

RHB Highlights

- ◆ **Evergreen Fibreboard Berhad : 2QFY12/05 Results Below Expectation Due To Delay In Commercial Run Of SFCL's 2nd Line** **OUTPERFORM**

Evergreen Fibreboard Berhad (RM1.02)

2QFY12/05 Results Below Expectation Due To Delay In Commercial Run Of SFCL's 2nd Line

- ◆ 2QFY12/05 results were below expectation, with pre-tax profit declining by 18.9% qoq due to RM2.3m loss arising from a fire at Siam Fibreboard's existing plant, which also resulted in a delay in the commercial run for the 2nd line.
- ◆ Margins were also affected by higher costs of glue and unexpected rise in prices of rubberwood in Thailand. There was RM5.4m tax adjustment, which boosted net profit for the quarter to RM16.2m (+22.1% qoq) and YTD net profit to RM29.4m.
- ◆ We have scaled down EPS for FY12/05 by 3.9% and for FY12/06-07 by 9-11%. Volume growth is expected to be stronger in 2H and in FY12/06 as SFCL resumed commercial production at its second line. We, however, raised our projected rubberwood price to US\$93.5/cu m and the exchange rate to RM3.70/US\$ by end-FY12/05 and RM3.60/US\$ by end-FY12/06.
- ◆ With the revision in earnings, our indicative fair value for the stock is lowered to RM1.19 per share, which is based on FY12/06 PER of 8.0x. Evergreen provides exposure to the growing MDF sector. Its balance sheet is solid with high dividend yield of 7.4% for FY12/05 and 6.4% p.a. for FY12/06-07. Maintain **OUTPERFORM**.

Results Review

2QFY12/05 results below expectations. Revenue grew by only 3.7% qoq to RM108.5m while pre-tax profit declined by 18.9% qoq to RM12.6m (yoy comparison was not available as Evergreen went public only in March this year). The weak performance for the quarter came mainly from its Thailand subsidiary, Siam Fibreboard Co Ltd (SFCL) because of: (1) The existing production line at SFCL was affected by fire, which caused the production downtime in second quarter and consequential losses of about RM2.3m. As a result of the fire, the commercial run for the newly completed second production line, which commenced operations in April, was delayed by about two months; (2) Margins were affected by higher costs of raw materials, such as the rising glue cost caused by high crude oil prices and unexpected increase in rubberwood cost in Thailand. Evergreen made an adjustment on the overprovision of taxation amounting to RM5.4m in 2Q, which boosted its bottomline net profit to RM16.2m (+22.1% qoq). YTD net profit amounted to RM29.4m, which accounted for 46% of our full-year forecast.

Outlook

Volume growth will pick up but high raw material costs are the concern. 2H performance is expected to be stronger with volume growth coming from SFCL, which has resumed commercial production at its second line. The concern remains on the rising cost of glue arising from the continued strength of oil price and high price of rubberwood, which is already at peak level. Evergreen will continue to intensify efforts to mitigate the effect of high costs by undertaking cost saving measures to reduce wastage and improve productivity via capital investment in new technology.

Earnings downgraded. We have revised our earnings projection for Evergreen lower to factor in: (1) the weak 2Q results including the loss associated with the fire, (2) a higher average price of rubberwood of US\$93.5/cu m compared with our previous assumption of US\$90/cu m; and (3) a stronger ringgit, whereby we assume an average exchange rate of RM3.70/US\$ by end-FY12/05 and RM3.60/US\$ by end-FY12/06. Meanwhile, prices of MDF (medium density fibreboard) have eased to about US\$210/cu m from US\$230/cu m in June but the YTD average of US\$220/cu m was still well above 2004's average of US\$206/cu m. As a comparison, YTD average particleboard price was 8% lower, which was partly due to additional new capacity in the Asean region. Evergreen focuses on MDF, which accounted for about 80% of its revenue.

