

Company Focus

Evergreen Fibreboard

Bloomberg: EVF MK | Reuters: EVGN.KL

Malaysia Equity Research PP 11272/04/2009(021317)

30 Jan 2009

FULLY VALUED RM0.52 KLCI : 883.16

(Downgrade from Hold)

Price Target : 12-Month RM 0.45 (Prev RM 0.60)

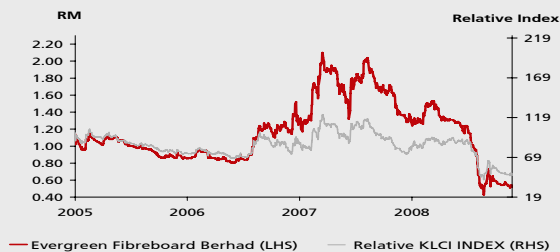
Reason for Report : Company Update

Potential Catalyst: Lower MDF sales volume and prices

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2007A	2008F	2009F	2010F
Turnover	732	728	521	556
EBITDA	175	136	105	107
Pre-tax Profit	141	78	35	40
Net Profit	119	79	32	37
Net Pft (Pre Ex.)	119	79	32	37
EPS (sen)	24.7	15.4	6.3	7.2
EPS Pre Ex. (sen)	24.7	15.4	6.3	7.2
EPS Gth Pre Ex (%)	N/A	(38)	(59)	15
Diluted EPS (sen)	24.7	15.4	6.3	7.2
Net DPS (sen)	7.0	2.0	1.0	1.5
BV Per Share (sen)	110.9	121.1	125.4	131.6
PE (X)	2.1	3.3	8.2	7.1
PE Pre Ex. (X)	2.1	3.3	8.2	7.1
P/Cash Flow (X)	1.7	2.1	3.2	3.0
EV/EBITDA (X)	1.9	4.5	5.1	4.3
Net Div Yield (%)	13.6	3.9	1.9	2.9
P/Book Value (X)	0.5	0.4	0.4	0.4
Net Debt/Equity (X)	0.2	0.6	0.4	0.3
ROAE (%)	44.6	13.7	5.1	5.6
Earnings Rev (%):	(11.6)	(57.2)	(46.2)	
Consensus EPS (sen):		18.0	16.7	17.0

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: MDF Manufacturer

Not so green ahead

We expect Evergreen to record significantly weaker y-o-y (c.70%) and q-o-q (c.-50%) earnings in 4Q08. Daily sales volume had dropped by 40-45% in 4Q08 from its average level in 9M08 following weaker global demand for MDF, while MDF prices had dropped sharply in Dec 08 and Jan 09. Though costs have fallen as methanol prices plunged 40% y-o-y and rubberwood prices softened, we believe that it is unlikely for Evergreen to sustain its growth momentum as market becomes more competitive. We slashed our earnings forecasts by 12-57% in FY08-10F as Evergreen is expected to be severely hit by weak MDF demand and prices. Hence, we downgrade Evergreen to Fully Valued from Hold with RM0.45 price target based on 0.4x CY10 BV.

FY09 MDF sales volume likely to drop despite full year contribution from Hume Fireboard. We now project 10% y-o-y decline (from +5%) in MDF sales volume in FY09 as demand for MDF is expected to remain soft hit by global economic slowdown. However, we expect FY10 MDF sales volume to rise by 5% (from 0%) on expectation that demand would recover after bottoming in FY09.

FY09 MDF prices may touch previous low. We had imputed a 20% drop in average MDF prices to US\$228/m³ (from 0%) for FY09, assuming prices will hit the previous low in 2005. We believe competition would intensify further as competitors continue to undercut prices. However, in line with expected recovery in demand in FY10, we also expect MDF prices to increase by 5% (from 0%).

No longer a dividend play. We cut our dividend forecasts as we believe cash conservation will be Evergreen's top priority going forward given the bleak market prospects. Our net DPS forecasts are cut to 2.0sen (from 3.5sen) in FY08, 1.0sen (from 3.0sen) in FY09, and 1.5sen (from 2.5sen) in FY10.

