data, Standard & Poor's Equity Research estimates

Quarterly performance

Fiscal year end December (MYR mln)	3Q09	3Q08	% Change
Reported Revenue	211.9	193.2	9.7
Reported Operating Profit	34.8	15.5	>100
Depreciation & Amortization	n.a.	n.a.	n.a.
Net Interest Income / (Expense)	-4.0	-2.3	70.8
Reported Pre-tax Profit	31.4	13.4	>100
Reported Net Profit	30.9	16.2	90.8
Reported Operating Margin (%)	16.4	8.0	-
Reported Pre-tax Margin (%)	14.8	6.9	-
Reported Net Margin (%)	14.6	8.4	-

Source: Company data, Standard & Poor's Equity Research estimates

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Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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Abbreviations Used in S&P Equity Research Reports

CAGR- Compound Annual Growth Rate
 CAPEX- Capital Expenditures
 CY- Calendar Year
 DCF- Discounted Cash Flow
 EBIT- Earnings Before Interest and Taxes
 EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization
 EPS- Earnings Per Share
 EV- Enterprise Value
 FCF- Free Cash Flow
 FFO- Funds From Operations
 FY- Fiscal Year
 P/E- Price/Earnings
 PEG Ratio- P/E-to-Growth Ratio
 PV- Present Value
 R&D- Research & Development
 ROE- Return on Equity
 ROI- Return on Investment
 ROIC- Return on Invested Capital
 ROA- Return on Assets
 SG&A- Selling, General & Administrative Expenses
 WACC- Weighted Average Cost of Capital

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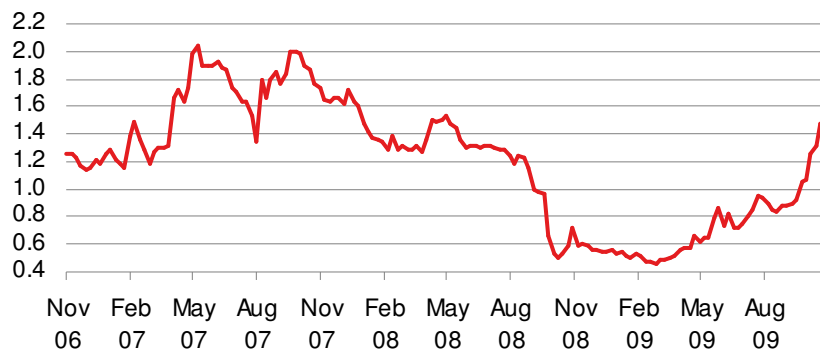
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Price Performance

Target price history (MYR)

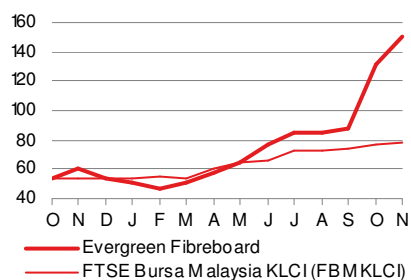
Date	REC	Target
17-Nov-09	Sell	1.40
25-Aug-09	Hold	0.93
27-May-09	Hold	0.68
3-Mar-09	Hold	0.54
18-Nov-08	Hold	0.80
25-Aug-08	Buy	1.40
30-May-08	Buy	2.04

36-month price performance (MYR)



Source: Standard & Poor's Equity Research, FactSet prices

Price relative to market – 12M



Source: FactSet, Standard & Poor's Equity Research