

**Evergreen Fibreboard Bhd-----Maintain OUTPERFORM**
**FY07 results 8% above consensus**
**EPS: ▼ TP: ▼**

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- Evergreen released its FY07 results after the market close. Its FY07 EPS were 8% above consensus. Sales growth of 39% YoY was stronger than anticipated, and the operating profit margin, which jumped from 12.2% in FY06 to 19.7% in FY07, was also better than expected.
- We are, however, reducing our EPS forecasts by 1% for FY08 and 16% for FY09, as the US\$ is depreciating against the ringgit more than we earlier anticipated.
- As we are now projecting a slower average EPS growth of 8% p.a. over the next three years compared to 17% p.a. previously, we are reducing our target FY08E PER from 11x to 9x and reducing our target price from RM2.80 to RM2.30 per share.
- We are thus maintaining our OUTPERFORM rating as the potential upside is 80%. However, there are no catalysts yet as (a) our EPS forecasts are 4-19% below consensus, (b) glue and rubberwood costs remain high, (c) the US\$ is still in bearish mode, and (d) plywood prices have yet to turn up.

Bbg/RIC	EVF MK / EVGN.KL	Price (26 Feb 08, RM)	1.28		
Rating (prev. rating)	O (O)	TP (RM) (prev. TP)	2.30 (2.80)		
Shares outstanding (mn)	480.00	Est. pot. % chg. to TP	80		
Daily trad vol-6m avg (mn)	0.8	52-wk range (RM)	2.10 - 1.17		
Daily trad vol-6m avg (US\$ mn)	0.4	Mkt cap (RM/US\$ mn)	614.4/ 191.0		
Free float (%)	50.0	<b>Performance</b>	<b>1M 3M 12M</b>		
Major shareholders	Kuo family 48%	Absolute	(9.9) (22.4) (14.1)		
		Relative	(7.6) (23.4) (19.6)		
<b>Year</b>	<b>12/06A</b>	<b>12/07A</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Revenues (RM mn)	528.1	731.6	761.4	859.8	977.1
EBITDA (RM mn)	86.6	195.4	181.1	184.0	207.6
Net profit (RM mn)	59.7	118.5	124.3	126.0	148.0
EPS (RM)	0.12	0.25	0.26	0.26	0.31
- Change from prev. EPS (%)	n.a.	n.a.	-1	-16	n.a.
- Consensus EPS (RM)	n.a.	n.a.	0.27	0.33	0.00
EPS growth (%)	9.6	98.4	4.9	1.4	17.5
P/E (x)	10.3	5.2	4.9	4.9	4.2
Dividend yield (%)	3.9	5.5	6.1	6.2	7.2
EV/EBITDA (x)	7.2	3.5	3.7	3.1	2.3
P/B (x)	1.4	1.2	1.0	0.9	0.8
ROE (%)	14.9	24.7	21.6	19.0	19.5
Net debt/equity (%)	net cash	16	11	net cash	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

**FY07 results 8% above consensus**

Evergreen Fibreboard (Evergreen)'s FY07 results were 8% above consensus. Sales growth of 39% YoY was stronger than anticipated, and operating profit margin, which jumped from 12.2% in FY06 to 19.7% in FY07, was also better than expected. As a result, EPS jumped 99% YoY to 24.7 sen, which was 8% above consensus EPS of 22.8 sen. A final tax-exempt dividend of 4.5 sen per share has been proposed, bringing the full-year net dividend to 7.0 sen, which is a 28% payout ratio.

**Figure 1: Financial results summary**

RM mn (YE Dec)	FY06	FY07	YoY (%)	CS FY07E	Cons FY07E
Revenue	528.1	731.6	39	689.7	676.6
Op profit	64.7	144.1	123	127.6	122.2
Int expense	(2.7)	(7.3)	173	(3.1)	n/a
PBT	67.7	140.4	107	127.5	123.1
Tax	(2.5)	(9.4)	269	(10.8)	n/a
Tax rate (%)	4	7		8	n/a
Minorities	(5.5)	(12.5)	130	(7.1)	n/a
Net profit	59.7	118.5	98	109.6	108.8
EPS (sen)	12.4	24.7	99	22.8	22.8
Net DPS (sen)	5.0	7.0	40	6.8	n/a
Op profit margin (%)	12.2	19.7		18.5	
PBT margin (%)	12.8	19.2		18.5	

Source: Company data, Credit Suisse estimates.

