

# Corporate Highlights

## Visit Note

# Evergreen Fibreboard

Dividend Payment To Continue



RHB Research Institute Sdn Bhd  
A member of the RHB Banking Group  
Company No: 233327 -M

18 January 2010

Share Price : RM1.54  
Fair Value : RM2.30  
Recom : **Outperform**  
(Maintained)

**Table 1 : Investment Statistics (EVERGRN; Code: 5101) Bloomberg: EVF MK**

FYE	Turnover	Net profit	EPS	Growth	PER	C.EPS*	P/NTA	P/CF	ROE	Net Gearing	GDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)	(%)
2008a	730.5	80.2	15.6	(36.7)	9.6	-	1.3	(3.0)	13.1	0.6	0.0
2009f^	749.6	80.6	15.7	0.5	9.5	10.0	1.2	9.1	11.9	0.5	2.7
2010f	929.0	109.4	21.3	35.8	7.0	13.0	1.0	10.3	14.3	0.4	3.3
2011f	997.9	110.0	21.4	0.5	7.0	17.0	0.9	5.6	13.0	0.3	4.0

Main Board Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC

\* Consensus Based On IBES Estimates

^Core net profit

- ◆ **4Q09 capacity utilisation is estimated to be at 78% (+5% qoq)** while its current capacity utilisation stands above the 80% level. The improvement was due to rising demand, mainly from the impact of supply shortages. Evergreen remains confident of achieving more than 80% capacity utilisation in FY10, if all things hold constant or improve gradually.
- ◆ **Average selling prices increased by US\$5/m3 from 4Q09 for 1Q10 orders.** Average selling prices for orders received in Dec 09 increased by US\$5/m3, which implies that 1Q10's average selling prices could hover around the US\$245/m3 to US\$250/m3 levels. Given the current outlook, management is confident that prices would hold firm at current levels.
- ◆ **Rising commodity prices not a concern.** Evergreen expects rubber wood log and glue prices to remain firm during the year, as historically, these raw materials have generally been relatively stable.
- ◆ **Indonesian plant restarting operations soon.** Currently dormant Indonesian plant would restart its operations in 2Q10 given that Evergreen is in final negotiations with its 49% JV partner.
- ◆ **Dividend payment to continue from FY09 onwards.** Management highlighted that it will likely start to distribute dividends in FY09, as prospects are already looking up and are relatively sustainable. Based on a minimum 25% net dividend payout, this would translate to 3-4% net dividend yield for FY09-11.
- ◆ **Risks.** The risks include: 1) sharp drop in MDF price; 2) sharp increase in log costs; 3) further escalation of crude oil related glue and logistics costs; and 4) strengthening of the ringgit which could reduce the company's export competitiveness.
- ◆ **Forecasts.** We have revised our earnings forecasts for FY09, FY10 and FY11 earnings by -3.2%, 1.6% and 2.0% after making adjustments to: 1) average selling price assumptions; 2) cost assumptions; 3) dividend payout assumptions; and 4) effective tax rate.
- ◆ **Investment case.** We value Evergreen at RM2.30 based on unchanged target PER of 11x FY12/10 earnings (which is at a 3x PE discount to the timber sector due to smaller market capitalisation). We maintain our **Outperform** recommendation on the company given its improving earnings outlook.

Issued Capital (m shares)	513.0
Market Cap(RMm)	790.0
Daily Trading Vol (m shs)	0.7
52wk Price Range (RM)	0.44-1.62
<b>Major Shareholders:</b>	<b>(%)</b>
Kuo Family	45.5
Lembaga Tabung Haji	9.4
HIMB Trading Ltd	6.4

