

Evergreen Fibreboard (BUY ↔, EPS ↓)

INDUSTRY:-

EARNINGS EVALUATION/ BRIEFING

1 March 2016

Price Target: RM1.60 (↓)

Share Price: RM1.17

FY15: Below Our Expectation

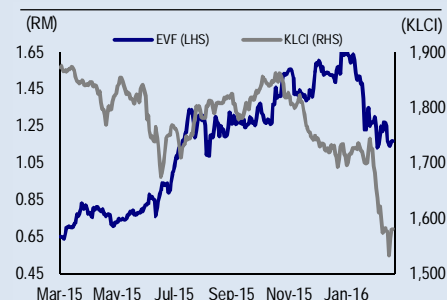
Results	<ul style="list-style-type: none"> Excluding RM3.1m one-off impairment loss (on idle plants in Masai and Segamat), core net profit of RM95.7m came in below our expectation, accounting for only 94% of our forecast. Against the consensus, the results came in within, accounting for 97% of consensus forecast.
Deviation	<ul style="list-style-type: none"> 2-month shut down in its Thailand biomass power plant in 4Q15, which resulted in RM2m losses.
Highlights	<ul style="list-style-type: none"> Declared 1 sen interim DPS. Introduced dividend policy of minimum 25% from FY16 onwards. FY15 core net profit jumped to RM95.7m (from RM0.2m in FY14) mainly on the back of lower production cost (in particularly, glue and log), higher selling prices (arising from a stronger US\$) and sales volume, as well as improved operational efficiency arising from restructuring of certain operational facilities in Malaysia. Although revenue rising by 4% to RM266.3m (mainly on higher sales volume), 4Q15 core net profit declined by 12.5% qoq to RM24.1m mainly on forex losses, a 2-month shutdown in its power plant (which has in turn resulted in RM2m losses and higher electricity costs). Briefing highlights: (1) Signs of demand pullback from the Middle East market; and (2) RTA expansion plan is on track, and benefits from its cost rationalizing initiatives has started kicking in which will result in greater cost savings by end-FY16 or early-FY17.
Risks	<ul style="list-style-type: none"> Escalating raw material and labour costs; Slower-than-expected demand for MDF; Fluctuating foreign currency movement.
Forecasts	<ul style="list-style-type: none"> FY16 core net profit forecasts lowered by 10.8%, to reflect a slightly lower ASP (in US\$) assumption. FY17 core net profit lowered by 12.6%, to reflect a slightly lower ASP (in US\$) assumption and a downward revision in our US\$:MYR assumption (from RM4.00/US\$ previously to RM3.80/US\$), which more than offset higher sales volume assumptions (arising from production volume contribution from Masai plant, which the plant upgrade is expected to complete by end-FY16).
Rating	BUY (↔) <ul style="list-style-type: none"> Negative – (1) High earnings sensitivity to exchange rate movement. Positive – (1) Healthy balance sheet; and (2) Rubber plantation land bank value has yet to be reflected in current share price valuation.
Valuation	<ul style="list-style-type: none"> Post earnings adjustment, our TP was lowered by 12.6% to RM1.60 based on unchanged 11x revised FY17 EPS of 14.6 sen.

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KLCI	1,654.8
Expected share price return	36.8%
Expected dividend return	3.0%
Expected total return	39.7%

Share Price

Information

Bloomberg Ticker	EVF MK
Bursa Code	5101
Issued Shares (m)	846
Market cap (RM m)	990
3-mth avg. volume ('000)	4,099
Shariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.9	-19.1	67.1
Relative	-4.1	-17.8	84.0

Major Shareholders (%)

Kuo Jen Chang	16.8
Kuo Jen Chiu	14.6
UBS AG/ Hong Kong	12.9

Summary Earnings Table

FY Dec (RMm)	2014A	2015A	2016F	2017F
Revenue	939	1,014	951	1,057
EBITDA	96.8	229.7	223.5	235.1
PBT	25.2	114.9	148.2	158.7
Net profit	0.2	92.6	115.1	123.4
Core net profit	-3.2	95.7	115.1	123.4
Core EPS (sen)	-0.4	11.1	13.6	14.6
P/E (x)	NM	10.6	8.6	8.0
BVPS (RM)	0.95	1.21	1.33	1.48
P/B (x)	1.2	1.0	0.9	0.8
ROA (%)	NM	6.7	7.2	7.1
ROE (%)	NM	9.1	10.2	9.9

HLIB

Briefing highlights

- **Signs of demand pullback form the Middle East market...** There have been signs of slight demand pullback from the Middle East market (which accounted for circa 40% of the group's total revenue in FY15), evidenced by the decline in ASP (in terms of US\$) since 4Q15. While the ASP has recently shown signs of stabilization and management believes that it could divert its marketing efforts from the Middle East back to the Southeast Asia region (should ASP in the Middle East decline further), we believe this could only be done at the expense of lower ASP (hence profitability), given the already lower ASP in the Southeast Asia region currently.
- **Cost rationalizing initiatives and RTA expansion plan on track...** On a brighter note, management highlighted that its RTA expansion plan is on track (which it is midst of installation and scheduled to commence production by end-1Q16), and it is contemplating to invest another 2 additional RTA furniture lines (pending on successful commission). We also note that benefits from its cost rationalizing initiatives have started kicking in which will result in greater cost savings by end-FY16 or early-FY17.

