



The Research Team
+60 (3) 9207 7663
Research2 @my.oskgroup.com

BUY ↔

Target **RM2.59**
Previous **RM2.59**
Price **RM1.40**

BUILDING MATERIALS

Evergreen Fibreboard is involved in the manufacture of medium density fibreboards (MDF), particleboards, value-added fibreboards and furniture.

Stock Statistics

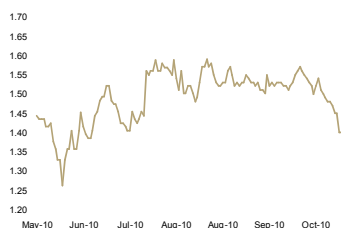
Bloomberg Ticker	EVF MK
Share Capital (m)	513.0
Market Cap (RMm)	743.9
52 week H L Price (RM)	1.80 1.26
3mth Avg Vol ('000)	635.1
YTD Returns	3.6
Beta (x)	1.57

Major Shareholders (%)

EPF	20.3
Kuo Hwei Chen	19.6
Kuo Sze Cheng	14.3

Share Performance (%)

Month	Absolute	Relative
1m	-5.2	-8.3
3m	-7.0	-14.0
6m	-1.5	-11.0
12m	11.5	-18.7

6-month Share Price Performance**Company Update****Evergreen Fibreboard****Softer Second Half**

We continued to monitor Evergreen Fibreboard's (EFB) performance since our 8 Sept report, "Slowing Down in 2H". Our conservative stance on the company's earnings was vindicated following indications that EFB's earnings will soften in the second half. Other than flat selling prices and rising raw material cost continuing into 2H, the Hari Raya celebration in October also contributed to a slowdown in 3Q. As we are not making changes in our earnings estimates, we maintain our target price at RM2.59, with our BUY recommendation intact.

Prices slightly lower or unchanged. For the month of September, the selling prices of EFB's medium density fibreboards (MDF) came in lower. Prices of 2.5mm thick MDF was at USD270/m³ while it was USD240 for thickness of 18mm. The selling price of 2.5mm thick MDF has dipped by USD10 since the middle of the year while that for 18mm-thick MDF was unchanged. We believe the sticky prices – which are in line with management's outlook - are due to consistent orders, which have so far not experienced extraordinary demand growth.

But costs go up. However, just as we expected, EFB's rubber wood costs also increased due to supply shortages within the region, particularly at its Thailand plant. On a m-o-m basis (June/July), the indexed prices for EFB's rubber wood costs surged by 8.7%. This cost rise was slightly cushioned by a decline in glue/resin prices by 5.4% over the same period. Despite that, rubber cost still comprises the largest chunk of EFB's operating costs, accounting for ~30% vs glue/resin, which makes up 25% of operating costs.

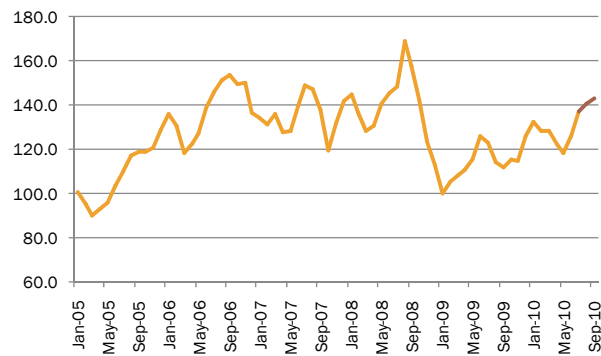
Hari Raya slowdown. Within our building materials coverage, some companies have indicated that 3Q was weak owing to the Hari Raya celebration in the month of October. This led to a drastic slowdown in activities sector-wide, from which EFB was not spared. Although EFB diversifies its distributions to markets worldwide, the domestic market nevertheless still accounts for 20%-25% of its total revenue.