FYE Dec	FY09	FY10	FY11
EPS chg (%)	-3.2	1.6	2.0
Var to C.EPS (%)	12.2	33.3	19.1

### PE Band Chart



### Relative Performance To FBM KLCI

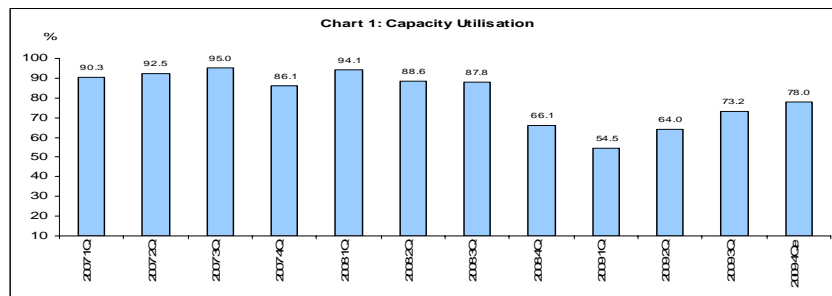


**Please read important disclosures at the end of this report.**

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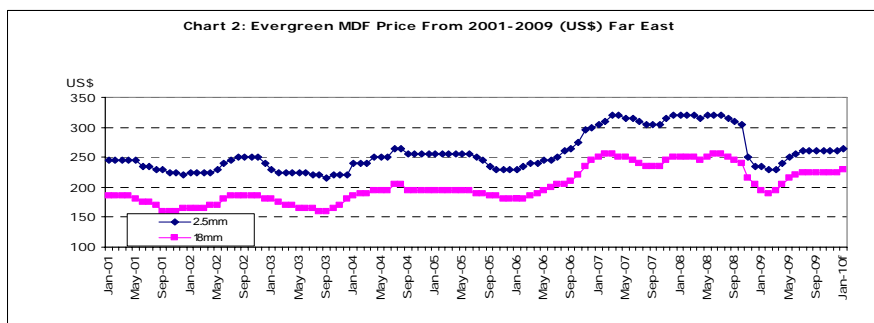
Company Visit Highlights

- ◆ **Highlights.** Post a recent meeting with Evergreen’s management, we gathered the following key highlights:
  1. Evergreen’s 4Q09 and current capacity utilisation is estimated to be at 78% and more than 80% respectively. Management remains confident of achieving more than 80% capacity utilisation in FY10.
  2. Qoq (4Q09 from 3Q09), average MDF selling prices was flat. Average selling prices increased by US\$5/m<sup>3</sup> (from 4Q09) for 1Q10 orders.
  3. Rising commodity prices not a concern. Management expects rubber wood and glue prices to remain firm.
  4. Indonesian plant would continue its operations in 2Q10.
  5. Dividend payment to continue from FY09 onwards.
  
- ◆ **Current capacity utilisation more than 80%.** We gathered that Evergreen’s 4Q09 capacity utilisation is estimated to be at 78% (+5% qoq) while its current capacity utilisation stands above the 80% level. Stripping off the Indonesian plant (which has been dormant since 1Q09), we understand that capacity utilisation for 4Q09 would stand at about 85% (from 80% in 3Q09). The improvement was due to rising demand, mainly from the impact of supply shortages as competitors continue to cut back capacity / close plants while the other major MDF exporting countries i.e. Europe, Australia and New Zealand (which together make up c.55% of total MDF exports historically) remains uncompetitive in the export market due to its strong currencies. This would bring FY09’s capacity utilisation to 67.4%, slightly below our full-year forecast of 68%. Going forward, Evergreen remains confident of achieving more than 80% capacity utilisation in FY10, if all things hold constant or improve gradually. As such, we maintain our assumptions for FY10 and FY11 at 80% and 85% respectively.



Sources: Company, RHBRI

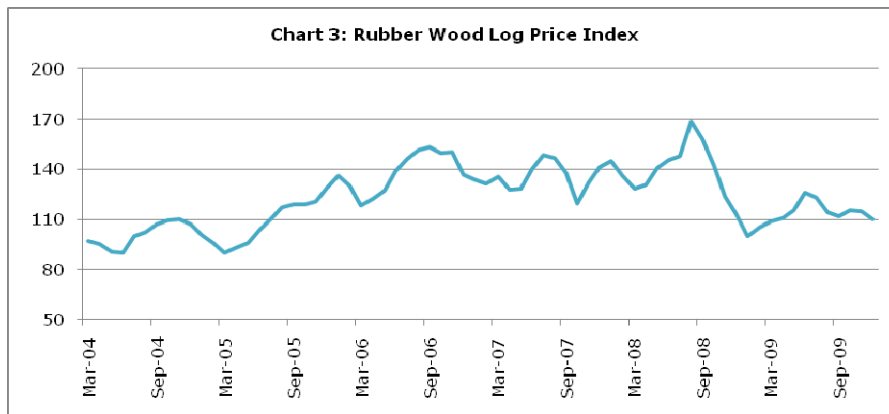
- ◆ **Average selling prices increased by US\$5/m<sup>3</sup> from 4Q09 for 1Q10 orders.** Qoq (4Q09 from 3Q09), indicative average selling prices was flat, averaging at about US\$243/m<sup>3</sup> during both quarters, bringing FY09 average to US\$231/m<sup>3</sup>, which is above our assumption of US\$224/m<sup>3</sup>. However, average selling prices for orders received in Dec 09 increased by US\$5/m<sup>3</sup>, which implies that 1Q10’s average selling prices could hover around the US\$245/m<sup>3</sup> to US\$250/m<sup>3</sup> levels. Given the current supply and demand outlook, management remains confident that prices would hold firm at current levels. Any further price appreciation would depend on global demand for MDF products. Our price assumptions for FY09, FY10 and FY11 are increased by US\$5/m<sup>3</sup> to US\$228/m<sup>3</sup>, US\$249/m<sup>3</sup> and US\$259/m<sup>3</sup> for FY09, FY10 and FY11 respectively.



