

23 August 2016

Agriculture | Timber

Evergreen Fibreboard

Looking Beyond FY16

We maintain our view of a flattish FY16 for Evergreen Fibreboard (Evergreen) as we expect the company to perform better in 2H after a subdued 1H. We also advise investors to remain patient, as we see more earnings growth catalysts coming in FY17. Our TP is now adjusted to MYR1.30 (from MYR1.35, 44% upside) following our earnings revisions, pegged to an unchanged 10x FY17 P/E. Maintain BUY.

2H16 outlook. Although we remain cautious over Evergreen Fibreboard's (Evergreen) near-term earnings outlook due to a potential strengthening of MYR, we expect earnings to improve in 2H16 following a subdued 1H. This is premised on our expectations of a slight improvement in the ASP of its medium-density fibreboards and better productivity in the absence of plants' scheduled maintenance and shutdowns.

Earnings forecasts. We revise down our earnings forecasts for FY16-18 by 9.9%, 6.9% and 3.1% respectively by mainly fine-tuning our ASP and margin assumptions. Key downside risks include unfavourable forex movements, a spike in raw material costs and lower-than-expected demand.

Maintain BUY. Our TP dips slightly to MYR1.30 (from MYR1.35, 44% upside) following our earnings revisions, based on an unchanged 10x FY17 P/E. We advise investors to look forward to FY17, as new capacities could potentially drive earnings growth.

2Q16 earnings were below expectations

(MYRm)	2Q16	1Q16	QoQ (%)	2Q15	YoY (%)	Comments
Revenue	246.2	246.8	-0.2%	260	-5.3%	Lower YoY was mainly due to a drop in ASP in 2Q16
EBIT	23	24.1	-4.9%	31.2	-26.5%	
EBIT (%)	9.3%	9.8%		12%		
Pretax income	21.7	24.3	-10.9%	28	-22.7%	
Pretax margin (%)	8.8%	9.9%		10.8%		
NP - reported	16.5	20.6	-20.2%	23.9	-31.1%	
NM - reported (%)	6.7%	8.4%		9.2%		
NP - recurring	16.5	20.2	-18.4%	23.9	-31.1%	Below expectations
NM- recurring (%)	6.7%	8.2%		9.2%		

Source: Company data, RHB

Results review. Evergreen's 1H16 earnings of MYR37.1m were below expectations, at about 38%/35.3% of our/consensus full-year estimates respectively. This is mainly due to the weaker-than-expected sales revenue and higher operational costs resulting from extended scheduled plants maintenance and shutdown periods in 2Q, as well as a higher-than-expected effective tax rate.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	919	1,012	980	1,125	1,189
Reported net profit (MYRm)	0	91	88	110	123
Recurring net profit (MYRm)	8	93	88	110	123
Recurring net profit growth (%)	0.0	1088.7	(5.8)	25.0	12.1
Recurring EPS (MYR)	0.02	0.17	0.10	0.13	0.15
DPS (MYR)	na	0.01	0.02	0.03	0.04
Recurring P/E (x)	58.8	5.4	8.7	6.9	6.2
P/B (x)	0.58	0.49	0.69	0.64	0.60
P/CF (x)	4.83	4.11	4.00	4.72	3.94
Dividend Yield (%)	na	1.0	1.9	3.6	4.0
EV/EBITDA (x)	6.90	3.33	4.19	3.34	2.61
Return on average equity (%)	0.0	9.9	8.2	9.6	10.0
Net debt to equity (%)	25.8	7.7	3.0	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(16.2)	(10.6)	(8.0)

Source: Company data, RHB

Buy (Maintained)

Target Price: MYR1.30
Price: MYR0.90
Market Cap: USD190m
Bloomberg Ticker: EVF MK

Share Data

Avg Daily Turnover (MYR/USD)	2.61m/0.65m
52-wk Price low/high (MYR)	0.90 - 1.67
Free Float (%)	37
Shares outstanding (m)	846
Estimated Return	44%