Maintaining estimates. We see EFB's strong 1H offset by a weaker 2H as rising raw material cost eat into margins. Hence, to maintain our conservatism, we are not changing our earnings estimates for now. We project net earnings of RM123.9m this year, representing an increase of 41.7% y-o-y. As for FY11, we forecast profits to grow by a single digit 7.3% on slightly higher orders as developments under the 2011 Budget are implemented and also due to an increase in production capacity from EFB's Indonesian MDF processing plant. We maintain our target price for EFB at RM2.59, after ascribing a P/E of 10x to its FY11 EPS of 25.9 sen.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	731.6	730.5	771.5	896.5	978.8
Net Profit	118.5	76.7	87.4	123.9	133.0
% chg y-o-y	98.4	-35.3	13.9	41.7	7.3
Consensus	-	-	-	122.4	134.5
EPS (sen)	24.7	15.0	17.0	24.1	25.9
DPS (sen)	7.0	0.0	5.3	9.7	10.4
Dividend yield (%)	5.0	0.0	3.8	6.9	7.4
ROE (%)	24.7	13.4	13.3	16.5	15.8
ROA (%)	13.0	6.2	7.0	8.9	9.0
PER (x)	5.7	9.4	8.2	5.8	5.4
BV/share (RM)	1.04	1.19	1.38	1.55	1.73
P/BV (x)	1.4	1.2	1.0	0.9	0.8
EV/ EBITDA (x)	5.2	10.7	7.6	6.2	6.3
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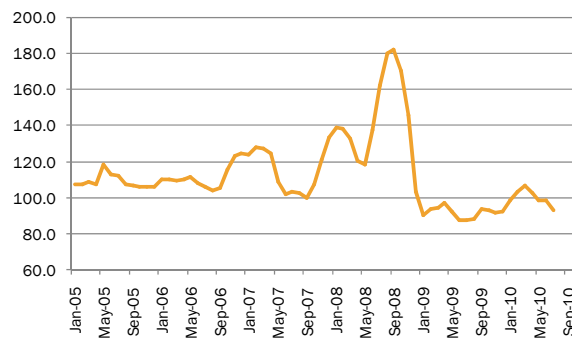
VALUATIONS

Figure 1: Rubber wood Index 2005-2010



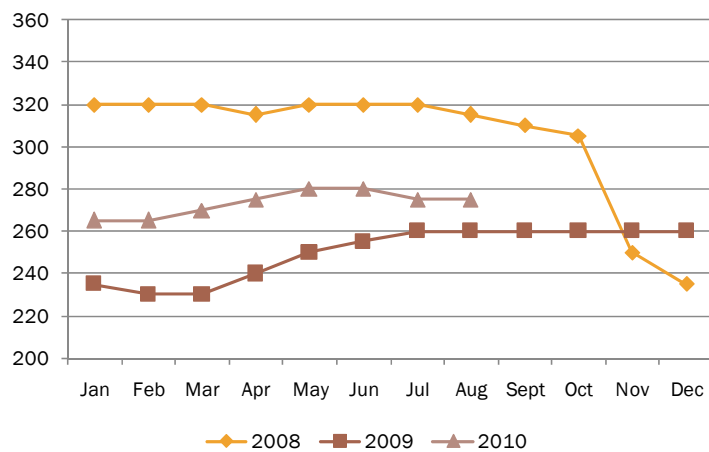
Source: OSK, Company

Figure 2: Glue price Index 2005-2010

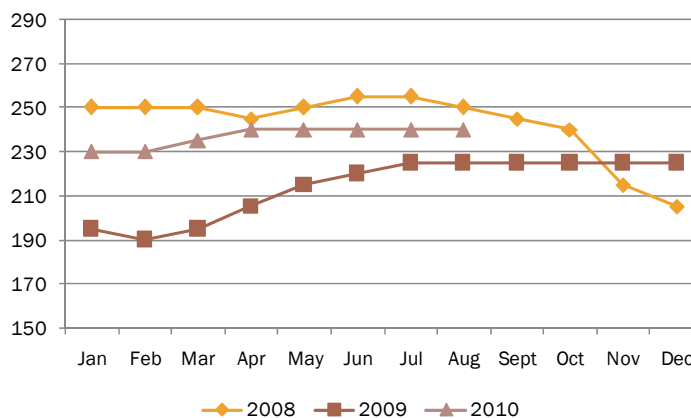


Source: OSK, Company

Figure 3: Evergreen's MDF price from 2002-2010 (USD) Far East (2.5mm)



