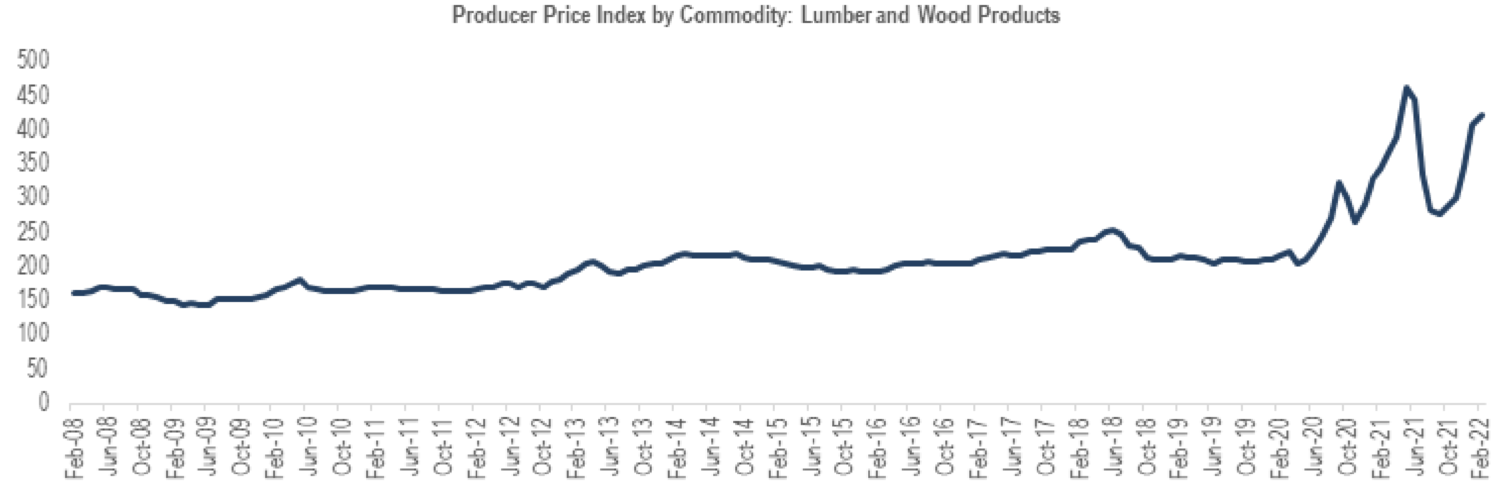
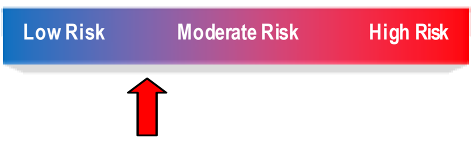
HLIB Retail Research
PP 9484/12/2012 (031413)

Wood Manufacturing: Sustainable bull cycle for 2022



Source: U.S. Bureau of Labor Statistics, HLIB

Technical Risk Profile



Technical snapshots

Index name	Wood PPI
Last price	421.6
52Wk High	462.0
52Wk Low	343.9
Outlook (2-4 weeks)	-
Volume (bn)	-
Average Volumes 20D (bn)	-
Support 1	-
Support 2	-
Resistance 1	-
Resistance 2	-
LT Technical target (RM)	-

Source: HLIB, Bloomberg

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Trade dispute bodes well for local players. Earlier trade wars between US-China, US-Canada and the latest Russia-Ukraine conflict (leading Russia to ban the export of wood and forest products to the West) have exacerbated the global supply demand imbalances. To recap, China, Canada and Russia were ranked top five exporters of wood products worldwide in 2019 (Figure#1).

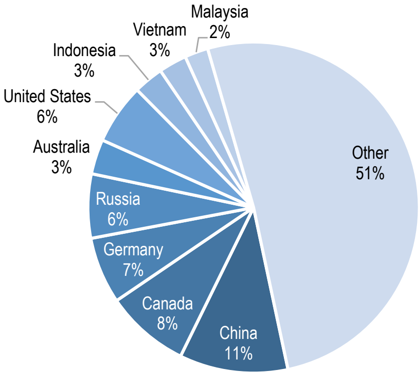
With the demand for wood products remaining firm amid robust demand of furniture and wood-based products from the US housing markets (top importer of plywood, veneered panels & sim laminated wood in 2020, accounted for 17% of the market share), the heightened trade disputes and sanctions will again trigger orders' diversification to alternative suppliers such as major wood-based producers in Vietnam, Indonesia and Malaysia. Interestingly, this phenomenon occurred back in 2018, when the US started the trade war with China. After just two years, the market share of US importing wood products from China had plunged significantly, from 31% to 12.3% (Figure#2).

