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## Company Update

# Evergreen Fibreboard

BUY ↔

Target **RM2.08**  
Previous **RM2.08**  
Price **RM1.46**

### BUILDING MATERIALS

Evergreen Fibreboard is involved in the manufacture of medium density fibreboards (MDF), particle boards, value-added fibreboards and furniture.

### Stock Statistics

	EVF MK
Bloomberg Ticker	513.0
Share Capital (m)	749.0
Market Cap (RMm)	874.5
52 week H L Price (RM)	1.80   0.66
3mth Avg Vol ('000)	874.5
YTD Returns	4.3
Beta (x)	1.62

### Major Shareholders (%)

LTH	6.1
HIMB Trading	5.4
EPF	5.2

### Share Performance (%)

Month	Absolute	Relative
1m	2.1	4.8
3m	-7.0	-5.0
6m	8.9	6.9
12m	74.0	44.4

### 6-month Share Price Performance



## Keeping Tabs on the Numbers

On checking with management, we gather that the recent slew of negative events worldwide will have a neutral to slightly positive impact on Evergreen Fibreboard (EFB). In this report, we take a look at the elements of the Thailand political turmoil and foreign currency movements in addition to EFB's sales distribution and product selling prices trend. Overall, we reckon that the stock's fundamentals are still positive. We are making no changes to our earnings estimates and maintain our target price at RM2.08 as well as our BUY recommendation.

**Turmoil in Thailand.** The recent political turmoil in Thailand which saw clashes between pro-government (yellow shirts) and anti-government (red shirts) supporters has created a lot of uncertainty for businesses in Thailand. Particularly, we gather that logistics costs in Bangkok have surged significantly, which have caused MDF manufacturers in Thailand to lose their pricing edge. This has worked to the advantage of Malaysian players, as EFB reckons that customer confidence in the Malaysian market is starting to improve given that the country is relatively stable compared to some of its regional peers. In the near-term, it is likely that EFB's customers would source for more MDF from the Malaysian market, which will boost short term demand.

**Global sales intact.** Despite the 2010 European sovereign debt crisis, the weakness in sales to Europe is unlikely to affect EFB's orders or topline since the company is less reliant on the European markets. Sales to European markets only accounted for 3.2% of total revenue in 2009. Management believes that sales to the Asian and Middle East markets will continue to be strong in 2Q, repeating its strong showing in 1Q, mainly driven by a recovering economy.

**Selling prices higher.** As at 2Q, MDF selling prices had inched up by as much as c. 4% q-o-q. During the month of April, prices of 2.5mm MDF rose to RM275 from RM270 in March while for 18mm MDF went up to RM240 (RM235 in March). Although the selling price increase could not totally offset the currency losses stemming from a strengthening ringgit, the increase was nevertheless positive for EFB.

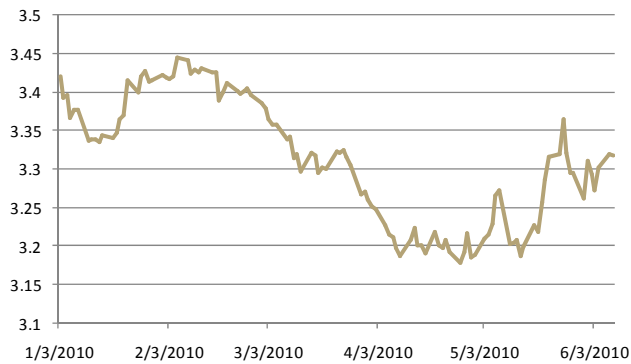
FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	731.6	730.5	771.5	874.5	967.7
Net Profit	118.5	76.7	87.4	118.3	134.8
% chg y-o-y	98.4	-35.3	13.9	35.4	13.9
Consensus	-	-	-	105.0	119.4
EPS (sen)	24.7	15.0	17.0	23.1	26.3
DPS (sen)	7.0	0.0	5.3	7.2	8.2
Dividend yield (%)	4.8	0.0	3.6	4.9	5.6
ROE (%)	24.7	13.4	13.3	15.7	15.9
ROA (%)	13.0	6.2	7.0	8.6	9.0
PER (x)	5.9	9.8	8.6	6.3	5.6
BV/share (RM)	1.04	1.19	1.38	1.55	1.75
P/BV (x)	1.4	1.3	1.1	1.0	0.8
EV/ EBITDA (x)	5.2	10.7	7.6	6.3	6.2

