

Evergreen Fibreboard Bhd-----Maintain OUTPERFORM

Raising EPS forecasts and target price

EPS: ▲ TP: ▲

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- We are raising our EPS forecasts by 5-16% for FY07-09 to reflect the company's latest developments as outlined below, principally higher MDF selling prices, which have more than compensated for a weaker US\$.
 - We are now projecting EPS growth of 53% in FY07 from the full year impact of higher MDF prices and the acquisition of Takeuchi, 24% in FY08 from energy cost-savings and a new Indonesian joint venture, and 17% in FY09 from a new MDF line in Thailand.
 - Catalysts for Evergreen's share price would be its quarterly results, as our FY07 EPS forecast is now 38% above consensus.
 - We are raising our target price from RM2.00 to RM2.30, resulting from the 16% increase in our FY07 EPS forecast and applying an unchanged 12x target PER. With a potential upside of 75% to our target price, we are reiterating our OUTPERFORM rating.
- 3) Delay in the new MDF line in Thailand from mid-2007 to mid-2008 due to new equipment constraints; Evergreen's decision to proceed was also delayed, as it was awaiting the outcome of its bid for a Malaysian competitor, Guthrie MDF Sdn Bhd (not listed), which it lost out to Dongwha Holdings (025900 KS, KRW 9040, not rated) in February 2007.
 - 4) Assumption that Evergreen's MoU to set up a joint venture to acquire the MDF & resin plants of PT Hutrindo Jaya Fibreboard & PT Uforin Prajen in Indonesia will be consummated by mid-2007. The 110,000 cu metre p.a. MDF plant and 50,000 tonne p.a. resin plant have not been operating for a few years, but have access to cheap rubberwood.
 - 5) Lowering of our dividend payout assumption from 50% to 30% because Evergreen will need to fund its vertical and horizontal expansion in the Asian region.

Bbg/RIC	EVF MK / EVGN.KL	Price (16 Apr 07, RM)	1.32		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.30 (2.00)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	74		
Daily trad vol-6m avg (mn)	0.7	52-wk range (RM)	1.52 - 0.80		
Daily trad val-6m avg (US\$ mn)	0.2	Mkt cap (RM/US\$ mn)	633.6/ 184.1		
Free float (%)	50.0	Performance	1M 3M 12M		
Major shareholders	Kuo family 48%	Absolute	3.1 5.6 38.9		
		Relative	(5.4) (9.6) (0.6)		
Year	12/05A	12/06A	12/07E	12/08E	12/09E
Revenues (RM mn)	457.5	528.1	686.6	810.9	911.3
EBITDA (RM mn)	79.1	95.2	139.7	187.2	216.3
Net profit (RM mn)	54.5	59.8	91.2	113.2	132.7
EPS (RM)	0.11	0.12	0.19	0.24	0.28
- Change from prev. EPS (%)	n.a.	n.a.	16	7	5
- Consensus EPS (RM)	n.a.	n.a.	0.14	0.22	0.26
EPS growth (%)	21.1	9.8	52.5	24.2	17.2
P/E (x)	11.6	10.6	6.9	5.6	4.8
Dividend yield (%)	6.3	3.0	4.3	5.4	6.3
EV/EBITDA (x)	7.3	6.8	5.3	3.6	2.6
P/B (x)	1.7	1.5	1.3	1.1	1.0
ROE (%)	17.2	14.9	19.9	21.4	21.6
Net debt/equity (%)	net cash	1	20	7	net cash

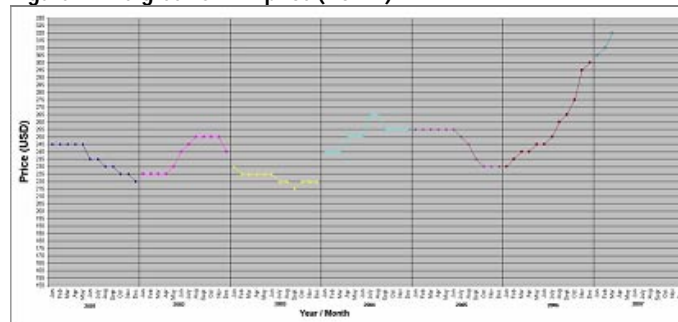
Note 1: Evergreen Fibreboard Bhd. manufactures medium density fiberboard (MDF), knocked-down wooden furniture, and doors. The Company, through its subsidiaries, also manufactures particle board and MDF and laminates MDF, particleboard, and plywood.. Note 2: Dividend yield is net

