

# The Big Evergreen Revolution

by IRENA JOSOEB in Malaysia and Thailand

There seems no stopping the Evergreen Fibreboard expansion as the group of companies more than doubles its profit to RM131 million (US\$41.7 million) in 2007 from the year before, and bags an award from Forbes Asia at the same time. *Panels & Furniture Asia* catches up with its CEO, Mr JC Kuo and COO, Mr Kuo Jen Chiu on the group's driving forces, and goes behind the scenes for the companies' latest start-ups in Asia.

October 1 last year was by any means just an ordinary day for most of the world. But for Evergreen Fibreboard Berhad Group, the day made an indelible mark with its significance, when the congratulatory calls started coming in for Mr JC Kuo, its CEO.

That day, the company was announced as one of the 200 companies on the Forbes Asia 2007 "Best Under a Billion List" list. Screened from 22,500 listed companies with sales under US\$1 billion in the Asia-Pacific region and judged based on consistent profitability and growth over three years, the group impressed with record sales of US\$180 million in 12 months for FY2006 – more than double from the previous year – and a net income of US\$17 million. It tops sales from other Malaysian entities recognised by the magazine, including property group Mah Sing and women's apparel group Padini.

"People start calling us to congratulate us and I was wondering if this was some kind of

joke. Then I realized: it wasn't!" recalls Mr Kuo. "Honestly, I am really honoured to be on that list. It was a surprise and in fact we didn't know about it until we read the newspapers."

An award ceremony was held on Singapore's Sentosa island on Nov 28 last year where the Evergreen group – the only public-listed MDF manufacturer in Malaysia with approximately 16% of Malaysian market share – received its accolade from Forbes Asia, and today the framed certificate hangs prominently in the company's Batu Pahat office in Malaysia, an icon of its years of hard work recognised and a big stamp of confidence that the international financial community places on the 28-year-old business, which has so far 15 good years in the MDF industry.



The Forbes Asia 2007 "Best Under a Billion List" Award won by Evergreen Fibreboard

## Silver lining

The history of Evergreen group of companies goes way back to 1980, when Taiwanese businessman Mr Kuo Wen Chi started one of Malaysia's first fancy veneer mill (Dawa Timber Industries) in Johor Bahru. After establishing in 1987 one of the largest veneered doorskin MDF line in the world processing 20,000 skins per day, Mr Kuo and his sons JC and Jen Chiu then went on to commission in 1993 the company's first MDF production line that the world now recognises as Evergreen Fibreboard Berhad.

Shares Mr JC Kuo, "We started out doing lamination of plywoods in Singapore in the '70s. When the plywood industry vanished in late '80s, we saw that it was difficult to buy sufficient substrates for our business, so we sought to find alternatives."

And alternatives came in all forms and from all locations:



An Evergreen team (L-R): Ms Vivian Lay, Administrative & HR Manager; Ms Mary Henerietta Lim, Executive Director; Mr Kuo Jen Chiu, COO and Executive Director; Mr Philip Wong, General Manager; and Mr Phang Wei Siong, Sales & Marketing Manager



from thin particleboards shipped from New Zealand to thin MDF from the US, Canada, Italy, and even from down under Australia. Then the first thin MDF plant was started in Malaysia, a location comparatively closer to the suppliers the company had worked with before.

“However we realised the supply was still not consistent in terms of volume and quality. This situation pushed us to a stage where we realised that if we want to continue with our business, we have to be our own supplier. So we started in 1993 our first plant in Batu Pahat, Malaysia, which is the parent company Evergreen Fibreboard,” said Mr Kuo.

It turned out to be a good push factor for all concerned. By year 2000, the company had ventured into manufacturing knock-down furniture, and commissioned a second MDF production line in Malaysia. It also started its first particleboard line (Allgreen Timber Products) in 2003.

Today the company – one of the world’s top 30 MDF manu-

**“Although the (Forbes Asia) award is only a piece of paper, it means a lot to us in that somebody has recognised us as a good company that works hard to deliver on our promise.”**  
 - Mr JC Kuo, CEO of Evergreen Fibreboard

facturer and Asia’s top five MDF producer – operates from three countries (Malaysia, Thailand and Indonesia) with five, three and one manufacturing sites respectively. It has in total seven MDF production lines producing 800,000 cbm of MDF per annum, making up about 91% of the group’s revenue in 2007, up from 2005’s level of 85.9%; its one particleboard production line has an annual capacity of 120,000 cbm per annum.

The Evergreen boards are exported to 44 countries but predominantly to countries in the neighbouring region, with Vietnam, China, and Middle East countries making

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Where Siam Fibreboard's new Dieffenbacher line will be located

up half of its market. The former is now its biggest market, taking over traditional powerhouse China, reveals Mr Kuo.

