

Company Focus

Evergreen Fibreboard

Bloomberg: EVF MK | Reuters: EVGN.KL

Malaysia Equity Research PP 11272/04/2010(023521)

22 Oct 2009

BUY RM1.16 KLCI : 1,260.06

Price Target : 12-Month RM 1.60 (Prev RM 1.10)

Reason for Report : Company update

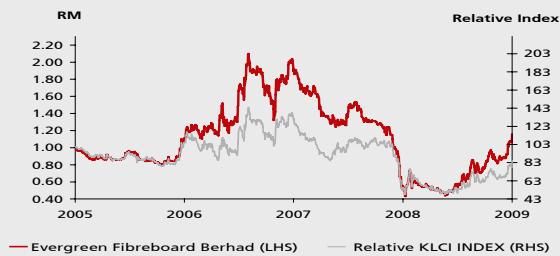
Potential Catalyst: Stronger MDF prices and sales volume

Analyst

Juliana Ramli +603 2711 2222

juliana@hwangdbsvickers.com.my

Price Relative



Forecasts and Valuation

| FY Dec (RM m) | 2008A | 2009F | 2010F | 2011F |
|----------------------------|-------|-------|-------|-------|
| Turnover | 731 | 777 | 885 | 993 |
| EBITDA | 120 | 144 | 148 | 151 |
| Pre-tax Profit | 64 | 68 | 78 | 83 |
| Net Profit | 77 | 67 | 74 | 79 |
| Net Pft (Pre Ex.) | 85 | 70 | 74 | 79 |
| EPS (sen) | 15.0 | 13.1 | 14.4 | 15.4 |
| EPS Pre Ex. (sen) | 16.6 | 13.6 | 14.4 | 15.4 |
| EPS Gth Pre Ex (%) | (33) | (18) | 6 | 7 |
| Diluted EPS (sen) | 15.0 | 13.1 | 14.4 | 15.4 |
| Net DPS (sen) | 0.0 | 0.0 | 1.4 | 1.4 |
| BV Per Share (sen) | 119.0 | 132.1 | 146.5 | 160.4 |
| PE (X) | 7.8 | 8.9 | 8.1 | 7.6 |
| PE Pre Ex. (X) | 7.0 | 8.5 | 8.1 | 7.6 |
| P/Cash Flow (X) | 5.2 | 4.9 | 4.6 | 4.4 |
| EV/EBITDA (X) | 8.3 | 5.9 | 4.9 | 3.9 |
| Net Div Yield (%) | 0.0 | 0.0 | 1.2 | 1.2 |
| P/Book Value (X) | 1.0 | 0.9 | 0.8 | 0.7 |
| Net Debt/Equity (X) | 0.6 | 0.4 | 0.2 | CASH |
| ROAE (%) | 13.4 | 10.4 | 10.3 | 10.0 |
| Earnings Rev (%) | | 79.8 | 71.0 | 70.0 |
| Consensus EPS (sen) | | 8.2 | 11.1 | 13.3 |

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: MDF Manufacturer

Source of all data: Company, DBS Vickers, Bloomberg

Greener pastures ahead

- **MDF demand continues to improve, with EFB's plant currently running at 80% utilization**
- **Expect 3Q09 earnings to be 2.5x that of 2Q09, on higher sales volume**
- **Raised FY09F-11F core earnings by 70-74%**
- **Maintain Buy with a higher TP of RM1.60 (from RM1.10) based on 1.1x CY10F BV, consistent with peers' average.**

MDF demand improves further. MDF demand continued to improve, with EFB's plant utilization rising to 73% in 3Q09 from 64% in 2Q09. We understand that EFB's MDF plants are now running at 80% utilization with 6-8 weeks forward orders. We believe that demand has recovered, partly lifted by restocking activities. The wide application of MDF in different areas such as automotive, building interior, and household furniture, allow it to benefit from the recovery in various sectors.

Raised FY09F-11F core earnings by 70-74%, after raising our MDF sales volume assumptions. We now project MDF sales volume to grow by 34% in FY09F (from +23%) and 15% in FY10F, implying capacity utilization of 72% and 83%, respectively (from 66% and 76%).

Attractively valued. The stock is trading at attractive valuations of 8.1x CY10F EPS and 0.8x CY10F BV, lower than its peers' average of 16.2x and 1.1x. Catalysts for the stock include stronger MDF sales volume and prices. We believe EFB is well-positioned to benefit from the economic recovery, given that it is, reportedly, the 5th largest MDF producer (by production capacity) in the world, and likely the biggest in the region.

