

Company Focus

Evergreen Fibreboard

Bloomberg: EVF MK | Reuters: EVGN.KL

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

26 Jan 2010

BUY RM1.48 KLCI : 1,296.79

Price Target : 12-Month RM 2.10 (Prev RM 1.60)

Reason for Report : 4Q09 result preview

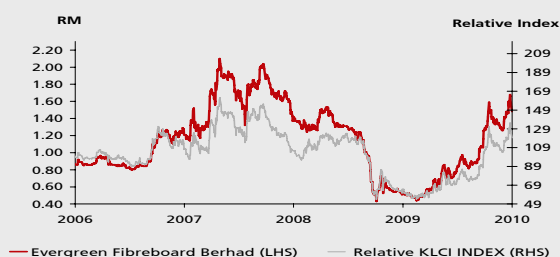
Potential Catalyst: Stronger MDF prices and sales volume

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2008A	2009F	2010F	2011F
Turnover	731	805	918	1,004
EBITDA	120	155	164	166
Pre-tax Profit	64	81	95	99
Net Profit	77	77	90	94
Net Pft (Pre Ex.)	85	80	90	94
EPS (sen)	15.0	15.0	17.5	18.2
EPS Pre Ex. (sen)	16.6	15.6	17.5	18.2
EPS Gth Pre Ex (%)	(33)	(6)	12	4
Diluted EPS (sen)	15.0	15.0	17.5	18.2
Net DPS (sen)	0.0	4.0	5.0	5.0
BV Per Share (sen)	119.0	134.1	147.5	160.8
PE (X)	9.9	9.8	8.5	8.1
PE Pre Ex. (X)	8.9	9.5	8.5	8.1
P/Cash Flow (X)	6.6	5.8	5.2	5.1
EV/EBITDA (X)	9.6	6.6	5.4	4.5
Net Div Yield (%)	0.0	2.7	3.4	3.4
P/Book Value (X)	1.2	1.1	1.0	0.9
Net Debt/Equity (X)	0.6	0.4	0.2	CASH
ROAE (%)	13.4	11.9	12.4	11.8

Earnings Rev (%)	15.1	21.4	18.8
Consensus EPS (sen):	13.6	16.0	18.0

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: MDF Manufacturer

Source of all data: Company, DBS Vickers, Bloomberg

Expansion bearing fruit

- Expect 4Q09F earnings to jump 25-30% q-o-q on higher MDF sales volume. Upgraded FY09F earnings by 15%.
- Raised FY10F-11F earnings by 19-21% on stronger MDF sales volume and prices, as expansion is now bearing fruit.
- Upgrade TP to RM2.10 (from RM1.60) based on 1.3x FY11F BV, in line with peers' average.

Expect stronger 4Q09 result. We raised FY09F earnings by 15% to RM79.8m following higher sales volume in 4Q09. We understand that capacity utilization had improved to 81-82% in 4Q09 from 73% in 3Q09 as orders continued to improve. MDF prices were flat q-o-q and gross margin should remain relatively unchanged in 4Q09 as prices of glue and rubberwood were also stable q-o-q. We project 4Q09 earnings will grow 25-30% q-o-q.

Expansion now bearing fruit. EFB had expanded in FY07-09 via a series of acquisitions and construction of new lines which enlarge its MDF manufacturing capacity by 2.2x to 1.3mil MT p.a. But growth was stunted by the economic downturn in FY08-09, which dampened MDF prices and demand. But it is now starting to produce results, with EFB capturing recovering demand as the global economy turns around. We raised FY10F-11F earnings by 21% and 19% on the back of higher MDF sales volume and prices following improvements in 4Q09.

Dividend surprise? We are not ruling out the possibility of a dividend for FY09, considering the brighter outlook for the MDF market and low future capital commitment as EFB had expanded capacity in FY07-09. We assumed 4 sen net DPS (2.7% yield) for FY09F based on c.30% payout.

