

HLIB Research

PP 9484/12/2012 (031413)

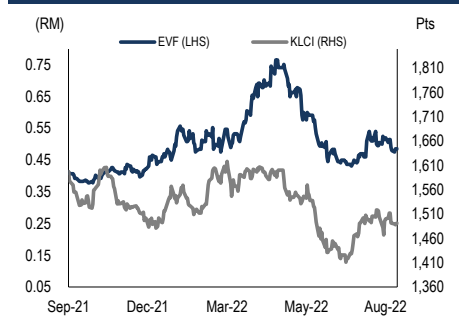
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BUY (Maintain)

Target Price: RM0.82
Previously: RM0.96
Current Price: RM0.485

Capital upside	69.1%
Dividend yield	4.1%
Expected total return	73.2%

Sector coverage: Wood based manufacturing

Company description: Evergreen Fibreboard manufactures medium density fibreboard (MDF), and particleboard.

Share price


Historical return (%)	1M	3M	12M
Absolute	6.6	-20.5	16.9
Relative	10.8	-13.0	31.6

Stock information

Bloomberg ticker	EVFMK
Bursa code	5101
Issued shares (m)	845
Market capitalisation (RM m)	435
3-mth average volume ('000)	3,737
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★

Major shareholders

Kuo Jen Chang	16.9%
Kuo Jen Chiu	14.7%
Kuo Hwei Chen	4.2%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	26.5	67.2	86.1
EPS - core (sen)	3.1	8.0	10.2
P/E (x)	15.5	6.1	4.8

Evergreen Fibreboard

Sustaining performance into 2H22

We anticipate Evergreen's 2H22 performance to be similar to 1H22 with its Thailand and Indonesia segments sustaining their strong performance on the back of continued robust demand from the Middle East and Indonesia markets while its Malaysia operations is expected to continue facing near term headwinds from log shortage, increased operating costs and tapering demand from local furniture makers. The strong USD should continue to benefit the group. Maintain BUY with a lower TP of RM0.82 based on 9x P/E of mid-FY23 EPS of 9.1 sen.

We hosted a virtual meeting with Evergreen recently with the following key takeaways:

Challenges in 2H22. Management has shared that the log supply shortage issue in Malaysia has improved compared to 1H22 but still remains insufficient. As such, this has resulted in lower wood quality and an increase in cost of manufacturing as log price remains elevated. Furthermore, Malaysia's minimum wage increase of 25% effective 1 May and rise in cost of electricity has also lifted the costs of its Malaysian operations, vis-a-vis its Thailand and Indonesia segments. Other than that, the anticipated Fed rate hikes in the following months are also expected to crimp consumer spending and thus, furniture demand.

Strategies for 2H22. In order to mitigate the negative impact from continued log shortage in Malaysia, Evergreen will channel more export orders to Thailand and Indonesia to take advantage of the plentiful supply of low cost, good quality wood (especially in Indonesia). The group will also continue to streamline its operations to increase automation and further reduce reliance on manual labour. In response to increased electricity cost, recall that Evergreen has finished installing solar panels at its headquarters, allowing the group to pay a fixed tariff which is substantially lower than TNB's standard tariff. The group will continue to install solar panels at its other sites. Besides that, the group is also looking to reduce its cost structure as well as to develop and diversify its downstream product export markets to more countries in order to respond to temporary uncertainty in furniture demand.

Positives for 2H22. Elevated US-China tensions continue to play to Evergreen's favour as more US furniture buyers continue to move away from China and purchase instead from furniture makers in SEA, including Malaysia. This has resulted in many Chinese furniture makers moving out of China to setup their factories in SEA, which is a positive for Evergreen as these are potential new customers for the group to supply panel boards to given their proximity to Malaysia. Likewise, the group's RTA segment should continue to benefit from the trade diversion as well. On top of this, the Middle East economy remains strong driven by elevated oil revenue, resulting in continued high demand for furniture. Moreover, talks of easing sanctions in Iran would be a major positive catalyst to boost panel board demand should it materialize. On the cost side, we understand that the cost of glue has come off from its peak level which should augur well for the group's overall margin. Finally, the strong USD should continue to benefit the group with 3QTD RM4.46/USD (vs. RM4.27/USD in 1H22).

