Malaysia

MARKET DATELINE ● PP 7767/09/2010(025354)

Corporate Highlights

Visit Note

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

26 October 2009

Evergreen Fibreboard

"Green" - Higher Earnings Visibility Ahead

Share Price	:	RM1.25
Fair Value	:	RM1.55
Recom	:	**Outperform** (Maintained)

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

FYE Dec	Turnover (RMm)	Net profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (%)	Net Gearing (%)	GDY (%)
2008a	730.5	80.2	16.4	(33.5)	7.6	-	1.1	(2.5)	13.1	0.6	0.0
2009f^	743.2	65.2	12.7	(22.6)	9.8	8.0	1.0	9.4	9.6	0.5	0.0
2010f	910.9	88.3	17.2	35.5	7.3	11.0	0.9	14.7	11.7	0.4	2.1
2011f	979.3	88.9	17.3	0.8	7.2	11.0	0.8	4.9	10.7	0.3	2.1

Main Board Listing /Non-Trustee Stock / Syariah-Approved Stock By The SC ** Consensus Based On IBES Estimates*
^Core net profit

- **Utilisation capacity touched 80% in Oct 09, nearing normal capacity utilisation levels.** Capacity utilisation for Oct 09 has touched the 80% level, nearing its normal capacity utilisation levels of 85-90% for the past 5 years (+7%-pts from average 3Q09). Evergreen is on track to meeting our full year forecast of 68% for FY09, which implies an average capacity utilisation of 80% in 4Q09. Evergreen is also confident of achieving more than 80% capacity utilisation in FY10, assuming a gradual improvement in the global economy.

- **Indicative MDF selling prices increased by another 5-10% in Dec 09.** Indicative average selling prices have increased by 5-10% in Dec 09, following the weakening of US$ against RM. Average selling prices are currently hovering around US$255/m3, bringing FY09 average selling prices to US$232/m3, which is above our expectations of US$214/cum for FY09.

- **Rising crude oil prices a rising concern?** While the crude oil prices have recently increased by +20% yoy (mainly due to financial demand as opposed to real demand), we understand that natural gas prices are still lower (-25% yoy) as supply still outstrips demand. As such, Evergreen does not expect any major spike in selling prices for glue in the near term. Based on our sensitivity analysis, for every 5% increase in glue prices, Evergreen's earnings would be impacted by 8-9% p.a..

- **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 increased our earnings by 28-40% for FY09-11 after: 1) increasing our capacity utilisation assumptions for FY10-11; and 2) increasing our MDF average selling prices following improving pricing outlook.

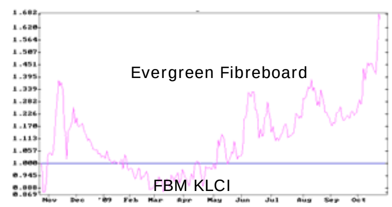
- **Maintain Outperform.** Following our earnings upgrade, we increase our fair value of Evergreen to RM1.55 (from RM1.07 previously) based on higher PER of 9x CY10 (vs. 8x CY10 previously) due to the lower market risk premium currently, which is at a 25% discount to our timber sector PE of 12x. Maintain our **Outperform** recommendation on Evergreen. 3QFY12/09 results are expected to be released on 17 Nov 09.

Issued Capital (m shares)	513.0
Market Cap(RMm)	614.3
Daily Trading Vol (m shs)	0.7
52wk Price Range (RM)	0.43-1.28
Major Shareholders:	**(%)**
Kuo Family	45.5
Lembaga Tabung Haji	9.4
HIMB Trading Ltd	6.4

FYE Dec	FY09	FY10	FY11
EPS chg (%)	39.8	28.3	37.3
Var to C.EPS (%)	58.8	56.4	57.6

PE Band Chart

Relative Performance To KLCI



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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 3Q09 and Oct 09 capacity utilisation is estimated to be at 73% and 80% respectively, due to improving demand.

