

23 May 2016

Agriculture | Timber

## Evergreen Fibreboard

**Buy** (Maintained)

Target Price: MYR1.35  
 Price: MYR1.16  
 Market Cap: USD241m  
 Bloomberg Ticker: EVF MK

### Riding Through a More Challenging Outlook

We believe that Evergreen Fibreboard's (EFB) improved operating strength would allow the group to ride through the challenges and uncertainties arising from the sluggish global economic growth and USD/MYR exchange rate movements. We fine-tune our earnings forecasts to factor in our revised USD/MYR assumptions and lower effective tax rates. We lower our TP to MYR1.35 (from MYR1.40, 16% upside) post-earnings revision. Maintain BUY.

**Outlook.** EFB's new ready-to-assemble (RTA) furniture line was installed in April and is expected to run full steam in July/August this year. The company has placed an order for the second RTA line, which should reach its plant by year-end and commence operations in 2Q17. We expect the installation of new capacities, coupled with lower losses from its non-performing assets and progressive improvements in productivity to help EFB to withstand potential downside risks from a weaker demand outlook and MYR weakness.

**Earnings forecasts and risks.** We fine-tune our FY16-18 earnings forecasts by -4.3%/-0.5%/0.9% respectively, after revising our USD/MYR assumptions to MYR4.00 for FY16 (from MYR4.20) and MYR3.80 for FY17 (from MYR4.00) and incorporating lower effective tax rates. We have yet to include any potential gains from the impending disposal of its non-core or idle assets. Key downside risks include:

- i. Unfavourable forex movements;
- ii. A spike in raw material costs;
- iii. Weaker demand for its products.

**Maintain BUY.** We adjust our TP to MYR1.35 (from MYR1.40, 16% upside) based on an unchanged 10x P/E following our earnings revisions.

#### 1Q16 earnings – slightly below expectations

(MYRm)	1Q16	4Q15	QoQ	1Q15	YoY	Comments
Revenue	246.8	266.3	-7.3%	232.1	6.3%	
EBIT	24.1	32.6	-25.9%	27.7	-12.8%	
EBIT (%)	9.8%	12.2%		11.9%		
Pretax income	24.3	27.3	-10.9%	24.8	-1.8%	
Pretax margin (%)	9.9%	10.2%		10.7%		
NP - reported	20.6	21.0	-1.9%	20.1	2.8%	
NM - reported (%)	8.4%	7.9%		8.6%		
NP - recurring	20.2	23.4	-13.6%	20.2	-0.3%	Slightly below expectations
NM - recurring (%)	8.2%	8.8%		8.7%		

Source: Company data, RHB

**Results review.** 1Q core earnings of MYR20.2m were slightly below our and consensus expectations, making up about 17% of our and consensus full-year estimates. This was mainly on the back of a forex loss of MYR5.9m in 1Q16 against a forex gain of MYR2.2m in 1Q15.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	919	1,012	1,039	1,140	1,203
Reported net profit (MYRm)	0	91	114	127	136
Recurring net profit (MYRm)	8	93	114	127	136
Recurring net profit growth (%)	na	1088.7	22.3	11.0	7.7
Recurring EPS (MYR)	0.02	0.17	0.13	0.15	0.16
DPS (MYR)	0.00	0.01	0.02	0.04	0.04
Recurring P/E (x)	75.7	7.0	8.6	7.7	7.2
P/B (x)	0.74	0.63	0.87	0.81	0.74
P/CF (x)	6.22	5.18	4.87	5.32	4.84
Dividend Yield (%)	0.0	0.8	1.9	3.2	3.5
EV/EBITDA (x)	8.21	4.11	4.47	3.62	2.81
Return on average equity (%)	0.0	9.9	10.6	10.8	10.7
Net debt to equity (%)	25.8	7.7	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(1.5)	(0.4)	(3.9)

Source: Company data, RHB

#### Share Data

Avg Daily Turnover (MYR/USD)	4.87m/1.20m
52-wk Price low/high (MYR)	0.76 - 1.67
Free Float (%)	37
Shares outstanding (m)	846
Estimated Return	16%

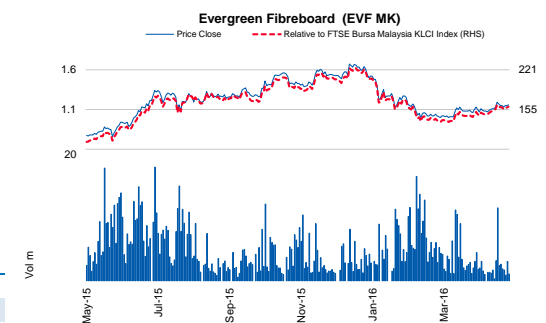
#### Shareholders (%)

