

Company Focus

Evergreen Fibreboard

Bloomberg: EVF MK | Reuters: EVGN.KL

Malaysia Equity Research PP 11272/04/2009(021317)

25 Aug 2008

BUY RM1.19 KLCI : 1,085.60

Price Target : 12-Month RM 1.80 (Prev RM 2.15)

Reason for Report : 2Q08 Results

Potential Catalyst: Completion of Hume Fibreboard acquisition, growth in MDF volume, higher selling prices, and cost savings.

Analyst

Malaysia Research Team +603 2711 2222
general@hwangdbsvickers.com.my

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2007A	2008F	2009F	2010F
Turnover	732	744	806	842
EBITDA	174	161	168	169
Pre-tax Profit	140	113	120	123
Net Profit	119	103	108	111
Net Pft (Pre Ex.)	119	103	108	111
EPS (sen)	24.7	21.5	22.5	23.1
EPS Pre Ex. (sen)	24.7	21.5	22.5	23.1
EPS Gth Pre Ex (%)	98	(13)	5	2
Diluted EPS (sen)	24.7	21.5	22.5	23.1
Net DPS (sen)	7.0	6.5	6.8	7.0
BV Per Share (sen)	94.7	109.2	125.2	141.5
PE (X)	4.8	5.5	5.3	5.2
PE Pre Ex. (X)	4.8	5.5	5.3	5.2
P/Cash Flow (X)	3.9	4.0	3.9	3.8
EV/EBITDA (X)	4.3	4.6	3.7	2.9
Net Div Yield (%)	5.9	5.5	5.7	5.9
P/Book Value (X)	1.3	1.1	1.0	0.8
Net Debt/Equity (X)	0.2	0.1	CASH	CASH
ROAE (%)	29.5	21.1	19.2	17.3
Earnings Rev (%)		(13.6)	(15.4)	(18.8)
Consensus EPS (sen)		25.6	31.0	34.8

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: MDF Manufacturer

Dragged down by higher glue and freight costs

Story: 2Q08 net profit came in at RM25.8m (-15% q-o-q, -20% y-o-y) bringing 1H08 net profit to RM55.0m (-31% y-o-y). This was below our expectation and consensus estimates. Earnings were largely hit by higher glue prices and freight costs. Revenue rose marginally by 4% q-o-q due to higher MDF sales volume but dipped 3% y-o-y to RM186.3m as USD weakened further against MYR. MYR had strengthened by 1% q-o-q and 6% y-o-y while average MDF price (in USD term) growth were flat.

Point: We cut our earnings forecasts by 14% to RM103.2m in FY08 and 15% to RM108.2m in FY09 mainly factoring in higher electricity costs at its plant in Thailand, higher glue costs, and other expenses. We understand that the Group's power plant in Thailand has been delayed due to some technical issues. The plant is scheduled to be operational in 1-2 months time. Meanwhile, EFB's glue plant should continue to help partially weather EFB from rising glue prices.

Relevance: We lower our price target to RM1.80 (from RM2.15) based on 8x CY09 PE following our earnings downgrade. EFB offers attractive net dividend yield of 6% and currently trades at an appealing 5x CY09 EPS. Catalysts for the stock include completion of the acquisition of Hume Fibreboard, growth in MDF volume, higher selling prices, and cost savings from producing its own glue and energy. The acquisition of Hume Fibreboard could potentially lift our FY09 EPS by 12% to 25.2sen and price target by 20 sen to RM2.00. Maintain Buy.

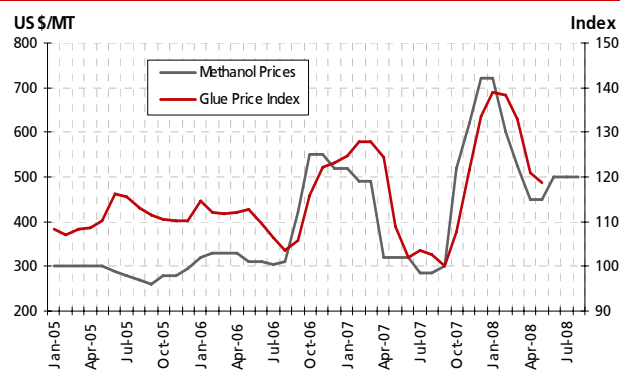
At A Glance

Issued Capital (m shrs)	480
Mkt. Cap (RMm/US\$m)	571 / 171
Major Shareholders	
Kuo Family (%)	42.3
Lembaga Tabung Haji (%)	2.9
EPF (%)	2.3
Free Float (%)	52.5
Avg. Daily Vol. ('000)	187

