

Corporate Highlights



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

Results Note

25 August 2009

Evergreen Fibreboard

Demand To Drive Earnings For 2H

Share Price : RM0.89
Fair Value : RM1.07
Recom : **Outperform**
(Maintained)

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

FYE Dec	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (x)	Net gearing (x)	Gr. Div. Yld. (%)
2008a	730.5	80.2	16.4	(33.5)	5.4	-	0.8	(1.8)	13.1	0.6	0.0
2009f^	709.6	46.6	9.1	(44.6)	9.8	8.0	0.7	8.5	7.1	0.5	0.0
2010f	818.4	68.8	13.4	47.5	6.6	11.0	0.7	12.9	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	2.1

Main Board Listing /Trustee Stock/Syariah-Approved Stock By The SC
^Core net profit

* Consensus Based on IBES Estimates

◆ **Within expectations.** Evergreen's 1HFY12/09 core net profit came in within our and consensus expectations, accounting for 31% of our and 34% of consensus expectations respectively. We consider this to be within our expectations, as we understand that demand is picking up in 2H09, as customers replenish their inventories to the "normal" one-month inventory level, global confidence level picks up; and the impact of supply shortages kick in after competitors cut back capacity / closed plants. Furthermore, as Evergreen's clients are from diversified locations, it is less subjected to country specific risk unlike the Malaysian timber players, which are more Japanese market focused.

RHBRI	Vs.	Consensus
✓	Above In Line Below	✓

Issued Capital (m shares)	513.0
Market Cap(RMm)	456.6
Daily Trading Vol (m shs)	0.5
52wk Price Range (RM)	0.43-1.24

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

◆ **Core net profit +38.1% qoq.** Core net profit increased 38.1% qoq to RM8.3m, due mainly to higher capacity utilisation of 64% in 2Q09 (vs. 54% in 1Q09). Qoq, average selling prices of MDF improved marginally by 5% to US\$204/cum in 2Q09 (vs. US\$198/cum in 1Q09). During the quarter, Evergreen's Indonesia JV (51:49) has recorded unrealised forex gain of RM3.9m (vs. 1Q09's unrealised forex loss of RM2.7m).

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

◆ **Improving outlook.** We believe that Evergreen's outlook is improving due to two factors:

PE Band Chart



1) **Higher demand leading to rising average selling prices...** Indicative average selling prices for MDF have jumped 16% to US\$240/cum in 3Q09 (vs. \$204/cum in 2Q09), despite management's initial belief that average selling prices were likely to be capped at the US\$220-US\$230 levels, due to pick up of demand in 2H09.

2) **...And to increasing sales volume and capacity utilisation.** Following the higher demand, management highlighted that Evergreen's capacity utilisation in Jul-09 was at 68% (vs. 64% in 2Q09). We believe that Aug and Sept's utilisation would be higher/close to Jul's capacity utilisation rate, based on existing contracts-in-hand. For 2H09, we estimate utilisation rate to average 76% (vs. 60% in 1H09).

Relative Performance To FBM KLCI



◆ **Risk.** 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.

◆ **Investment case.** We value **Evergreen** at RM1.07 based on unchanged target PER of 8x FY12/10 earnings (which is at a 30% discount to the timber sector due to its relatively smaller market capitalisation). We maintain our **Outperform** recommendation on the company given its improving earnings outlook.

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Table 2: Earnings Review

FYE Dec (RMm)	2008 2Q	2009 1Q	2009 2Q	%QoQ Chg	% YoY Chg	2008 1H	2009 2H	% YoY Chg	Observation/ Comments
Revenue	186.3	154.9	180.6	16.6	(3.1)	365.5	335.5	(8.2)	Lower revenue due mainly to lower average selling prices of MDF in 1H09 of US\$202 (-29% yoy). Qoq, revenue increased due mainly to higher capacity utilisation of 64% in 2Q09 (vs. 54% in 1Q09) and higher average selling prices (+5% qoq).
EBIT	26.9	8.8	14.3	62.5	(47.0)	59.7	23.1	(61.4)	
Core EBIT	26.9	10.2	12.3	21.0	(54.3)	60.8	22.5	(63.0)	See EBIT margin
Interest Expense	(2.6)	(4.7)	(4.6)	(1.4)	76.1	(4.6)	(9.4)	103.1	Higher interest expense yoy due to increase in net borrowing by c.RM265m.
EI	0.0	(1.4)	2.0	>(100)	n.m.	(1.1)	0.6	>(100)	Unrealised forex gain from its 51:49 Indonesia JV.
Associates	0.1	0.1	0.5	>100	>100	0.6	0.6	(5.0)	
Pretax Profit	24.4	2.7	12.1	>100	(50.5)	54.5	14.8	(72.8)	
Core PBT	24.4	4.1	10.1	>100	(58.5)	55.6	14.2	(74.4)	Filtered down from EBIT and higher interest expense.
Taxation	0.8	(1.2)	(0.7)	(44.2)	>(100)	0.5	(1.9)	(518.6)	Effective tax rate lower than statutory tax rate mainly due to the tax-exempt status granted to most of the companies in the group.
Minority Interest	0.6	3.1	(1.1)	>(100)	>(100)	1.1	2.0	84.9	
Net profit	25.8	4.6	10.3	>100	(60.1)	56.1	14.9	(73.4)	
Core net profit	25.8	6.0	8.3	38.1	(67.7)	57.2	14.4	(74.9)	Filtered down from PBT and higher effective tax rate.
EPS	5.4	0.9	2.0	>100	(62.8)	11.7	2.9	(75.2)	
DPS	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	No dividends declared during the quarter.
Core EBIT Margin (%)	14.5	6.6	6.8	0.2	(7.6)	16.6	6.7	(9.9)	Yoy, lower margin due to drop in average selling prices (-29% yoy) and lower economies of scale from lower plant utilisation rate (1H09: c. 60% vs. 1H08: c. 88%). Qoq, higher margin due to higher plant utilisation rate of 64% in 2Q09 (vs. 54% in 1Q09).
Core Pretax Margin (%)	13.1	2.7	5.6	2.9	(7.5)	15.2	4.2	(11.0)	
Core Net Margin (%)	13.8	3.9	4.6	0.7	(9.2)	15.6	4.3	(11.4)	
Effective Tax Rate (%)	(3.4)	30.1	6.8	(23.3)	10.3	(0.8)	13.6	14.4	

Source: Company data, RHBRI

Table 3. 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 4. Forecast Assumptions

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

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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.

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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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