At A Glance

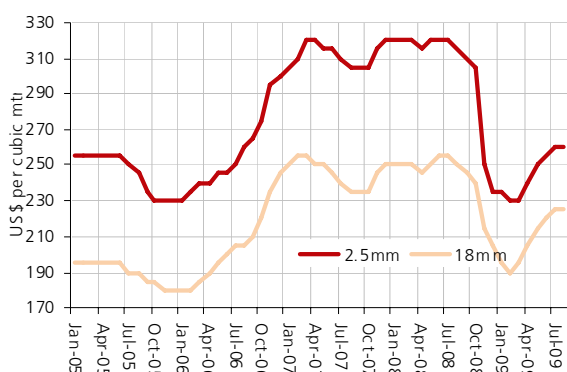
| | |
|-------------------------|-----------|
| Issued Capital (m shrs) | 513 |
| Mkt. Cap (RMm/US\$m) | 595 / 176 |
| Major Shareholders | |
| Kuo Family (%) | 42.3 |
| Lembaga Tabung Haji (%) | 9.3 |
| Hume Fibreboard (%) | 5.1 |
| Free Float (%) | 52.5 |
| Avg. Daily Vol.('000) | 609 |

Evergreen Fibreboard

Highlights

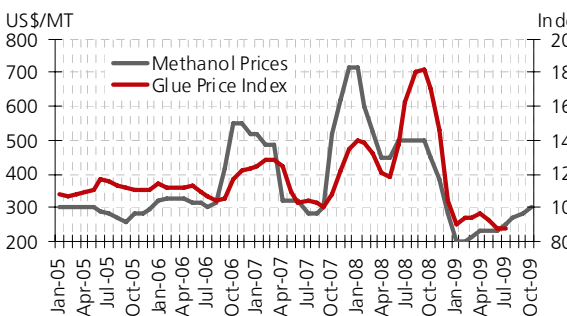
Expect 3Q09 earnings to be 2.5x that of 2Q09, on expected higher sales volume as capacity utilization had improved to 73% in 3Q09 from 64% in 2Q09. Additionally, MDF average selling price had also risen by 5% q-o-q to US\$243 per m³ (or 4% q-o-q to RM854 per m³). We expect gross margin to expand q-o-q as prices of glue and rubberwood were relatively stable q-o-q.

3Q09 MDF prices rose 5% q-o-q to average US\$243 per m³



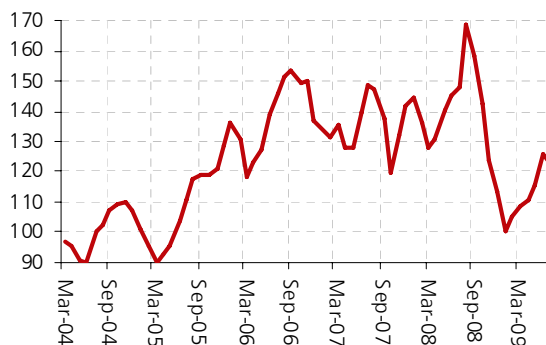
Source: Company, DBS Vickers

Glue index vs methanol prices



Source: Company, DBS Vickers

Rubberwood log price index



Source: Company, DBS Vickers

Building up home and Middle East markets. We understand even when overall markets were weak in 1H09, demand from the Middle East (which accounts for c.25% of total sales) remained strong. EFB is also seeking to develop its home market in Malaysia (c.25% of sales), Thailand (presently 0%), and Indonesia (c.5%), as it could leverage on its local presence and ability to provide constant supply from its local MDF plants. EFB has MDF plants in Malaysia (620,000m³ capacity p.a.), Thailand (570,000m³ capacity p.a.), and Indonesia (120,000m³ capacity p.a. under 51%-owned joint venture with Indonesian-based P.T. Hutrindo Jaya Fibreboard Mfg. Co. and P.T. Uforin Prajen Adhesive Industry).

No dividends expected for this year. We expect the Group to utilize its cash flow to reduce debt, which totals RM469.3m with net gearing at 0.6x as at end-2Q09. We expect net gearing to ease to 0.4x by end-2009 and 0.2x by end-2010 due to higher cash balance and reduced borrowings.

