

Evergreen Fibreboard (BUY ↔; EPS ↑)
8 July 2015
**INDUSTRY: -
COMPANY INSIGHT**
**Price Target: RM2.15 (↑)
Share Price: RM1.63**
Improving Earnings Visibility
Highlights

- Evergreen's share price has appreciated by 20.7% since early-Jul (outperforming the index by 20.4%-pts and surpassed our TP of RM1.59), we believe the strong share price performance was due to stronger US\$ (against the RM) and declining crude oil price (which are both positive to Evergreen's earnings).
- In our view, Evergreen's valuation remains commendable despite the recent strong share price performance, as: (1) MYR will remain under pressure on the back of several issues (namely global monetary policy divergence, low commodity prices, and unresolved political glitches); and (2) Prices of key inputs, namely rubber log wood and glue (which in turn is derived from methanol and urea) remain on downtrend (see Figures 1 & 2), and these are supportive of Evergreen's earnings.
- MYR and lower key input prices aside, we note that management's continuous efforts to further improve Evergreen's output and cost efficiencies, and diversifying its product range will help drive its earnings higher.
- Given the improving earnings visibility and decent balance sheet (with net gearing of less than 0.3x as at 31 Mar 2015), we do not discount the possibility of Evergreen resuming paying dividends by 2016 (although management remains tight lipped on such possibility).

Risks

- Escalating raw material and labour costs;
- Slower-than-expected demand for MDF;
- Fluctuating foreign currency movement (in particularly the US\$); and
- Slower-than-expected turnaround at the particleboard operations.

Forecasts

- FY15-17 net profit forecasts raised by 6.4-12.9% to RM78.7m, RM100.3m and RM103m respectively, largely to account for: (1) A higher US\$:RM assumption of RM3.60/US\$ (vs. RM3.50/US\$ previously); and (2) Slightly lower raw material cost assumptions.

Rating
BUY (↔)

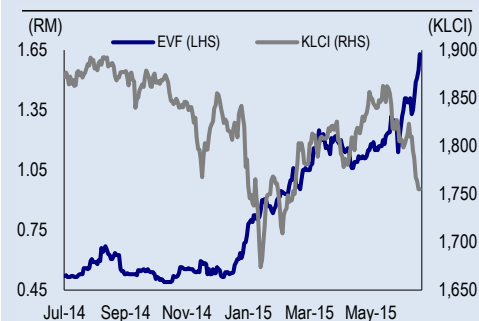
- Positives – (1) A beneficiary of strong US\$ and low oil price; (2) Healthy balance sheet; and (3) Rubber plantation land bank value has yet to be reflected in current share price valuation.

Valuation

- TP lifted by 35.2% to RM2.15, to reflect: (1) Higher net profit forecasts; (2) The roll forward of our valuation base year (from average 2015-2016 to 2016); and (3) Higher target P/E of 11x (from 10x previous), given Evergreen's improving earnings visibility. We note that our higher target P/E of 11x is still at 19.5% discount to Vanachai Group's 2016 P/E of 13.5x.
- Maintain **BUY** recommendation.

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KLCI	1,712.3
Expected share price return	31.9%
Expected dividend return	0.0%
Expected total return	31.9%

Share Price

Information

Bloomberg Ticker	EVFMK
Bursa Code	5101
Issued Shares (m)	513
Market cap (RM m)	836
3-mth avg. volume ('000)	3,565
Shariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	31.5	34.7	213.5
Relative	34.0	46.1	246.4