Sources: Company, RHBRI

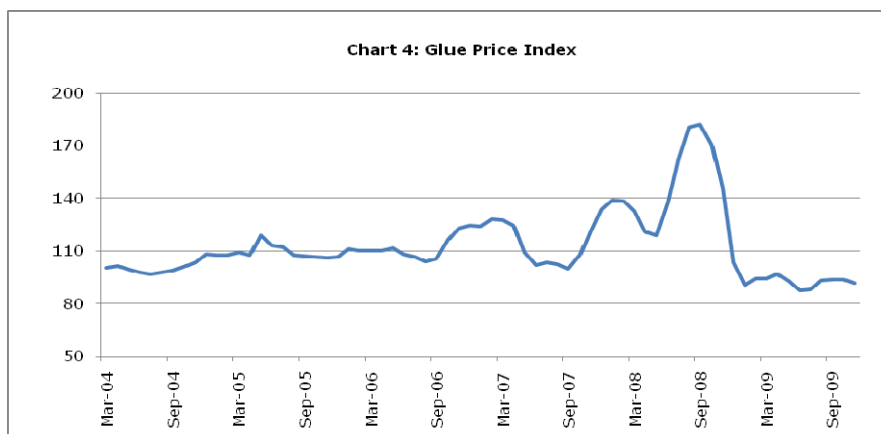
◆ **Rising commodity prices not a concern.** Evergreen expects rubber wood log and glue prices to remain firm during the year, as historically, these raw materials have generally been relatively stable (with the exception on the sharp hike in commodity prices in 2008).

1) **Rubber wood log prices.** Rubber wood logs contribute approximately 30-35% of total production cost. There are two factors which affects the log prices: 1) weather condition; and 2) harvesting programme. During the wet season (usually in second half of the year), the extraction of logs becomes tougher due to the adverse weather conditions and as such, log prices generally go up during this period. However, during the rest of the year, when most rubber plantation players replant / harvest their trees, supply of rubber wood logs becomes abundant, driving down rubber wood log prices. Management expects FY10-12 supply of rubber wood logs to be more than adequate given the current Malaysian rubber plantation players harvesting programme, which based on current demand, would have supply for more than 30 years. Nevertheless, we understand that management may still look to secure its own supply in the near future. Based on our sensitivity analysis, for every 5% increase in log prices, Evergreen's earnings would be impacted negatively by 9-11% p.a.. In 2H09, rubber wood log prices (up to Nov 09) rose by approximately 4.2% vs. 1H09 due to the above mentioned seasonal factors, bringing the average price for FY09 down by only 20% yoy vs. our original assumption of -25% yoy. As such, we have raised our rubberwood cost assumptions up by 6% p.a. for FY09-11.



Sources: Company, RHBRI

2) **Glue prices.** Glue makes up about 25-28% of total production cost. Two major components in the production of glue are methanol and urea (which makes up about 70% of total glue cost). Management highlighted that the prices of methanol and urea should remain stable given that current global supply outstrips demand. However, we note that in 2008, glue prices did shoot up by more than 80% (see Chart 4), due to the sharp unexpected spike in the price of methanol and urea. Based on our sensitivity analysis, for every 5% increase in glue prices, Evergreen's earnings would be impacted negatively by 8-9% p.a.. YTD-Nov 09, glue prices dropped by 36%, which was in line with our assumption.



