

Company Focus

Evergreen Fibreboard

Bloomberg: EVF MK | Reuters: EVGN.KL

Malaysia Equity Research PP 11272/04/2011(029388)

19 Jan 2011

BUY RM1.40 KLCI : 1,570.04

Price Target : 12-Month RM 2.00 (Prev RM 2.10)

Reason for Report : 4Q10 result preview

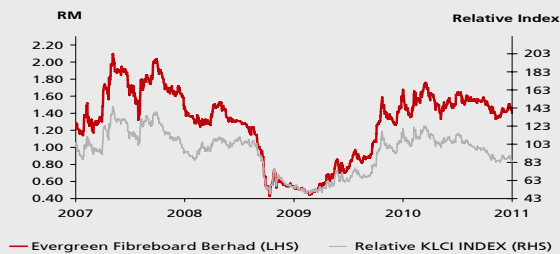
Potential Catalyst: Stronger MDF sales volumes and prices

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2009A	2010F	2011F	2012F
Turnover	772	936	977	1,022
EBITDA	141	182	203	222
Pre-tax Profit	81	112	133	151
Net Profit	85	98	115	131
Net Pft (Pre Ex.)	71	98	115	131
EPS (sen)	16.6	19.1	22.4	25.5
EPS Pre Ex. (sen)	13.9	19.1	22.4	25.5
EPS Gth Pre Ex (%)	(16)	37	17	14
Diluted EPS (sen)	16.6	19.1	22.4	25.5
Net DPS (sen)	4.0	6.0	8.0	9.0
BV Per Share (sen)	137.2	152.3	168.6	186.1
PE (X)	8.5	7.3	6.3	5.5
PE Pre Ex. (X)	10.1	7.3	6.3	5.5
P/Cash Flow (X)	5.0	4.6	4.1	3.7
EV/EBITDA (X)	7.2	5.2	4.1	3.2
Net Div Yield (%)	2.9	4.3	5.7	6.4
P/Book Value (X)	1.0	0.9	0.8	0.8
Net Debt/Equity (X)	0.4	0.3	0.1	CASH
ROAE (%)	12.9	13.2	13.9	14.4
Earnings Rev (%)		(17.5)	(14.6)	(9.2)
Consensus EPS (sen)		24.0	26.3	27.7

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: MDF Manufacturer

Source of all data: Company, DBS Vickers, Bloomberg

Expect better quarters ahead

- **4Q10 likely to be weak due to margin squeeze; cut FY0F-12F earnings by 9%-15%**
- **But expect better quarters ahead with higher MDF prices, normalized glue prices**
- **Maintain Buy and RM2.00 TP. As the world's 5th largest producer, EVF is positioned to benefit from the global economic recovery, also among the cheapest MDF players at 6x FY11F EPS**

4Q10 earnings could tumble 50% q-o-q due to a 2-week plant shutdown in Thailand, and operations were disrupted as floods in Nov10 affected logistics and wood supply. Additionally, glue prices surged in the quarter as methanol prices jumped 32% q-o-q. We gathered the coal shortage in China reduced supply of methanol, since most were used to meet demand for heating amid an exceptionally cold winter. This led us to slash FY10F earnings by 18%.

Better quarters ahead. Glue prices should normalize, and floods in Thailand should subside. We cut FY11F-12F earnings by 9%-15% after imputing higher glue costs and weaker USD rates based on DBS' latest forecasts (4-5% weaker to MYR3.0/USD), but expect earnings to improve in the coming quarters. EVF was also able to raise MDF prices by USD10/m³ recently, which should be reflected in 1Q11 results. Going forward, MDF prices should continue to rise in line with expected stronger demand. We might also see higher dividends (c.6% net yield) given projected stronger cash flows with minimal capex spend.

Maintain Buy; among the cheapest global MDF players. EVF is trading at low 6.3x FY11F EPS and 0.8x FY11F BV, or 56% and 33% discount to peers, respectively. Our revised RM2.00 target price based on average peers' 1.2x FY11F BV (from RM2.10) offers 43% upside potential. Catalysts for the stock include stronger MDF sales volumes and prices.