Raising our forecasts to reflect latest developments

We are raising our EPS forecasts by 5-16% for FY07-09 to reflect the latest developments, which we outline below. Our FY07 and FY08 EPS forecasts are now 38% and 7% above consensus, respectively. The changes we have factored in are:

- 1) Higher MDF (medium density fibreboard) selling prices, as MDF selling prices have continued to rise and are still US\$170 per cu metre cheaper than plywood prices (refer Fig 1). We are now assuming a selling price of US\$312 (previously US\$300) per cu metre for 2.5mm MDF.
- 2) A stronger RM/US\$ exchange rate assumption, which we have increased from RM3.40 to RM3.30.

Figure 1: Evergreen's MDF price (2.5mm)



Source: Company data.

Strong earnings growth in the coming years

We are now projecting EPS growth of 53% in FY07, 24% in FY08, and 17% in FY09, driven by the following factors:

- 1) For FY07, the full-year impact of higher MDF selling prices and contribution from Takeuchi MDF Sdn Bhd (Takeuchi) (not listed), which was acquired at end-2006.
- 2) For FY08, cost savings from its biomass energy plant in Thailand, which is to be completed by end-2007, and first-year contribution from its Indonesian joint venture.
- 3) For FY09, full-year contribution from its new MDF line in Thailand.

Raising target price and maintain OUTPERFORM rating

We are raising our target price from RM2.00 to RM2.30, resulting from the 16% increase in our FY07 EPS forecast and applying an unchanged 12x target PER. With a potential upside of 75% to our target price, we are reiterating our OUTPERFORM rating.

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Companies Mentioned (Price as of 16 Apr 07)

Evergreen Fibreboard Bhd (EVGN.KL, RM1.32, OUTPERFORM, TP RM2.30)

Dongwha Holdings (025900 KS, W9040, NOT RATED)

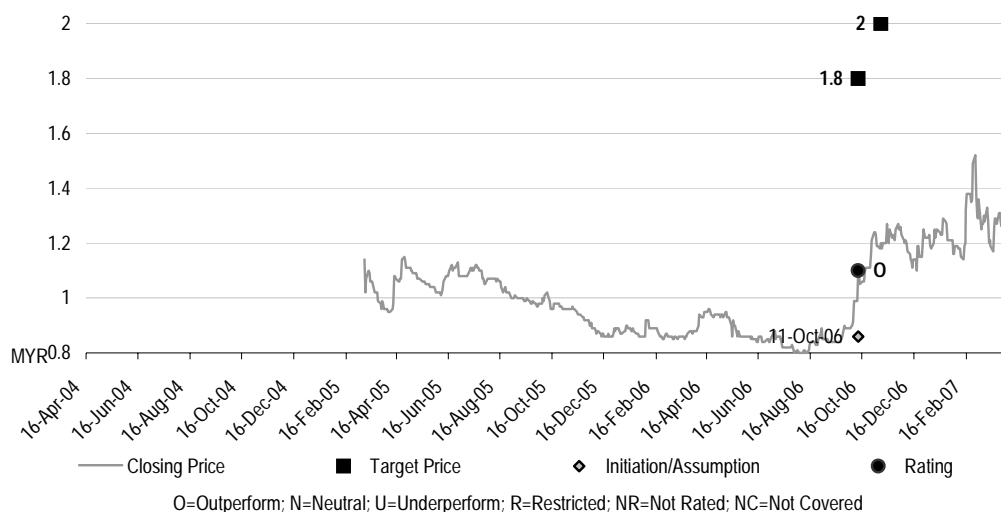
Disclosure Appendix

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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
7-Nov-06	1.2	2		

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

Method: Our target price of RM2.30 per share for Evergreen Fibreboard is based on applying a price to earnings ratio (P/E) of 12x to our forecast FY07 earnings per share (EPS). This is in-line with our Credit Suisse Malaysia Small-cap Industrial sector FY07E P/E of 12.2x. Evergreen's strong projected EPS growth of 52% in FY07 and 24% in FY08 translates into an average P/E to growth growth ratio of 0.3x.

Risks: Some of the risks to our RM2.30 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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