



22 MAR, 2023

Heveaboard faces uncertain demand, earnings outlook

The Star, Malaysia



Page 1 of 2

Heveaboard faces uncertain demand, earnings outlook

PETALING JAYA: Particle board manufacturer Heveaboard Bhd's demand outlook and earnings visibility will likely be obscured by uncertainties ahead, says Hong Leong Investment Bank (HLIB) Research.

This was despite the group having ended its financial year 2022 (FY22) profitably and recovering from its loss-making year in FY21, it added.

On a positive note, Heveaboard has a healthy balance sheet with net cash of RM109.2mil, which is 56.8% of its market capitalisation, said HLIB Research in its latest report.

The research house also expects the group to declare a final dividend for FY22, slated in April.

Post-virtual meeting with the group's management recently, HLIB Research said Heveaboard's fungi cultivation segment looks set to improve in the quarters ahead as the mushroom oversupply caused

by the lockdown in China is beginning to be resolved.

Last year, the fungi cultivation segment was negatively impacted by the lockdown in China.

"The excess mushrooms are diverted to Malaysia, causing an oversupply situation which ate into the group's domestic market share," it said.

However, things have started to turn around since China has lifted its pandemic lockdown, reducing the country's mushroom exports to Malaysia.

"The management is of the view that sales should begin to turn around and have gone on an aggressive marketing drive.

"The segment is expected to breakeven should capacity utilisation continues to improve."

Meanwhile, demand for Heveaboard's particleboard and ready-to-assemble segment from the group's largest export market, Japan, is softer compared with the

previous years due to the weakening of the Japanese yen.

"This was despite the group's seasonal peak period, which coincides with Japan's financial new year," it added.

One of the main reasons for the slowdown in demand is the weakening yen versus the US dollar, causing the group's products to be increasingly unaffordable by Japanese customers.

"Should the dollar maintain its strength relative to the yen, demand for the group's products could continue to be negatively impacted," explained HLIB Research.

Furthermore, due to the recent extreme wet weather, log supply is expected to be impacted as it has become more challenging to harvest and transport logs.

"This is likely to put an upward pressure on the log prices due to tighter supply.

"Nonetheless, the group shared

that it currently has enough log inventory to fulfill orders at hand and as such should not face log shortage issues in the near term," the research house said.

Despite resin price slightly cooling off, the electricity costs have also gone up substantially due to Tenaga Nasional Bhd's imbalance cost-pass-through increase.

This has resulted in a net increase in overall costs for the group, HLIB Research said.

"Due to these reasons, the management has increased the average selling prices of its products to pass on some of the costs.

"In view of this, we opine this may further impact the affordability of the products to the Japanese customers in addition to the weak yen," it added.

Hence, HLIB Research, which is cautious on the group's earnings in the near term, maintained a "hold" call on the stock with an unchanged target price of 34 sen.