Major Shareholders

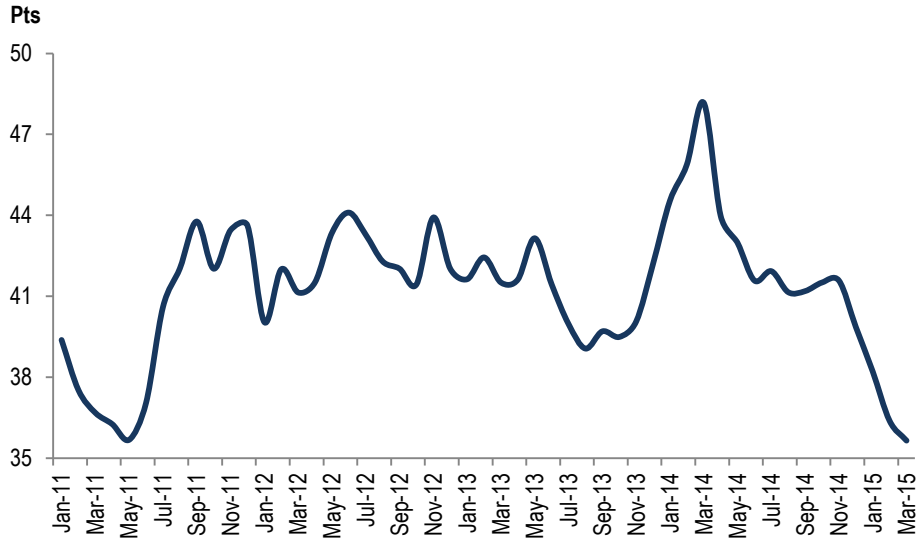
Kuo Jen Chang	18.5%
UBS AG	14.2%
Credit Suisse	5.1%

Summary Earnings Table

FY Dec (RMm)	2014A	2015F	2016F	2017F
Revenue	938.9	847.1	877.1	885.5
EBITDA	96.8	175.8	209.4	214.0
PBT	25.2	103.3	134.2	137.5
Net profit	0.2	78.7	100.3	103.0
Core net profit	-3.2	78.7	100.3	103.0
Core EPS (sen)	-0.6	15.3	19.6	20.1
P/E (x)	NM	10.6	8.3	8.1
BVPS (RM)	1.57	1.72	1.92	2.12
P/B (x)	1.0	0.9	0.8	0.8
ROA (%)	NM	5.9	6.9	6.6
ROE (%)	NM	8.9	10.2	9.5

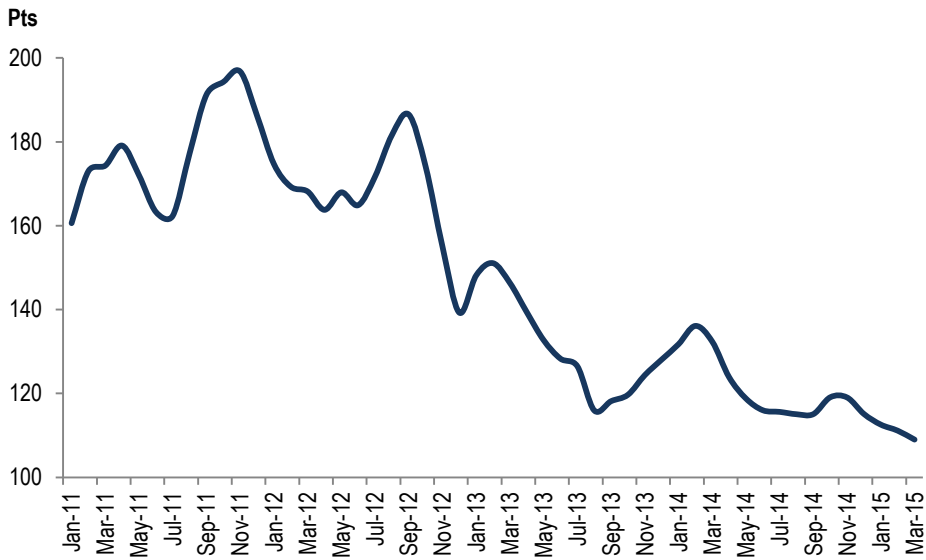
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Figure 1: Glue Price Index



