

1 March 2016

Agriculture | Timber

Evergreen Fibreboard

Buy (from Neutral)

Internal Factors To Support FY16

We expect Evergreen's earnings momentum to remain strong this year, underpinned by internal cost optimisation measures and the rollout of its new capacities. Its FY15 results were in line our expectations. We lift our recommendation to **BUY** (from Neutral) with a higher TP of MYR1.40 (20% upside), based on an unchanged 10x P/E to a higher FY16F EPS. The company declared a 1-sen single-tier interim DPS for last year's performance.

Internal efforts to mitigate downside risks ahead. We recently visited Evergreen Fibreboard's (Evergreen) main plant in Batu Pahat and were pleased to see the progress it made in streamlining operations. Its new fully-automated ready-to-assemble (RTA) furniture line is also currently being installed. The company expects this new line, once commissioned in March/April, to triple existing RTA production and reduce its headcount in the furniture segment by 30%, while improving product quality. We expect the improved operational efficiency to somewhat mitigate potential downside risks, in the event of a hike in the foreign worker levy and a freeze in the supply of labour.

Earnings forecasts and risks. We adjust our FY16-17 earnings forecasts by 4.2%/1.8% respectively as we fine-tune our cost input assumptions and the timeline for new capacities to come on-stream. We also introduce our FY18 forecasts. Key downside risks include a rebound in the MYR/USD rate, a spike in raw material costs and lower-than-expected demand.

1-sen single-tier interim DPS for FY15. Evergreen also announced a revised dividend policy of 25% of PAT commencing from FY16. This implies an expected dividend yield of about 3.0-3.4% for FY16-18.

4Q15 earnings: in line

(MYRm)	4Q15	3Q15	QoQ	4Q14	YoY	Comments
Revenue	266.3	256.0	4.0%	252.2	5.6%	
EBIT	32.9	38.4	-14.3%	19.8	66.1%	Lower QoQ, mainly attributable to lower forex gains
EBIT (%)	12.4%	15.0%		7.9%		
NI	21.0	27.6	-23.8%	14.4	46.3%	
Core NI	23.4	27.6	-15.4%	14.4	62.5%	In line with our expectations but missed the consensus estimate
Core NI (%)	8.8%	10.8%		5.7%		

Source: Company data, RHB

Upgrade to BUY. We revise Evergreen's TP to MYR1.40 (from an ex-bonus TP of MYR1.35) which offers a 20% upside, based on an unchanged 10x P/E to a higher FY16F EPS. We think that the recent weakness in its share price presents a BUY opportunity for the new investors.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	942	1,014	1,080	1,213	1,262
Reported net profit (MYRm)	0	93	119	127	135
Recurring net profit (MYRm)	0	95	119	127	135
Recurring net profit growth (%)	na	55811.8	25.5	6.7	6.2
Recurring EPS (MYR)	0.00	0.17	0.14	0.15	0.16
DPS (MYR)	0.00	0.01	0.02	0.04	0.04
Recurring P/E (x)	3,527	7	8	8	7
P/B (x)	0.75	0.63	0.87	0.80	0.74
P/CF (x)	6.28	5.51	5.26	5.55	4.88
Dividend Yield (%)	0.0	0.8	2.0	3.2	3.4
EV/EBITDA (x)	10.4	4.0	4.2	3.6	3.0
Return on average equity (%)	0.0	10.0	10.9	10.8	10.6
Net debt to equity (%)	25.8	7.7	0.0	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(6.4)	(9.0)	0.0

Source: Company data, RHB

Target Price:	MYR1.40
Price:	MYR1.17
Market Cap:	USD236m
Bloomberg Ticker:	EVF MK

Share Data

Avg Daily Turnover (MYR/USD)	5.08m/1.19m
52-wk Price low/high (MYR)	0.64 - 1.67
Free Float (%)	37
Shares outstanding (m)	846
Estimated Return	20%

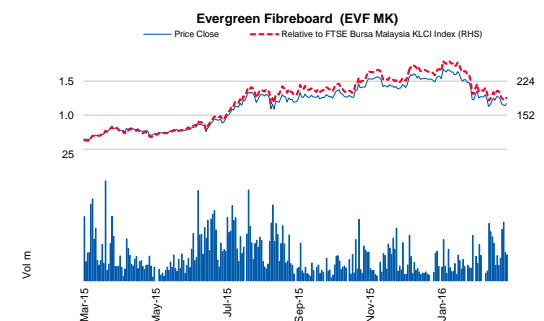
Shareholders (%)