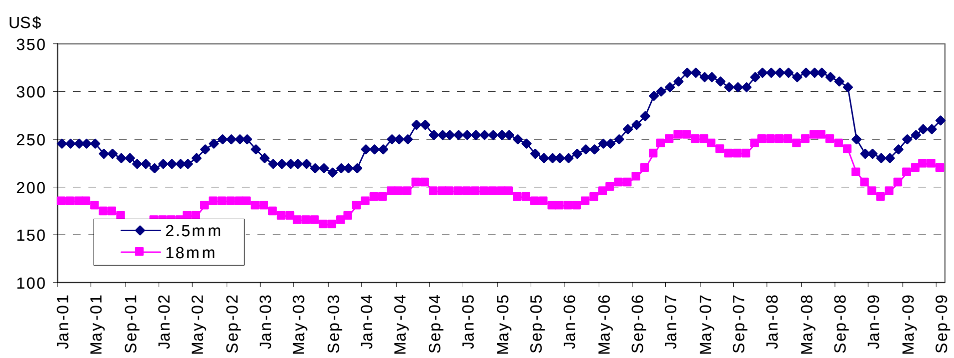
  2. MDF selling prices increased by another 5-10% in Oct 09.

  3. Lean cost structure continues to pay off i.e. gaining of market share via knocking out of competitors.

- **Utilisation capacity touched 80% in Oct 09, nearing normal capacity utilisation levels**. We gathered that Evergreen's capacity utilisation for Oct 09 has touched the 80% level, nearing its normal capacity utilisation levels of 85-90% for the past 5 years. This is up 7%-pts from its 3Q09's capacity utilisation of 73%. The improvement was due to rising demand, mainly from the impact of supply shortages as competitors continue to cut back capacity / close plants. With YTD's 9M09 capacity utilisation at 64%, we believe Evergreen is on track to meeting our full year forecast of 68% for FY09, which implies an average capacity utilisation of 80% in 4Q09. Going forward, Evergreen is confident of achieving more than 80% capacity utilisation in FY10, assuming a gradual improvement in the global economy resulting in the return of customer inventory levels to the historical norm of two to three months (from one month currently). As such, we have increased our capacity utilisation assumptions for FY10 and FY11 to 80% (from 73%) and 85% (from 78%) respectively, to reflect the higher demand outlook.

- **Indicative MDF selling prices increased by another 5-10% in Dec 09**. Indicative average selling prices have increased by 5-10% in Dec 09, following the weakening of US$ against RM. Average selling prices are currently hovering around US$255/m3, bringing FY09 average selling prices to US$232/m3, which is above our expectations of US$214/cum for FY09. Following the improving outlook in average selling prices, we also increase our average selling prices by US$8/cum for FY09 to US$222/m3 and by US$5 to US$244 and US$254 for FY10 and FY11 respectively.

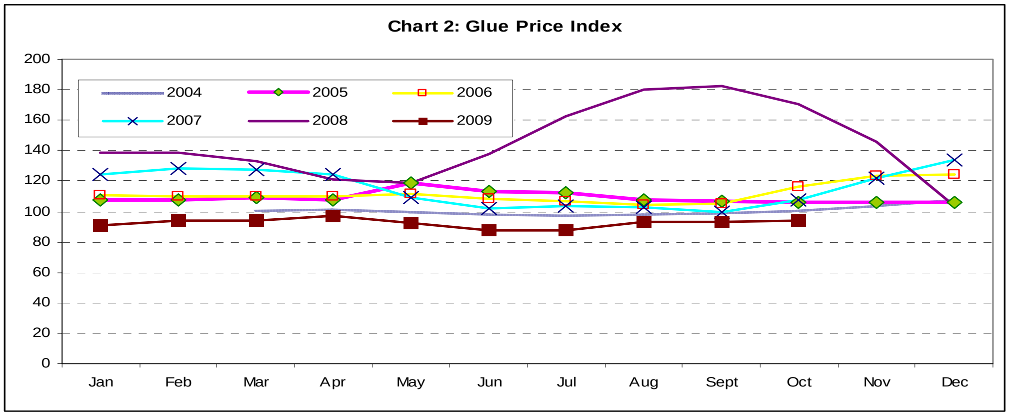
Chart 1: Evergreen MDF Price From 2001-2009 (US$) Far East



Sources: Company, RHBRI

- **Survival of the fittest**. We had previously highlighted that Evergreen's strategy during the economic slowdown was to be as lean as possible in its operations and to conserve its cash as much as possible, while waiting for the weaker industry players to be knocked out either via closures of plants or via sale to other stronger players. This strategy continues to pay off, as Evergreen continues to gain market share despite customer inventory levels remaining at the lower-end of the spectrum. Together with Evergreen's higher service quality i.e. shorter delivery time and providing full-fledged MDF products, we understand that some of the MDF distributors have switched to Evergreen, after their previous suppliers were unable to meet their demands. We also understand that the European MDF players have temporarily pulled out from the Middle East market (which was previously being shared by both European and Asian MDF players) as current selling prices were still below their production cost, thus, leading to increasing market share for Evergreen from the Middle East market.