Peer Comparison

| | Local Currency | Price (local currency) | Mkt Cap (US\$m) | CY09 PE (x) | CY10 PE (x) | CY10 P/BV (x) |
|-------------------------------|----------------|------------------------|---------------------------|-------------|-------------|---------------|
| Vanachai Group PCL | THB | 2.26 | 88 | 8.5 | 5.0 | 0.5 |
| Sumalindo Lestari Jaya Tbk PT | IDR | 530.00 | 69 | n.a. | n.a. | n.a. |
| Pfleiderer Grajewo SA | PLN | 13.26 | 237 | (147.3) | 27.3 | 1.1 |
| Sonae Industria SGPS SA | EUR | 2.81 | 588 | (3.9) | (6.3) | 1.6 |
| Masisa SA | CLP | 80.00 | 1,025 | 29.4 | 16.4 | n.a. |
| Evergreen Fibreboard | MYR | 1.16 | 177 | 8.5 | 8.1 | 0.8 |
| | | | Average (exc. EFB) | 19.0 | 16.2 | 1.1 |

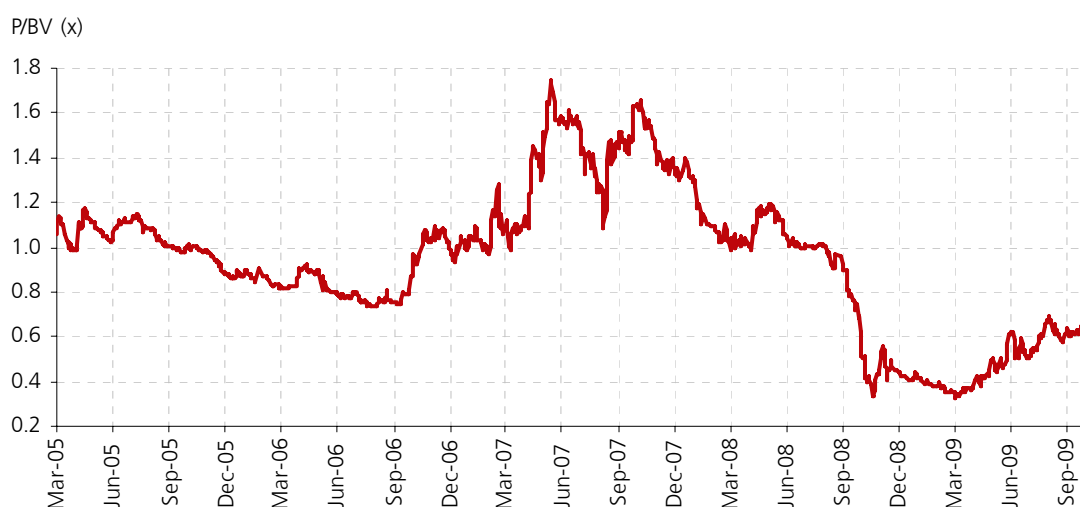
Source: Bloomberg, DBS Vickers

Cash flow summary and comments

| FYE Dec (RMm) | 4Q08 | 1Q09 | 2Q09 | FY09F | FY10F | FY11F | Comment |
|--|---------------|--------------|---------------|---------------|---------------|---------------|---|
| Profit before taxation | (0.9) | 2.7 | 12.1 | 67.4 | 76.2 | 85.2 | |
| Changes in working capital | (33.5) | (8.0) | (5.1) | (8.9) | (22.1) | (19.2) | Inventory turnover improved to 69 days in 2Q09 from 70 in 1Q09. |
| Others inc. non-cash items | 23.4 | 15.8 | 9.0 | 72.09 | 73.07 | 74.04 | |
| Net cash flow generated from/(used in) operating activities | (11.0) | 10.5 | 16.0 | 130.5 | 127.2 | 140.1 | |
| Capex | (49.6) | (7.5) | (2.9) | (15.0) | (15.0) | (15.0) | |
| Others inc. non-cash items | 0.7 | 0.5 | 0.3 | - | - | - | |
| Net cash flow generated from/(used in) investing activities | (48.9) | (6.9) | (2.7) | 13.9 | 13.9 | 13.9 | |
| Dividend Paid | - | - | - | - | - | (7.2) | |
| Drawdown / (Repayment) of loan | 24.4 | 33.9 | (42.6) | (30.0) | (60.0) | (60.0) | Total borrowings fell by RM41.2m to RM469.3m. But net gearing was stable at 0.6x in 2Q09 due to lower cash balance. |
| Net cash flow generated from/(used in) financing activities | 24.4 | 33.9 | (42.6) | (30.0) | (60.0) | (67.2) | |
| Net Change in Cash & Cash Equivalents | (35.5) | 37.5 | (29.3) | 114.4 | 81.1 | 86.8 | |