Forecasts. Unchanged.

Maintain our **BUY** rating with a lower TP of **RM0.82** (from RM0.96) pegged to 9x P/E based on mid-FY23 EPS of 9.1 sen. We lower our P/E multiple from 12x to 9x in view of the challenges facing the group as well as the overall uncertainty facing the global economy. Nonetheless, with the group's overall demand outlook remaining robust coupled with the current strength in USD, we reaffirm that Evergreen remains a compelling investment case. In addition, its strong operating cash flow coupled with no major capex in sight should culminate for a decent dividend payout for FY22.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	113.2	92.4	176.4	278.3	389.8
Receivables	94.9	125.1	133.8	139.6	142.2
Inventories	208.3	222.3	261.8	273.2	278.2
PPE	925.6	863.2	868.0	842.2	818.3
Others	110.0	118.9	99.9	99.0	98.1
Assets	1,452.0	1,421.8	1,539.8	1,632.4	1,726.5
Payables	115.6	118.0	150.5	157.1	159.9
Debt	264.3	175.9	175.9	175.9	175.9
Others	50.7	90.5	108.8	108.8	108.8
Liabilities	430.5	384.3	435.1	441.7	444.6
Shareholder's equity	1,021.5	1,037.5	1,104.7	1,190.7	1,282.0
Minority interest	-	-	-	-	-
Equity	1,021.5	1,037.5	1,104.7	1,190.7	1,282.0

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	859.8	935.0	1,204.1	1,256.8	1,279.6
EBITDA	(15.8)	115.2	151.0	172.1	176.6
EBIT	(91.9)	46.0	87.4	110.5	116.8
Finance cost	(7.1)	(6.2)	(5.5)	(5.5)	(5.5)
Profit before tax	(99.0)	39.8	81.9	105.0	111.3
Tax	(2.4)	(5.4)	(14.7)	(18.9)	(20.0)
Net profit	(101.4)	34.4	67.2	86.1	91.2
Minority interest	1.4	-	-	-	-
Reported PATAMI	(102.8)	34.4	67.2	86.1	91.2
Exceptionals	(74.2)	(7.9)	-	-	-
Core PATAMI	(28.6)	26.5	67.2	86.1	91.2

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	(3.4)	3.1	8.0	10.2	10.8
P/E (x)	NM	15.5	6.1	4.8	4.5
EV/EBITDA (x)	NM	4.3	2.7	1.8	1.1
DPS (sen)	-	1.5	2.0	2.5	3.5
Dividend yield (%)	-	3.1	4.1	5.2	7.2
BVPS (RM)	1.2	1.2	1.3	1.4	1.5
P/B (x)	0.4	0.4	0.4	0.3	0.3
EBITDA margin	(1.8)	12.3	12.5	13.7	13.8
EBIT margin	(10.7)	4.9	7.3	8.8	9.1
PBT margin	(11.5)	4.3	6.8	8.4	8.7
Net margin	(3.3)	2.8	5.6	6.8	7.1
ROE (%)	(2.8)	2.6	6.1	7.2	7.1
ROA (%)	(2.0)	1.9	4.4	5.3	5.3
Net gearing	14.8%	8.0%	CASH	CASH	CASH
CFO	65.2	82.6	119.9	137.0	146.4
Capex	(38.1)	(23.5)	(35.0)	(35.0)	(35.0)
Others	(31.1)	2.4	-	-	-
CFI	(69.3)	(21.1)	(35.0)	(35.0)	(35.0)
Dividends	-	-	-	-	-
Others	22.5	(83.0)	-	-	-
CFF	22.5	(83.0)	-	-	-
Net cash flow	18.4	(21.5)	84.9	102.0	111.4
Others	0.9	(0.7)	-	-	-
Beginning cash	94.8	112.3	91.5	176.4	278.3
Ending cash	112.3	91.5	176.4	278.3	389.8

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Published & printed by:

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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	Sector expected to outperform the market over the next 12 months.
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.