



May 18, 2010

Materials

Forest Products

Malaysia

Bloomberg

Reuters

EVF MK

EVGN.KL

Recommendation

Buy

Issuer credit rating

Not Rated

12-month target price

MYR1.80 ▲

Current price

MYR1.49

Forecast 12M total return (%)

20.8

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▲ ▼ Increase/decrease in target price

## Impressive 1Q10 results

- For 1Q10, Evergreen reported a 54.1% YoY increase in revenue to MYR238.7 mln and a 614.6% YoY increase in net profit to MYR33.1 mln. The financial results were above our expectations and market consensus.
- The significant YoY results improvement was mainly due to the higher average selling price of its medium-density fibreboard (MDF) products (15%-20% higher YoY) and strong recovery in sales volume from a low base in 1Q09 (which was hit by a global recession). With a high operating leverage structure, the group's higher capacity utilization rate of around 80% in 1Q10 resulted in substantial operational efficiency and synergistic cost savings.
- Looking forward, we expect demand for the group's MDF and particleboard products to grow in tandem with the current economic recovery, particularly in Asia. The management has indicated healthy sales orders and is optimistic of forward demand. On the cost side, the price of rubber wood - which increased 20% YoY in 1Q10 - has stabilized in recent months, and the price of glue is also expected to remain stable in the coming months. We remain concerned about the fast-appreciating MYR, which may negatively impact the group's profit margin (export sales are quoted in USD).
- To reflect the better-than-expected 1Q10 results and continued MDF demand, we raise our FY10 and FY11 net profit forecasts by 11.2% and 11.5% to MYR102.0 mln and MYR100.7 mln respectively.

#### Key statistics (MYR mln)

No. shares (mln)	513.0
52-week range (MYR)	0.60 - 1.76

#### Major shareholders (%)

Kuo Wen Chi & Family	39.5
Lembaga Tabung Haji	6.1
HIMB Trading Ltd	5.4

Source: Company data, S&P Equity Research estimates

#### Key forecast table (MYR mln)

Fiscal year end December	2009	2010E
Reported EPS (sen)	17.0	19.9
PER (x)	8.7	7.5
Dividend/Share (sen)	4.0	6.0
NTA/Share (MYR)	1.34	1.49
Book Value/Share (MYR)	1.38	1.52

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

## Recommendation & risk

We upgrade our recommendation on Evergreen to Buy from Hold with a higher 12-month target price of MYR1.80 (previously MYR1.60), after rolling over our valuation matrix and raising our forward projections. As the largest MDF producer in Southeast Asia, Evergreen has a competitive advantage in terms of operational economies of scale and cost savings. The group has proven its ability in the past few quarters to sustain its capacity utilization rate and gain new sales orders. Evergreen is trading at an undemanding P/E ratio of 7.5x of its 2010E earnings per share.

We continue to use P/E valuation to derive our 12-month target price. We have ascribed a P/E of 9.0x (unchanged) to the group's revised FY11 (previously FY10) projected earnings. Our target price is inclusive of a projected dividend of 6 sen. In determining the appropriate P/E multiple, we have considered the group's historical P/E trading range as well as its peers' traded P/Es.

Risks to our recommendation and target price include: (i) lower-than-expected demand for MDF and particleboard, (ii) fluctuation in costs of key production inputs, in particular glue and rubber wood logs, and (iii) stronger-than-expected appreciation in MYR against USD, which will dampen the group's profit margin.

# Key Financial Data

## Profit & Loss

Fiscal year end December (MYR mln)	2008	2009	2010E	2011E
Reported Revenue	730.5	771.5	896.2	883.0
Reported Operating Profit	75.2	95.7	129.2	129.0
Depreciation & Amortization	-40.1	-50.1	-51.6	-53.1
Net Interest Income / (Expense)	-10.1	-15.4	-16.6	-13.3
Reported Pre-tax Profit	63.9	80.4	110.0	112.1
Effective Tax Rate (%)	NM	NM	10.0	12.0
Reported Net Profit	76.7	87.4	102.0	100.7
Reported Operating Margin (%)	10.3	12.4	14.4	14.6
Reported Pre-tax Margin (%)	8.7	10.4	12.3	12.7
Reported Net Margin (%)	10.5	11.3	11.4	11.4

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

## Per-share data & ratios

Fiscal year end December	2007	2008	2009	2010E
Book Value (MYR)	1.11	1.19	1.38	1.52
Cash Flow (sen)	30.6	23.9	26.8	29.9
Reported Earnings (sen)	24.7	15.7	17.0	19.9
Dividend (sen)	7.0	0.0	4.0	6.0
Payout Ratio (%)	28.3	0.0	23.5	30.2
PER (x)	6.0	9.5	8.7	7.5
P/Cash Flow (x)	4.9	6.2	5.6	5.0
P/Book Value (x)	1.3	1.3	1.1	1.0
Dividend Yield (%)	4.7	0.0	2.7	4.0
ROE (%)	24.8	13.4	13.3	13.7
Net Gearing (%)	19.7	64.5	42.8	26.7

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

## Quarterly performance

Fiscal year end December (MYR mln)	1Q10	1Q09	% Change
Reported Revenue	238.7	154.9	54.1
Reported Operating Profit	39.6	7.4	>100
Depreciation & Amortization	n.a.	n.a.	n.a.
Net Interest Income / (Expense)	-3.2	-4.2	-24.3
Reported Pre-tax Profit	37.0	2.7	>100
Reported Net Profit	33.1	4.6	>100
Reported Operating Margin (%)	16.6	4.8	-
Reported Pre-tax Margin (%)	15.5	1.8	-
Reported Net Margin (%)	13.9	3.0	-

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

# Glossary

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

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

**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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# Price Performance

## Target price history (MYR)

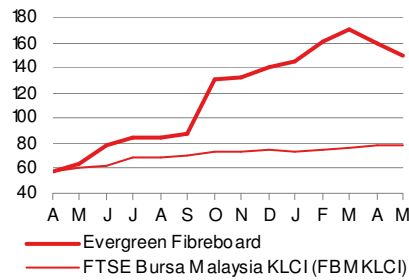
Date	REC	Target
18-May-10	Buy	1.80
23-Feb-10	Hold	1.60
17-Nov-09	Sell	1.40
25-Aug-09	Hold	0.93
27-May-09	Hold	0.68
3-Mar-09	Hold	0.54
18-Nov-08	Hold	0.80
25-Aug-08	Buy	1.40
30-May-08	Buy	2.04

## 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