

Corporate Highlights

Visit Note

Evergreen Fibreboard

FY12/08 Earnings Boosted By Higher Production Capacity



RHB Research Institute Sdn Bhd
A member of the RHB Group
Company No: 233327 -M

10 March 2008

Share Price : RM1.28
Fair Value : RM2.86
Recom : **Outperform**
(Maintained)

Table 1 : Investment Statistics (EVERGRN; Code: 5101) Bloomberg: EVF MK

FYE	Turnover	Net profit	EPS	Growth	PER	C.EPS*	P/NTA	P/CF	ROE	Net Gearing	GDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(%)
2007	731.6	118.5	24.7	98.5	5.2	-	1.2	-10.6	22.3	0.2	5.5
2008f	733.6	124.6	26.0	5.2	4.9	27.0	1.0	21.0	19.9	0.2	6.3
2009f	848.9	162.7	33.9	30.6	3.8	31.0	0.8	3.4	21.5	Net cash	6.3
2010f	863.8	164.9	34.3	1.3	3.7	31.0	0.7	3.2	18.6	Net cash	6.3

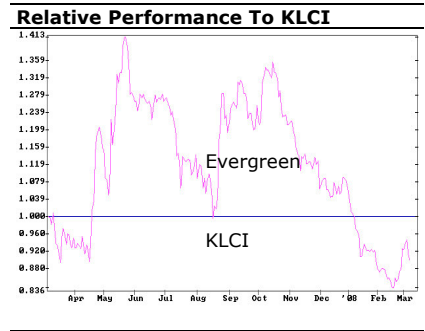
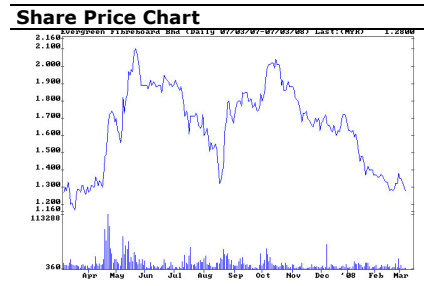
Main Board Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC * Consensus Based On IBES Estimates

- ◆ **MDF price to remain resilient.** This is largely underpinned by consistent demands from China and Vietnam due to flourishing wood-base furniture sector.
- ◆ **A new HDF/MDF plant is expected to be commissioned by 4QFY12/08.** This will increase the group's combined MDF capacity to 1.06m m3 p.a..
- ◆ **Application for a JAS certificate.** This is a part of the company's expansion plan in Thailand to produce better-quality HDF to cater for Japanese demand.
- ◆ **Gre Energy was commissioned in January 2008.** This bio-mass plant is expected to generate cost savings of RM12-15m p.a..
- ◆ **Forecasts.** We reduce our FY12/08-09 earnings by 6-11% to reflect the reduction in Siam Fibreboard's utilisation rate. Indicative fair value is reduced to RM2.86 from RM3.23 based on unchanged 11x FY08 EPS.
- ◆ **Risks.** The risks include: 1) sharp drop in MDF price; 2) escalating crude oil related glue and logistics costs that would reduce margins; 3) strengthening of the ringgit which could reduce the company's export competitiveness.
- ◆ **Investment case.** We continue to like Evergreen given its undemanding valuations. The company's efforts to expand vertically by having its own plantation forest and resin plant to ensure continuous supply would enhance Evergreen's earnings visibility for future years.

Issued Capital (m shares)	480.0
Market Cap(RMm)	614.4
Daily Trading Vol (m shs)	1.2
52wk Price Range (RM)	1.17-2.10

Major Shareholders: (%)	
Kuo Family	42.2
Lembaga Tabung Haji	5.1

FYE Aug	FY08	FY09	FY10
EPS chg (%)	-11.7	-6.0	-
Var to C.EPS (%)	-3.8	9.3	10.8

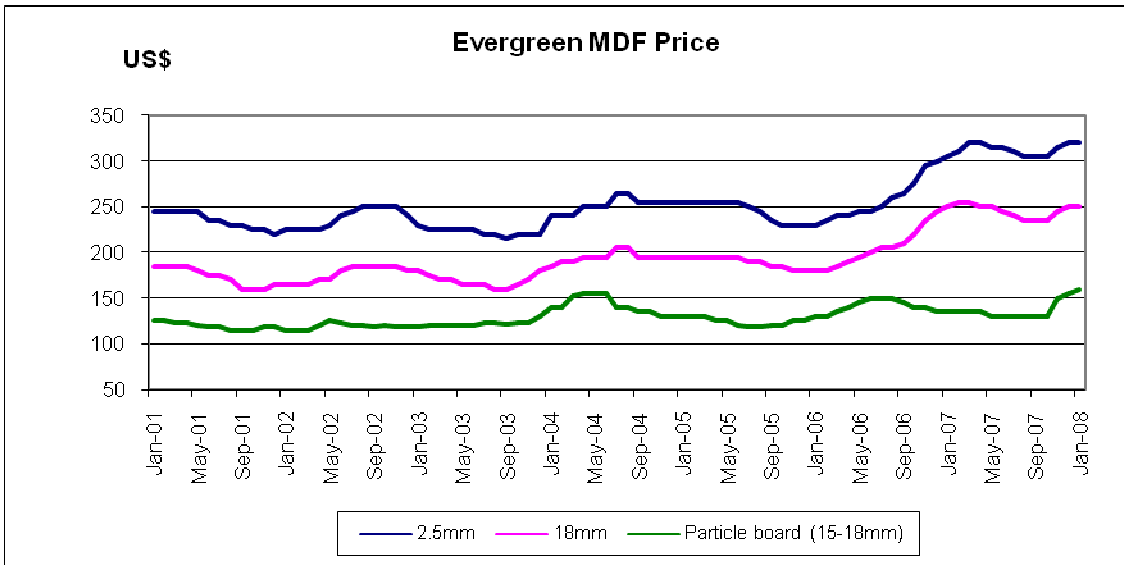


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Company Visit - Key Takeaways

