

Evergreen Fibreboard Bhd-----
Maintain OUTPERFORM

 EPS: **◀▶ TP: ◀▶**
9MFY07 results in line; 4QFY07 is expected to be weaker

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- 3QFY07 results were within expectations. Net profit was just 2% lower than 2QFY07, but for 9MFY07 was up 117% YoY. 4QFY07 is expected to be much lower because of production disruption at one line caused by fire which we reported earlier.
- Evergreen's diversified customer base is aiding sales and selling prices, with China, Vietnam, and the Middle East accounting for 42% of sales showing strong demand for MDF.
- We maintain our EPS forecasts considering that Evergreen's rubberwood log and glue costs remain stable at 2006 levels, and MDF selling prices are also holding steady.
- We therefore maintain our target price and OUTPERFORM rating. Although current macro factors like the weak U.S. housing market, the weak US\$ and high oil prices are negative for sentiment on Evergreen, it is undervalued on an FY08 P/E of only 6.6x with management that continues to execute strategies to sustain its competitiveness and longer term earnings growth.

Bbg/RIC	EVF MK / EVGN.KL	Price (23 Nov 07, RM)	1.65		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.80 (2.80)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	70		
Daily trad vol-6m avg (mn)	1.7	52-wk range (RM)	2.10 - 1.10		
Daily trad val-6m avg (US\$ mn)	0.8	Mkt cap (RM/US\$ mn)	792.0/ 235.6		
Free float (%)	50.0	Performance	1M 3M 12M		
Major shareholders	Kuo family 48%	Absolute	(14.1) (2.4) 36.4		
		Relative	(13.8) (7.4) 5.4		
Year	12/05A	12/06A	12/07E	12/08E	12/09E
Revenues (RM mn)	457.5	528.1	689.7	772.2	899.0
EBITDA (RM mn)	79.1	86.6	153.5	186.6	213.3
Net profit (RM mn)	54.5	59.7	109.6	126.0	149.7
EPS (RM)	0.11	0.12	0.23	0.26	0.31
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (RM)	n.a.	n.a.	0.23	0.28	0.35
EPS growth (%)	21.1	9.6	83.5	15.0	18.8
P/E (x)	14.5	13.3	7.2	6.3	5.3
Dividend yield (%)	5.0	3.0	4.2	4.8	5.7
EV/EBITDA (x)	9.3	9.2	6.1	4.8	3.8
P/B (x)	2.1	1.9	1.6	1.3	1.1
ROE (%)	17.2	14.9	23.6	23.0	23.3
Net debt/equity (%)	net cash	net cash	25	16	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

3Q FY07 results within expectations

Comparing 3QFY07 against 2QFY07, sales improved a further 5% but operating profit margin declined from 23.1% to 18.6%, resulting in a 15% decline in PBT. This was due to higher log costs in Thailand caused by the rainy season and partial loss of production due to a fire at one of its lines. Nevertheless, 9MFY07 still delivered a 44% YoY jump in sales, a jump in operating profit margin from 12.5% to 21.1%, and a 139% jump in PBT YoY. Net profit jumped a slower 117% due to a higher tax rate and minorities from the Thailand operations.

Figure 1: Financial results summary

RM'm (YE Dec)	9MFY06	9MFY07	YoY (%)	CS FY07f	Cons FY07f
Revenue	391.1	561.7	44	689.7	669.1
Op profit	49.0	118.5	142	127.6	131.9
Int expense	(1.9)	(5.3)	172	(3.1)	n/a
PBT	48.5	115.9	139	127.5	128.1
Tax	(2.8)	(10.7)	284	(10.8)	n/a
Tax rate (%)	6	9		8	n/a
Minorities	(3.2)	(13.1)	307	(7.1)	n/a
Net profit	42.5	92.1	117	109.6	106.6
EPS (sen)	8.9	19.2	116	22.8	22.2
Net DPS (sen)	4.0	2.5	-38	6.8	n/a
Op profit margin (%)	12.5	21.1		18.5	
PBT margin (%)	12.4	20.6		18.5	

Source: Company data, Credit Suisse estimates.