With the new assumptions, our FY12/05 pre-tax profit projection was cut by about 12.2% but after factoring in the RM5.4m adjustment for tax provision, profit at the net level was reduced by 3.9%. Stripping out the tax adjustment, Evergreen net FY12/05 profit will be lower than its projected RM64.96m stated in its prospectus. As for FY12/06-07 projections, net profits were slashed by 9-11%. Do take note that our FY12/06-07 earnings projections for Evergreen have factored in: (1) an extension of investment tax privileges, which were granted by Thailand's Board of Investment to SFCL. The tax privileges will expire on 3 June 2006 and SFCL plans to apply for an extension; and (2) Evergreen also plans to add a third production line for SFCL, which we assume to start in the later half of FY12/06. Without these two factors, we will be looking at a low single-digit net profit growth for FY12/06-07.

Chart 1 : Rubberwood vs MDF Price Trend

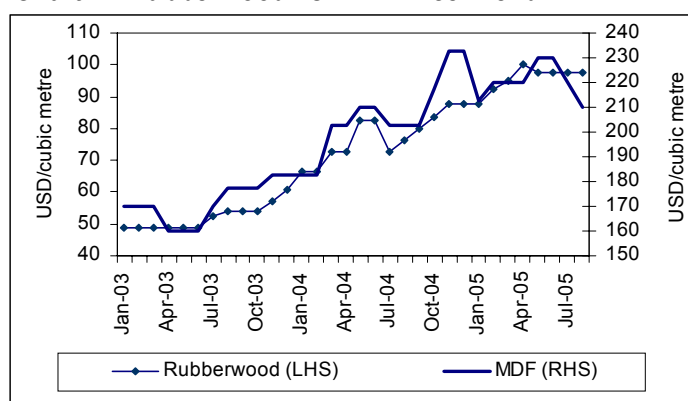
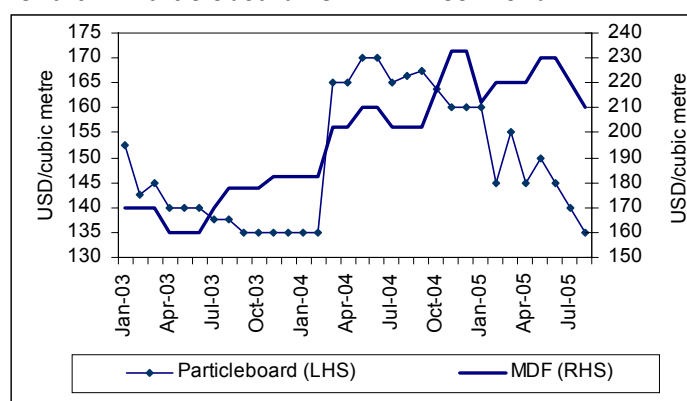


Chart 2 : Particleboard vs MDF Price Trend



Valuation & Recommendation

Indicative fair value revised lower to RM1.19 per share but maintain OUTPERFORM. The lower indicative fair value mainly reflects the downward revision in our EPS projection. We are maintaining our valuation for Evergreen at 8.0x PER for FY12/06 earnings. Overall, Evergreen share price has been relatively weak, down by 5.5% since we initiated coverage on the stock in early July. However, Evergreen share price performance also reflects the performance of other wood-based panel manufacturers, namely Mico Chipboard (-2.9%), Heveaboard (-11.4%) and Thailand-listed Vanachai (-7.1%). We continue to rate the stock an **OUTPERFORM**. Our main reasons are:

1. Evergreen provides exposure to the growing MDF sector. The other two listed wood-based panel manufacturers, i.e. Mico Chipboard and Heveaboard focus on particleboard products. Driving the demand for MDF would be the continued growth in the global economy as it will have positive implications on housing and thus, the furniture sector, which is the main user market for MDF. Stimulating the growth will be China, which is now one of the leading global exporters of furniture, while an emerging market is the Middle East as the booming real estate industry is spurring demand for interior and furniture products. China and the Middle East are among the main export destinations for Evergreen's MDF products.
2. Its balance sheet is solid. We expect the group to remain in a net cash position in FY12/05. The net gearing projected for FY12/06-07 is because we have factored in the capex requirements to add a third production line for SFCL and even then, net gearing is low at only 5%.
3. High dividend yield of 7.4% for FY12/05 and 6.4% p.a. for FY12/06-07. The management has committed to distribute up to 60% of FY12/05 net profit as tax-exempt dividend and expects to maintain a dividend payout of up to 50% of net profits for FY12/06-07. Based on our revised forecasts, we forecast a dividend of 7.5 sen per share for FY12/05 and 6.5 sen p.a. for the following two years.

Earnings Review And Forecasts

FYE 31 Dec (RMm)	1QFY05	2QFY05	% qoq	1HFY05	2005f	2006f	2007f
Revenue	104.7	108.5	3.7	213.1	505.6	637.6	731.6
Operating costs	(88.5)	(95.3)	(7.7)	(183.8)	(433.4)	(544.2)	(625.1)
EBIT	16.2	13.2	(18.4)	29.3	72.1	93.5	106.6
Interest expense	(0.7)	(0.7)	(0.2)	(1.5)	(2.5)	(2.4)	(2.4)
Share or associate's profit	0.1	0.1	43.1	0.2	1.1	1.2	1.2
Pre-tax profit	15.5	12.6	(18.9)	28.1	70.8	92.2	105.4
Taxation	(1.2)	5.0	523.5	3.8	(1.6)	(7.3)	(8.3)
Minority interest	(1.1)	(1.4)	(24.3)	(2.5)	(7.8)	(13.8)	(16.9)
Net profit	13.2	16.2	22.1	29.4	61.4	71.1	80.1
Issued shares (m)	480.0	480.0		480.0	480.0	480.0	480.0
Weighted shares (m)	407.2	443.8		443.8	461.9	480.0	480.0
EPS (sen)	3.2	3.6	12.0	6.6	13.3	14.8	16.7
Gross dividend (sen)	3.1	0.0		3.1	7.5	6.5	6.5
NTA per share (RM)	0.78	0.76		0.76	0.80	0.89	1.00
Margins (%)							
EBIT	15.4	12.2		13.8	14.3	14.7	14.6
Pre-tax profit	14.8	11.6		13.2	14.0	14.5	14.4
Net profit	12.6	14.9		13.8	12.1	11.2	10.9
Effective tax rate	7.6	n.m.		n.m.	2.2	7.9	7.9
Balance sheet items							
Cash (RMm)	187.8	93.6		93.6	119.8	38.2	33.1
Debts (RMm)	(95.0)	(67.6)		(67.6)	(61.4)	(60.4)	(59.4)
Net cash / (debts) (RMm)	92.8	26.0		26.0	58.5	(22.2)	(26.3)
Shareholders' funds (RMm)	373.3	370.1		370.1	385.5	430.2	479.1
Total assets (RMm)	554.7	543.4		543.4	618.4	602.7	663.8

* Pro-forma

Investment Summary

FYE Dec	Turnover (RMm)	PBT (RMm)	Net profit (RMm)	EPS (sen)	Growth (%)	PER (x)	CFPS (sen)	P/CF (x)	DPS (sen)	Gr. Yield (%)
2004a*	388.6	62.8	45.0	11.6	157.3	8.8	3.1	33.3	0.0	0.0
2005f	505.6	70.8	61.4	13.3	14.2	7.7	12.3	8.3	7.5	7.4
2006f	637.6	92.2	71.1	14.8	11.4	6.9	20.2	5.1	6.5	6.4
2007f	731.6	105.4	80.1	16.7	12.6	6.1	23.6	4.3	6.5	6.4

* Based on pro-forma earnings

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