However, the aim is for a more diversified markets rather than one dominated by a particular country, shares Mr Kuo Jen Chiu, Chief Operations Officer and Executive Director of Evergreen. "We are getting more diversified in our markets as we don't want to rely on just one country's demand."

### Regional extensions

By end-2008, the annual capacity of MDF of the group is expected to be boosted to 1.06 million cbm, thanks to the group's latest and eighth MDF line at one of its subsidiary companies Siam Fibreboard Company, located in Songkhla, Thailand. Already running on the Thai facility are two Siempelkamp MDF lines as part of the purchase from STA MDF Company in 2004, the company's new line will have a designed capacity of 900 cbm/day or 268,000 cbm annually.

When *Panels & Furniture Asia* visited Siam Fibreboard in March, construction for the steel frame structures of the new factory was still underway. However when completed, the new MDF line will see a Dieffenbacher continuous press line. The Dieffenbacher plan supply package comprises of a flash tube dryer of 30 tonnes/hr fibre throughput, forming station, and a forming line with continuous press type CPS of 8x28. The Dieffenbacher supply includes panel handling

at the press out-feed with a triple diagonal saw, high-speed conveying and a cooling station with master panel stacking. Electrical control and automation is also provided from within the Dieffenbacher group of companies.

The plant design features the Conform Fiber forming sys-

tem with special high resolution fibre dissolving rolls and an advanced mat forming system, with adjustable mat calibration and profiling control in both longitudinal and transverse directions, to ensure high quality appearance of the board surface and superior weight distribution at high production speeds.

As the major equipment package supplier, Dieffenbacher is also responsible for the overall project and engineering design, and for coordination of the various process plant packages. Delivery is expected in June this year and the line will be commissioned close to end-2008. An Andritz refiner and GTS energy plant are also on order.

Shares Mr Kuo, "This will be a very unique line in that it can produce from the very thin to the thickest boards (1.5-30.0 mm) so that it can compliment our existing lines. Our intention is to create a line that is very capable and flexible. Whatever that is not easy to achieve with our other lines, this is the one that will do the job," further adding that he hopes the new products from this line could capture new markets.

In order to produce these thin boards (even super thin HDF of up to 900kg/cbm) but at high speeds of up to 100 m/min, a special feature of the forming line is the newly developed Dieffenbacher scanning unit, which ensures accurate measurement of



The Dieffenbacher panel division team Mr Joachim Rozynek (L), Project Engineer; Mr Andreas Husman, Project Manager; in discussion with Mr John Chieng (R), Assistant Managing Director of Siam Fibreboard

mat weights and detection of any mat defects such as foreign material, at very high line speeds. The plant design makes provision for the removal of defective mat sections prior to entering the CPS press.

The choice to purchase a Dieffenbacher line when there are already two Siempelkamp lines on-site was "a difficult decision to make," shares Mr Kuo. "Common sense tells us that it's better to go with another Siempelkamp line so everything is handled by one company. Furthermore we will use a lot of common spare parts if we do so. In other words, it's costly for us to have two different suppliers on one site."

However, what tipped the decision over was Dieffenbacher's "eagerness" to work with Evergreen on its

**"Our intention is to create a line that is very capable and flexible. Whatever that is not easy to achieve with our other lines, this is the one that will do the job."**

- Mr JC Kuo on Evergreen's latest MDF line in Thailand





The group's electricity generation plants in Songkhla, Thailand

was to replace a "wrongly designed" energy plant that was part of the original older lines that Evergreen purchased from STA four years ago.

Says Mr Kuo, "The energy supply has not been reliable, so it's only a matter of time that we have to replace all the energy plants. It's better to build another new ones now than do upgrades of US\$ US\$3 million for each line. With these new electricity

generation plants, we can replace the steam we require for the older energy plants."

Furthermore, he points out that in southern Thailand where Siam Fibreboard is located, "the power supply is not stable, and we have encountered a lot of power trips especially in rainy seasons."

"By having our own power plants supported by other sources, it will make our power supply more stable, though I won't say it's foolproof! This will definitely help reduce our downtime and improve our profitability," says Mr Kuo.

Another added side benefit is that the company would then be able to use the wood waste that is now readily available in the country. "Instead of letting farmers burn these in the open field, why don't we make use of this waste? It's a cleaner solution in that it's going to do our environment good and of course it will also help us save money," he shares.

"In general Thailand's power and electricity cost is still much higher than surrounding countries, so this is one exercise we do that will cut down on operating costs."