Kuo Jen Chang	16.8
Kuo Jen Chiu	14.7
UBS AG Hong Kong	12.9

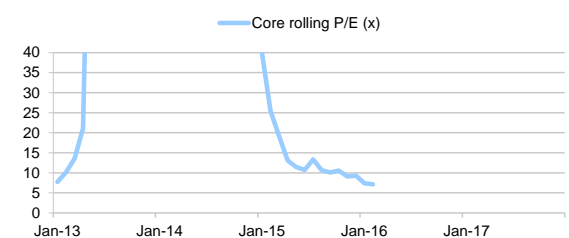
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.6)	(4.9)	(16.0)	(1.9)	67.1
Relative	(23.4)	(4.1)	(14.3)	(4.5)	76.3

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Profit & Loss (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F	Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	942	1,014	1,080	1,213	1,262	Operating profit	17	130	169	180	190
Cost of sales	(775)	(718)	(723)	(819)	(847)	Depreciation & amortisation	64	67	74	72	73
Gross profit	167	296	356	394	415	Change in working capital	30	(58)	(9)	(25)	(10)
Gen & admin expenses	(163)	(182)	(197)	(224)	(237)	Other operating cash flow	(6)	(4)	-	-	-
Other operating costs	13	16	10	11	12	Operating cash flow	106	134	235	227	253
Operating profit	17	130	169	180	190	Interest paid	(13)	(12)	(8)	(7)	(6)
EBITDA	81	196	243	252	263	Tax paid	3	(2)	(39)	(42)	(44)
Depreciation of fixed assets	(63)	(67)	(74)	(72)	(73)	Cash flow from operations	96	120	188	178	203
Amortisation of intangible assets	(1)	-	-	-	-	Capex	(29)	(97)	(75)	(30)	(30)
Operating profit	17	130	169	180	190	Other investing cash flow	5	5	-	-	-
Interest expense	(13)	(12)	(8)	(7)	(6)	Cash flow from investing activities	(25)	(92)	(75)	(30)	(30)
Exceptional income - net	-	(3)	-	-	-	Dividends paid	-	-	(30)	(32)	(34)
Pre-tax profit	4	115	162	174	185	Proceeds from issue of shares	-	103	-	-	-
Taxation	(3)	(19)	(39)	(42)	(44)	Increase in debt	(187)	-	(20)	(20)	(20)
Minority interests	(1)	(3)	(4)	(5)	(5)	Other financing cash flow	128	(88)	(1)	(1)	(1)
Reported net profit	0	93	119	127	135	Cash flow from financing activities	(59)	15	(51)	(53)	(55)
Recurring net profit	0	95	119	127	135	Cash at beginning of period	56	74	117	179	275

Source: Company data, RHB

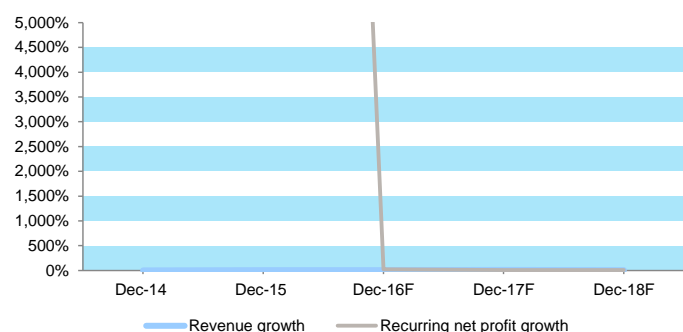
Key Ratios	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	0.4	7.7	6.4	12.4	4.0
Operating profit growth (%)	0.0	650.5	30.8	6.4	5.5
Recurring net profit growth (%)	0.0	55811.8	25.5	6.7	6.2
Recurrent EPS growth (%)	0.0	50729.9	(16.3)	6.7	6.2
Gross margin (%)	17.7	29.2	33.0	32.5	32.9
Operating EBITDA margin (%)	8.6	19.3	22.6	20.8	20.9
Operating margin (%)	1.8	12.8	15.7	14.9	15.1
Recurring net profit margin (%)	0.0	9.4	11.1	10.5	10.7
Return on average assets (%)	0.0	6.8	8.1	8.2	8.3
Return on average equity (%)	0.0	10.0	10.9	10.8	10.6
Net debt to equity (%)	25.8	7.7	0.0	(9.1)	(18.4)
Interest cover (x)	1.3	11.1	22.5	27.0	32.6
Capex/Free cash flow (%)	30.8	80.9	39.8	16.8	14.8
BVPS (MYR)	1.56	1.85	1.34	1.45	1.57
DPS (MYR)	0.00	0.01	0.02	0.04	0.04
Dividend payout ratio (%)	0.0	5.5	16.7	25.0	25.0
Free cash flow per share (MYR)	0.13	0.04	0.13	0.18	0.20