Diversified customer base aiding sales

In 2006, the geographical breakdown of its sales in descending order of importance was Malaysia (15%), China (14%), Vietnam (14%), Middle East (14%), USA (10%), Pakistan (6%) and Korea (5%). Its exposure to China, Vietnam and Middle East which have seen strong growth in demand for medium density fibreboard (MDF) has supported its sales. However, although the USA accounted for only 10% of sales, the slowdown there could eventually temper global sales as part of MDF consumption in Malaysia, China, and Vietnam would be exported to the U.S. in the form of furniture. On the other hand, global plywood prices could resume an uptrend due to logging restrictions for environmental concerns, and it is the interplay of these two forces which will determine the direction of US\$ MDF prices.

Maintaining our EPS forecasts

We maintain our EPS forecasts taking the various key variables into account: on the cost side, Evergreen's rubberwood log and glue costs are still averaging 2006 levels, and it is investing in resin and biomass plants to reduce its costs; on the revenue side, although the US\$ is depreciating against the ringgit, it is still within our forecasts and Evergreen's new Thai plant will sell higher value-added MDF to boost its average US\$ MDF selling price. The 4QFY07 is expected to be much lower because of production disruption at one line caused by fire which we reported earlier.

Maintain target price and OUTPERFORM rating

We therefore maintain our target price and OUTPERFORM rating. Although current macro factors like the weak U.S. housing market, the weak US\$ and high oil prices are negative for sentiment on Evergreen, it is undervalued on an FY08 PE of only 6.6x with management that continues to execute strategies to sustain its competitiveness and longer term earnings growth.

Companies Mentioned (*Price as of 23 Nov 07*)

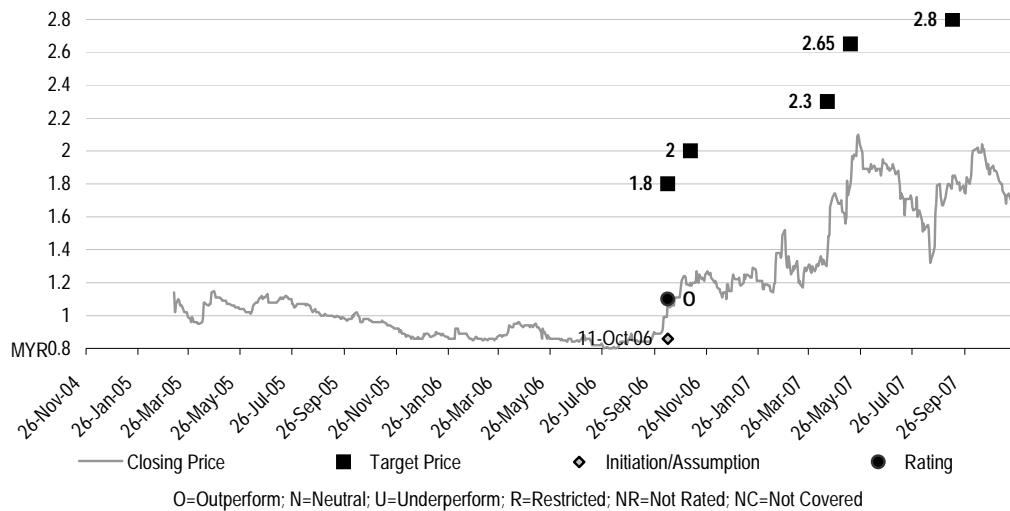
Evergreen Fibreboard Bhd (EVGN.KL, RM1.65, OUTPERFORM, TP RM2.80)

Disclosure Appendix

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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
07-Nov-06	1.2	2.0		
17-Apr-07	1.38	2.3		
14-May-07	1.8	2.65		
11-Sep-07	1.85	2.8		

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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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