Raw material costs are tapering off from the peak. Recently, the combination of restricted supply and robust demand from the US had pushed up the price of panel boards, including medium-density fiberboard (MDF) and plywood. Despite skyrocketing raw material costs such as adhesive and logs due to ongoing supply disruptions, as well as the foreign labour shortage due to border closures (likely to resolve gradually amid Malaysia's international border reopening effective 1 April and government's intervention), we note that the increasing quantum of wood products ASPs had mostly offset the hike of raw material prices, in the wake of robust demand. Besides that, adhesive prices – which make up 20-30% of the MDF and plywood player's cost – had peaked in Jan-22 and continue to move downward amid easing urea prices and a decline in Global Supply Chain Pressures Index – declined to 3.3 in Feb 2022 from the peak of 4.5 in Dec 21 pointing to some tentative signs of easing in the container shortage.

With the cost coming down but ASPs remaining firm, this may boost panel board producers' bottomline significantly during this boom cycle, reflected by the recent earnings from the companies under our coverage, such as HEVEA (BUY, TP: RM0.63), EVERGRN (BUY, TP: RM0.94), and FLBHD (Non-rated, FV: RM1.98).

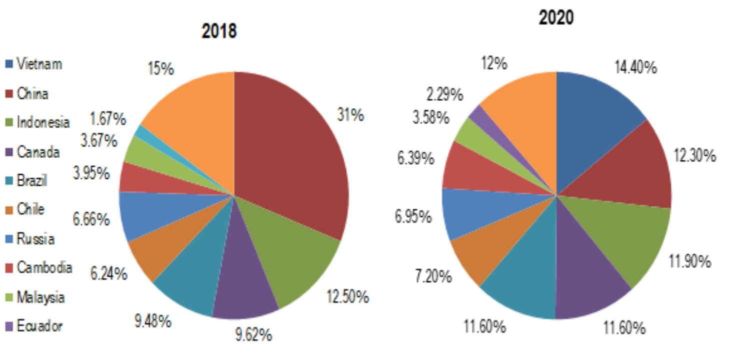
Strong profits are here to stay in 2022. All in, we believe the strong profits from the panel board players are here to stay, at least for 2022. We tactically prefer companies producing panel boards as they are deemed to be the prime beneficiaries from the commodities upcycle. As for furniture players, we continue to like Lii Hen and Homeriz, given their attractive valuation (6.9x and 6.3x FY22E P/E for Lii Hen and Homeriz, respectively) coupled with >5% dividend yield. That said, we reckon panel board players are a better idea for investors to nibble to generate alpha during such a choppy market.

Figure #1 Top wood exporters by countries



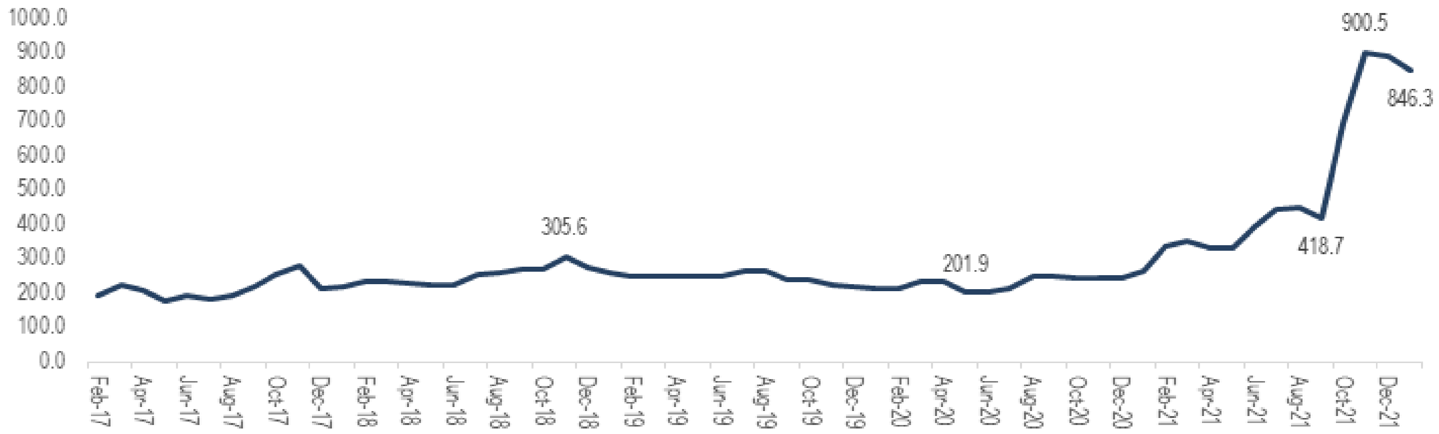
Source: Oec.world, HLIB

Figure #2 US import of wood product by countries



Source: Trend Economy, HLIB

Figure #3 Urea prices trend (USD per metric tons)