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	74	117	179	275	393
Inventories	215	227	231	259	270
Accounts receivable	97	101	98	110	114
Other current assets	29	60	60	60	60
Total current assets	415	504	567	703	836
Tangible fixed assets	777	846	847	805	762
Intangible assets	20	20	20	20	20
Total other assets	57	64	64	64	64
Total non-current assets	854	929	930	889	845
Total assets	1,269	1,433	1,498	1,592	1,681
Short-term debt	237	156	153	139	126
Accounts payable	135	123	115	130	135
Other current liabilities	0	8	8	8	8
Total current liabilities	372	287	276	277	268
Total long-term debt	51	43	27	21	14
Other liabilities	16	25	25	25	25
Total non-current liabilities	67	68	52	46	39
Total liabilities	439	356	328	323	307
Share capital	128	141	212	212	212
Retained earnings reserve	544	636	726	821	923
Other reserves	130	269	198	198	198
Shareholders' equity	802	1,046	1,136	1,231	1,333
Minority interests	29	32	34	38	42
Other equity	(0)	0	0	-	(0)
Total equity	830	1,078	1,170	1,269	1,374
Total liabilities & equity	1,269	1,433	1,498	1,592	1,681

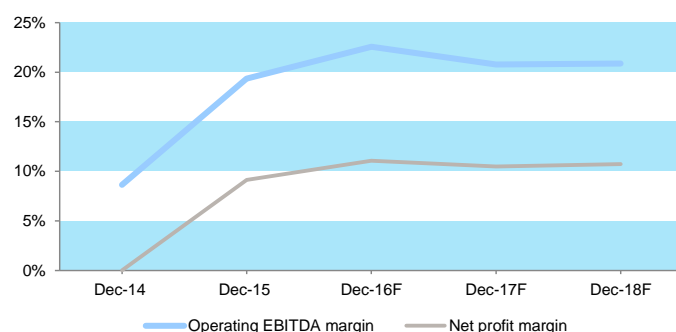
Source: Company data, RHB

Revenue growth vs Recurring net profit growth



Source: Company data, RHB

EBITDA margin vs Net profit margin



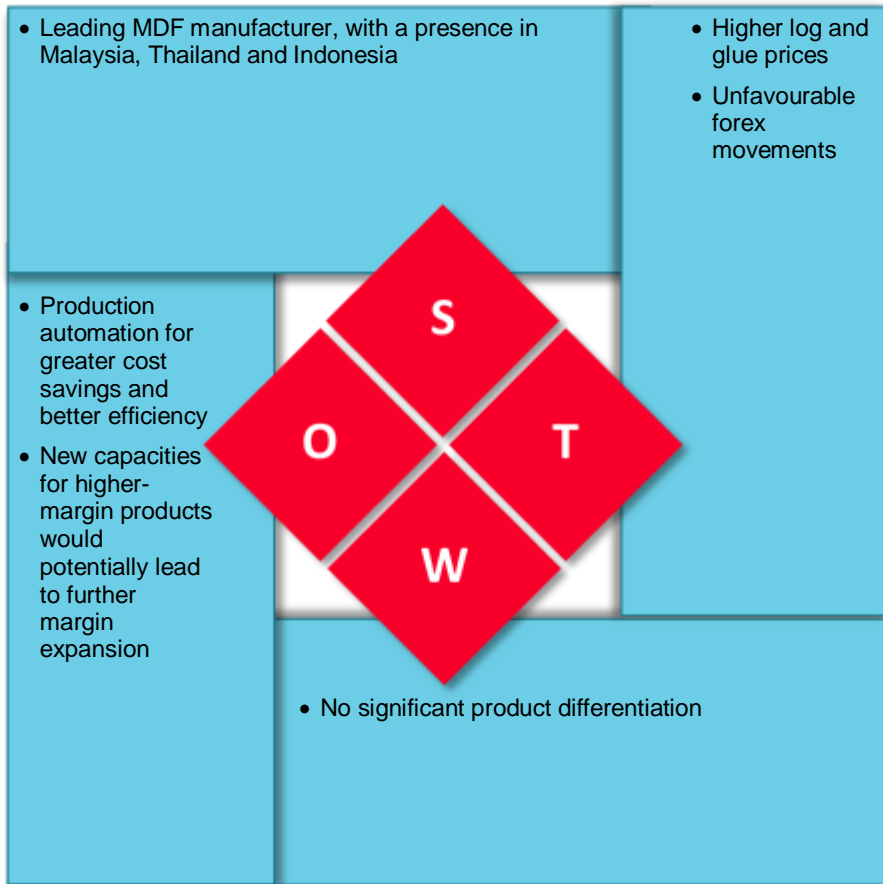
Source: Company data, RHB

Figure 1: EFB's 4Q15 results review

FYE Dec (MYRm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	YTD FY15	YTD FY14	YoY (%)	Comments
Revenue	252.2	256.0	266.3	4.0	5.6	1,014.5	942.0	7.7	
EBITDA	36.7	55.3	48.7	(12.1)	32.8	195.1	81.4	>100	
<i>EBITDA margin (%)</i>	<i>14.5</i>	<i>21.6</i>	<i>18.3</i>	<i>NA</i>	<i>NA</i>	<i>19.2</i>	<i>8.6</i>	<i>NA</i>	
Depreciation	(16.8)	(16.9)	(15.7)	(7.0)	(6.6)	(64.8)	(64.2)	1.0	
EBIT	19.8	38.4	32.9	(14.3)	66.1	130.3	17.3	>100	Lower QoQ, mainly due to lower forex gains in 4Q15
<i>EBIT margin (%)</i>	<i>7.9</i>	<i>15.0</i>	<i>12.4</i>	<i>NA</i>	<i>NA</i>	<i>12.8</i>	<i>1.8</i>	<i>NA</i>	
Interest expense	(3.2)	(2.8)	(2.9)	0.8	(9.0)	(11.6)	(13.0)	(10.8)	
Interest income	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
Associates	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
EI/Others	0.0	0.0	(3.1)	NA	NA	(3.1)	0.0	NA	One-off impairment loss was attributable to idle plants in Masai and Segamat. This could potentially be written back once the plants are upgraded and resume production in 2016-2017