**OTHER HIGHLIGHTS**

**Currency fluctuation.** In the month of February, a strengthening ringgit negatively impacted on EFB's earnings since most of the company's exports are quoted in USD, thus resulting in some currency losses. However, in April when the ringgit weakened, EFB started to record translation gains. The ringgit has normalized at RM3.30 to the USD, which is approximately the level at which our house sees the USD-MYR up to the end of the year. Should it remain at this level, there will be no change to our earnings estimates.

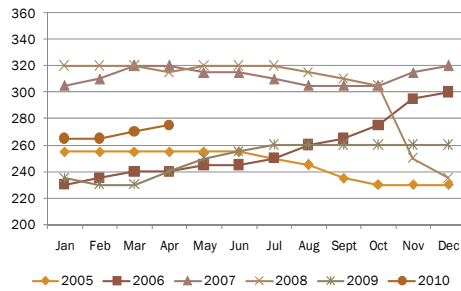
**Fundamentals intact.** Given that EFB's fundamentals are intact despite recent events, we are maintaining our earnings estimates. We are also keeping our target price at RM2.08 by applying a PE of 9 times to its FY10f EPS of 23.1 sen. BUY recommendation maintained.

**Figure 1: USD-RM trend (USD1 to RM)**



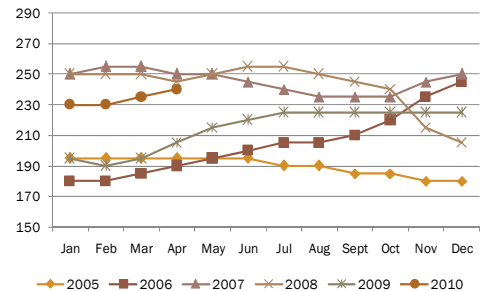
Source: OSK, Bloomberg

**Figure 2: 2.5mm MDF price from 2002-2010 (USD) Far East**



Source : OSK, Bloomberg

**Figure 3: 18mm MDF price from 2002-2010 (USD) Far East**



Source : OSK, Bloomberg

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10f</b>	<b>FY11f</b>
Turnover	731.6	730.5	771.5	874.5	967.7
EBITDA	146.1	100.7	148.1	194.4	215.3
PBT	140.4	63.9	80.4	120.2	136.9
Net Profit	118.5	76.7	87.4	118.3	134.8
EPS (sen)	24.7	15.0	17.0	23.1	26.3
DPS (sen)	7.0	0.0	5.3	7.2	8.2
<b>Margin</b>					
EBITDA (%)	20.0	13.8	19.2	22.2	22.2
PBT (%)	19.2	8.7	10.4	13.7	14.2
Net Profit (%)	16.2	10.5	11.3	13.5	13.9
<b>ROE (%)</b>	<b>24.7</b>	<b>13.4</b>	<b>13.3</b>	<b>15.7</b>	<b>15.9</b>
<b>ROA (%)</b>	<b>13.0</b>	<b>6.2</b>	<b>7.0</b>	<b>8.6</b>	<b>9.0</b>
<b>Balance Sheet</b>					
Fixed Assets	517.7	902.9	885.0	873.3	830.1
Current Assets	347.8	289.4	308.8	454.7	605.9
Total Assets	912.6	1246.2	1249.4	1383.4	1491.1
Current Liabilities	138.4	407.3	227.9	267.7	267.7
Net Current Assets	209.3	-117.9	80.9	187.0	338.2
LT Liabilities	235.1	222.6	313.6	313.3	313.3
Shareholders Funds	532.5	610.7	706.2	796.6	899.7
Net Gearing (%)	19.7	64.5	42.8	29.0	9.2

**OSK Research Guide to Investment Ratings**

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated (NR):** Stock is not within regular research coverage

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