- ◆ **MDF price to remain resilient.** Despite a sharp decline in plywood prices over the last one year, MDF prices were relatively stable and continued its uptrend movement (see Chart 1). As a guide, January-08's 2.5mm MDF price was 5% higher yoy at US\$320m3. This was largely underpinned by consistent demand from China and Vietnam due to the growing furniture and household products industry in the respective countries. Going forward, we believe demand from these countries would remain stable, with MDF prices remaining resilient in FY12/08 and FY12/09. We maintain our MDF price projections of US\$284-285m3 for FY12/08-09, a slight decline from the estimated USD287m3 in FY12/07.



- ◆ **A new HDF/MDF plant is expected to be commissioned by 4QFY12/08.** This is Evergreen's second expansion in Thailand, following the acquisition of Takeuchi MDF for RM107m cash in Nov 2006. This new plant is fully automated with 268,00m3 in capacity. It will be the world's first super thin high density fibreboard plant, and is also capable of producing MDF board. The expansion will increase the group's combined MDF capacity to 1.06m m3 p.a.. We have earlier assumed the commissioning of the plant to be in 3QFY12/08. As it has now been delayed by one quarter, we reduce our capacity utilisation rate assumptions of Siam Fibreboard to 49% from 56% for FY12/08, and to 75% from 77% for FY12/09 of the total production capacity of Siam Fibreboard of 570,000 m3.
- ◆ **Application for a JAS certificate.** Evergreen has put in an application to obtain JAS certification which will enable it to penetrate the better-margin Japanese market. Evergreen's capacity expansion in Thailand would enable the production of better-quality HDF to cater for Japanese demand. Currently, Evergreen does not export any of its products to Japan. According to the management, the application process will take about 6-8 months.
- ◆ **Gre Energy was commissioned in January 2008.** Gre Energy is a bio-mass plant with a capacity of 9.6 mw in Thailand to transmit energy to its sister company, Siam Fibreboard. Currently, the plant is running at half of its capacity. According to the management, this bio-mass plant is expected to generate cost savings of RM12-15m p.a. once fully utilised. This has been reflected in our forecast as we had projected gross margin to increase by 1%-pt in FY12/08. However, we project EBIT margin would decrease by 0.6%-pt due to higher depreciation costs from new HDF plants.

Risks

- ◆ **Risks to our view.** The risks include: 1) sharp drop in MDF price; 2) escalating crude oil related glue and logistics costs which would eat into margins; and 3) strengthening of the ringgit which could reduce the company's export competitiveness.

- ◆ **Mitigating factors.** We believe a sharp drop in MDF price is unlikely in the short term as we project prices to be supported by the consistent demand from China and Vietnam. Escalating glue and logistics costs would inevitably reduce margins but the impact would be muted by the company's efforts to reduce other costs via investment in adhesive and bio-mass plants. We think the strengthening of the ringgit is a threat to the company's export competitiveness, especially when competing with Indonesian MDF manufacturers.

Forecasts And Assumptions

- ◆ **Reduction in FY12/08-09 earnings by 6-11%.** We reduce our FY12/08-09 earnings by 6-11% to reflect the delay in the commissioning of the new plant and a subsequent reduction in Siam Fibreboard's utilisation rate.
- ◆ **Earnings assumptions.** We continue to project MDF price to remain at US\$284-285/m3 for FY12/08-10.

Valuations And Recommendation

- ◆ **Maintain Outperform.** Post-earnings revision, indicative fair value is reduced to RM2.86 from RM3.23 based on unchanged 11x FY08 EPS, which is at a 1x discount to our 1-year forward PER of 12x for the timber sector, to reflect its relatively small market capitalisation. We continue to like Evergreen given its undemanding valuations. The company's efforts to expand vertically by having its own plantation forest and resin plant to ensure continuous supply would enhance Evergreen's earnings visibility for future years.

Table 2. Earnings Forecasts

FYE Dec (RMm)	FY07a	FY08F	FY09F	FY10F
Turnover	731.6	733.6	848.9	863.8
Turnover growth (%)	38.5	0.3	15.7	1.8
Cost of Sales	-475.7	-469.5	-543.3	-552.9
Gross Profit	255.9	264.1	305.6	311.0
EBITDA	185.5	184.1	228.4	230.1
EBITDA margin (%)	25.4	25.1	27.0	26.6
Depr&Amor	-31.6	-44.2	-51.3	-48.7
Net Interest	-7.3	-4.1	-2.8	-1.4
Associates	3.6	1.2	1.2	1.2
Pretax Profit	140.4	136.9	175.4	181.2
Tax	-9.4	-12.3	-12.7	-16.3
Minorities	-12.5	0.0	0.0	0.0
Net Profit	118.5	124.6	162.7	164.9

Source: Company data, RHBRI estimates

Table 3. Forecast Assumptions

FYE Dec	FY08F	FY09F	FY10F
Capacity (000 m3)	1,060	1,060	1,060
Average MDF selling price (RM/m3)	285	284	285
Average particleboard price (RM/m3)	131	131	131
RM vs USD	3.30	3.20	3.15

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Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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