Sources: Company, RHBRI

- ◆ **Indonesian plant restarting operations soon.** Evergreen highlighted that the currently dormant Indonesian plant would restart its operations in 2Q10 given that it is in final negotiations with its 49% JV partner. We understand that for Evergreen, this would mean that it would be able to continue its operations to meet future demand from Indonesia (as both its plants in Malaysia and Thailand are now at c.85% utilisation). Evergreen targets to achieve at least RM7m in net profit for FY10 from the Indonesian operations from losses of RM2.4m in FY09. We have yet to input contributions from the Indonesian operations into our earnings forecast and will only do so once negotiations have finalised. However, we note that the Indonesian plant contributions could potentially raise forecast by 6 and 9% for FY10 and FY11 respectively.
- ◆ **Dividend payment.** Management highlighted that it will likely start to distribute dividends in FY09, as prospects are already looking up and are relatively sustainable. Based on the lower-end on its historical net dividend payout of 25%, this would translate to 4 sen tax-exempt dividend or 3% yield. For FY10, given its budgeted capex of only RM20m (assuming no acquisitions), management believes that its net gearing would go down to 0.3x (from its current 0.5x). Given the stronger financial position, management will start paying out attractive dividends once again. As such, we now assume a minimum 25% net dividend payout for FY09-11 from zero previously. This would translate to 3-4% net dividend yield for FY09-11.

## Risks

- ◆ **Risks** include: 1) sharp drop in MDF price; 2) sharp increase in log costs; 3) further escalation of crude oil related glue and logistics costs; and 4) strengthening of the ringgit which could reduce the company's export competitiveness.

## Forecasts

- ◆ **Tweaked earnings.** We have revised our earnings forecasts for FY09, FY10 and FY11 earnings by -3.2%, 1.6% and 2.0% after making adjustments to: 1) average selling price assumptions; 2) cost assumptions; 3) dividend payout assumptions; and 4) effective tax rate.

## Valuations And Recommendation

- ◆ **Maintain Outperform.** We value Evergreen at RM2.30 based on unchanged target PER of 11x FY12/10 earnings (which is at a 3x PE discount to the timber sector due to smaller market capitalisation). We maintain our **Outperform** recommendation on the company given its improving earnings outlook.

**Table 2. Earnings Forecasts**

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
<b>Turnover</b>	<b>730.5</b>	<b>749.6</b>	<b>929.0</b>	<b>997.9</b>
Turnover growth (%)	(0.1)	2.6	23.9	7.4
Cost of Sales	(553.1)	(545.4)	(663.1)	(716.9)
Gross Profit	177.4	204.2	265.9	281.0
<b>EBITDA</b>	<b>118.2</b>	<b>136.2</b>	<b>166.0</b>	<b>171.1</b>
EBITDA margin (%)	16.2	18.2	17.9	17.1
Depr&Amor	(39.8)	(37.8)	(34.8)	(34.8)
Net Interest	(13.0)	(17.1)	(15.8)	(13.8)
Associates	1.7	1.7	1.2	1.2
<b>Pretax Profit</b>	<b>67.0</b>	<b>82.9</b>	<b>116.5</b>	<b>123.6</b>
Tax	5.5	(5.6)	(9.1)	(11.6)
Minorities	7.7	3.3	2.0	(2.0)
<b>Net Profit</b>	<b>80.2</b>	<b>80.6</b>	<b>109.4</b>	<b>110.0</b>

Source: Company data, RHBRI estimates

**Table 3. Forecast Assumptions**

FYE Dec	FY09F	FY10F	FY11F
Capacity utilisation (%)	68	80	85
Average MDF selling price (US\$/m3)	228	249	259
Average particleboard price (US\$/m3)	111	116	121
RM vs US\$	3.40	3.30	3.25

**Chart 3: Evergrn Technical View Point**



- ◆ Evergrn's uptrend accelerated in Oct 2009, when it jumped from the UTL near the RM0.90 region and headed straight to a tough resistance of RM1.59.
- ◆ After topping a high of RM1.62, it retreated to RM1.26 in Dec, before a second round of rebound launched in late Dec 2009.
- ◆ The stock touched a high of RM1.61 recently, but collected two negative candles late last week to suggest more downside possible this week.
- ◆ Further downside will confirm a "double top" formation at the RM1.59 tough hurdle. This will intensified near-term selling pressure.
- ◆ Investors should stay alert. Losing the 10-day SMA near RM1.50 will trigger more sell signals in the near term.

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- Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.
- Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.
- Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.
- Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

**Industry/Sector Ratings**

- Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.
- Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.
- Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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