

Evergreen Fibreboard (BUY ↔; EPS ↔)

 INDUSTRY: -
 COMPANY INSIGHT

31 March 2016

Price Target: RM1.60 (↔)

Share Price: RM1.00

Earnings Visibility Intact

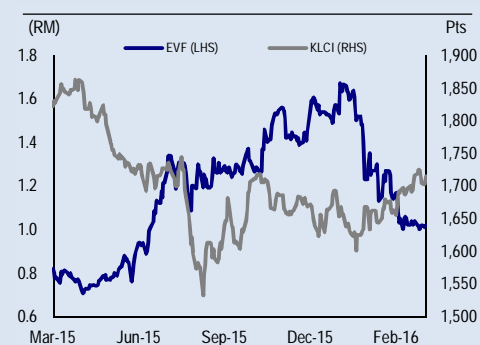
Highlights	<ul style="list-style-type: none"> ▪ We believe recent sell down in Evergreen's shares is overdone. ▪ We still see earnings growth in Evergreen, underpinned by: (1) The company's ongoing cost rationalization exercise, which will result in overhead cost savings, reduced transportation cost, better production efficiency, as well as higher quality products; and (2) An investment into a new fully-automated RTA furniture line, which will triple its existing production volume and reduce manpower, hence contributing to its earnings from 2H16 onwards. ▪ Against its peers in the Southeast Asia region, Evergreen's share price underperformed by 10.5-21%-pts YTD, indicating that recent sell down is overdone. ▪ Our valuation has yet to reflect the value of its 4,410 acres of rubber plantation land in Kahang and the industrial land in Masai. We understand that combination of these two non-core assets could potentially fetch selling price of at least RM100m (or 11.6 sen).
Risks	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Maintained.
Rating	BUY (↔) <ul style="list-style-type: none"> ▪ Positives – (1) Attractive valuations with good earnings visibility; (2) Healthy balance sheet; and (3) Rubber plantation land bank value has yet to be reflected in current share price valuation. ▪ Negative – Perceived US\$ play.
Valuation	<ul style="list-style-type: none"> ▪ Maintain BUY recommendation with unchanged TP or RM1.60 (based on unchanged 11x FY17 core EPS of 14.6 sen). ▪ Our forecast has already factored in a ringgit forecast of RM4.00/US\$ and RM3.80/US\$ for FY16 and FY17 respectively. ▪ We continue to like Evergreen for its strong earnings visibility (underpinned by low key input prices and management's ongoing efforts to further improve operational efficiencies and product diversification) and decent dividend yield of 3.5%.

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KLCI	1,719.5
Expected share price return	60.0%
Expected dividend return	3.5%
Expected total return	63.5%

Share Price

Information

Bloomberg Ticker	EVF MK
Bursa Code	5101
Issued Shares (m)	846.4
Market cap (RM m)	846.4
3-mth avg. volume ('000)	5,357
Shariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-14.5	-35.4	22.0
Relative	-17.7	-36.3	29.3

Major Shareholders

Kuo Jen Chang	16.8%
Kuo Jen Chiu	14.7%
UBS AG	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	9.0	7.4	6.9
BVPS (RM)	0.95	1.21	1.33	1.48
P/B (x)	1.1	0.8	0.8	0.7
ROA (%)	NM	6.7	7.2	7.1
ROE (%)	NM	9.1	10.2	9.9
HLIB				

Highlights

YTD, share price has fallen by 36.4% to RM1.00 (underperforming the KLCI by 37.9%-pts), mainly on a stronger MYR (against the US\$). While we are cognizant that a sharp recovery in MYR (against the US\$) does not bode well for exporters' earnings growth, we believe recent sell down is overdone, as:

1. Evergreen is more than a US\$ play, and we still see earnings growth from FY16, underpinned by its ongoing cost rationalization exercise and investment into new RTA production line; and
2. Current valuation is attractive despite having applied a much lower MYR assumption (RM3.80 vs. RM3.94 currently) in our forecast parameters and resumption of dividend policy.