Source: indexmundi, HLIB

Figure #4 Companies under coverage

Stocks	Price (RM)	Target (RM)	Rating	P/E (x) FY22	P/E (x) FY23	P/B(x) FY22	P/B(x) FY23	Yield(%) FY22	Yield(%) FY23
Panel Board									
Evergreen	0.65	0.94	BUY	8.3	6.4	0.5	0.5	3.1%	3.8%
Heveaboard	0.50	0.63	BUY	10.6	8.3	0.6	0.6	5.0%	7.0%
Focus Lumber	1.41	1.98	NR	6.1	5.6	0.8	0.8	6.5%	7.2%
Furniture									
Lii Hen	2.98	3.90	BUY	6.5	6.4	1.1	1.0	5.7%	6.7%
Homeriz	0.53	0.87	BUY	6.6	6.2	0.9	0.9	5.7%	6.1%

Source: HLIB

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EVERGRN: : A prosperous year ahead

Collection range: RM0.60-0.62-0.65

Upside targets: RM0.76-0.80-0.83

Cut loss: RM0.58

Technical Risk Profile

Technical snapshots

Stock code	EVERGRN/5101
Last price (RM)	0.65
52Wk High/ Low (RM)	0.595/0.36
Outlook (2-4 weeks)	Creating higher high
Volume (m)	13.3
Average Volumes 20D (m)	6.9
*Upside reward (%)	27.4%
*Downside risk (%)	-6.4%
HLIB Research TP (RM)	0.94
Bloomberg TP (RM)	0.94

Source: HLIB, Bloomberg

Note:
1. Upside reward calculation: Mid-point upside (RM0.79)/ mid-point collection (RM0.62)
2. Downside risk: Cut loss (RM0.58)/ Mid-point collection (RM0.62)

Earnings summary					
FYE 31 Dec	FY19	FY20	FY21	FY22E	FY23E
Revenue (RM'm)	967.9	859.9	934.8	1204.1	1256.8
Core PATMI (RM'm)	-47.0	-28.6	27.8	66.3	85.2
Issued Share (RM'm)	846.4	846.4	846.4	846.4	846.4
EPS (sen)	-5.6	-3.4	3.3	7.8	10.1
Dividend (sen)	0.0	0.0	0.0	2.0	2.5
P/E (x)	-11.7	-19.2	19.8	8.3	6.5
Yield (%)	0.0%	0.0%	0.0%	3.1%	3.8%

Source: HLIB

WFH is here to stay. We note that the Covid-19 pandemic has structurally changed how people work, with many preferring to WFH now due to the flexibility, cost and time saving as well as a better work-life balance. In a survey conducted by the recruitment and staffing firm CIEL HR Services, at least six out of every ten employees are ready to resign instead of returning to the office**.** On the back of rising WFH trend, companies such as Adobe and Facebook are beginning to offer options to their employees to wo rk from home permanently, whilst other firms such as Apple and Google would still require workers to return to the office, but with more flexibility. This new found WFH culture especially in the US has led to a robust demand for home office furniture, which bodes well for EVERGRN's MDF and particleboards demand buoyant.

Besides, the rising trend in buying furniture online has transpired to the rise in popularity for light-weight or flat-packed furniture (which are typically made from MDF or particleboards) as they are easier and cheaper to deliver. We reckon EVERGRN will be a prime beneficiary in this shift in consumer preference as most of its MDF and particleboards are supplied to the furniture market.