Downgrade to Fully Valued from Hold. We reduce our price target to RM0.45 (from RM0.60) based on 0.4x CY10 BV, consistent with the valuations for its peers. We had changed our valuation method from pegging to PE to pegging to P/BV given the expected fluctuations in earnings.

At A Glance

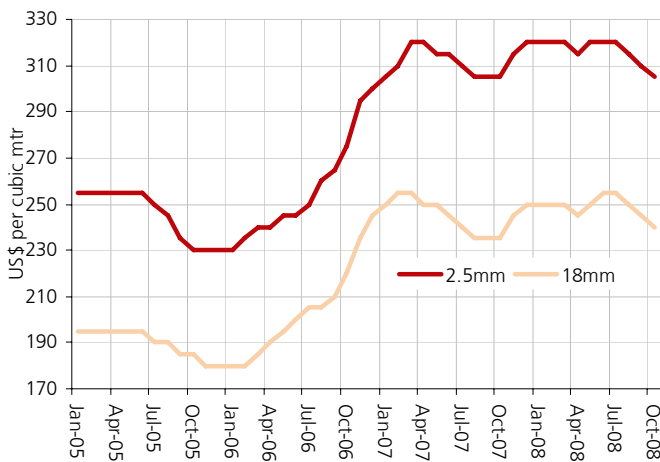
Issued Capital (m shrs)	513
Mkt. Cap (RMm/US\$m)	264 / 73.4
Major Shareholders	
Kuo Family (%)	42.3
Free Float (%)	52.5
Avg. Daily Vol.('000)	264

Evergreen Fibreboard

Highlights

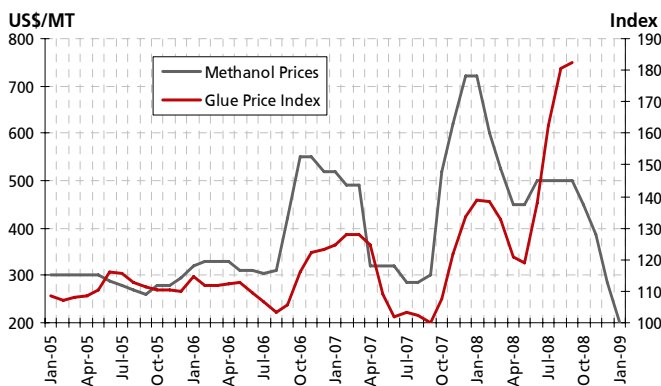
Cut FY08-10F earnings by 12-57%. We slashed our earnings forecasts by 12% to RM79.2m in FY08, 57% to RM32.2m in FY09, and 46% to RM37.1m in FY10, mainly after cutting our growth assumptions for MDF sales volume and average MDF prices. We have also imputed 5-7% weaker USD/MYR rate based on our revised house forecasts in FY09-10F (see tables below).

MDF price trend – on the decline



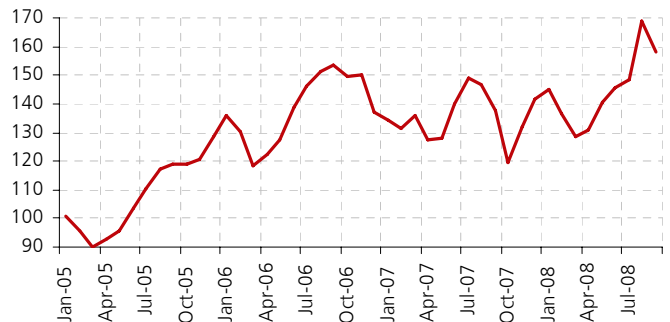
Source: Company, DBS Vickers

Methanol prices are trending downwards



Source: Company, Methane.com, DBS Vickers

Rubber wood log price index shows weakening trend



Source: Company, DBS Vickers

Key assumptions

	2007A	2008F	2009F	2010F
MDF prices (in USD)				
2.5mm	312	320	256	269
18mm	245	250	200	210
MYR/ USD rate				
	3.55	3.51	3.41	3.35
MDF Volume Growth (%)*				
	19.4	-6.3	-10.0	5.0
Potential cost savings (RMm)				
	0.0	11.4	22.4	23.3

*Excluding MDF plant in Indonesia. Contribution from the plant is minimal given its small-sized capacity and EFB's 51% share of the joint venture.