At A Glance

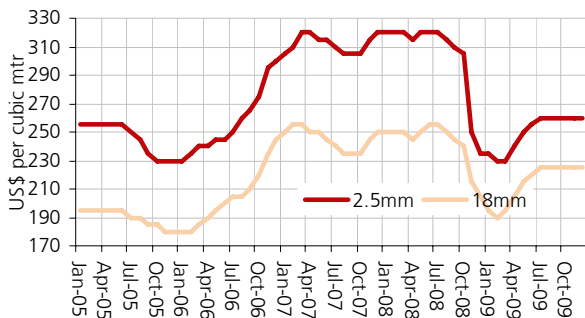
Issued Capital (m shrs)	513
Mkt. Cap (RMm/US\$m)	759 / 223
Major Shareholders	
Kuo Family (%)	42.3
Lembaga Tabung Haji (%)	9.3
Hume Fibreboard (%)	5.1
Free Float (%)	52.5
Avg. Daily Vol. ('000)	719

Evergreen Fibreboard

Highlights

More upside to MDF prices. They have yet to touch pre-crisis levels. Current average MDF price is estimated at US\$45/m³ (or 16%) below the previous high of US\$288/m³. We believe prices will rise gradually along with recovering global demand. The wide application of MDF in different industries such as automotive, building interior, and household furniture, allows it to benefit from the recovery in the various sectors. We assumed average MDF prices would rise 8% (+c.US\$20/m³) and 3% (+c.US\$10/m³) y-o-y in FY10F-11F (compared to 11% decline in FY09). However, the higher prices will be partly mitigated by stronger MYR vs USD assumptions of 3.28 for both years (compared to 3.52 in FY09), based on our house forecasts.

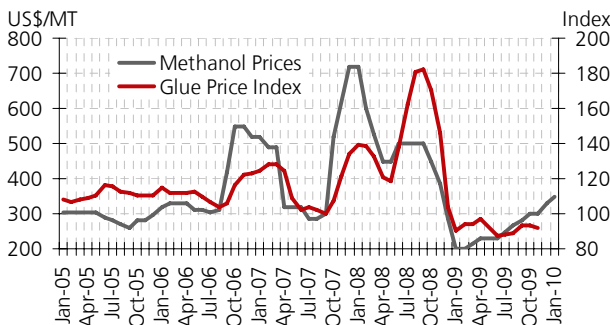
4Q09 MDF prices were flat q-o-q at average of US\$243/m³



Source: Company, DBS Vickers

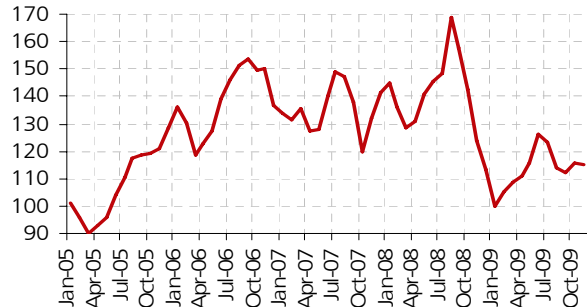
Glue and rubberwood prices were flat q-o-q. We expect gross margin to remain relatively stable in 4Q09 vs 3Q09, as prices of glue and rubberwood were also stable q-o-q. Rubberwood logs and glue are the main cost components in the production of MDF, accounting for 30-35% and 25-28% of total costs, respectively.

Glue Index vs Methanol prices



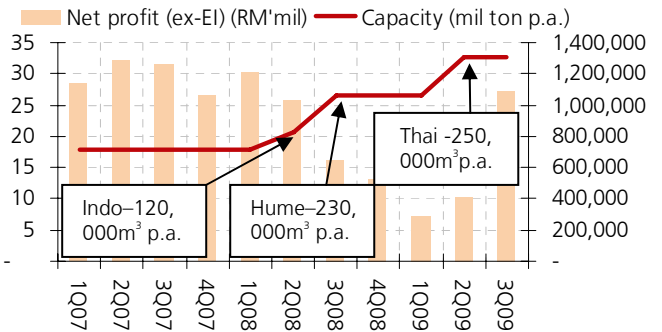
Source: Company, DBS Vickers

Rubberwood log price index



Source: Company, DBS Vickers

Net profit vs capacity growth



Source: Company, DBS Vickers

Expect 78-83% utilization in FY10F-11F (from 68% in FY09F). We expect EFB to continue to secure MDF orders as the global economy recovers. We understand that forward orders are still healthy at 6-8 weeks. Apart from its existing markets, the group is also gaining orders from new markets as some MDF players are downsizing capacities. For instance, EFB's sales to South East Asian markets (mainly ASEAN countries) had risen from 35% of group sales in FY08 to 44% in FY09, while sales to the Middle East remained strong at 25%.