Pretax profit	16.7	34.8	27.3	(21.5)	NM	114.9	4.2	>100	
<i>Pretax margin (%)</i>	<i>6.6</i>	<i>13.6</i>	<i>10.2</i>	<i>NA</i>	<i>NA</i>	<i>11.3</i>	<i>0.4</i>	<i>NA</i>	
Tax	(0.5)	(6.4)	(4.6)	(29.3)	823.5	(19.3)	(2.7)	>100	
<i>Effective tax rate (%)</i>	<i>3.0</i>	<i>18.6</i>	<i>16.7</i>	<i>NA</i>	<i>NA</i>	<i>16.8</i>	<i>NA</i>	<i>NA</i>	
Minority interest	(1.9)	(0.7)	(1.7)	135.3	NM	(3.0)	(1.4)	>100	
Net profit	14.4	27.6	21.0	(23.8)	46.3	92.6	0.2	>100	
Core profit	14.4	27.6	23.4	(15.4)	62.5	94.9	0.2	>100	Met our expectations but missed consensus' at 101%/94% of our/consensus full-year estimates
<i>Core net margin (%)</i>	<i>5.7</i>	<i>10.8</i>	<i>8.8</i>	<i>NA</i>	<i>NA</i>	<i>9.4</i>	<i>0.0</i>	<i>NA</i>	

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

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

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a) -

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a) -

RHB and/or its subsidiaries have not participated as a syndicate member in share offerings and/or bond issues in securities covered in this report in the last 12 months except for:

a) -

RHB has not provided investment banking services to the company/companies covered in this report in the last 12 months except for:

a) -

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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
6. Affiliation between the Company and the main Shareholders.

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- b. a substantial shareholder of an Issuer or Public Company;
- c. an individual, who because of his position or profession, or because of a business relationship with an Issuer or Public Company, has access to inside information; and
- d. an individual who within the last six months was a Person defined in letters a, b or c, above.

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- (a) -

The staff of RHB Research Institute Singapore Pte Ltd and its subsidiaries and/or its associated companies do not serve on any board or trustee positions of any issuer whose securities are covered in this report, except for:

- (a) -

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- (a) -

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