Still see earnings growth in FY16 despite the absence of currency effect

Evergreen posted a significant turnaround in its FY15 performance (with core net profit of RM95.7m vis-à-vis a core net loss of RM3.2m in FY14), and the strong earnings recovery was attributed to: (1) Weaker MYR against the US\$ (which has in turn resulted in higher revenue); (2) Lower raw material costs (in particularly, the rubber log wood and glue prices, which collectively accounted for two-third of its production cost); and (3) To a lesser extent, cost savings arising from its cost rationalization exercise (which has started kicking in since 2HFY15).

Moving into 2016, while the currency effect may no longer play a significant role in driving Evergreen's earnings (as strong US\$ catalyst may diminish in 2H16), we still see earnings growth in Evergreen, underpinned by:

1. The company's ongoing cost rationalization exercise (which involves streamlining its MDF and particleboard production lines in Masai and Segamat, and investing into new machineries), which will result in overhead cost savings, reduced transportation cost, better production efficiency, as well as higher quality products. We understand that cost savings from its production line integration will start kicking in from FY16, while the particleboard production line will resume from end-FY16.
2. An investment into a new fully-automated ready-to-assemble (RTA) furniture line, which will triple its existing production volume and reduce manpower, hence contributing to its earnings from 2H16 onwards. We understand that Evergreen could potentially expand capacity of the RTA production line, pending feedback from its customers.

Valuations are undemanding at current share price

At current share price of RM1.00, the stock is trading at unjustifiable low valuations (at FY16-17 P/E of 7.4x and 6.9x respectively) despite its robust earnings visibility and recent re-instatement of dividend policy (to pay out at least 25% of its earnings). Against its peers in the Southeast Asia region (i.e. Vanachai and Heveaboard), Evergreen's share price underperformed by 10.5-21%-pts YTD (see Figure 2), indicating that recent sell down is overdone.

Besides, we note that our valuation has yet to reflect the value of its 4,410 acres of rubber plantation land in Kahang and the industrial land in Masai (which operation has been relocated to Segamat for operational efficiency purpose). We understand that combination of these two non-core assets could potentially fetch selling price of at least RM100m (or 11.6 sen).

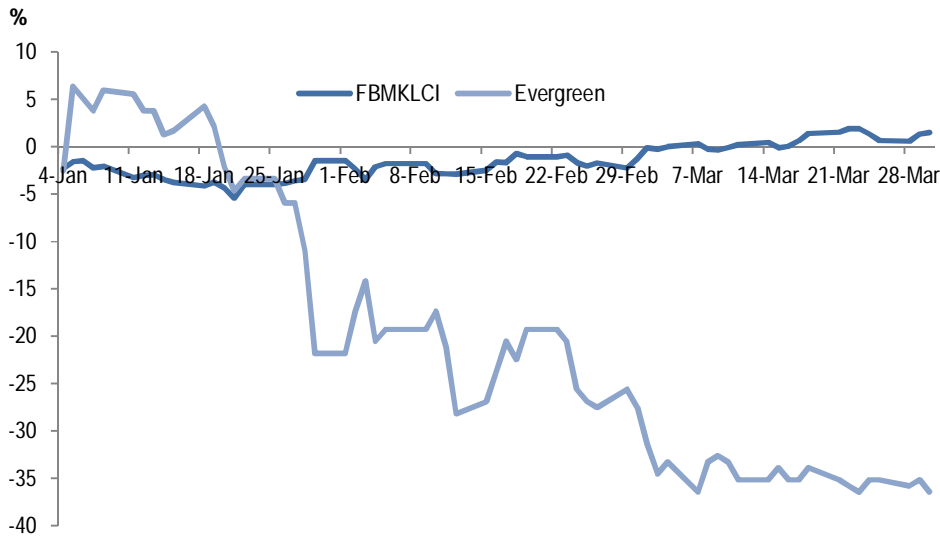
Earnings Forecasts

Maintain FY16-17 core net profit forecasts at RM115.1m and RM123.4m respectively. In our forecasts, we have adopted MYR/US\$ assumptions of RM4.00 and RM3.80 for FY16 and FY17 respectively. Based on our estimates, every RM0.10 strengthening in MYR (against the US\$) will change our FY16-17 net profit forecasts by 10.1% and 10.5% respectively.

