

23 Nov 2005

Evergreen Fibreboard

EVF MK
RM0.93
BUY

Price Chg (%)	EVF	KLCI
1 mth	(5)	(1)
3 mth	(9)	(2)
12 mth	N/A	(1)

Syariah	Yes
Issued Cap (m shares)	480
Market Cap (RM'm)	446.4
3M Avg Daily Volume (shrs)	140,880
52wk High/Low (RM)	1.15 / 0.89
Net Cash / (Debt) (RM'm)	26.6
Net Gearing (x)	N/A
Book NTA (RM/share)	0.75
Free float (%)	51
Major s/holders <i>Kuo family (48.5%)</i>	

3Q results within expectations

	3Q	2Q	Q-o-Q	9M
Y/E : Dec (RM'm)	FY05	FY05	Chg	FY05
Turnover	121.9	108.5	12%	335.0
EBIT	12.0	13.2	(9%)	41.3
Net income/(expense)	1.1	(0.7)	(248%)	(0.4)
Share of assoc earnings	0.1	0.1	(15%)	0.3
Pretax profit	13.2	12.6	5%	41.3
Taxation	(0.8)	5.0	(117%)	2.9
Minority interest	(1.3)	(1.4)	8%	(3.8)
Net profit	11.1	16.2	31%	40.5
EPS (sen)	2.5	3.6	33%	8.9
DPS (sen)	0.0	3.1	(100%)	6.2
NTA/share (RM)	0.75	0.76	(1%)	0.75
EBIT margin	9.8%	12.2%		12.3%
Pretax margin	10.8%	11.6%		12.3%
Effective tax rate	6.4%	(39.5%)		(7.1%)

	Results	% of FY	Comments
vs Affin	Within	72	<ul style="list-style-type: none"> Within expectations. Recall, we had downgraded earnings by about 11% for both FY05 & FY06 in the previous quarter's result due to the loss and delay in commercial production for the Thai plants after the recent boiler fire incident.
vs consensus	Below	69	
Forecast revision	05	06	<ul style="list-style-type: none"> Maintaining our earnings forecast.
Revision (%)	-	-	
Net profit	56.4	62.5	
<i>Consensus</i>	58.9	66.8	
Recommendation	After	Before	<ul style="list-style-type: none"> Maintain BUY call for this stock, as the long term prospects of the group in the MDF sector remain positive. Demand for MDF in the region is still healthy and is expected to grow at an average of 15% p.a. for the next three years. The group's dividend yield is also attractive at 8.6%. Our target price for the stock is RM1.30, based on an undemanding P/E of 10x FY06 earnings.
	BUY	BUY	

Evergreen (RM0.93)

Y/E Dec (RM'm)	Pretax Profit	Net Profit	EPS (sen)	EPS Chg (%)	P/E (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2003	21.6	21.7	4.5	22	20.5	11.7	0.0	0.0
2004	62.8	45.0	9.4	107	9.9	5.0	0.0	0.0
2005E	65.3	56.4	11.7	25	7.9	4.7	8.0	8.6
2006E	79.7	62.5	13.0	11	7.1	3.9	8.0	8.6

(Jason Yap; 603 2143 4526; jasonyap@affinsecurities.com.my)

Affin Securities Sdn Bhd
A Participating Organisation of
Bursa Malaysia Securities Bhd

www.affinsecurities.com.my
Email : research@affinsecurities.com.my
Tel : 603-2145 2530
Fax : 603-2145 3005

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Results highlights

Q-o-Q	3Q FY05	2Q FY05	Chg	Comments
Turnover	121.9	108.5	12%	Turnover improved by 12% due to the increase production capacity from the Thailand plant, which had commissioned a second production line during the second quarter.
EBIT	12.0	13.2	(9%)	EBIT fell by 9% due to higher raw material costs, mainly logs, glue and fuel costs. Log prices went up because of the increased built up of inventories in the run up to the rainy season, while the increase in both glue and fuel costs were driven by the rising crude oil prices.

Looking forward...

- **Operating costs expected to improve in the coming quarters.** Logs make up about 25% of Evergreen's cost of sales and the current high log prices are expected to ease downwards after the rainy season. Other major raw materials components such as glue and fuel costs which together make up about another 25% of its cost of sales are also expected to soften provided the current crude oil prices continue to trade below its recent high.
- **Moving forward, prospects of MDF players remain bright in Malaysia.** There is sufficient demand of MDF from both local and overseas market. Since the beginning of the year, price of MDF is maintained at an average of US\$200/cu m. Chipboards, on the other hand, have seen the average price drop from US\$120/cu m to US\$100/cu m due to the over-capacity of chipboards in Thailand, which had sparked of a price war among regional chipboard players.

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