Evergreen Fibreboard

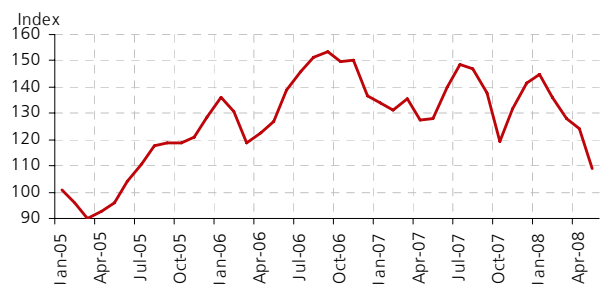
EFB's gross margin expanded by 1.2ppts q-o-q to 30.9% in 2Q08 is likely helped by lower glue costs following cost savings from EFB's new glue plant which kicked in May, as well as lower average methanol prices which dropped 24% q-o-q. However margin contracted by 7.5% y-o-y dragged down by rising glue costs. Average methanol prices were 46% higher y-o-y.

Glue Price Trend (Ytd May 08 average +5.8% y-o-y)



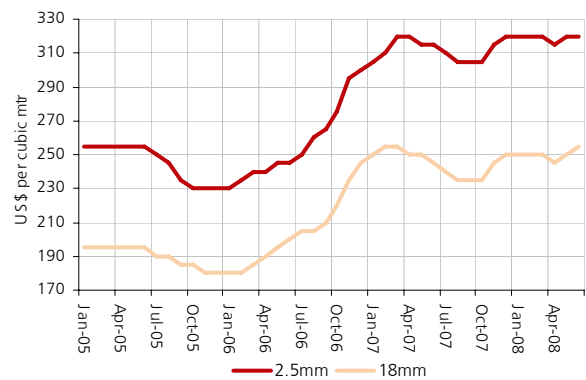
Source: Company, HwangDBS Vickers Research

Rubberwood Log Price Index (YTD-May08 avg -2.2% y-o-y)



Source: Company, HwangDBS Vickers Research

MDF Price Trend (1H08 average +0.7% y-o-y)



Source: Company, HwangDBS Vickers Research

Peer Comparison

Company	Local currency	Price	Market cap	PE (x)		P/ BV
		(local currency)	(US\$ mil)	FY08F	FY09F	
Vanachai Group PCL	THB	3.04	116.9	5.8	5.1	0.7
Sumalindo Lestari Jaya	IDR	830.00	112.2	16.2	7.2	1.6
Pfleiderer Grajewo SA	PLN	12.50	277.9	9.0	6.7	1.2
Evergreen Fibreboard	MYR	1.19	171.0	5.3	5.2	1.1
Average (exc. EFB)				10.3	6.3	1.2

Bloomberg, Company, HwangDBS Vickers Research

Income Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	732	744	806	842
Cost of Goods Sold	(476)	(503)	(544)	(575)
Gross Profit	256	241	262	267
Other Opng (Exp)/Inc	(112)	(120)	(134)	(140)
Operating Profit	144	121	128	127
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	4	1	1	1
Net Interest (Exp)/Inc	(7)	(9)	(9)	(6)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	140	113	120	123
Tax	(9)	(9)	(9)	(10)
Minority Interest	(13)	(1)	(2)	(2)
Preference Dividend	0	0	0	0
Net Profit	119	103	108	111
Net Profit before Except.	119	103	108	111
EBITDA	174	161	168	169
Sales Gth (%)	38.5	1.7	8.3	4.5
EBITDA Gth (%)	92.7	(7.8)	4.6	0.3
Opg Profit Gth (%)	111.0	(15.9)	5.3	(0.4)
Net Profit Gth (%)	98.4	(13.0)	4.9	2.4
Effective Tax Rate (%)	6.7	7.8	7.8	7.8

