Malaysia

MARKET DATELINE ● PP 7767/09/2009(022069)

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

Corporate Highlights

Company Update

9 September 2009

Evergreen Fibreboard

Corporate Presentation – "Greening" Through Recovery

Share Price	:	RM0.88
Fair Value	:	RM1.07
Recom	:	**Outperform** (Maintained)

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

FYE Dec	Turnover (RMm)	Net profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (%)	Net Gearing (%)	GDY (%)
2008a	730.5	80.2	16.4	(33.5)	5.4	-	0.8	(1.7)	13.1	0.6	0.0
2009f^	709.6	46.6	9.1	(44.6)	9.7	8.0	0.7	8.4	7.1	0.5	0.0
2010f	818.4	68.8	13.4	47.5	6.6	11.0	0.6	12.8	9.6	0.4	2.3
2011f	885.1	64.8	12.6	(5.8)	7.0	11.0	0.6	4.3	8.4	0.4	2.2

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

Highlights from Corporate Presentation:

- **Running at higher capacity in 3Q09, near-term outlook favourable.** Evergreen's capacity utilisation increased 10%-pts to est.74% in 3Q09, due to improving demand. Management expects capacity utilisation to return to normal levels of 85-90% in the coming three months, as demand and average selling prices continue to pick up amid global economic recovery.

- **MDF selling prices to trend up**. While Aug-Sept 09's actual selling prices have been flattish due to seasonality factors, management foresees average selling prices to continue trending up, potentially by another 5-10% by year-end from improving demand.

- **Major spikes in cost of production unlikely** in the near term as increase in log prices is offset by cost savings from increasing capacity utilisation. While log prices increased c.5% qoq in 3Q09 (vs. 2Q09), we highlight that the 10%-pts qoq jump in capacity utilisation would help offset the higher log prices. Meanwhile, glue price is expected to stabilise at current levels.

- **Margin normalised to pre-economic slowdown levels.** Before the start of the economic slowdown in 2H08, Evergreen's gross profit margin averaged at 30-35% as demand and prices were predictable, and in line with raw material prices. However, the current economic crisis led to Evergreen achieving gross profit margins of only between 21-27%, from 3Q08 to Jul 09. We understand however that as demand and prices continue on its recovery track, Evergreen's gross profit margins have started to normalise at c.30% levels in Aug and Sept 09.

- **Risks.** The risks include: 1) sharp drop in MDF price; 2) sharp increase in log costs; 3) further escalation of crude oil related glue and logistics costs; and 4) strengthening of the ringgit which could reduce the company's export competitiveness.

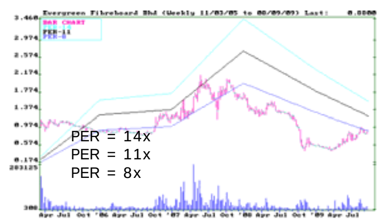
- **Forecasts.** No changes to our forecasts. In a blue-sky scenario, if Evergreen's capacity utilisation averages at "normal levels" of 85% in FY10 and gross profit margin stabilises to pre-crisis levels, we believe that Evergreen's FY10 earnings could potentially be as much as RM130m, representing more than 90% upside to our current net profit estimate of RM69m in FY10.

- **Maintain Outperform.** We maintain our **Outperform** call on **Evergreen** with fair value of RM1.07 based on unchanged 8x CY10.

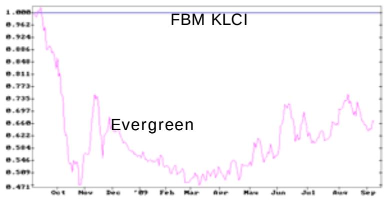
Issued Capital (m shares)	513.0
Market Cap(RMm)	451.4
Daily Trading Vol (m shs)	0.5
52wk Price Range (RM)	0.43-1.16
Major Shareholders:	**(%)**
Kuo Family	42.2
Lembaga Tabung Haji	5.1