Source: Company, DBS Vickers

EFB: Historical 1-year forward P/BV



Source: Bloomberg, DBS Vickers

Evergreen Fibreboard

EFB: Historical 1-year forward PE



Source: Bloomberg, DBS Vickers

Income Statement (RM m)

| FY Dec | 2008A | 2009F | 2010F | 2011F |
|---------------------------|------------|------------|------------|------------|
| Turnover | 731 | 777 | 885 | 993 |
| Cost of Goods Sold | (533) | (583) | (680) | (771) |
| Gross Profit | 198 | 194 | 205 | 222 |
| Other Opng (Exp)/Inc | (118) | (107) | (114) | (129) |
| Operating Profit | 80 | 87 | 91 | 92 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 2 | 1 | 1 | 1 |
| Net Interest (Exp)/Inc | (10) | (17) | (14) | (10) |
| Exceptional Gain/(Loss) | (8) | (3) | 0 | 0 |
| Pre-tax Profit | 64 | 68 | 78 | 83 |
| Tax | 5 | (6) | (6) | (7) |
| Minority Interest | 8 | 5 | 2 | 2 |
| Preference Dividend | 0 | 0 | 0 | 0 |
| Net Profit | 77 | 67 | 74 | 79 |
| Net Profit before Except. | 85 | 70 | 74 | 79 |
| EBITDA | 120 | 144 | 148 | 151 |
| Sales Gth (%) | (0.1) | 6.3 | 14.0 | 12.2 |
| EBITDA Gth (%) | (31.4) | 19.7 | 3.1 | 1.7 |
| Opg Profit Gth (%) | (44.7) | 8.8 | 4.0 | 1.7 |
| Net Profit Gth (%) | (35.4) | (12.6) | 10.1 | 6.7 |
| Effective Tax Rate (%) | N/A | 9.0 | 7.8 | 7.8 |

Cash Flow Statement (RM m)

| FY Dec | 2008A | 2009F | 2010F | 2011F |
|-------------------------|--------------|-------------|-------------|-------------|
| Pre-Tax Profit | 64 | 68 | 78 | 83 |
| Dep. & Amort. | 40 | 57 | 58 | 59 |
| Tax Paid | (7) | (1) | (1) | (1) |
| Assoc. & JV Inc/(loss) | (2) | (1) | (1) | (1) |
| Chg in Wkg.Cap. | 19 | (8) | (21) | (20) |
| Other Operating CF | 6 | 6 | 6 | 6 |
| Net Operating CF | 120 | 121 | 118 | 126 |
| Capital Exp.(net) | (409) | (15) | (15) | (15) |
| Other Invt.(net) | 0 | 0 | 0 | 0 |
| Invt in Assoc. & JV | 0 | 0 | 0 | 0 |
| Div from Assoc & JV | 0 | 0 | 0 | 0 |
| Other Investing CF | 29 | 29 | 29 | 29 |
| Net Investing CF | (380) | 14 | 14 | 14 |
| Div Paid | (22) | 0 | 0 | (7) |
| Chg in Gross Debt | 234 | (30) | (60) | (60) |
| Capital Issues | 0 | 0 | 0 | 0 |
| Other Financing CF | 1 | 0 | 0 | 0 |
| Net Financing CF | 213 | (30) | (60) | (67) |
| Net Cashflow | (47) | 105 | 72 | 72 |

Quarterly / Interim Income Statement (RM m)

| FY Dec | 3Q2008 | 4Q2008 | 1Q2009 | 2Q2009 |
|-------------------------|-----------|------------|-----------|-----------|
| Turnover | 193 | 172 | 155 | 181 |
| Cost of Goods Sold | (148) | (131) | (121) | (139) |
| Gross Profit | 46 | 41 | 34 | 42 |
| Other Oper. (Exp)/Inc | (30) | (31) | (24) | (25) |
| Operating Profit | 16 | 9 | 10 | 16 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 |
| Associates & JV Inc | 1 | 0 | 0 | 1 |
| Net Interest (Exp)/Inc | (3) | (5) | (5) | (5) |
| Exceptional Gain/(Loss) | 0 | (5) | (3) | 0 |
| Pre-tax Profit | 13 | (1) | 3 | 12 |
| Tax | 1 | 4 | (1) | (1) |
| Minority Interest | 2 | 4 | 3 | (1) |
| Net Profit | 16 | 8 | 5 | 10 |
| Net profit bef Except. | 16 | 13 | 7 | 10 |
| Sales Gth (%) | 3.7 | (11.1) | (9.9) | 16.6 |
| Opg Profit Gth (%) | (42.5) | (39.0) | 6.6 | 60.9 |
| Net Profit Gth (%) | (37.1) | (50.9) | (41.8) | 121.9 |
| Gross Margins (%) | 23.6 | 23.8 | 22.1 | 23.0 |
| Opg Profit Margins (%) | 8.0 | 5.5 | 6.5 | 9.0 |
| Net Profit Margins (%) | 8.4 | 4.6 | 3.0 | 5.7 |

