

Corporate Highlights



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

Results Note

23 February 2010

Evergreen Fibreboard

Good Finish, Off To A Strong Start

Share Price : RM1.59
Fair Value : RM2.35
Recom : **Outperform**
(Maintained)

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

FYE Dec	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (x)	Net gearing (x)	Gr. Div. Yld. (%)
2009a	771.5	86.8	16.9	11.6	8.8	-	1.2	8.7	12.7	0.5	2.7
2010f	929.0	109.4	21.3	26.1	7.0	14.0	1.0	10.1	14.2	0.3	3.4
2011f	1016.5	119.7	23.3	9.4	6.4	17.0	0.9	5.3	13.9	0.2	4.0
2012f	1114.2	132.1	25.7	10.3	5.8	19.0	0.8	5.2	13.7	0.1	4.7

Main Market Listing /Trustee Stock/Syariah-Approved Stock By The SC

* Consensus Based on IBES Estimates

◆ **Above expectations.** Evergreen's FY12/09 core net profit of RM86.8m (+11.6% yoy) came in above our and consensus expectations, accounting for 105% of our and 125% of consensus expectations respectively. Key variance was mainly due to the reversal of overprovision of taxation of RM6.2m recorded in 4Q09. In FY12/09, Evergreen recorded an EI-loss of RM0.6m on translation losses from exposure on a US\$10m bond for its Indonesian venture. During the quarter, Evergreen declared a final and full-year net dividend of 4 sen, or net dividend payout of 24%, which is in line with our forecast of 4 sen, translating to net yield of 2.7%.

◆ **Good finish...** Qoq, Evergreen's net profit jumped 34.5% following higher capacity utilisation of 78% (or 85% stripping off Indonesian plant) in 4Q09 vs. 74% (or 80% stripping off Indonesian plant) in 3Q09 as well as reversal of overprovision of taxation. Yoy, capacity utilisation touched c.67% in FY09 vs. c.87% in FY08. Despite lower capacity utilisation, we estimate that total volume of production has actually increased to c.890k in FY09 vs. c.700k in FY08, due to the acquisition of Hume Fibreboard, which was completed in Sept 08 as well as the third Thailand line, which came into effect in March 09.

◆ **... off to a strong start.** Management is confident of achieving more than 80% capacity utilisation in FY10, arising from both supply shortages as well as gradual improvement in the global economy. While we remain conservative and maintain our projected capacity utilisation of 80% in FY10 and 85% in FY11, we have adjusted up our FY11 MDF average selling prices by 2% given the firmer price outlook due to an expected stronger recovery.

◆ **Risk.** 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.** Our earnings forecasts for FY12/10-11 have been adjusted upward by 1.6-11.0% p.a. after adjusting for FY09 results as well as an increase to our FY11 average selling price. We also introduce our FY12 earnings forecasts with the following assumptions: 1) 90% utilisation capacity; 2) 8% increase in average selling prices yoy; and 3) exchange rate assumption of RM3.30/US\$.

◆ **Investment case.** We value **Evergreen** at RM2.35 (from RM2.30) based on unchanged target PER of 11x FY12/10 earnings (which is at a 3x PE discount to the timber sector). We maintain our **Outperform** recommendation on the company given its improving earnings outlook.

RHBRI	Vs.	Consensus
✓	Above In Line Below	✓

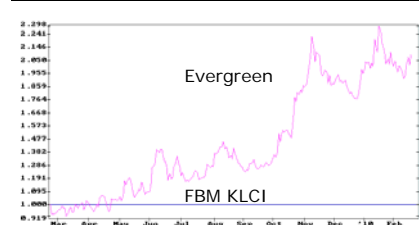
Issued Capital (m shares)	513.0
Market Cap(RMm)	764.4
Daily Trading Vol (m shs)	0.8
52wk Price Range (RM)	0.44-1.76
Major Shareholders:	(%)
Kuo Family	45.5
Lembaga Tabung Haji	9.4
HIMB Trading Ltd	6.4

FYE Dec	FY10	FY11	FY12
EPS chg (%)	1.6	11.0	0.0
Var to Cons (%)	52.4	37.3	35.5

PE Band Chart



Relative Performance To FBM KLCI



Coverage Under CMDF-Bursa Research Scheme

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Table 2: Earnings Review (YoY)