Down south in Malaysia, Batu Pahat, the new glue line at Evergreen Adhesive & Chemicals Sdn was commissioned in March with production started in April; other than producing resin for the group's subsidiaries, this glue line would have the capacity to cater to external demand, reveals Mr Kuo Jen Chiu, Evergreen's COO, "And it won't just be resin that we are producing but also other chemicals like formalin. That is definitely a future business we can look into."

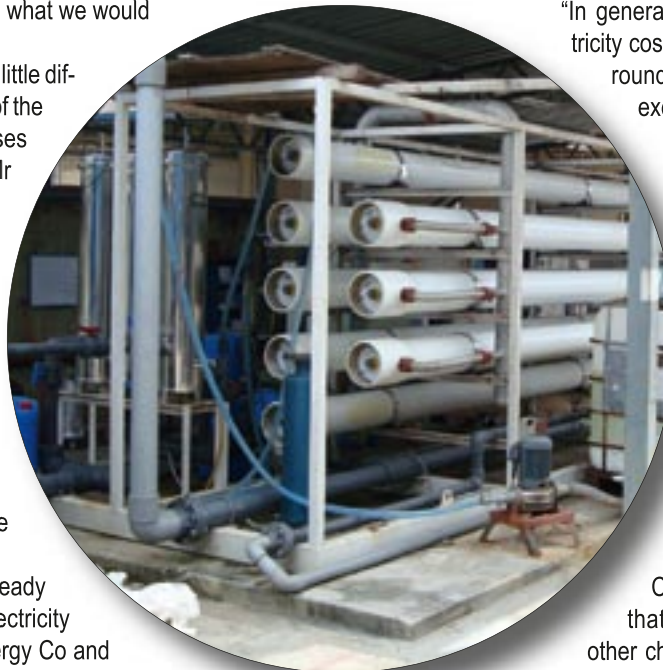
specific requirements.

"This line is very special to our group because it is to do what we have not been able to do. We have to put in a lot of special design requests to the manufacturer, as we need to do a lot of new tricks with it. Dieffenbacher was eager to develop this line with us, and to incorporate new changes in their design to help us to achieve what we would like to achieve."

Pointing out that there is little difference in the performance of the current generation of presses from the two companies, Mr Kuo added that Siam Fibreboard would not be the first company in the group to see two presses from two different suppliers on one site. "In our Evergreen Batu Pahat facility, we have the Mende and Dieffenbacher presses, while in our Johor Bahru facility we have the Kuster and Mende presses," Mr Kuo says.

Also at time of visit, already up and running are two electricity generation plants GRE ENergy Co and ECO Generation Co, which have been set up at a cost of US\$20 million. With a capacity of 9.6 MW and 4.8 MW of electricity and 20 tonnes of steam at 13 bar respectively, the generation plant was purchased from a Chinese specialist manufacturer. The construction of these plants partially accounted for the delayed commissioning of the new MDF line at Siam Fibreboard.

Two reasons were cited for the starting these plants. One



Reverse osmosis equipment for the Batu Pahat water treatment plant

Crossing the Strait of Malacca to South Sumatra of Indonesia, Evergreen's latest subsidiary and joint venture company PT Hijau Lestari Raya Fibreboard, in cooperation with PT Hutrindo Jaya Fibreboard Manufacturing Co and PT Uforin Prajen Adhesive Industry, has also shown progress. It commissioned its MDF production line in March, with production capacity expected to



## The Evergreen Business Keys

**Q: What would you list as the biggest strength of the Evergreen group?**

**A** (by Evergreen COO, Mr Kuo Jen Chiu): It's the people. We have a pretty strong team in the top and middle management teams and we maintain communication to keep the teamwork. Our people is the biggest asset we have and I think there is no other thing more important than that.

**Q: What is your biggest operational challenge currently?**

**A:** This is a very tough question! But I would say that to stay ahead, managing operational costs competitively is really the most challenging for me, given that every cost is going up: from steel, to crude oil and almost all other raw materials. With this kind of business environment, we have to look at how we can control our costs and be very competitive in this aspect in order to stay alive.

**Q: List that one driving force of Evergreen that propels it to perform better every year.**

**A:** A lot of people say that you have to diversify into different kinds of business to be on the safe side. Even so, our feeling and core philosophy is to always do what we know best. And what we really know best is the MDF business, and we know it from head to tail. So while some – and not extensive – integrations and diversifications into other re-

lated products will take place, we still focus very much on the MDF product. We will continue to work in this direction and philosophy.