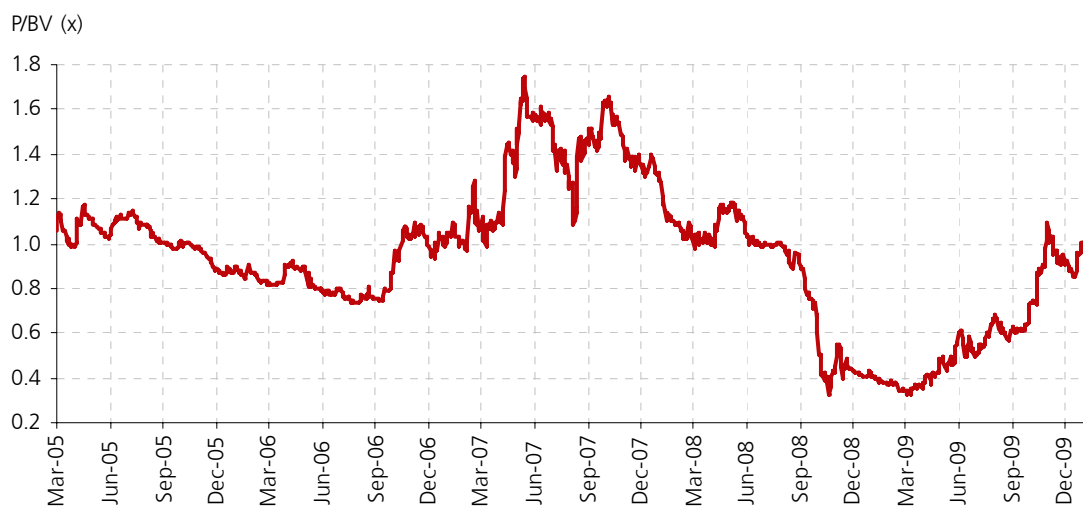
Indonesia may resume operation. We understand that the group has decided to revive its Indonesian operation instead of selling it. The 120,000m³ p.a. plant (51%-owned JV with Indonesian-based P.T. Hutrindo Jaya Fibreboard Mfg. Co. and P.T. Uforin Prajen Adhesive Industry) is expected to resume operation after the Indonesian parties' financial issues are resolved. Contribution from the Indonesian plant, which had been shut since early 2009 due to the financial problems, could lift our forecast earnings. We understand that the cost to maintain the project is minimal at c.RM2.4m per year. EFB has invested RM35m thus far.

Peer Comparison

	Local Currency	Price (local currency)	Mkt Cap (US\$m)	CY10F PE (x)	CY11F PE (x)	FY11F P/BV (x)
Vanachai Group PCL	THB	2.36	93	7.9	6.1	n.a.
Sumalindo Lestari Jaya Tbk PT	IDR	385.00	51	n.a.	n.a.	n.a.
Pfleiderer Grajewo SA	PLN	15.99	275	(110.3)	37.2	1.4
Sonae Industria SGPS SA	EUR	2.51	498	(5.9)	83.8	1.2
Masisa SA	CLP	74.00	1,029	20.9	13.3	n.a.
Evergreen Fibreboard	MYR	1.48	223	8.5	8.1	0.9
			Average (exc. EFB)	14.4	18.8	1.3

Source: Bloomberg, DBS Vickers

EFB: Historical forward P/BV



Source: Company, DBS Vickers

Evergreen Fibreboard

Income Statement (RM m)

FY Dec	2008A	2009F	2010F	2011F
Turnover	731	805	918	1,004
Cost of Goods Sold	(533)	(590)	(687)	(761)
Gross Profit	198	214	231	243
Other Opng (Exp)/Inc	(118)	(117)	(124)	(136)
Operating Profit	80	98	106	107
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	2	3	3	3
Net Interest (Exp)/Inc	(10)	(16)	(14)	(10)
Exceptional Gain/(Loss)	(8)	(3)	0	0
Pre-tax Profit	64	81	95	99
Tax	5	(6)	(7)	(8)
Minority Interest	8	1	2	2
Preference Dividend	0	0	0	0
Net Profit	77	77	90	94
Net Profit before Except.	85	80	90	94
EBITDA	120	155	164	166
Sales Gth (%)	(0.1)	10.1	14.1	9.4
EBITDA Gth (%)	(31.4)	28.6	6.0	1.0
Opg Profit Gth (%)	(44.7)	22.1	8.5	0.6
Net Profit Gth (%)	(35.4)	0.6	16.1	4.5
Effective Tax Rate (%)	N/A	7.0	7.8	7.8

Cash Flow Statement (RM m)