Source: Company, DBS Vickers

Cash flow summary and comments

FYE Dec (RMm)	FY09F	FY08F	3Q08	2Q08	1Q08	Comment
Profit before taxation	34.9	78.2	13.4	24.4	30.1	
Changes in working capital	21.3	17.4	31.2	27.4	(12.9)	Cash conversion cycle was 56 days (on annual basis) as at end-3Q08 (vs 55 days as at end-2Q08).
Others inc. non-cash items	48.1	45.4	32.3	(17.2)	2.6	
Net cash flow generated from/(used in) operating activities	104.3	141.1	76.9	34.6	19.8	
Capex	(15.0)	(420.0)	(327.2)	(54.9)	(29.5)	Higher capex in 3Q08 mainly for the acquisition of Hume Fibreboard and new 3 rd MDF production line in Thailand
Others inc. non-cash items	-	5.6	0.9	0.8	0.9	
Net cash flow generated from/(used in) investing activities	(9.4)	(414.4)	(326.3)	(54.0)	(28.6)	
Increase in share capital	-	43.2	43.2	-	-	Issued 33m new shares at RM1.31 each for the acquisition of Hume Fibreboard
Dividend Paid	(9.6)	(33.6)	(21.6)	-	-	
Drawdown / (Repayment) of loan	(50.0)	222.0	215.9	(5.2)	15.7	Additional borrowings mainly to finance acquisition of Hume Fibreboard (HFSB). Net gearing jumped to 0.6x in 3Q08 from 0.2x in 2Q08 after HFSB was consolidated. Net debt rose to RM341.6m in 3Q08 from RM120.5m in 2Q08.
Net cash flow generated from/(used in) financing activities	(59.6)	231.6	237.5	(5.2)	15.7	
Net Change in Cash & Cash Equivalents	35.3	(41.7)	(11.9)	(24.7)	6.9	

Source: Company, DBS Vickers

Peer Comparison

	Local Currency	Price (local currency)	Mkt Cap (US\$mil)	CY09 PE (x)	CY10 PE (x)	CY10 P/BV (x)	ROE (%)	Net gearing (x)
Vanachai Group PCL	THB	1.69	63	3.3	n.a	n.a.	9.7	1.1
Sumalindo Lestari Jaya Tbk PT	IDR	200.00	22	1.9	1.3	0.3	5.6	1.9
Pfleiderer Grajewo SA	PLN	6.10	90	9.7	6.1	0.5	19.9	1.6
Evergreen Fibreboard	MYR	0.52	73	8.2	7.2	0.4	13.7	0.6
		Average (exc. Evergreen)		5.0	3.7	0.4	11.7	1.5

Source: Bloomberg, DBS Vickers

Evergreen Fibreboard

EFB's historical 1-year forward PE



Source: Bloomberg, DBS Vickers

EFB's historical 1-year forward P/BV



Source: Bloomberg, DBS Vickers

Income Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	732	728	521	556
Cost of Goods Sold	(476)	(536)	(391)	(417)
Gross Profit	256	192	129	140
Other Opng (Exp)/Inc	(111)	(107)	(77)	(85)
Operating Profit	145	85	53	54
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	3	2	2	2
Net Interest (Exp)/Inc	(7)	(9)	(20)	(16)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	141	78	35	40
Tax	(9)	(2)	(3)	(3)
Minority Interest	(13)	3	0	0
Preference Dividend	0	0	0	0
Net Profit	119	79	32	37
Net Profit before Except.	119	79	32	37
EBITDA	175	136	105	107
Sales Gth (%)	38.5	(0.4)	(28.5)	6.9
EBITDA Gth (%)	92.7	(22.1)	(23.4)	2.5
Opg Profit Gth (%)	111.0	(41.2)	(38.3)	3.6
Net Profit Gth (%)	98.4	(33.3)	(59.4)	15.3
Effective Tax Rate (%)	6.7	3.0	7.8	7.8