Figure 1: Quarterly Results Comparison

FYE Dec (RMm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	Comments
Revenue	252.2	256.0	266.3	4.0	5.6	Refer to segmental breakdown.
- Malaysia	139.9	139.5	142.9	2.4	2.2	YoY: Boosted mainly by the strengthening of US\$, which more than mitigated lower MDF production volume arising from plant upgrade. QoQ: Due mainly to higher sales volume.
- Thailand	88.7	93.0	105.0	12.9	18.4	YoY: Boosted by average selling prices (arising from a stronger US\$). QoQ: Boosted mainly by higher sales volume.
- Others	23.7	23.5	18.4	-21.8	-22.2	
Profit/(loss) before tax	17.6	34.8	27.3	-21.5	54.7	Refer to segmental breakdown.
- Malaysia	1.1	20.9	10.1	-51.4	>100	YoY: Higher top line, lower log and glue costs, improved operational efficiency and synergistic cost savings from restructuring of operational facilities was partly offset by forex loss and one-off RM3.1m impairment on idle plants in Masai and Segamat. QoQ: Dragged mainly by forex loss and one-off RM3.1m impairment on idle plants in Masai and Segamat.
- Thailand	13.4	11.1	11.7	4.7	-12.7	YoY: Dragged by margin erosion (arising from plant maintenance and higher log cost) as well as a two-month shutdown in power plant (which resulted in RM2m losses and higher electricity costs). QoQ: Higher sales volume and the absence of scheduled plant maintenance were partly offset by RM2m losses and higher electricity costs arising from power plant shutdown.
- Others	2.6	2.7	5.5	99.3	>100	
Taxation	-0.7	-6.4	-4.6	-29.3	>100	
Minority interests	-2.0	-0.7	-1.7	NM	NM	
Reported net profit	14.4	27.6	21.0	-23.8	46.4	
Core net profit	14.4	27.6	24.1	-12.5	68.0	
Reported EPS (sen)	1.7	3.2	2.4	-23.8	46.4	
Core EPS (sen)	1.7	3.2	2.8	-12.5	68.0	
Profitability	%	%	%	%-pts	%-pts	
PBT margin	7.0	13.6	10.2	-3.3	3.3	
Reported net profit margin	5.7	10.8	7.9	-2.9	2.2	
Core net profit margin	5.7	10.8	9.1	-1.7	3.4	
Effective tax rate	4.1	18.6	16.7	-1.8	12.6	

Figure 2: Cumulative Results Comparison

FY Dec (RMm)	FY14	FY15	YoY (%)	Comments
Revenue	938.9	1,014.5	8.0	Refer to segmental breakdown.
- Malaysia	537.1	541.9	0.9	Lower sales volume (arising from restructuring of operational facilities) was more than mitigated by a stronger US\$ (against the MYR).
- Thailand	322.3	388.6	20.6	Boosted by higher selling prices and sales volume.
- Others	79.5	84.0	5.6	Boosted by higher sales volume.
Profit/(loss) before tax	25.2	114.9	>100	Refer to segmental breakdown.
- Malaysia	-15.2	53.0	>100	Turned around on lower raw material costs (in particularly, rubber log wood and glue), higher selling prices (arising from a stronger US\$ against the RM), improved operational efficiency and synergistic cost savings from the group's restructuring of certain operational facilities, which more than mitigated one-off RM3.1m impairment loss on idle plants in Masai and Segamat.
- Thailand	13.9	49.5	>100	Improved on higher revenue, lower raw material costs (i.e. glue and rubber log wood), and effective cost control measures.
- Others	5.8	12.4	>100	Improved on higher topline and effective cost measures.
Taxation	-2.9	-19.3	>100	
Minority interests	-1.5	-3.0	NM	
Reported net profit	0.2	92.6	>100	
Core net profit	0.2	95.7	>100	
Reported EPS (sen)	0.0	10.7	>100	
Core EPS (sen)	0.0	11.1	>100	
Profitability				
PBT margin	2.7	11.3	8.6	
Reported net profit margin	0.0	9.1	9.1	
Core net profit margin	0.0	9.4	9.4	
Effective tax rate	11.4	16.8	5.4	