**Reducing our EPS forecasts by 1-16%**

We are, however, reducing our EPS forecasts by 1% for FY08 and 16% for FY09, as the US\$ is depreciating against the ringgit more than we earlier anticipated. We now assume an average RM/US\$ exchange rate of 3.10 in FY08 and 3.00 in FY09. We also assume that Evergreen can only partially recoup profit margins by raising medium-density fibreboard (MDF) selling prices in US\$, as this will be constrained by global demand for MDF and plywood price trends. While demand for MDF in Asia has remained resilient, the USA slump may eventually temper Asian demand.

**Figure 2: Changes in key variable assumptions**

	New	Old	Chg (%)
FY08E EPS (sen)	25.9	26.2	(1.1)
FY09E EPS (sen)	26.3	31.2	(15.7)
FY08E MDF price (US\$)	294	276	6.5
FY09E MDF price (US\$)	295	280	5.4
FY08E RM/US\$	3.10	3.35	(7.5)
FY09E RM/US\$	3.00	3.30	(9.1)

Source: Company data, Credit Suisse estimates.

**Reducing target price from RM2.80 to RM2.30**

As we now project slower average EPS growth of 8% p.a. over the next three years compared with 17% p.a. previously, we reduced our target FY08E PER from 11x to 9x to arrive at a revised target price of RM2.30 per share from RM2.80. The average FY08E PER for Malaysian and Thai timber-related companies is also 9x.

**Maintain OUTPERFORM rating but no catalysts yet**

We thus maintain our OUTPERFORM rating, as the potential upside is 80%. However, there are no catalysts yet, as (a) our EPS forecasts are 4-19% below consensus, (b) glue and rubberwood costs remain high, (c) the US\$ is still in bearish mode, and (d) plywood prices have yet to turn up.

**Companies Mentioned** (*Price as of 26 Feb 08*)  
 Evergreen Fibreboard Bhd (EVG.N.KL, RM1.28, OUTPERFORM, TP RM2.30)

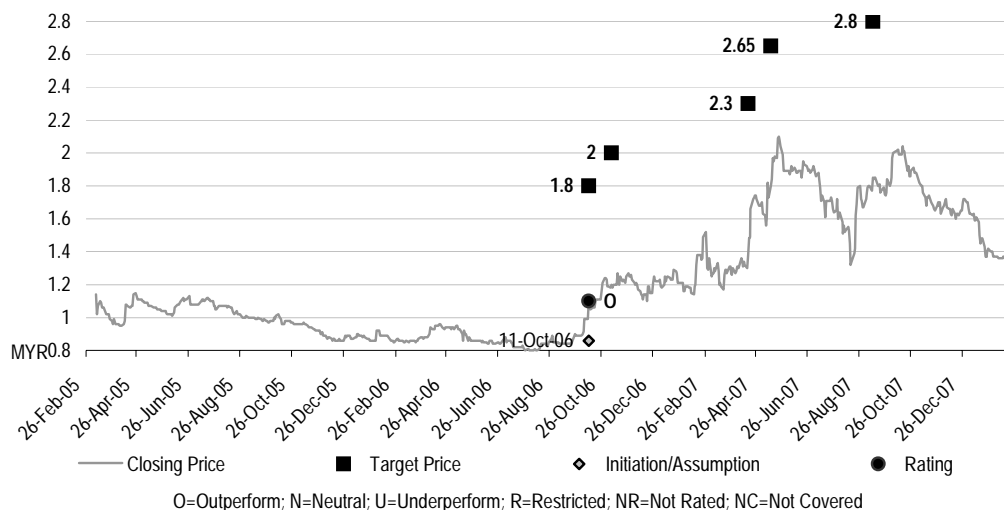
## Disclosure Appendix

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See the *Companies Mentioned* section for full company names.

### 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		
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 RM2.30 per share for Evergreen Fibreboard is based on applying a price to earnings ratio (P/E) of 9x to our forecast FY08 earnings per share (EPS) of 25.9 sen. This translates into an average P/E to growth ratio of 1.1x on our projected average EPS growth of 8% p.a. over the next three years, and is also in line with the average FY08 PE of 9x for other Malaysian and Thailand timber-related companies. Our RM2.30 per share target price is also supported by a net dividend yield of 3.4% p.a. based on our projected net dividend of 7.8 sen per share in FY08.

**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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