FYE Dec	FY09	FY10	FY11
EPS chg (%)	-	-	-
Var to C.EPS (%)	13.6	21.9	14.8

PE Band Chart



Relative Performance To KLCI



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Corporate Presentation

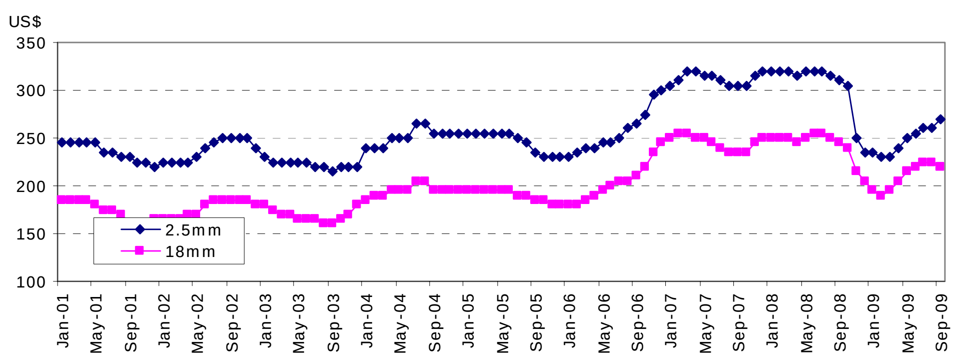
- **Highlights.** We invited Mr. Kuo Jen Chiu, Executive Director and Chief Operating Officer of Evergreen Fibreboard for RHBRI's Mid Cap conference yesterday and the following are the key highlights from the corporate presentation:

  1. Evergreen's capacity utilisation increased 10%-pts to est.74% in 3Q09, due to improving demand. Current demand momentum is expected to persist in the near term.
  2. MDF selling prices are expected to trend up by another 5-10% by year-end.
  3. Evergreen does not foresee any major spikes in cost of production in the near term, as increase in log prices is offset by cost savings from increasing capacity utilisation. Meanwhile, glue prices have stabilised.
  4. Margin normalised to pre-2H08 levels.

- **Running at higher capacity in 3Q09, near-term outlook favourable**. Evergreen's capacity utilisation in 3Q09 is estimated at 74% in 3Q09, up 10%-pts from 2Q09's 64% (1Q09: 54%) due to improving demand as: 1) customers are replenishing their inventories and now returning to the "normal" inventory holding period of one-month; 2) global confidence level is picking up; and 3) the impact of supply shortages is kicking in after competitors cut back capacity / closed plants. While this remains below its normal capacity utilisation of 85-90% for the past 5-years, we highlight that Evergreen's capacity utilisation has been increasing by between 1 to 5%-pt mom for the past six months. Management estimates capacity utilisation to return to normal levels in the coming three months, as demand continues to pick up amid global economic recovery. With 9M09 capacity utilisation of 64%, we believe that Evergreen is on track to meeting our full year forecast of 68% for FY09, which implies an average capacity utilisation of 80% in 4Q09. For FY10, we remain conservative for now and maintain our capacity utilisation assumption at 73%.

- **MDF selling prices to trend up**. While Aug-Sept 09's actual selling prices have been flattish (Aug 09: US$243/m3; Sept 09: US$245/m3) due to: 1) seasonally lower demand during Ramadhan fasting period and Chinese Ghost festival; and 2) the clearing of production backlogs that were contracted at lower average selling prices, Evergreen foresees average selling prices to continue trending up, potentially by another 5-10% by year-end, due to reasons mentioned above. While 9M09 average selling prices of US$229/m3 are above our FY09 forecast of US$214/m3, we maintain our forecasts for FY09 for now, while our forecasts for FY10-11 of US$239/m3 and US$249/m3 are also maintained.