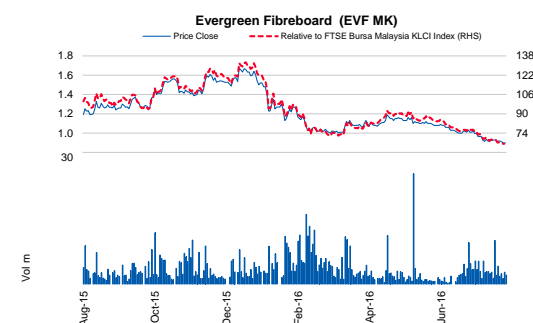
Shareholders (%)

Kuo Jen Chang	16.8
Kuo Jen Chiu	14.7
Credit Suisse	4.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(42.8)	(10.9)	(22.4)	(29.1)	(29.0)
Relative	(42.5)	(12.7)	(26.0)	(29.9)	(36.2)

Source: Bloomberg



Source: Bloomberg

Analyst

Ng Suk Yee
+603 9207 7604
ng.suk.yee@rhbgroun.com



Figure 1: Evergreen's 2Q16 results review

FYE Dec (MYRm)	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	1H16	1H15	YoY (%)	Comments
Revenue	260	246.8	246.2	(0.2)	(5.3)	493.0	492.1	0.2	Weaker-than-expected YoY, mainly due to a drop in ASP in 2Q16
EBITDA	47.3	40.7	39.0	(4.1)	(17.5)	80.3	91.1	(11.8)	
<i>EBITDA margin (%)</i>	<i>18.2</i>	<i>16.5</i>	<i>15.8</i>	<i>NA</i>	<i>NA</i>	<i>16.3</i>	<i>18.5</i>	<i>NA</i>	
Depreciation	(16.3)	(16.6)	(16.1)	(3.0)	(1.6)	(32.6)	(32.6)	0.0	
EBIT	31.0	24.1	23.0	(4.9)	(25.9)	47.7	58.5	(18.4)	
<i>EBIT Margin (%)</i>	<i>11.9</i>	<i>9.8</i>	<i>9.3</i>	<i>NA</i>	<i>NA</i>	<i>9.9</i>	<i>11.9</i>	<i>NA</i>	
Interest expense	(3.0)	(1.7)	(1.7)	3.8	(41.8)	(3.4)	(5.9)	(42.3)	
Interest income	0.2	0.4	0.4	4.2	93.9	0.9	0.5	90.8	
Associates	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
El/Others	0.0	0.6	0.0	NM	NM	0.0	0.0	NA	
Pretax profit	28.0	24.3	21.7	(10.9)	(22.7)	46.0	52.8	(12.9)	Lower YoY, mainly due to lower productivity caused by scheduled plants maintenance and shutdowns.
<i>Pretax margin (%)</i>	<i>10.8</i>	<i>9.9</i>	<i>8.8</i>	<i>NA</i>	<i>NA</i>	<i>9.3</i>	<i>10.7</i>	<i>NA</i>	
Tax	(4.0)	(3.7)	(6.3)	72.0	58.0	(10.0)	(8.3)	20.8	
<i>Effective tax rate (%)</i>	<i>14.3</i>	<i>15.1</i>	<i>29.2</i>	<i>NA</i>	<i>NA</i>	<i>21.7</i>	<i>15.7</i>	<i>NA</i>	Higher-than-expected effective tax rate
Minority interest	(0.1)	(0.0)	1.1	NM	NM	1.1	(0.6)	NM	
Net profit	23.9	20.6	16.5	(20.2)	(31.1)	37.1	43.9	NM	Below expectations, at 38% and 35.3% of our and consensus' full-year estimates.
Core profit	23.9	20.2	16.5	(18.4)	(31.1)	37.1	43.9	NM	
<i>Core net margin (%)</i>	<i>9.2</i>	<i>8.2</i>	<i>6.7</i>	<i>NA</i>	<i>NA</i>	<i>7.5</i>	<i>8.9</i>	<i>0.2</i>	