FY Dec	2008A	2009F	2010F	2011F
Pre-Tax Profit	64	81	95	99
Dep. & Amort.	40	57	58	59
Tax Paid	(7)	(1)	(1)	(1)
Assoc. & JV Inc/(loss)	(2)	(3)	(3)	(3)
Chg in Wkg.Cap.	19	(11)	(21)	(16)
Other Operating CF	6	6	6	6
Net Operating CF	120	130	134	144
Capital Exp.(net)	(409)	(15)	(15)	(15)
Other Invts.(net)	0	0	0	0
Invts 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	(21)	(26)
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)	(81)	(86)
Net Cashflow	(47)	114	67	73

Quarterly / Interim Income Statement (RM m)

FY Dec	4Q2008	1Q2009	2Q2009	3Q2009
Turnover	172	155	181	212
Cost of Goods Sold	(131)	(121)	(139)	(148)
Gross Profit	41	34	42	64
Other Oper. (Exp)/Inc	(31)	(24)	(25)	(32)
Operating Profit	9	10	16	32
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	1	1
Net Interest (Exp)/Inc	(5)	(5)	(5)	(4)
Exceptional Gain/(Loss)	(5)	(3)	0	2
Pre-tax Profit	(1)	3	12	31
Tax	4	(1)	(1)	(1)
Minority Interest	4	3	(1)	(1)
Net Profit	8	5	10	30
Net profit bef Except.	13	7	10	27
Sales Gth (%)	(11.1)	(9.9)	16.6	17.3
Opg Profit Gth (%)	(39.0)	6.6	60.9	100.1
Net Profit Gth (%)	(50.9)	(41.8)	121.9	187.9
Gross Margins (%)	23.8	22.1	23.0	30.3
Opg Profit Margins (%)	5.5	6.5	9.0	15.3
Net Profit Margins (%)	4.6	3.0	5.7	14.0

Source: Company, DBS Vickers

Balance Sheet (RM m)

FY Dec	2008A	2009F	2010F	2011F
Net Fixed Assets	903	861	818	775
Invts in Associates & JVs	21	23	26	28
Other LT Assets	33	33	33	33
Cash & ST Invts	76	190	257	330
Inventory	137	148	175	195
Debtors	43	47	54	59
Other Current Assets	33	33	33	33
Total Assets	1,246	1,336	1,396	1,453
ST Debt	255	191	191	191
Other Current Liab	152	157	170	179
LT Debt	215	249	189	129
Other LT Liabilities	8	47	88	129
Shareholder's Equity	611	688	757	825
Minority Interests	6	4	2	0
Total Cap. & Liab.	1,246	1,336	1,396	1,453
Non-Cash Wkg. Capital	61	71	92	108
Net Cash/(Debt)	(393)	(250)	(123)	10

Rates & Ratio

FY Dec	2008A	2009F	2010F	2011F
Gross Margins (%)	27.1	26.7	25.1	24.2
Opg Profit Margin (%)	11.0	12.2	11.6	10.6
Net Profit Margin (%)	10.5	9.6	9.8	9.3
ROAE (%)	13.4	11.9	12.4	11.8
ROA (%)	7.1	6.0	6.6	6.6
ROCE (%)	8.5	8.0	8.1	7.9
Div Payout Ratio (%)	0.0	26.6	28.6	27.4
Net Interest Cover (x)	8.3	6.0	7.7	10.6
Asset Turnover (x)	0.7	0.6	0.7	0.7
Debtors Turn (avg days)	23.8	20.5	20.2	20.6
Creditors Turn (avg days)	38.8	44.3	42.6	43.7
Inventory Turn (avg days)	80.9	97.5	93.6	96.1
Current Ratio (x)	0.7	1.2	1.4	1.7
Quick Ratio (x)	0.3	0.7	0.9	1.1
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	2.1	2.3
N. Cash/(Debt)PS (sen)	(76.7)	(48.7)	(23.9)	2.0
Opg CFPS (sen)	19.7	27.4	30.2	31.2
Free CFPS (sen)	(56.4)	22.4	23.1	25.2

Segmental Breakdown / Key Assumptions

FY Dec	2008A	2009F	2010F	2011F
Key Assumptions				
Average MDF price (2.5mm)	304.2	262.6	265.8	273.8
Average MDF price (18mm)	242.5	224.8	227.5	234.4
Volume growth	1.8	38.3	15.0	7.0
MYR/USD	3.3	3.5	3.3	3.3

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