Chart 1: Evergreen MDF Price From 2001-2009 (US$) Far East



Sources: Company, RHBRI

- **Major spikes in cost of production unlikely**. Evergreen does not foresee any major spikes in cost of production in the near term as increase in log prices is offset by cost savings from increasing capacity utilisation. While log prices increased c.5% qoq in 3Q09 (vs. 2Q09), we highlight that the 10%-pt qoq jump in capacity

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utilisation would help offset the higher log prices. Meanwhile, glue price is expected to stabilise at current levels. Furthermore, given that some competitors have temporarily shut down their production line / plant, the demand for raw materials has actually eased, and availability of raw materials is becoming less of a concern. For FY10-11, we estimate raw material costs to increase by approximately 3-4% p.a., which is in line with management's expectations.

- **Margin normalised to pre-economic slowdown levels.** Before the start of the economic slowdown in 2H08, Evergreen's gross profit margin averaged at 30-35% as demand and prices were predictable, and in line with raw material prices. However, the current economic crisis led to Evergreen achieving gross profit margins of only between 21-27%, from 3Q08 to Jul 09. We understand however that as demand and prices continue on its recovery track, Evergreen's gross profit margins have started to normalise to c.30% levels in Aug and Sept 09, bringing 9M09 margin to approximately 24.9%, in line with our for FY09 forecast of 25%. Going forward, we expect gross profit to improve to 27% in FY10 and 26% in FY11.

Risks

- **Risks** include: 1) sharp drop in MDF price; 2) sharp increase in log costs; 3) further escalation of crude oil related glue and logistics costs; and 4) strengthening of the ringgit which could reduce the company's export competitiveness.

Forecasts

- **No changes to our forecasts.** We remain conservative and maintain our earnings forecasts for FY09-11.

- **Blue sky scenario.** In a blue-sky scenario, if Evergreen's capacity utilisation averages at "normal levels" of 85% in FY10 and gross profit margin stabilises to pre-crisis levels, we believe that Evergreen's FY10 earnings could potentially be as much as RM130m. This represents more than 90% upside to our current net profit estimate of RM69m in FY10.

Valuations And Recommendation

- **Investment case.** We continue to like Evergreen for:

  1. The improving MDF industry outlook, underpinned by increasing demand and average selling prices.

  2. Low downside risk to current earnings and potential upgrade to our and consensus FY09 and FY10 earnings.

- **Maintain Outperform.** We believe that the worst is over for Evergreen as fundamentals are improving (i.e. higher sales volume and capacity utilisation; and more sustainable increase in average selling prices (4-5 months increase)). While recovery from hereon would be gradual, we highlight that there is now limited downside risk to earnings, and there may be potential upgrade to our and consensus earnings ahead. As such, we maintain our **Outperform** call on **Evergreen** with fair value of RM1.07 based on unchanged 8x CY10.

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Table 2. Earnings Forecasts				
FYE Dec (RMm)	**FY08a**	**FY09F**	**FY10F**	**FY11F**
Turnover	**730.5**	**709.6**	**818.4**	**885.1**
Turnover growth (%)	(0.1)	(2.9)	15.3	8.1
Cost of Sales	(553.1)	(534.1)	(597.7)	(657.2)
Gross Profit	177.4	175.5	220.7	227.9
EBITDA	**118.2**	**95.4**	**118.6**	**116.6**
EBITDA margin (%)	16.2	13.4	14.5	13.2
Depr&Amor	(39.8)	(37.8)	(34.8)	(34.8)
Net Interest	(13.0)	(16.8)	(15.4)	(13.3)
Associates	1.7	1.7	1.2	1.2
Pretax Profit	**67.0**	**42.5**	**69.6**	**69.6**
Tax	5.5	(0.8)	(2.8)	(2.8)
Minorities	7.7	5.0	2.0	(2.0)
Net Profit	**80.2**	**46.6**	**68.8**	**64.8**

Source: Company data, RHBRI estimates

Table 3. Forecast Assumptions			
FYE Dec	**FY09F**	**FY10F**	**FY11F**
Capacity utilisation (%)	68	73	78
Average MDF selling price (US$/m3)	214	239	249
Average particleboard price (US$/m3)	111	116	121
RM vs US$	3.40	3.30	3.25

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM 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 FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

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

Industry/Sector Ratings

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

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

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

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