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

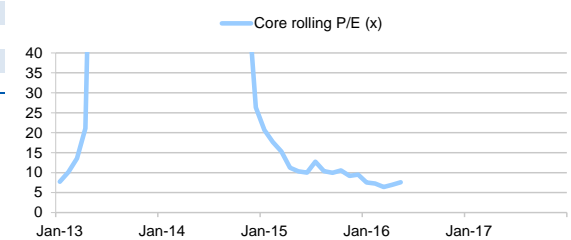
#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.3)	9.4	(8.7)	(18.7)	46.3
Relative	(22.5)	14.1	(5.9)	(16.7)	56.3

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

#### Analyst

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Figure 1: EFB's 4Q15 results review

FYE Dec (MYRm)	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>232.1</b>	<b>266.3</b>	<b>246.8</b>	<b>(7.3)</b>	<b>6.3</b>	Lower QoQ due to plant shutdowns for scheduled maintenance and machine installation to reduce glue consumption. The YoY growth was lower than expected due to higher sales to the ASEAN region in 1Q16 compared to higher sales to the Middle Eastern region in 1Q15
<b>EBITDA</b>	<b>43.5</b>	<b>48.3</b>	<b>40.7</b>	<b>(15.8)</b>	<b>(6.5)</b>	
<i>EBITDA Margin (%)</i>	18.8	18.1	16.5	NA	NA	
Depreciation	(15.8)	(15.7)	(16.6)	5.3	4.6	
<b>EBIT</b>	<b>27.7</b>	<b>32.6</b>	<b>24.1</b>	<b>(25.9)</b>	<b>(12.8)</b>	Lower YoY, mainly due to forex losses in 1Q16 against forex gains in 1Q15
<i>EBIT Margin (%)</i>	11.9	12.2	9.8	NA	NA	
Interest expense	(2.9)	(2.9)	(1.7)	(41.5)	(42.7)	
Interest income	0.2	0.3	0.4	23.7	87.7	
Associates	0.0	0.0	0.0	NA	NA	
El/Others	(0.2)	(3.1)	0.6	NM	NM	
<b>Pretax profit</b>	<b>24.8</b>	<b>27.3</b>	<b>24.3</b>	<b>(10.9)</b>	<b>(1.8)</b>	
<i>Pretax Margin (%)</i>	10.7	10.2	9.9	NA	NA	
Tax	(4.3)	(4.6)	(3.7)	(19.4)	(14.0)	
<i>Effective tax rate (%)</i>	17.3	16.7	15.1	NA	NA	Lower than our expectations
Minority Interest	(0.4)	(1.7)	(0.0)	(98.3)	(93.5)	
<b>Net Profit</b>	<b>20.1</b>	<b>21.0</b>	<b>20.6</b>	<b>(1.9)</b>	<b>2.8</b>	Slightly below expectations at 17% of our and consensus' full-year estimates
<b>Core Profit</b>	<b>20.2</b>	<b>23.4</b>	<b>20.2</b>	<b>(13.6)</b>	<b>(0.3)</b>	
<i>Core net margin (%)</i>	8.7	8.8	8.2	NA	NA	