Cash Flow Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	140	113	120	123
Dep. & Amort.	30	40	41	42
Tax Paid	(1)	(4)	(9)	(9)
Assoc. & JV Inc/(loss)	(4)	(1)	(1)	(1)
Chg in Wkg.Cap.	(19)	(2)	(8)	(5)
Other Operating CF	24	24	24	24
Net Operating CF	170	169	166	172
Capital Exp.(net)	(231)	(137)	(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	3	3	3	3
Net Investing CF	(228)	(134)	(12)	(12)
Div Paid	(26)	(34)	(31)	(32)
Chg in Gross Debt	79	0	0	0
Capital Issues	0	0	0	0
Other Financing CF	39	0	0	0
Net Financing CF	91	(34)	(31)	(32)
Net Cashflow	33	1	123	128

Quarterly / Interim Income Statement (RM m)

FY Dec	3Q2007	4Q2007	1Q2008	2Q2008
Turnover	202	170	179	186
Cost of Goods Sold	(133)	(119)	(126)	(129)
Gross Profit	69	51	53	58
Other Oper. (Exp)/Inc	(32)	(26)	(22)	(31)
Operating Profit	38	26	32	27
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	1	1	0
Net Interest (Exp)/Inc	(2)	(2)	(2)	(3)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	37	25	30	24
Tax	(2)	1	0	1
Minority Interest	(3)	1	1	1
Net Profit	32	26	30	26
Net profit bef Except.	32	26	30	26
Sales Gth (%)	5.1	(16.1)	5.5	4.0
Opg Profit Gth (%)	(15.4)	(31.9)	23.1	(14.7)
Net Profit Gth (%)	(1.7)	(16.4)	14.8	(15.0)
Gross Margins (%)	34.2	30.2	29.7	30.9
Opg Profit Margins (%)	18.6	15.1	17.6	14.5
Net Profit Margins (%)	15.6	15.5	16.9	13.8

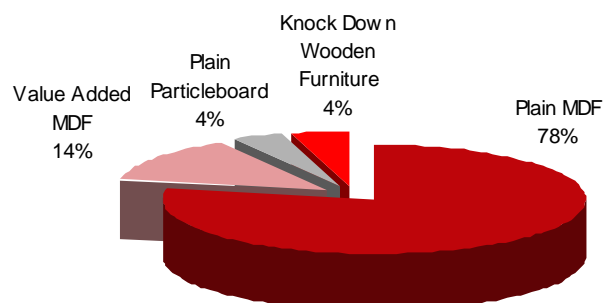
Balance Sheet (RM m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	518	615	590	563
Invts in Associates & JVs	19	20	21	22
Other LT Assets	28	28	31	38
Cash & ST Invts	142	143	265	393
Other Current Assets	206	210	222	230
Total Assets	913	1,017	1,129	1,247
ST Debt	15	15	15	15
Other Current Liab	124	131	135	138
LT Debt	213	213	213	213
Other LT Liabilities	22	48	77	111
Shareholder's Equity	533	602	679	757
Minority Interests	7	8	10	12
Total Cap. & Liab.	913	1,017	1,129	1,247
Non-Cash Wkg. Capital	86	88	96	102
Net Cash/(Debt)	(86)	(85)	37	165

Rates & Ratio

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	35.0	32.4	32.5	31.7
Opg Profit Margin (%)	19.7	16.3	15.8	15.1
Net Profit Margin (%)	16.2	13.9	13.4	13.2
ROAE (%)	29.5	21.1	19.2	17.3
ROA (%)	15.0	10.7	10.1	9.3
ROCE (%)	25.0	16.9	17.0	16.1
Div Payout Ratio (%)	28.4	30.2	29.9	30.3
Net Interest Cover (x)	19.6	13.2	13.9	22.2
Asset Turnover (x)	0.9	0.8	0.8	0.7
Debtors Turn (avg days)	24.8	25.9	25.1	25.5
Creditors Turn (avg days)	25.5	27.1	26.4	26.8
Inventory Turn (avg days)	56.1	60.4	59.4	60.3
Current Ratio (x)	2.5	2.4	3.3	4.1
Quick Ratio (x)	1.9	1.8	2.6	3.4
Net Debt/Equity (X)	0.2	0.1	CASH	CASH
Capex to Debt (%)	101.3	60.2	6.6	6.6
N. Cash/(Debt)PS (sen)	(18.0)	(17.8)	7.8	34.4
Opg CFPS (sen)	39.4	35.7	36.2	36.9
Free CFPS (sen)	(12.7)	6.6	31.4	32.7

2007 Revenue Breakdown



Source: Company, DBS Vickers

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Wong Ming Tek, Head of Research

Published and Printed by
HWANGDBS Vickers Research Sdn Bhd (128540 U)
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