

Corporate Highlights

News Update

Evergreen Fibreboard

Acquiring A MDF Plant



RHB Research Institute Sdn Bhd
A member of the RHB Group
Company No: 233327 -M

1 November 2006

Share Price : RM1.24
Fair Value : RM1.55
Recom : **Outperform**
(Maintained)

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- ◆ **Cash consideration of RM107m.** Evergreen has proposed to acquire a Johor-based MDF (medium density fibreboard) plant with a capacity of 100,000 cubic metres p.a. from Merbok Hilir Bhd's subsidiary, Takeuchi MDF Sdn Bhd (TMDF), for RM107m. The acquisition will be funded by internally-generated funds and bank borrowings. Evergreen's net cash position as at 30 June 06 was RM78m. We believe that the acquisition PER of 7.4x TMDF's FY12/05 audited net profit of RM14.5m, is fair for a small/medium-sized MDF manufacturer since Evergreen is currently trading at 10.5x FY05 EPS. The acquisition exercise is expected to be completed by 1Q 2007.
- ◆ **Additional products, markets and capacity.** The TMDF plant chiefly produces 'extra-thin' 2.5mm-4.0mm acacia/tropical wood-based MDF for Japan and the Middle East. Extra-thin MDF are stronger and moisture-resistant MDFs and may be ideal as a plywood substitute. Currently, average prices for tropical plywood and floor-based products are above US\$500/cubic metre and US\$600/ cubic metre respectively. Average prices for 'extra-thin' (rubberwood-based) MDF prices are still below US\$310 per cubic metre.
- ◆ **Maintain Outperform.** We have raised our net profit forecast for FY07 and FY08 by 13% and 11% to reflect net profit contribution from TMDF of RM5.5m (10% net margins, at 90% capacity utilisation and additional RM4m interest expense) for the respective years. New indicative fair value is RM1.55/share based on 10x FY07 EPS. We therefore maintain our **Outperform** recommendation.

Table 1 : Investment Statistics (EVERGRN; Code: 5101)

Bloomberg: EVF MK

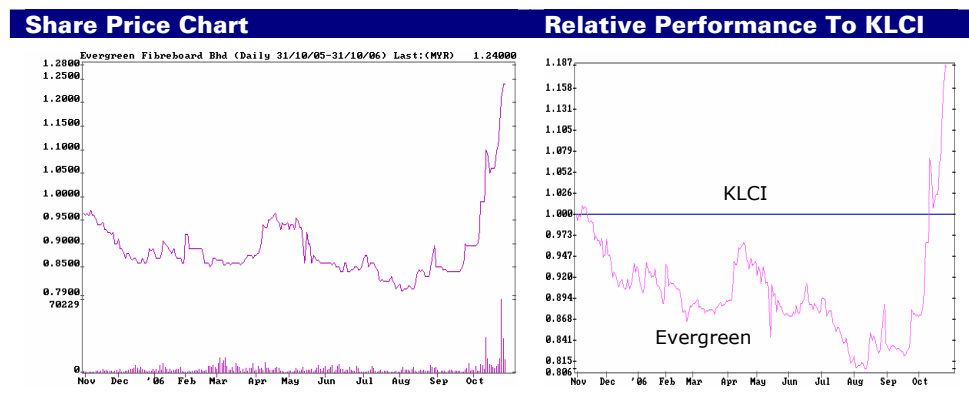
FYE	Turnover	Pre-tax profit	Net profit	EPS	Growth	PER	C.EPS*	P/NTA	P/CF	ROE	GDY
Dec	(RMm)	(RMm)	(RMm)	(sen)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
2005	457.5	54.1	49.1	10.7	(8.4)	10.5	-	1.5	10.6	17.4	5.0
2006f	592.8	75.0	59.1	12.3	15.4	10.1	12.0	1.5	7.7	14.7	4.8
2007f	741.2	95.1	74.3	15.5	25.7	8.0	14.0	1.4	6.0	16.7	4.8
2008f	826.4	116.5	88.8	18.5	19.6	6.7	18.2	1.1	4.4	17.9	4.8
Issued Capital (m shares)			480			Major Shareholders			(%)		
Market Capitalisation (RMm)			595.2			Kuo Family			42.3		
Daily Trading Volume (m shares)			0.4								
52-week Price Range (RM / s)			0.79-1.28								

Main Board Listing / Trustee Stock / Syariah-Approved Stock By The SC

* Consensus Based On IBES Estimates

- ◆ **New plant makes 'extra thin' MDF for Japan market.** TMDF's plant is able to manufacture MDF with low formaldehyde emission which meets Japan's stringent requirements. This new plant will add an estimated 17% capacity to Evergreen's current capacity of 600,000 cubic metres p.a. These 'extra thin' MDFs are suitable for laminated flooring, furniture and building applications.

- ◆ **Another acquisition on the horizon?** Evergreen's management stated that they were negotiating with more than one MDF manufacturer before this acquisition. Therefore, we believe that the company may embark on another acquisition within the next 6 months. There are ten MDF manufacturers in Malaysia including Daiken Sarawak Sdn Bhd, Donghwa Fibreboard Sdn Bhd, Hume Fibreboard Sdb Bhd, Guthrie MDF Sdn Bhd and Merbok MDF Sdn Bhd. After this acquisition by Evergreen, we may see further industry consolidation in next 12 months. Evergreen is currently the second largest MDF manufacturer in Malaysia.



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