Balance Sheet (RM m)

| FY Dec | 2008A | 2009F | 2010F | 2011F |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets | 903 | 861 | 818 | 775 |
| Invt in Associates & JVs | 21 | 22 | 23 | 24 |
| Other LT Assets | 33 | 33 | 33 | 33 |
| Cash & ST Invt | 76 | 181 | 253 | 326 |
| Inventory | 137 | 146 | 173 | 198 |
| Debtors | 43 | 46 | 52 | 58 |
| Other Current Assets | 33 | 33 | 33 | 33 |
| Total Assets | 1,246 | 1,322 | 1,386 | 1,447 |
| ST Debt | 255 | 191 | 191 | 191 |
| Other Current Liab | 152 | 156 | 169 | 180 |
| LT Debt | 215 | 249 | 189 | 129 |
| Other LT Liabilities | 8 | 47 | 87 | 127 |
| Shareholder's Equity | 611 | 678 | 752 | 823 |
| Minority Interests | 6 | 1 | (1) | (3) |
| Total Cap. & Liab. | 1,246 | 1,322 | 1,386 | 1,447 |
| Non-Cash Wkg. Capital | 61 | 68 | 90 | 110 |
| Net Cash/(Debt) | (393) | (259) | (126) | 6 |

Rates & Ratio

| FY Dec | 2008A | 2009F | 2010F | 2011F |
|---------------------------|--------|--------|--------|-------|
| Gross Margins (%) | 27.1 | 25.0 | 23.1 | 22.3 |
| Opg Profit Margin (%) | 11.0 | 11.2 | 10.2 | 9.3 |
| Net Profit Margin (%) | 10.5 | 8.6 | 8.3 | 7.9 |
| ROAE (%) | 13.4 | 10.4 | 10.3 | 10.0 |
| ROA (%) | 7.1 | 5.2 | 5.4 | 5.6 |
| ROCE (%) | 8.5 | 7.0 | 7.0 | 6.9 |
| Div Payout Ratio (%) | 0.0 | 0.0 | 9.8 | 9.1 |
| Net Interest Cover (x) | 8.3 | 5.0 | 6.5 | 9.1 |
| Asset Turnover (x) | 0.7 | 0.6 | 0.7 | 0.7 |
| Debtors Turn (avg days) | 23.8 | 20.9 | 20.2 | 20.3 |
| Creditors Turn (avg days) | 38.8 | 44.6 | 42.5 | 43.2 |
| Inventory Turn (avg days) | 80.9 | 98.1 | 93.4 | 94.9 |
| Current Ratio (x) | 0.7 | 1.2 | 1.4 | 1.7 |
| Quick Ratio (x) | 0.3 | 0.7 | 0.8 | 1.0 |
| Net Debt/Equity (X) | 0.6 | 0.4 | 0.2 | CASH |
| Net Debt/Equity ex MI (X) | 0.6 | 0.4 | 0.2 | 0.0 |
| Capex to Debt (%) | 87.1 | 3.4 | 3.9 | 4.7 |
| Z-Score (X) | 1.4 | 1.4 | 1.7 | 1.9 |
| N. Cash/(Debt)PS (sen) | (76.7) | (50.4) | (24.6) | 1.1 |
| Opg CFPS (sen) | 19.7 | 25.1 | 27.1 | 28.4 |
| Free CFPS (sen) | (56.4) | 20.7 | 20.1 | 21.6 |

Segmental Breakdown / Key Assumptions

| FY Dec | 2008A | 2009F | 2010F | 2011F |
|---------------------------|-------|-------|-------|-------|
| Key Assumptions | | | | |
| Average MDF price (2.5mm) | 304.2 | 260.0 | 263.2 | 271.0 |
| Average MDF price (18mm) | 242.5 | 222.4 | 225.1 | 231.8 |
| Volume growth | 1.8 | 34.3 | 15.0 | 10.0 |
| MYR/USD | 3.3 | 3.5 | 3.3 | 3.3 |

Source: Company, DBS Vickers

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Wong Ming Tek, Head of Research

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Suite 26-03, 26th Floor Menara Keck Seng, 203, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.
Tel.: +603 2711-2222 Fax: +603 2711-2333 email : general@hwangdbsvickers.com.my