- **Rising crude oil prices a rising concern?** Natural gas is used to produce methanol, which is one of the key ingredients in the processing of glue. While crude oil prices have recently increased by +20% yoy (mainly due to financial demand as opposed to real demand), we understand that natural gas prices are still lower (-25% yoy) as supply still outstrips demand. As such, Evergreen does not expect any major spike up in selling prices for methanol (or glue) in the near term as generally, China, which consumes approximately a quarter of the global consumption of methanol, would produce the substitute coal gas-based methanol when average selling prices of methanol is higher than US$250/mt (its cost of production). However, we note that in 2008, glue prices did shoot up by more than 80% (see Chart 2), due to sharp unexpected spike in the price of natural gas. Based on our sensitivity analysis, for every 5% increase in glue prices, Evergreen's earnings would be impacted negatively by 8-9% p.a..



Sources: Company, RHBRI

- **Potential dividend payment?** We believe that Evergreen may potentially surprise its shareholders with a dividend payout in FY09 following improved economic environment and prospects. Based on the lower-end on its historical net dividend payout of 25%, this would translate to 3 sen tax-exempt dividend or 2.4% yield.

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

- **Earnings increased by 28-40% for FY09-11.** We have increased our earnings by 28-40% for FY09-11 after: 1) increasing our capacity utilisation assumptions for FY10-11; and 2) increasing our MDF average selling prices following improving pricing outlook.

- **Blue sky scenario.** In a blue-sky scenario, if Evergreen's capacity utilisation averages at "normal levels" of 85% in FY10 and gross profit margin stabilises to pre-crisis levels, we believe that Evergreen's FY10 earnings could potentially be as much as RM130m. This represents more than 47% upside to our revised net profit estimate of RM88m in FY10.

Valuations And Recommendation

- **Maintain Outperform.** Following our earnings upgrade, we increase our fair value of Evergreen to RM1.55 (from RM1.07 previously) based on higher PER of 9x CY10 (vs. 8x CY10 previously) due to the lower market risk premium currently, which is at a 25% discount to our timber sector PE of 12x. Given Evergreen's market leading position in the South East Asian MDF industry and its lean cost structure, we believe that Evergreen would be one of the biggest beneficiaries from the improving MDF industry outlook, underpinned by increasing demand and average selling prices. Maintain our **Outperform** recommendation on **Evergreen**. 3QFY12/09 results are expected to be released on 17 Nov 09.

Table 2. Earnings Forecasts

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	**730.5**	**743.2**	**910.9**	**979.3**
Turnover growth (%)	(0.1)	1.7	22.6	7.5
Cost of Sales	(553.1)	(543.3)	(654.5)	(710.7)
Gross Profit	177.4	199.9	256.5	268.6
EBITDA	**118.2**	**114.3**	**138.9**	**141.7**
EBITDA margin (%)	16.2	15.4	15.2	14.5
Depr&Amor	(39.8)	(37.8)	(34.8)	(34.8)
Net Interest	(13.0)	(16.8)	(15.4)	(13.3)
Associates	1.7	1.7	1.2	1.2
Pretax Profit	**67.0**	**61.4**	**89.9**	**94.7**
Tax	5.5	(1.2)	(3.6)	(3.8)
Minorities	7.7	5.0	2.0	(2.0)
Net Profit	**80.2**	**65.2**	**88.3**	**88.9**

Source: Company data, RHBRI estimates

Table 3. Forecast Assumptions

FYE Dec	FY09F	FY10F	FY11F
Capacity utilisation (%)	68	80	85
Average MDF selling price (US$/m3)	222	244	254
Average particleboard price (US$/m3)	111	116	121
RM vs US$	3.40	3.30	3.25

IMPORTANT DISCLOSURES

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

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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