

Corporate Highlights



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

Results Note

18 May 2010

Evergreen Fibreboard

Still Strong 1QFY12/10 Results

Share Price : RM1.49
Fair Value : RM2.35
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 (%)	Net gearing (x)	Gr. Div. Yld. (%)
2009a	771.5	86.8	16.9	11.6	8.8	-	1.2	8.7	12.7	0.5	2.7
2010f	929.0	109.4	21.3	26.1	7.0	19.0	1.0	10.1	14.2	0.3	3.4
2011f	1016.5	119.7	23.3	9.4	6.4	21.0	0.9	5.3	13.9	0.2	4.0
2012f	1114.2	132.1	25.7	10.3	5.8	26.0	0.8	5.2	13.7	0.1	4.7

Main Board Listing /Trustee Stock/Syariah-Approved Stock By The SC

* Consensus Based on IBES Estimates

- ◆ **In line.** Evergreen's 1QFY12/10 net profit of RM33.1m came in within our expectations but above consensus, accounting for 30% and 35% of our and consensus expectations respectively. As expected, no dividend was declared during the quarter.
- ◆ **Yoy,** net profit increased by >100%, on the back of: 1) 54.1% jump in revenue arising from higher average selling prices and sales volume as demand recovered from the sharp collapse in 1Q09; and 2) recovery in profit margins due to the higher average selling prices coupled with higher plant utilisation rate (>80% in 1Q10 vs. 54% in 1Q09).
- ◆ **Qoq,** net profit dropped 20.4% due to higher tax provision in 1Q10 vs. 4Q09, as one of its companies no longer enjoys tax incentive. Recall that in 4Q09, Evergreen had a tax write back of RM6.2m. EBIT margin was flattish yoy as the increase in average selling prices together with higher operational efficiency qoq was offset by the impact of the stronger RM on its USD-revenue.
- ◆ **Forex a concern?** While the weakening of US\$ against RM is negative for Evergreen, we note that it would only affect the company for a 1-2 month period, at most, as this is the maximum length of the contracts that it has with its customers, after which it would be able to pass down the currency impact via price increases to customers. Assuming a 1.5-month impact, we estimate this would reduce Evergreen's bottomline by 1% p.a..
- ◆ **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.** We maintain our earnings forecasts for now pending a meeting with management.
- ◆ **Investment case.** We value **Evergreen** at RM2.35 based on unchanged target PER of 11x FY12/10 earnings (which is at a 3x PE discount to the timber sector). We maintain our **Outperform** recommendation on the stock.

RHBRI	Vs.	Consensus
✓	Above	✓
	In Line	
	Below	

Issued Capital (m shares)	513.0
Market Cap(RMm)	764.4
Daily Trading Vol (m shs)	0.7
52wk Price Range (RM)	0.60-1.80

Major Shareholders:	(%)
Kuo Family	45.5
Lembaga Tabung Haji	9.4
HIMB Trading Ltd	6.4

FYE Dec	FY10	FY11	FY12
EPS chg (%)	0.0	0.0	0.0
Var to Cons (%)	12.3	11.1	-1.0

PE Band Chart



Relative Performance To FBM KLCI



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Please read important disclosures at the end of this report.

Table 2: Earnings Review (YoY)

FYE Dec (RMm)	2009 1Q	2009 4Q	2010 1Q	%QoQ Chg	% YoY Chg	Observation/ Comments
Revenue	154.9	224.1	238.7	6.5	54.1	Yoy, higher revenue due to higher average selling prices and sales volume as demand recovered from the sharp collapse in the previous year. Qoq, revenue increased from higher sales volume. Although average selling prices in US\$ was higher qoq, the benefit was more than offset by the stronger RM on its US\$-based revenue.
EBIT	7.4	37.3	39.6	5.9	>100	See EBIT margin
Interest expense	(4.7)	(4.1)	(3.4)	(15.1)	(26.8)	Lower yoy due to smaller net debt of RM269m in 1Q10 vs. RM397m in 1Q09.
Associates	0.1	0.9	0.9	(8.0)	>100	
Pretax Profit	2.7	34.2	37.0	8.1	>100	Filtered down from EBIT and lower interest expense.
Taxation	(1.2)	6.2	(4.7)	>(100)	>100	Higher tax provision in 1Q10 vs. 4Q09 as one of its companies no longer enjoys tax incentive.
Minority Interest	3.1	1.2	0.8	(29.4)	(74.0)	
Net profit	4.6	41.6	33.1	(20.4)	>100	Filtered down from PBT and tax rate.
EPS	0.9	8.1	6.5	(20.4)	>100	
DPS	0.0	4.0	0.0	-	-	No dividend was declared during the quarter.
EBIT Margin (%)	4.8	16.7	16.6	(0.1)	11.8	Yoy, higher margin due to increase in average selling prices and higher economies of scale from higher plant utilisation rate. Qoq, EBIT margin was flattish as the increase in average selling prices together with improved operational efficiency was offset by the stronger RM.
Pretax Margin (%)	1.8	15.3	15.5	0.2	13.7	
Net Margin (%)	3.0	18.5	13.9	(4.7)	10.9	
Effective Tax Rate (%)	45.6	(18.2)	12.7	30.9	(32.9)	

Source: Company data, RHBRI

Table 3. Earnings Forecasts

FYE Dec (RMm)	FY09a	FY10F	FY11F	FY12F
Turnover	771.5	929.0	1016.5	1114.2
Turnover growth (%)	5.6	20.4	9.4	9.6
Cost of Sales	(562.9)	(663.1)	(722.1)	(798.8)
Gross Profit	208.6	265.9	294.4	315.4
EBITDA	133.5	166.0	180.1	190.8
EBITDA margin (%)	17.3	17.9	17.7	17.1
Depr&Amor	(37.8)	(34.8)	(33.1)	(31.4)
Net Interest	(17.8)	(15.8)	(13.8)	(12.0)
Associates	2.5	1.2	1.2	1.2
Pretax Profit	79.8	116.5	134.3	148.5
Tax	3.1	(9.1)	(12.6)	(15.4)
Minorities	3.9	2.0	(2.0)	(1.0)
Net Profit	86.8	109.4	119.7	132.1

Source: Company data, RHBRI estimates

Table 4. Forecast Assumptions

FYE Dec	FY10F	FY11F	FY12F
Capacity utilisation (%)	80	85	90
Average MDF selling price (US\$/m3)	249	264	285
Average particleboard price (US\$/m3)	116	121	131
RM vs US\$	3.30	3.25	3.30

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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.

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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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