Source: OSK, Company

Figure 4: Evergreen's MDF price from 2002-2010 (USD) Far East (18mm)

Source: OSK, Company

Other reasons. The ITTO's Tropical Timber Market Report in 2H published in September raised concerns over the strong Ringgit appreciation against the USD. This caused Malaysian furniture manufacturers to lose their pricing edge against China-based manufacturers, a precursor to slow growth in domestic orders despite the boom in ASEAN's furniture market. Aside from price competition from Chinese manufacturers, the article also noted growing competition from US based furniture manufacturers. The table below illustrates the price differences since February compared with those in the month of October.

Figure 5: Furniture and furniture parts prices (as at 1H February 2010)

Furniture and Parts Prices	
Malaysia, Rubberwood, FOB	US\$ per piece
Semi-finished dining table solid laminated top 2.5'x4', extension leaf	62-87
As above, Oak Veneer	69-83
Windsor Chair	61-63
Colonial Chair	59-64
Queen Anne Chair (soft seat)	
without arm	59-67
with arm	59-68
Chair Seat 27x430x500mm	47-52

Rubberwood Tabletop	
22x760x1220mm sanded & edge profiled	US\$ per m ²
Top Grade	568-601
Standard	552-571

Source: Tropical Timber Market Report (Volume 15 Number 3)

Figure 6: Furniture and Furniture parts prices (as at 1H October 2010)

Furniture and Parts Prices	
Malaysia, Rubberwood, FOB	US\$ per piece
Semi-finished dining table solid laminated top 2.5'x4', extension leaf	67-83
As above, Oak Veneer	74-88
Windsor Chair	66-68
Colonial Chair	64-69
Queen Anne Chair (soft seat)	
without arm	65-72
with arm	64-73
Chair Seat 27x430x500mm	52-57

Rubberwood Tabletop	
22x760x1220mm sanded & edge profiled	US\$ per m ²
Top Grade	595-626
Standard	576-596

Source: Tropical Timber Market Report (Volume 15 Number 19)

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Turnover	731.6	730.5	771.5	896.5	978.8
EBITDA	146.1	100.7	148.1	199.3	211.9
PBT	140.4	63.9	80.4	125.9	135.1
Net Profit	118.5	76.7	87.4	123.9	133.0
EPS (sen)	24.7	15.0	17.0	24.1	25.9
DPS (sen)	7.0	0.0	5.3	9.7	10.4
Margin					
EBITDA (%)	20.0	13.8	19.2	22.2	21.6
PBT (%)	19.2	8.7	10.4	14.0	13.8
Net Profit (%)	16.2	10.5	11.3	13.8	13.6
ROE (%)	24.7	13.4	13.3	16.5	15.8
ROA (%)	13.0	6.2	7.0	8.9	9.0
Balance Sheet					
Fixed Assets	517.7	902.9	885.0	844.1	802.4
Current Assets	347.8	289.4	308.8	485.0	623.9
Total Assets	912.6	1246.2	1249.4	1384.5	1481.4
Current Liabilities	138.4	407.3	227.9	272.4	271.7
Net Current Assets	209.3	-117.9	80.9	212.6	352.1
LT Liabilities	235.1	222.6	313.6	313.3	313.3
Shareholders Funds	532.5	610.7	706.2	792.8	885.8
Net Gearing (%)	19.7	64.5	42.8	26.5	8.0

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	Singapore Office DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jln. Jend. Sudirman Kav 25, Jakarta 12920 Indonesia Tel : +(6221) 520 4599 Fax : +(6221) 520 4598	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633