At A Glance

Issued Capital (m shrs)	513
Mkt. Cap (RMm/US\$m)	718 / 235
Major Shareholders	
Kuo Family (%)	42.3
Lembaga Tabung Haji (%)	2.9
Free Float (%)	54.8
Avg. Daily Vol. ('000)	595

Highlights

MDF prices likely to rise further. We understand EVF raised its MDF prices in 4Q10 by USD10/m³ to cover the impact of a weak USD and higher raw material costs. The higher prices should be reflected in 1Q11 earnings, as there were still outstanding orders quoted at pre-hike prices in 4Q10. There could be more upside to MDF prices in line with expected stronger demand. And the current high cost environment might force MDF manufacturers to continue to pass on cost increases to customers.

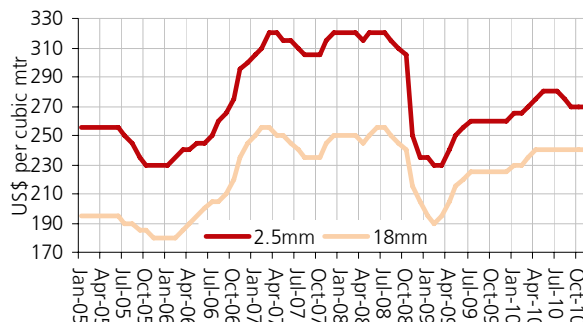
Margins should normalize in coming quarters. 4Q10 margins are expected to be weak, dragged down by sharp increase in glue and wood costs. But we expect EVF's gross margin to normalize in 1Q11 following recent increase in MDF prices. Furthermore, glue prices are likely to stabilize after methanol prices jumped 32% q-o-q in 4Q10.

Valuation

Potential dividend surprise. We raised EVF's FY11F-12F net DPS to 8-9sen assuming 35-36% payout ratio (against 18-19% previously). We believe with minimal capex spending, EVF has sufficient cash flows to pay higher dividends. We think EVF will focus on maximizing income from several acquisitions it made earlier, before it considers expanding again.

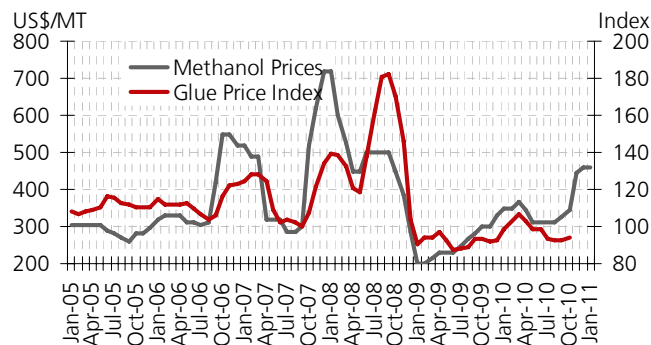
Maintain Buy, among the cheapest global MDF players. The stock is grossly undervalued, trading at low 6.3x FY11F EPS and 0.8x FY11F BV, or 56% and 33% discount to peers, respectively. Our revised RM2.00 target price based on average peers' 1.2x FY11F BV (from RM2.10) offers 43% upside potential. Catalysts for the stock include stronger MDF sales volumes and prices.