Source: Company data, RHB

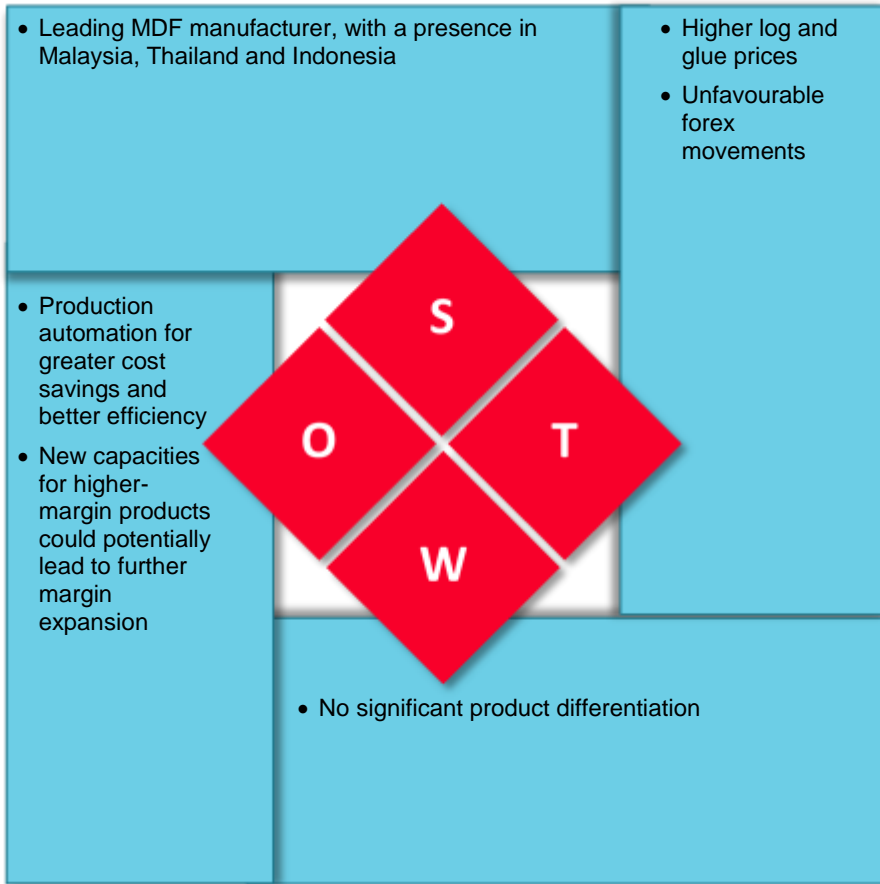
## Financial Exhibits

Financial model updated on 2016-05-21.

Asia	<b>Financial summary</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Malaysia	Recurring EPS (MYR)	0.02	0.17	0.13	0.15	0.16
Agriculture	EPS (MYR)	0.00	0.16	0.13	0.15	0.16
<b>Evergreen Fibreboard</b>	DPS (MYR)	0.00	0.01	0.02	0.04	0.04
Bloomberg EVF MK	BVPS (MYR)	1.56	1.84	1.33	1.44	1.56
<b>Buy</b>	Weighted avg adjusted shares (m)	513	564	846	846	846
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
10x FY16 P/E	Recurring P/E (x)	75.7	7.0	8.6	7.7	7.2
<b>Key drivers</b>	P/E (x)	3,497	7	9	8	7
i. A weaker MYR;	P/B (x)	0.74	0.63	0.87	0.81	0.74
ii. Cost savings from improved operational performance;	FCF Yield (%)	11.1	5.6	12.9	15.7	17.6
iii. New capacities of higher-margin products.	Dividend Yield (%)	0.0	0.8	1.9	3.2	3.5
<b>Key risks</b>	EV/EBITDA (x)	8.21	4.11	4.47	3.62	2.81
i. Unfavourable forex movements;	EV/EBIT (x)	22.1	6.3	6.7	5.2	3.9
ii. A spike in raw material costs;	<b>Income statement (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
iii. Lower-than-expected demand.	Total turnover	919	1,012	1,039	1,140	1,203
<b>Company profile</b>	Gross profit	185	288	317	351	375
Evergreen Fibreboard is a medium-density fibreboard (MDF) and particleboard manufacturer with a presence in Malaysia, Thailand and Indonesia.	EBITDA	102	187	224	244	266
	Depreciation and amortisation	(64)	(65)	(76)	(73)	(74)
	Operating profit	38	122	149	171	192
	Net interest	(13)	(10)	(8)	(7)	(5)
	Exceptional income - net	0	(3)	0	0	0
	Pre-tax profit	4	109	141	164	186
	Taxation	(3)	(14)	(24)	(33)	(45)
	Minority interests	(1)	(3)	(3)	(5)	(5)
	Recurring net profit	8	93	114	127	136
	<b>Cash flow (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
	Change in working capital	30	(54)	9	(20)	(13)
	Cash flow from operations	96	126	201	184	203
	Capex	(29)	(90)	(75)	(30)	(30)
	Cash flow from investing activities	(25)	(86)	(75)	(30)	(30)
	Proceeds from issue of shares	0	103	0	0	0
	Dividends paid	0	0	(29)	(32)	(34)
	Cash flow from financing activities	(59)	(4)	(59)	(63)	(65)
	<b>Balance sheet (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
	Total cash and equivalents	74	117	184	275	383
	Tangible fixed assets	777	846	846	802	758
	Intangible assets	20	20	20	20	20
	Total other assets	74	83	83	83	83
	Total assets	1,286	1,447	1,488	1,567	1,649
	Short-term debt	237	161	127	111	92
	Other liabilities	8	9	9	9	9
	Total liabilities	456	377	330	311	287
	Shareholders' equity	802	1,038	1,124	1,219	1,321
	Minority interests	29	32	34	37	41
	Total equity	830	1,070	1,158	1,256	1,362
	Net debt	214	82	(15)	(137)	(274)
	Total liabilities & equity	1,286	1,447	1,488	1,567	1,649
	<b>Key metrics</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
	Revenue growth (%)	(2.1)	10.1	2.6	9.8	5.5
	Recurrent EPS growth (%)	na	980.7	(18.5)	11.0	7.7
	Gross margin (%)	20.1	28.4	30.6	30.8	31.1
	Operating EBITDA margin (%)	11.1	18.5	21.6	21.4	22.1
	Net profit margin (%)	0.0	9.0	11.0	11.1	11.3
	Dividend payout ratio (%)	0.0	5.6	16.7	25.0	25.0
	Capex/sales (%)	3.2	8.9	7.2	2.6	2.5
	Interest cover (x)	2.9	11.7	19.6	25.9	35.3

Source: Company data, RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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**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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