Valuation & Recommendation

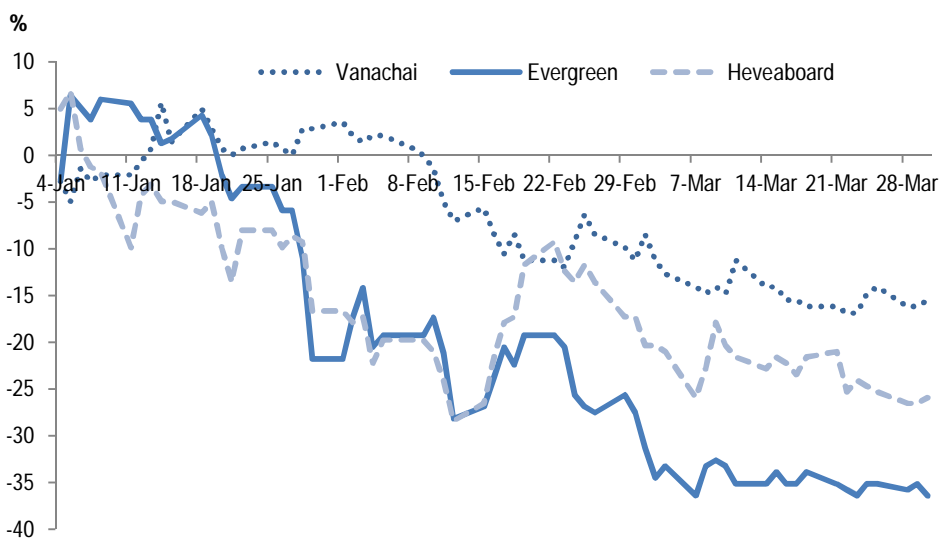
Maintain **BUY** recommendation with unchanged TP or RM1.60 (based on unchanged 11x FY17 core EPS of 14.6 sen). We continue to like Evergreen for its strong earnings visibility (underpinned by low key input prices and management's ongoing efforts to further improve operational efficiencies and product diversification) and decent dividend yield of 3.5% (based on current share price of RM1.00).

Figure 1: YTD Share Price Performance Vs. FBMKLCI



Bloomberg; HLIB

Figure 2: YTD Share Price Performance Vs. Peers in Southeast Asia



Bloomberg; HLIB

Figure 3: Peers' Comparison

	Share Price RM	Market Cap RMm	EPS (sen)		BVPS RM)		DPS (sen)		P/E (x)		P/B (x)		Div Yield (%)	
			FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Evergreen	1.00	846.4	12.0	13.6	1.20	1.33	3.5	4.0	8.3	7.4	0.8	0.8	3.5	4.0
Heveaboard*	1.20	506.9	23.0	25.0	1.06	1.25	4.0	6.0	5.2	4.8	1.1	1.0	3.3	5.0

*Consensus

Bloomberg; HLIB

Figure 4: HLIB & Consensus Estimates

FYE Dec (RMm)	FY16F			FY17F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	951.3	1,021.7	-6.9	1,056.8	1,057.0	0.0
Core Earnings	115.1	120.7	-4.6	123.4	129.0	-4.3

HLIB

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	9.0	7.4	6.9
BVPS (RM)	0.93	0.95	1.21	1.33	1.48
P/Book (x)	1.1	1.1	0.8	0.8	0.7
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	1.0	3.5	4.0
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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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.
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