MDF price trend



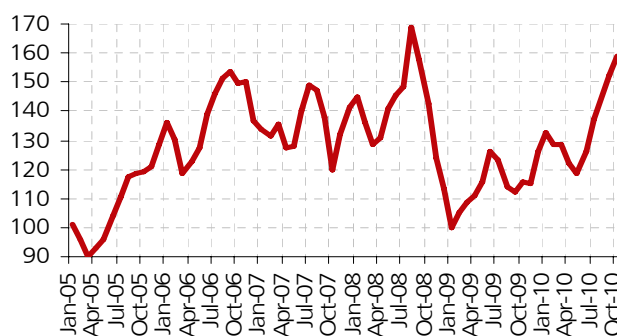
Source: Company, DBS Vickers Research

Glue prices skyrocketed in 4Q10 as methanol prices jumped 32% q-o-q



Source: Methanex, Company, DBS Vickers Research

Rubberwood log price index rose in 4Q10 as floods in Thailand affected supply



Source: Company, DBS Vickers Research

Peer Comparison

	Local Currency	Price (local currency)	Mkt Cap (US\$m)	CY10F PE (x)	CY11F PE (x)	FY10F P/BV (x)	FY11F P/BV (x)
Duratex SA	BRL	17.28	4,712	18.6	14.9	3.0	2.7
Mondi Ltd	EUR	5799	4,351	14.3	11.1	1.3	1.2
Fletcher Building Ltd	NZD	7.86	3,718	15.2	11.9	1.5	1.4
West Fraser Timber Co	CAD	49.2	2,139	12.1	16.7	1.2	1.1
Sumitomo Forestry Co	JPY	746	1,605	22.6	16.7	0.8	0.8
Masisa SA	CLP	78.00	1,087	22.7	15.9	n.a.	n.a.
Norbord Inc	USD	15.5	684	39.4	28.9	2.1	2.0
Daiken Corp	JPY	224	356	21.5	12.9	0.8	0.8
Unid Co Ltd	KRW	58300	345	5.6	6.1	1.1	0.9
Sonae Industria SGPS SA	EUR	1.81	340	n.a.	n.a.	0.8	0.9
Evergreen Fibreboard Bhd	MYR	1.40	235	7.3	6.3	0.9	0.8
Vanachai Group PCL	THB	5.25	225	6.9	6.6	1.1	1.0
Pfleiderer AG	EUR	2.1	167	n.a.	n.a.	0.2	0.2
		Average (exc. EVF)		17.9	14.2	1.3	1.2

Source: Bloomberg, DBS Vickers

Evergreen Fibreboard

Income Statement (RM m)

FY Dec	2009A	2010F	2011F	2012F
Turnover	772	936	977	1,022
Cost of Goods Sold	(576)	(668)	(686)	(708)
Gross Profit	196	267	291	314
Other Opng (Exp)/Inc	(115)	(146)	(151)	(158)
Operating Profit	81	121	140	157
Other Non Opng (Exp)/Inc	0	0	0	0
Associates & JV Inc	2	3	3	3
Net Interest (Exp)/Inc	(16)	(12)	(11)	(8)
Exceptional Gain/(Loss)	14	0	0	0
Pre-tax Profit	81	112	133	151
Tax	0	(16)	(20)	(23)
Minority Interest	4	2	2	2
Preference Dividend	0	0	0	0
Net Profit	85	98	115	131
Net Profit before Except.	71	98	115	131
EBITDA	141	182	203	222
Sales Gth (%)	5.6	21.3	4.4	4.7
EBITDA Gth (%)	17.0	29.5	11.6	9.2
Opg Profit Gth (%)	1.3	49.0	15.8	11.7
Net Profit Gth (%)	10.7	15.2	17.3	13.8
Effective Tax Rate (%)	N/A	14.0	15.0	15.0

Cash Flow Statement (RM m)

FY Dec	2009A	2010F	2011F	2012F
Pre-Tax Profit	81	112	133	151
Dep. & Amort.	59	61	63	65
Tax Paid	(3)	(3)	(3)	(3)
Assoc. & JV Inc/(loss)	(2)	(3)	(3)	(3)
Chq in Wkq.Cap.	4	(24)	(5)	(6)
Other Operating CF	(15)	(15)	(15)	(15)
Net Operating CF	125	129	170	190
Capital Exp.(net)	(19)	(25)	(30)	(35)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	2	1	1	2
Net Investing CF	(17)	(24)	(29)	(33)
Div Paid	0	(41)	(31)	(25)
Chg in Gross Debt	(67)	(50)	(50)	(50)
Capital Issues	0	0	0	0
Other Financing CF	(4)	0	0	0
Net Financing CF	(71)	(91)	(81)	(75)
Net Cashflow	37	14	61	82