Source: RHB

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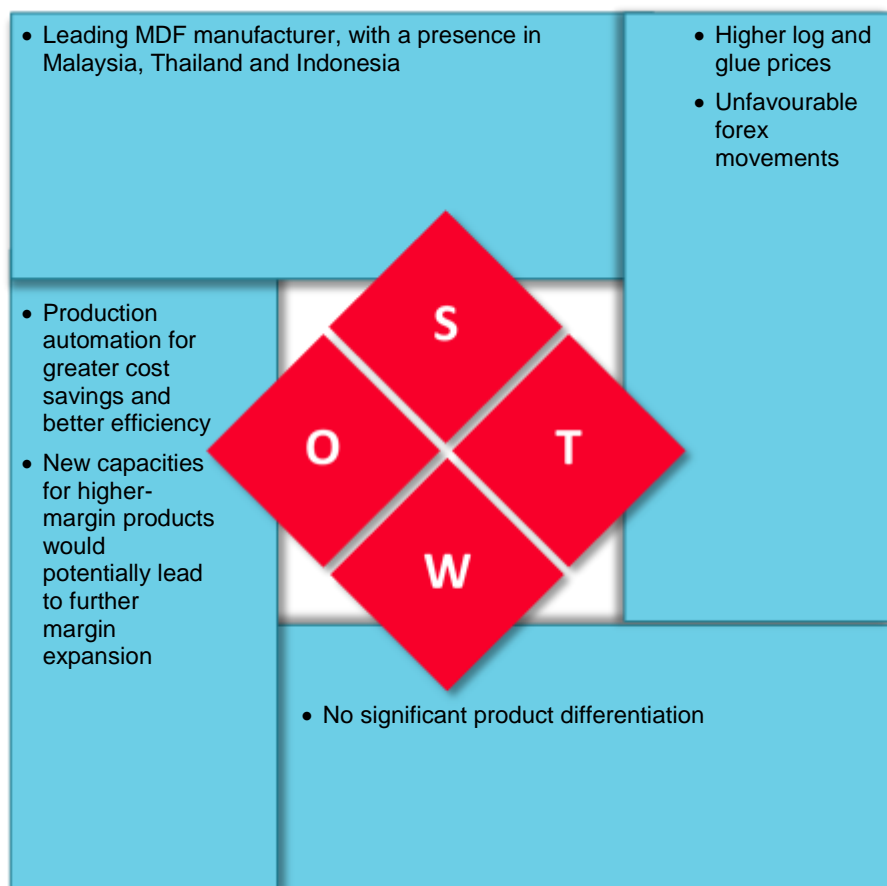
Financial Exhibits

Financial model updated on : 2016-08-22.