Riding on higher ASP. According to Lesprom Analytics (source), Thailand's exports of fibreboard surged 3.9% YoY in Jan 2022, with the ASP soaring 27.2% YoY. In line with this, EVERGRN's MDF and particleboards ASPs have been rising steadily since 2021. A flurry of favourable factors had led to EVERGRN's ASPs recording continuous upward trajectory. These factors include: (i) the pent-up demand of MDF and particleboards from the Malaysia furniture makers; (ii) limited boards supply led to stocking up activities from furniture makers; (iii) pickup in consumer spending on furniture in the Middle East bolsters the export demand in EVERGRN's Thailand operations. The continued robust demand, coupled with a growing margin (from both higher ASP and easing raw material costs) as well as better production efficiency as a result of the recent years of process reengineering by EVERGRN will pave the way for a solid FY22 ahead. All in, we believe that there are still more legs to go as the current rally has likely yet to fully price in the potential upside in its upcoming earnings.

Rectangle breakout. After forming a continuation pattern, namely rectangle pattern since Jan22, EVERGRN had performed a breakout above it on 22nd March, which indicated a new uptrend leg had happened. EVERGRN may advance further toward RM0.76-0.80-0.83, creating a higher high pattern. Cut loss at RM0.59.

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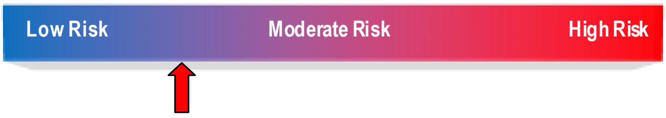
FLB: Still overlooked by the market

Collection range: RM1.33-1.37-1.41

Upside targets: RM1.64-1.74-1.87

Cut loss: RM1.28

Technical Risk Profile



Technical snapshots

Stock code	FLBHD/5197
Last price (RM)	1.40
52Wk High/ Low (RM)	1.66/0.80
Outlook (2-4 weeks)	Pending a new wave
Volume (m)	0.16
Average Volumes 20D (m)	0.34
*Upside reward (%)	27%
*Downside risk (%)	6.5%
HLIB Research TP (RM)	1.98
Bloomberg TP (RM)	-

Source: HLIB, Bloomberg

Note:
1. Upside reward calculation: Mid-point upside (RM1.75)/ mid-point collection (RM1.37)
2. Downside risk: Cut loss (RM1.28)/ Mid-point collection (RM1.37)

Earnings summary					
FYE 31 Jan	FY19	FY20	FY21	FY22E	FY23E
Revenue (RM'm)	142.4	87.8	133.9	173.4	187.5
Core PATMI (RM'm)	-7.9	-10.2	15.8	24.1	27.1
Issued Share (RM'm)	108.0	108.0	108.0	108.0	108.0
EPS (sen)	-7.3	-9.4	14.6	22.3	25.1
Dividend (sen)	5.0	3.0	5.0	9.2	10.1
P/E (x)	-19.3	-14.9	9.6	6.3	5.6
Yield (%)	3.5%	2.1%	3.5%	6.5%	7.2%

Source: HLIB

Robust RV shipment. Despite registering an all-time high RV shipment (a gauge of RV sales) in 2021, RV association believes the industry is heading into another excellent year and anticipates another record high RV shipment of 613k (+2% YoY) in 2022 as travelers look to hit the road in a safe, enjoyable and affordable way. This bodes well to FLB given its strong presence in supplying plywood to the RV sector, accounting for 50% of the plywood sales. While RV players tend to source the top grade plywood (OVL) for their car frame and interior, we note that the recent tight panel board supply amid buoyant demand in RV has led to greater demand in second-grade plywood (UT1/UT2) after OVL grade is fully taken. The sudden rise in demand for second-grade plywood has narrowed the price gap between OVL and UT1/UT2, which will boost FLB's margin.

More to come. To recap, FLB posted robust 4QFY21 earnings, making FY21 core profit stands at RM15.8m, which exceeded our forecast (138% of our FY21 forecast; report). Beyond that, we gather that FLB continues to receive encouraging plywood orders that will keep them busy for FY22, with locked ASPs that was way higher than our 4QFY21 and FY22 full-year forecasted plywood prices, which was USD730 and USD670, respectively. Despite potential slowdown in US housing starts amid easing building permits due to elevated inflation from supply chain disruptions, we expect the high plywood prices are here to stay as the backlog of houses authorised for construction but not yet started continued to stay very high (vs historical). Also, once Malaysia re-opens its international borders on 1 April, the entry of foreign labour will be a re-rating catalyst given that FLB is still running at a capped capacity due to labour shortages.

Undemanding Valuation. At RM1.41, FLB is trading at an attractive PE valuation of 6.3x and 5.6x for FY22-23. These PE multiples look even more attractive on an ex-cash basis at 2.1x and 2.2x for FY22-23. All in, We believe FLB deserves a re-rating in its share price, given favourable tailwinds. We value FLB at RM1.98/share based on 8.6x FY22 EPS of 23 sen, indicating an upside of 40% to current share price.