Figure 3: Actual Results Vs. Consensus & HLIB's Estimates

FYE 31 Dec (RMm)	Actual FY15	Consensus 2015	% of Consensus	HLIB 2015	% of HLIB's Estimates
Revenue	1,014.5	961.3	105.5	894.3	113.4
PBT	114.9	126.7	90.7	131.4	87.4
Core net profit	95.7	98.5	97.1	101.8	94.0

Financial Projections

Income Statement

FY Dec (RMm)	2013A	2014A	2015A	2016F	2017F
Revenue	938.7	938.9	1,014.5	951.3	1,056.8
EBITDA	19.3	96.8	229.7	223.5	235.1
PBT	-49.0	25.2	114.9	148.2	158.7
Taxation	3.9	-2.9	-19.3	-29.7	-31.7
PAT	-45.2	22.3	95.6	118.6	126.9
Minority interests	2.4	-1.5	-3.0	-3.5	-3.5
Reported net profit	-42.8	0.2	92.6	115.1	123.4
Core net profit	-42.1	-3.2	95.7	115.1	123.4
Issued shares (m)	846.4	846.4	846.4	846.4	846.4
Basic EPS (sen)	-5.1	0.0	10.7	13.6	14.6
Core EPS (sen)	-5.0	-0.4	11.1	13.6	14.6

Balance Sheet

FY Dec (RMm)	2013A	2014A	2015A	2016F	2017F
Non-current assets	875.6	850.9	929.4	813.3	761.8
Current assets	411.2	408.2	504.0	772.2	963.8
Assets held for sale	0.0	4.1	0.0	4.1	4.1
Total assets	1,286.8	1,263.3	1,433.4	1,589.6	1,729.7
Current liabilities	399.8	380.7	287.3	375.4	388.6
Non-current liabilities	78.4	49.0	68.4	49.0	49.0
Liabilities held for sale	0.0	0.2	0.0	0.2	0.2
Equity	786.2	804.7	1,046.1	1,126.7	1,250.2
Minority interests	22.4	28.7	31.6	38.2	41.7
Equity & liabilities	1,286.8	1,263.3	1,433.4	1,589.6	1,729.7

Quarterly Financial Summary

FY Dec (RMm)	4Q14	1Q15	2Q15	3Q15	4Q15
Revenue	252.2	232.1	260.0	256.0	266.3
Gross profit	53.2	71.9	78.1	75.0	71.4
PBT	17.6	24.8	28.0	34.8	27.3
Taxation	-0.7	-4.3	-4.0	-6.4	-4.6
Minority interests	-2.0	-0.4	-0.1	-0.7	-1.7
Reported net profit	14.4	20.1	23.9	27.6	21.0
Effective tax rate (%)	4.1	17.3	14.3	18.6	16.7
Reported EPS (sen)	1.7	2.3	2.8	3.2	2.4

Valuation Ratios

FY Dec (RMm)	2013A	2014A	2015A	2016F	2017F
Core EPS (sen)	-5.0	-0.4	11.1	13.6	14.6
P/E (x)	NM	NM	10.6	8.6	8.0
BVPS (RM)	0.93	0.95	1.21	1.33	1.48
P/Book (x)	1.3	1.2	1.0	0.9	0.8
Net gearing (x)	0.36	0.28	0.08	-0.09	-
GDPS (sen)	0.0	0.0	1.0	3.5	4.0
Di. Yield (%)	0.0	0.0	0.9	3.0	3.4
PBT margin (%)	NM	2.7	11.3	15.6	15.0
Core net margin (%)	NM	NM	9.4	12.1	11.7
ROA (%)	NM	NM	6.7	7.2	7.1
ROE (%)	NM	NM	9.1	10.2	9.9
Effective tax rate (%)	7.9	11.4	16.8	20.0	20.0

Cash Flow

FY Dec (RMm)	2013A	2014A	2015A	2016F	2017F
Operating cash flow	46.1	84.9	119.9	178.5	175.2
Investing cash flow	-37.3	-15.9	-92.3	-55.0	-25.0
Financing cash flow	-41.1	-54.0	15.0	0.0	0.0
Cash at begin	79.6	55.5	73.9	274.8	398.4
Cash at end	52.5	70.6	116.6	398.4	548.5
OCF/share (sen)	5.4	10.0	13.9	21.1	20.7
FCF/share (sen)	1.0	8.2	3.2	14.6	17.7

Key Assumptions

	2015A	2016F	2017F
RM:US\$	3.85	4.00	3.80
MDF production capacity ('000 tonnes)	1,270.0	1,270.0	1,270.0
MDF utilisation rate (%)	76.7	79.4	83.6

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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