Asia					
Malaysia					
Agriculture					
Evergreen Fibreboard					
Bloomberg	EVF MK				
Buy					
Valuation basis					
10x FY17 P/E					
Key drivers					
i. A weaker MYR;					
ii. Cost savings from improved operational performance;					
iii. New value-added product that provides higher margins					
Key risks					
i. Unfavourable forex movements;					
ii. A spike in raw material costs;					
iii. Lower-than-expected demand					
Company Profile					
Evergreen Fibreboard is a medium-density fibreboard and particleboard manufacturer with a presence in Malaysia, Thailand and Indonesia.					
Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Recurring EPS (MYR)	0.02	0.17	0.10	0.13	0.15
EPS (MYR)	0.00	0.16	0.10	0.13	0.15
DPS (MYR)	0.00	0.01	0.02	0.03	0.04
BVPS (MYR)	1.56	1.84	1.30	1.40	1.51
Weighted avg adjusted shares (m)	513	564	846	846	846
Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Recurring P/E (x)	58.8	5.4	8.7	6.9	6.2
P/E (x)	2,713	6	9	7	6
P/B (x)	0.58	0.49	0.69	0.64	0.60
FCF Yield (%)	14.3	6.6	9.3	14.6	20.1
Dividend Yield (%)	0.0	1.0	1.9	3.6	4.0
EV/EBITDA (x)	6.90	3.33	4.19	3.34	2.61
EV/EBIT (x)	18.6	5.1	6.8	5.0	3.8
Income statement (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	919	1,012	980	1,125	1,189
Gross profit	185	288	285	332	352
EBITDA	102	187	198	225	243
Depreciation and amortisation	(64)	(65)	(77)	(76)	(78)
Operating profit	38	122	121	149	165
Net interest	(13)	(10)	(7)	(6)	(5)
Exceptional income - net	0	(3)	0	0	0
Pre-tax profit	4	109	114	143	160
Taxation	(3)	(14)	(23)	(29)	(32)
Minority interests	(1)	(3)	(3)	(4)	(5)
Recurring net profit	8	93	88	110	123
Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Change in working capital	30.5	(53.8)	22.6	(28.5)	(12.5)
Cash flow from operations	95.6	123.5	190.6	161.4	193.2
Capex	(29.4)	(89.8)	(120.0)	(50.0)	(40.0)
Cash flow from investing activities	(24.5)	(86.5)	(120.0)	(50.0)	(40.0)
Proceeds from issue of shares	0.0	103.4	0.0	0.0	0.0
Dividends paid	0.0	0.0	(22.0)	(27.5)	(30.8)
Cash flow from financing activities	(59.2)	(3.5)	(52.9)	(58.6)	(62.0)
Balance sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	74	117	134	187	278
Tangible fixed assets	777	846	889	864	826
Intangible assets	20	20	20	20	20
Total other assets	74	83	83	83	83
Total assets	1,286	1,447	1,464	1,536	1,609
Short-term debt	237	161	127	111	92
Other liabilities	8	9	9	9	9
Total liabilities	456	377	326	311	288
Shareholders' equity	802	1,038	1,104	1,187	1,279
Minority interests	29	32	34	38	41
Total equity	830	1,070	1,139	1,224	1,320
Net debt	214	82	34	(48)	(170)
Total liabilities & equity	1,286	1,447	1,464	1,536	1,609
Key metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	(2.1)	10.1	(3.1)	14.8	5.7
Recurrent EPS growth (%)	0.0	980.7	(37.2)	25.0	12.1
Gross margin (%)	20.1	28.4	29.1	29.5	29.6
Operating EBITDA margin (%)	11.1	18.5	20.2	20.0	20.4
Net profit margin (%)	0.0	9.0	9.0	9.8	10.4
Dividend payout ratio (%)	0.0	5.6	16.7	25.0	25.0
Capex/sales (%)	3.2	8.9	12.2	4.4	3.4
Interest cover (x)	2.91	11.67	16.93	23.88	33.71

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Date	Recommendation	Target Price	Price
2016-07-31	Buy	1.35	0.97
2016-05-23	Buy	1.35	1.15
2016-03-01	Buy	1.40	1.14
2015-11-22	Neutral	2.23	1.43
2015-08-20	Neutral	2.12	1.27
2015-07-28	Neutral	2.00	1.19
2015-05-24	Buy	1.50	0.77
2015-03-02	Buy	1.48	0.65
2015-02-03	Buy	1.11	0.58
2015-01-11	Buy	1.11	0.48

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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2. Affiliation between parties to the employees, Directors or Commissioners of the parties concerned;
3. Affiliation between 2 companies whereby one or more member of the Board of Directors or the Commissioners are the same;
4. Affiliation between the Company and the parties, both directly or indirectly, controlling or being controlled by the Company;
5. Affiliation between 2 companies which are controlled, directly or indirectly, by the same party; or
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- b. a substantial shareholder of an Issuer or Public Company;
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Kuala Lumpur	Hong Kong	Singapore
RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
PT RHB Securities Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax : +(66) 2 862 9799