Uptick bias. Technically, FLB is trading near its solid support level of RM1.33-1.40 area with an uptick bias. A decisive breakout above RM1.52 may indicate a new wave has happened and spur the prices toward RM1.64 (52-weeks high)-1.74-1.87 levels. Cut lost at RM1.28.

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HEVEA: A blowout FY22; Poised for a bullish LT downtrend line breakout

Collection range: RM0.45-0.47-0.50

Upside targets: RM0.54-0.58-0.62

Cut loss: RM0.43

Technical Risk Profile

Low Risk | Moderate Risk | High Risk

Technical snapshots

Stock code	HEVEA/5095
Last price (RM)	0.50
52Wk High/ Low (RM)	0.74/0.415
Outlook (2-4 weeks)	Pending a bullish downtrend line breakout
Volume (m)	1.1
Average Volumes 20D (m)	0.76
*Upside reward (%)	22.1%
*Downside risk (%)	-9.5%
HLIB Research TP (RM)	0.63
Bloomberg TP (RM)	0.63

Source: HLIB, Bloomberg

Note:

1. Upside reward calculation: Mid-point upside (RM0.58)/ mid-point collection (RM0.475)

2. Downside risk: Cut loss (RM0.43)/ Mid-point collection (RM0.475)

EARNINGS SUMMARY

FYE 31 Dec	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue (RM'm)	447.9	419.2	388.6	370.9	507.9	550.3
PATAMI (RM'm)	13.8	13.9	15.8	(1.8)	26.8	34.0
Issued shrs (m)	567.8	567.8	567.8	567.8	567.8	567.8
EPS (sen)	2.4	2.4	2.8	(0.3)	4.7	6.0
Dividend (sen)	5.0	4.0	2.3	0.5	2.5	3.5
P/E (x)	20.6	20.4	18.0	(157.7)	10.6	8.3
Yield (%)	10.0	8.0	4.6	1.0	5.0	7.0

Source: HLIB

Expect a strong 1Q22 after a 4Q21 turnaround. Despite elevated raw material costs and deferred shipment of goods, HEVEA still managed to post a commendable 4Q21 results (4Q21 core net profit: RM7.2m; 3Q21: -RM3.4m; FY21: -RM1.8m). For FY22, we are turning more bullish on HEVEA, driven by: (i) increase in demand from the Japanese market for its particleboards; (ii) the group's shift in focus to produce higher margin boards (i.e. low formaldehyde emission boards); (iii) the potential capacity increase in ready-to-assemble (RTA) from foreign labour intake; (iv) the encouraging RTA sales growth to e-commerce sellers; (v) wood cost and supply to normalize and (vi) the scaling up in utilization rate for its fungi cultivation segment (the group plans to gradually scale the utilization rate from c.50% in 4Q21 to 100% in FY22).

Fungi cultivation. The group is making positive headways penetrating the local hypermarkets and restaurants. Furthermore, the market's growing appetite for healthy food options should also bolsters for the growth in this segment. With a higher utilization rate and better economies of scale, we are optimistic that this segment may turnaround in FY22 (PBT FY21:-RM1.4m; FY20: -RM1.7m).

HEVEA's risk-reward profile is turning more attractive now after tumbling 32.4% from 52-week high of RM0.74 to RM0.50 yesterday, supported by undemanding valuations of 8.3x FY23E P/E (-63% vs 5Y mean 23x) and 0.66x P/B (-27% below 5Y mean of 0.9x), underpinned by a strong 29% EPS CAGR from FY20-23. The group also has a favourable ESG profile due to its exposure in a sustainable industry and the positive initiatives the group has taken to improve its ESG characteristics. In addition, the group has a healthy balance sheet with net cash of RM95.8m or NCPS of 17 sen (~34% of its market capitalization)

Poised for a bullish downtrend line breakout. After sliding 44% from 52-week high RM0.74 (7 May) to a low of RM0.415 (14 Dec), HEVEA's share price consolidated upward to end at RM0.50 yesterday. We expect the stock to stage a downtrend line (DTL) resistance breakout (near RM0.505) soon as share prices continue to trend firmly above the double bottoms as well as key MAs. A successful breakout would spur share prices toward RM0.54 (38.2% FR) and RM0.58 (50% FR) before hitting our LT objective of RM0.62 (76.4% FR). Collection range is RM0.45-0.50 whilst cut loss is pegged at RM0.43 zones.

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.