Cash Flow Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	141	78	35	40
Dep. & Amort.	28	51	52	53
Tax Paid	(6)	(4)	(2)	(2)
Assoc. & JV Inc/(loss)	(3)	(2)	(2)	(2)
Chg in Wkg.Cap.	(13)	17	21	(7)
Other Operating CF	13	0	0	0
Net Operating CF	160	141	104	82
Capital Exp.(net)	(228)	(420)	(15)	(15)
Other Invts.(net)	39	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	6	6	6	6
Net Investing CF	(184)	(414)	(9)	(9)
Div Paid	(26)	(34)	(10)	(5)
Chg in Gross Debt	76	222	(50)	(60)
Capital Issues	0	43	0	0
Other Financing CF	7	0	0	0
Net Financing CF	57	232	(60)	(65)
Net Cashflow	33	(42)	35	7

Quarterly / Interim Income Statement (RM m)

FY Dec	4Q2007	1Q2008	2Q2008	3Q2008
Turnover	170	179	186	193
Cost of Goods Sold	(119)	(126)	(129)	(148)
Gross Profit	51	53	58	46
Other Oper. (Exp)/Inc	(26)	(22)	(31)	(30)
Operating Profit	26	32	27	16
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	1	0	1
Net Interest (Exp)/Inc	(2)	(2)	(3)	(3)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	25	30	24	13
Tax	1	0	1	1
Minority Interest	1	1	1	2
Net Profit	26	30	26	16
Net profit bef Except.	26	30	26	16
Sales Gth (%)	(16.1)	5.5	4.0	3.7
Opg Profit Gth (%)	(31.9)	23.1	(14.7)	(42.5)
Net Profit Gth (%)	(16.4)	14.8	(15.0)	(37.1)
Gross Margins (%)	30.2	29.7	30.9	23.6
Opg Profit Margins (%)	15.1	17.6	14.5	8.0
Net Profit Margins (%)	15.5	16.9	13.8	8.4

Source: Company, DBS Vickers

Balance Sheet (RM m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	518	887	850	812
Invts in Associates & JVs	19	21	23	26
Other LT Assets	28	32	35	42
Cash & ST Invts	142	100	135	142
Inventory	82	127	97	104
Debtors	52	52	43	46
Other Current Assets	72	72	72	72
Total Assets	913	1,291	1,255	1,244
ST Debt	15	75	75	75
Other Current Liab	124	185	167	170
LT Debt	213	375	325	265
Other LT Liabilities	22	32	41	55
Shareholder's Equity	533	621	643	675
Minority Interests	7	3	3	3
Total Cap. & Liab.	913	1,291	1,255	1,244
Non-Cash Wkg. Capital	82	67	45	53
Net Cash/(Debt)	(86)	(350)	(265)	(198)

Rates & Ratio

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	35.0	26.3	24.8	25.1
Opg Profit Margin (%)	19.8	11.7	10.1	9.8
Net Profit Margin (%)	16.2	10.9	6.2	6.7
ROAE (%)	44.6	13.7	5.1	5.6
ROA (%)	26.0	7.2	2.5	3.0
ROCE (%)	34.3	8.7	4.4	4.6
Div Payout Ratio (%)	28.3	13.0	15.9	20.7
Net Interest Cover (x)	19.7	9.3	2.7	3.3
Asset Turnover (x)	1.6	0.7	0.4	0.4
Debtors Turn (avg days)	13.0	26.1	33.5	29.4
Creditors Turn (avg days)	17.4	37.7	52.9	42.0
Inventory Turn (avg days)	33.4	78.5	120.4	100.8
Current Ratio (x)	2.5	1.4	1.4	1.5
Quick Ratio (x)	1.4	0.6	0.7	0.8
Net Debt/Equity (X)	0.2	0.6	0.4	0.3
Capex to Debt (%)	100.1	93.3	3.7	4.4
N. Cash/(Debt)PS (sen)	(18.0)	(68.3)	(51.7)	(38.6)
Opg CFPS (sen)	36.1	24.1	16.2	17.4
Free CFPS (sen)	(14.3)	(54.4)	17.4	13.1

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