**Q: You have been described as a dynamic company. What do you think accounts for this “dynamism”?**

**A:** I believe this is a culture that has been developed by the top man of the company, my father Kuo Wen Chi, who himself is a very dynamic person. Since we started this MDF plant in Batu Pahat, he has always been very hands-on and persistent, and these attitudes have also influenced my brother JC and myself to do the same, and not to give up easily.

For example, if a machine breaks down, my father, brother and I would all stay overnight together with the maintenance crew to make sure it is back to operation. Such a mentality in which the bosses of the plant are also concerned on these operational matters also indirectly influences the employees to take these things even more seriously.

Being hands-on also helps us to understand our team better. After all managing people ultimately boils down to appreciation. When we do what they do, they will also know that we have learnt to appreciate what they've done. However if you are just making guesswork on what your workers are really doing, there won't be a real understanding and appreciation of your team's efforts.

reach 120,000 cbm per annum. Capacity for resin production – when it starts later in June – is expected to reach 50,000 tonnes a year.

### Beyond conventional R&D

But with so much focus on mergers and acquisitions – though this is definitely the one big reason for the group's impressive financial performance last year, with profit (after tax but before MI) more than doubled to RM131 million (US\$41.7 million) in 2007 from the previous year – one wonders what has become of R&D within the group.

COO Mr Kuo Jen Chiu however points out, “When you acquire companies, you indirectly would have done your R&D because these companies that were

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- Mr Kuo Jen Chiu,  
COO of Evergreen Fibreboard

formerly your competitors did have their trade secrets. It's only when you own these companies that you realise that they had certain knowledge that you had no inkling to. We have seen that happening a lot during the course of our

acquisitions.”

“Sometimes we have to look for shortcuts. When we acquire a company there is a price to pay for the business but then it also gives you some R&D back. Instead of cracking your head for years on R&D and still just not getting it, when you do these mergers and acquisitions you pick and tap on the best aspects of your competitors but take away the things that are not good. If you can extract their good points, that is already a gain for our R&D.”



Evergreen's water treatment plant at Batu Pahat was set up at a cost of RM1.2 million (US\$382,000) in 2005

**Taking the prudent stance**

The current economic jitters that have been relentlessly buzzing for months now – from the rising oil prices impacting ocean freight and transport costs, the US sub-prime issue and housing downturn, to rising power and log costs and contracting glue supplies – are however not giving the Kuo family any cause for sleepless nights.

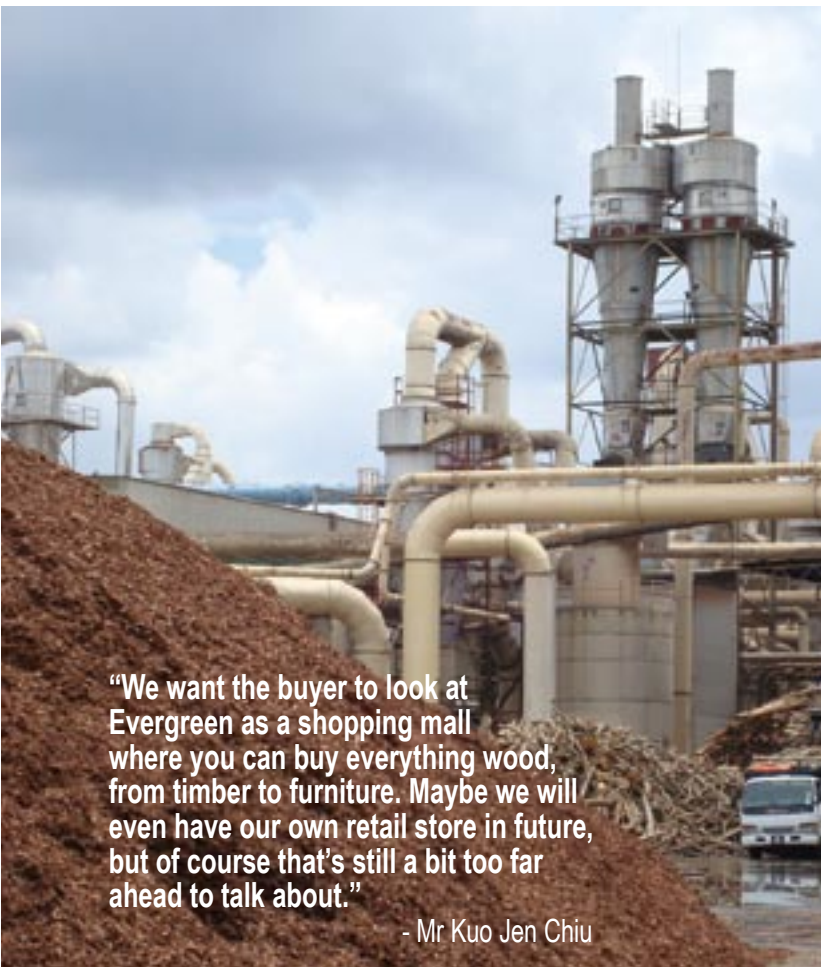
Evergreen CEO JC Kuo points out, “Whether it’s the sub-prime issue, the Asian economic crisis, the bird flu scare or SARS, we’ve been through all that. We have always put ourselves on a very cautious and prudent position, hence whether in good economic times or bad ones we always try to be more efficient than our competitors, in cutting down on operational costs and to be mean and lean. That’s the exercise we always do whether in boom time or recession.

