

RHB Highlights

◆ **Evergreen Fibreboard Berhad : 3QFY12/05 Results Well Below Expectation** Downgrade To **MARKET PERFORM**

Evergreen Fibreboard Berhad (RM0.93)*3QFY12/05 Results Well Below Expectation*

- ◆ **Results fell behind expectations** mainly due to: (1) severe-than-expected squeeze in margins arising from increased prices of raw materials, i.e. rubberwood, glue and fuel; and (2) a sharper drop in prices of particleboard products. With YTD net profit of RM40.5m and in view of seasonally weak demand in 4Q and high rubberwood prices, full-year net profit projection of RM61.4m (ours) and RM65.0m (stated in its listing prospectus) will not be met.
- ◆ **Higher 3Q revenue**, which grew by 12.4% qoq as its Thailand subsidiary, Siam Fibreboard Co Ltd (SFCL)'s second line resumed full production in 3Q (SFCL's second line was shutdown for 23 days in 2Q due to a fire). Revenue contribution from SFCL increased by 39% qoq to RM44.8m as a result. There is no yoy comparison as this is Evergreen's first year reporting on 3Q results.
- ◆ **Profitability eroded by higher raw material prices**, which reduced EBITDA margin to 11.3% from 12.2% in 2Q. Prices of rubberwood continued to trade at the higher end of the price range to average almost US\$100/cu m in 3Q (versus our assumption of US\$93.5/cu m) as purchasers built up inventories ahead of the rainy season. Meanwhile glue and fuel costs were lifted higher by rising prices of crude oil during the quarter. SFCL, which was expected to be the growth driver for the group, was not spared. Its net profit contribution declined by 7.7% qoq as opposed to our projected growth. An absence of tax writeback (of RM5.4m registered in 2Q) resulted in a 31% drop in 3Q net profit.
- ◆ **4Q may show some improvement in margins but very marginal.** The easing of crude oil price since late August will help to bring glue and fuel costs lower but we expect the current wet season to keep prices of rubberwood high in 4Q. We have now factored in higher rubberwood price of US\$95/cu m over our forecast period and slashed our particleboard price assumption by 7% to US\$140/cu m for FY12/05 and by 15% to US\$130/cu m for FY12/06-07. Our EPS forecasts were slashed by 18% for FY12/05 and 20% for FY12/06-07.
- ◆ **Downgrade to MARKET PERFORM.** Based on 8x revised FY12/06 earnings, our indicative fair value for the stock was lowered to RM0.95 per share. We have also reduced our projected dividend for FY12/05 to 6.5sen (a payout ratio of 60%) and for FY12/06-07 to 6.0sen (a payout ratio of 50%).

Table 1: 3QFY12/05 Results Review

FYE 31 Dec (RMm)	1QFY05	2QFY05	3QFY05	% qoq	9M05	Comments
Revenue	104.7	108.5	121.9	12.4	335.0	Higher revenue from Thailand's SFCL as its 2 nd plant resumed full production following plant shutdown in 2Q due to fire.
Operating costs	(88.5)	(95.3)	(108.1)	13.5	(291.9)	Higher prices of rubberwood, glue and fuel.
EBIT	16.2	13.2	13.8	4.5	43.1	Margin squeezed by increased prices of rubberwood, glue and fuel.
Interest expense	(0.7)	(0.7)	(0.7)	(8.6)	(2.2)	
Associate's profit	0.1	0.1	0.1	(14.5)	0.4	
Pre-tax profit	15.5	12.6	13.2	5.1	41.3	
Taxation	(1.2)	5.0	(0.8)	(117.0)	2.9	There was a tax writeback of RM5.4m in 2Q
Minority interest	(1.1)	(1.4)	(1.3)	(7.7)	(3.8)	Came from its 75%-owned SFCL
Net profit	13.2	16.2	11.1	(31.3)	40.5	Would have shown an increase if not for the tax writeback in 2Q but still below expectation on lower-than-expected margins
Norm net profit	13.2	10.8	11.1	3.2	35.1	Adjusted for tax writeback of RM5.4m recorded in 2Q.
Issued shares (m)	480.0	480.0	480.0		480.0	
Norm. EPS (sen)	3.2	2.4	2.4	1.1	7.7	
Dividend (sen)	3.1	0.0	0.0		3.1	
NTA/share (sen)	78.0	76.0	75.0	(1.3)	75.0	Reduced by dividends

Note: Yoy comparison is not available as this is Evergreen's first year reporting on 3Q for the group.