Company

Figure 2: Rubber Log Wood Price Index



Company

Financial Projections

Income Statement

FY Dec (RMm)	2013A	2014A	2015F	2016F	2017F
Revenue	938.7	938.9	847.1	877.1	885.5
EBITDA	19.3	96.8	175.8	209.4	214.0
PBT	-49.0	25.2	103.3	134.2	137.5
Taxation	3.9	-2.9	-18.6	-26.8	-27.5
PAT	-45.2	22.3	84.7	107.3	110.0
Minority interests	2.4	-1.5	-6.0	-7.0	-7.0
Reported net profit	-42.8	0.2	78.7	100.3	103.0
Core net profit	-42.1	-3.2	78.7	100.3	103.0
Issued shares (m)	513.0	513.0	513.0	513.0	513.0
Basic EPS (sen)	-8.3	0.0	15.3	19.6	20.1
Core EPS (sen)	-8.2	-0.6	15.3	19.6	20.1

Balance Sheet

FY Dec (RMm)	2013A	2014A	2015F	2016F	2017F
Non-current assets	875.6	850.9	833.5	813.3	761.8
Current assets	411.2	408.2	507.3	639.1	801.8
Assets held for sale	0.0	4.1	4.1	4.1	4.1
Total assets	1,286.8	1,263.3	1,344.9	1,456.5	1,567.7
Current liabilities	399.8	380.7	377.6	381.8	383.0
Non-current liabilities	78.4	49.0	49.0	49.0	49.0
Liabilities held for sale	0.0	0.2	0.2	0.2	0.2
Equity	786.2	804.7	883.4	983.8	1,086.8
Minority interests	22.4	28.7	34.7	41.7	48.7
Equity & liabilities	1,286.8	1,263.3	1,344.9	1,456.5	1,567.7

Quarterly Financial Summary

FY Dec (RMm)	1Q14	2Q14	3Q14	4Q14	1Q15
Revenue	239.5	215.8	234.5	252.2	232.1
Gross profit	38.1	20.3	56.6	53.2	71.9
PBT	-2.9	-21.6	12.0	17.6	24.8
Taxation	-0.3	-0.4	-1.4	-0.7	-4.3
Minority interests	0.6	0.3	-0.5	-2.0	-0.4
Reported net profit	-2.6	-21.7	10.1	14.4	20.1
Effective tax rate (%)	-0.1	0.0	0.1	0.0	0.2
Reported EPS (sen)	-0.5	-4.2	2.0	2.8	3.9

Valuation Ratios

FY Dec (RMm)	2013A	2014A	2015F	2016F	2017F
Core EPS (sen)	-8.2	-0.6	15.3	19.6	20.1
P/E (x)	NM	NM	10.6	8.3	8.1
BVPS (RM)	1.53	1.57	1.72	1.92	2.12
P/Book (x)	1.1	1.0	0.9	0.8	0.8
Net gearing (x)	0.36	0.28	0.13	0.00	-
EBITDA margin (%)	2.1	10.3	20.7	23.9	24.2
PBT margin (%)	NM	2.7	12.2	15.3	15.5
Core net margin (%)	NM	NM	9.3	11.4	11.6
ROA (%)	NM	NM	5.9	6.9	6.6
ROE (%)	NM	NM	8.9	10.2	9.5
Effective tax rate (%)	7.9	11.4	18.0	20.0	20.0

Cash Flow

FY Dec (RMm)	2013A	2014A	2015F	2016F	2017F
Operating cash flow	46.1	84.9	159.3	175.1	184.4
Investing cash flow	-37.3	-15.9	-55.0	-55.0	-25.0
Financing cash flow	-41.1	-54.0	0.0	0.0	0.0
Cash at begin	79.6	55.5	70.1	174.4	294.4
Cash at end	52.5	70.6	174.4	294.4	453.8
OCF/share (sen)	9.0	16.6	31.1	34.1	35.9
FCF/share (sen)	1.7	13.5	20.3	23.4	31.1

Key Assumptions

	2015F	2016F	2017F
RM:US\$	3.60	3.60	3.60
MDF production capacity ('000 tonnes)	1,270.0	1,270.0	1,270.0
MDF utilisation rate (%)	76.7	79.4	80.1

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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