“In boom time we want to make more profits, but in a crisis we will still make a profit though of course not as much. But bad times may also put us in a better position to expand by acquiring other companies. We are always looking for good deals like the one we had from STA.”

With crude oil prices still on the rise, the energy plant set up in Thailand would appear to be just in time for it to control



As seen at the newly commissioned Evergreen Adhesive & Chemicals plant at Batu Pahat



**“We want the buyer to look at Evergreen as a shopping mall where you can buy everything wood, from timber to furniture. Maybe we will even have our own retail store in future, but of course that’s still a bit too far ahead to talk about.”**

- Mr Kuo Jen Chiu

and lower the costs of its operations there. “Actually this even opens us up to a new direction and industry as we now have a focus on the energy sector,” Mr Kuo says.

To meet with the challenges, Mr Kuo Jen Chiu also has his eye on further reducing its operational costs through better logistics planning. “Not to the extent of having our own transportation or logistics line, but we are now studying extensively into combining volumes and also in the routes we take.”

**The tree – or the shop – is the limit**

One of the company’s aims is to continue to integrate its raw material production. Already with glue plants in all three countries that they have manufacturing bases in, the group is also securing chip supplies and venturing into chipping operations



Thin and thick MDF production in the Batu Pahat facility





and at the same time in discussion with the local Malaysian government on acquiring plantation land. Now already generating their own electricity and water for their plants, it is concurrently diversifying its energy source through conversion to bio-mass boiler and LPG.

Says Mr Kuo Jen Chiu: "We have to grab hold of every cost component and not just compete in terms of providing better service. Even as we do a horizontal expansion, we must also expand vertically to control costs or it will eat into our profit margins especially if we become sandwiched between the upstream suppliers and downstream customers," pointing out that a furniture manufacturer is still a mid-stream producer unless it has reached to become a retailer too, like Ikea has.

However while more upward vertical integration is definitely in the works, Mr Kuo Jen Chiu shares that any new panel lines that the company builds will take place out of Malaysia but within Asia. "We could build lines in Vietnam, China or even further into Indonesia, where we currently have one line; the Malaysian industry is pretty mature at this stage."

He emphasises however that while the Evergreen core product will still be MDF, "we will also branch out into other similar products or business, as long as it's profitable". Thus timber production is not something that the company rules out,



Knock-down furniture produced by Evergreen

as "it's part of the same business."

"We will not just stop at panel production," the COO says.

Even as the group aims to be one of the top 10 board producers in the world, a distant star that it is also shooting for is to be the one-stop station for purchasing wood products. "We want the buyer to look at Evergreen as a shopping mall where you can buy everything wood, from timber to furniture. Maybe we will even have our own retail store in future, but of course that's still a bit too far ahead to talk about."

However, what is not too far to think about will be the next Forbes Asia award to happen by end-2008.

Says Evergreen CEO JC Kuo, "Although the award is only a piece of paper, it means a lot to us in that somebody has recognised us as a good company that works hard to deliver on our promise. I strongly believe we deserve it and there is no reason not to receive it once more, given our strong 2007 performance.

"I look forward to seeing Evergreen on the Forbes Asia list again this year."

**PFA**



Where it all started in 1980: Dawa Timber Industries

## Recent Evergreen developments

### Latest members in the group

**2007, INDONESIA:** PT Hijau Lestari Raya Fibreboard, a joint venture with PT Hutrindo Jaya Fibreboard Manufacturing Co and PT Uforin Prajen Adhesive Industry

**2006, MALAYSIA:** Merbok Group's subsidiary Takeuchi MDF

**2004, THAILAND:** Siam Fibreboard, formerly part of Thailand's STA MDF

### March 2008: Production starts/commissionings

**Indonesia:** PT Hijau Lestari Raya Fibreboard

**Malaysia:** Evergreen Adhesive & Chemicals Sdn Bhd

**Thailand:** GRE Energy Co and ECO Generation Co