Quarterly / Interim Income Statement (RM m)

FY Dec	4Q2009	1Q2010	2Q2010	3Q2010
Turnover	224	239	241	229
Cost of Goods Sold	(156)	(164)	(165)	(165)
Gross Profit	69	75	77	64
Other Oper. (Exp)/Inc	(31)	(35)	(33)	(38)
Operating Profit	37	40	43	25
Other Non Opng (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	1	1	1
Net Interest (Exp)/Inc	(4)	(3)	(3)	(3)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	34	37	41	23
Tax	6	(5)	(5)	(3)
Minority Interest	1	1	1	0
Net Profit	42	33	36	20
Net profit bef Except.	42	33	36	19
Sales Gth (%)	5.8	6.5	1.2	(5.2)
Opg Profit Gth (%)	15.0	5.9	9.8	(41.8)
Net Profit Gth (%)	40.6	(20.4)	10.3	(46.5)
Gross Margins (%)	30.6	31.4	31.8	27.8
Opg Profit Margins (%)	16.7	16.6	18.0	11.0
Net Profit Margins (%)	18.5	13.9	15.1	8.5

Source: Company, DBS Vickers

Balance Sheet (RM m)

FY Dec	2009A	2010F	2011F	2012F
Net Fixed Assets	885	849	816	786
Invt in Associates & JVs	23	26	29	33
Other LT Assets	33	33	32	32
Cash & ST Invt	113	127	188	270
Inventory	112	132	135	140
Debtors	57	69	72	76
Other Current Assets	28	25	25	25
Total Assets	1,251	1,260	1,298	1,360
ST Debt	102	102	102	102
Other Current Liab	128	113	114	116
LT Debt	310	260	210	160
Other LT Liabilities	5	4	5	26
Shareholder's Equity	704	781	865	955
Minority Interests	2	0	0	0
Total Cap. & Liab.	1,251	1,260	1,298	1,360
Non-Cash Wkq. Capital	69	113	118	124
Net Cash/(Debt)	(300)	(236)	(125)	7


Rates & Ratio

FY Dec	2009A	2010F	2011F	2012F
Gross Margins (%)	25.4	28.6	29.8	30.7
Opg Profit Margin (%)	10.5	12.9	14.4	15.3
Net Profit Margin (%)	11.0	10.5	11.8	12.8
ROAE (%)	12.9	13.2	13.9	14.4
ROA (%)	6.8	7.8	9.0	9.8
ROCE (%)	7.3	9.2	10.2	11.0
Div Payout Ratio (%)	24.2	31.4	35.8	35.3
Net Interest Cover (x)	5.1	9.7	13.1	18.6
Asset Turnover (x)	0.6	0.7	0.8	0.8
Debtors Turn (avg days)	23.7	24.6	26.4	26.4
Creditors Turn (avg days)	38.6	30.7	32.8	32.7
Inventory Turn (avg days)	88.0	73.3	78.3	78.0
Current Ratio (x)	1.3	1.6	1.9	2.3
Quick Ratio (x)	0.7	0.9	1.2	1.6
Net Debt/Equity (X)	0.4	0.3	0.1	CASH
Net Debt/Equity ex MI (X)	0.4	0.3	0.1	0.0
Capex to Debt (%)	4.6	6.9	9.6	13.3
Z-Score (X)	1.4	2.3	2.9	3.2
N. Cash/(Debt)PS (sen)	(58.4)	(46.0)	(24.4)	1.4
Opg CFPS (sen)	23.6	29.7	34.1	38.2
Free CFPS (sen)	20.7	20.2	27.3	30.3

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010F	2011F	2012F
Key Assumptions				
Average MDF price (2.5mm)	262.6	265.7	263.9	271.7
Average MDF price (18mm)	224.8	231.6	231.7	238.6
Volume growth	33.5	25.0	5.0	2.0
MYR/USD	3.5	3.2	3.0	3.0

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