FYE Dec	2008	2009	2009	%QoQ	% YoY	2008	2009	% YoY	Observation/ Comments
(RMm)	4Q	3Q	4Q	Chg	Chg	FY	FY	Chg	
Revenue	171.8	211.9	224.1	5.8	30.5	730.5	771.5	5.6	Yoy, marginally higher revenue due to higher sales volume despite 15% drop in average selling prices of MDF yoy. Qoq, revenue jumped by 31% from higher capacity utilisation of 78% in 4Q09 vs. 74% in 3Q09.
EBIT	1.2	34.8	37.3	7.4	3126.9	76.3	95.1	24.7	
<i>Core EBIT</i>	1.2	34.8	37.3	7.4	3126.9	77.4	94.6	22.1	See EBIT margin
EI	0.0	0.0	0.0	-	-	(1.1)	0.6	(148.7)	Unrealised forex gain from its 51:49 Indonesia JV.
Interest expense	(5.2)	(4.3)	(4.1)	(6.5)	(22.3)	(13.0)	(17.8)	36.4	Higher yoy due to increase in borrowing for the acquisition of Hume, which was completed on 25 Sept 08 and its Indonesian plant.
Associates	0.0	1.0	0.9	(9.1)	>100	1.7	2.5	47.3	
Pretax Profit	(4.1)	31.4	34.2	8.8	(942.3)	63.9	80.4	25.9	
<i>Core PBT</i>	(4.1)	31.4	34.2	8.8	(942.3)	65.0	79.9	22.9	Filtered down from EBIT and higher interest expense.
Taxation	4.3	(1.2)	6.2	(623.8)	45.6	5.3	3.1	(41.6)	Effective tax rate lower than statutory tax rate mainly due to the tax-exempt status granted to most of the companies in the group and reversal of overprovision of taxation.
Minority Interest	4.2	0.7	1.2	73.7	(72.5)	7.5	3.9	(48.7)	
Net profit	4.4	30.9	41.6	34.5	836.4	76.7	87.4	13.9	
Core net profit	4.4	30.9	41.6	34.5	836.4	77.8	86.8	11.6	Filtered down from PBT and higher effective tax rate.
EPS	0.9	6.0	8.1	34.3	790.1	16.0	17.0	6.7	
DPS	0.0	0.0	4.0	-	-	0.0	4.0	-	
Core EBIT Margin (%)	0.7	16.4	16.7	0.3	16.0	10.6	12.3	1.7	Yoy, lower margin due to drop in average selling prices and lower economies of scale from lower plant utilisation rate. However, qoq, EBIT margin jumped due mainly to higher plant utilisation rate of 78% in 4Q09 (vs. 74% in 2Q09).
Core Pretax Margin (%)	(2.4)	14.8	15.3	0.4	17.6	8.9	10.4	1.5	
Core Net Margin (%)	2.6	14.6	18.5	4.0	16.0	10.7	11.3	0.6	
Effective Tax Rate (%)	105.2	3.8	(18.2)	(22.0)	(123.4)	(8.2)	(3.9)	4.3	

Source: Company data, RHBRI

Table 3. Earnings Forecasts

FYE Dec (RMm)	FY09a	FY10F	FY11F	FY12F
Turnover	771.5	929.0	1016.5	1114.2
Turnover growth (%)	5.6	20.4	9.4	9.6
Cost of Sales	(562.9)	(663.1)	(722.1)	(798.8)
Gross Profit	208.6	265.9	294.4	315.4
EBITDA	133.5	166.0	180.1	190.8
EBITDA margin (%)	17.3	17.9	17.7	17.1
Depr&Amor	(37.8)	(34.8)	(33.1)	(31.4)
Net Interest	(17.8)	(15.8)	(13.8)	(12.0)
Associates	2.5	1.2	1.2	1.2
Pretax Profit	79.8	116.5	134.3	148.5
Tax	3.1	(9.1)	(12.6)	(15.4)
Minorities	3.9	2.0	(2.0)	(1.0)
Net Profit	86.8	109.4	119.7	132.1

Source: Company data, RHBRI estimates

Table 4. Forecast Assumptions

FYE Dec	FY10F	FY11F	FY12F
Capacity utilisation (%)	80	85	90
Average MDF selling price (US\$/m3)	249	264	285
Average particleboard price (US\$/m3)	116	121	131
RM vs US\$	3.30	3.25	3.30

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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.

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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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