

Sustainability and expansion

Chin Hin is the largest manufacturer of Autoclaved Aerated Concrete AAC blocks in Malaysia and management is expanding its manufacturing facilities and product range including AAC and wire mesh. Current order book is RM177.6m. Management believes diversifying into manufacturing will improve profit margin compared to just distributing building materials. Chin Hin's shares are trading at FY15 PER of 13x.

Eco-friendly AAC blocks

Chin Hin's subsidiary, Starken AAC, is the largest manufacturer of AAC blocks, a light-weight concrete block (1/5 the weight of typical concrete block) and 12% more cost effective on average compared to clay and cement sand bricks. Smartly positioned as an eco-friendly building material, Chin Hin is capitalizing on the government's focus on using green building technology to improve energy efficiency. AAC products are certified by the Singapore Environmental Council and CIDB. Currently, it has secured RM37m order book for AAC products.

Manufacturing facilities expansion

Chin Hin is focussing on growing the manufacturing business segment through subsidiaries Starken AAC and G-Cast Concrete by ramping up the production capacity by 60% to 600,000mt and 50% to 67,500mt respectively. Current manufacturing order book stands at RM177.6m.

Penetrate foreign markets and expand product range

The group is expanding into foreign markets given the rising demand for AAC blocks and wire mesh products. The management has allocated a total of RM2.1m from the IPO proceeds for marketing, promotion and branding activities. Starken AAC gets repeat purchase orders for its AAC blocks from customers in Taiwan, Australia, Hong Kong, Singapore, Philippines and Indonesia.

Financials and valuation

Chin Hin is trading at premium FY15 PER of 13.6x compared to weighted average sector PER of 10.5x and peers such as Harrisons Holdings (13.1x), Ajiya (11.4x), Engtex (8.5x) and Atta Global (8.4x). FY16 PER drops to 11.5x assuming 20% growth in net profit to RM36m, based on management's target.

Earnings & Valuation Summary

FYE 31 Dec	2011	2012	2013	2014	2015
Revenue (RMm)	1,014.6	1,046.1	1,220.4	1,219.4	1,199.2
EBITDA (RMm)	43.9	58.4	61.2	75.0	116.3
Pretax profit (RMm)	27.1	41.2	37.3	43.2	39.0
Net profit (RMm)	19.1	34.6	29.5	30.2	30.2
EPS (sen)	3.78	6.84	5.82	5.97	5.97
PER (x)	21.6	11.9	14.0	13.7	13.6
Core net profit (RMm)	19.1	34.6	29.4	30.2	30.2
Core EPS (sen)	3.78	6.84	5.81	5.98	5.97
Core EPS growth (%)		80.9%	-15.0%	2.9%	-0.2%
Core PER (x)	21.6	11.9	14.0	13.6	13.7
Net DPS (sen)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	14.6	12.9	13.5	9.2	5.6
Chg in EPS (%)	-	-	-	-	-
Affin core/Consensus (x)	-	-	-	-	-

Source: Affin Hwang, company data

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Company Note

Chin Hin

CHIN MK

Sector: Building Materials

RM0.82 @ 6 May 2016

Not Rated



Price Performance

	1M	3M	12M
Absolute	-5.8%	N/A	N/A
Rel to KLCI	-1.8%	N/A	N/A

Stock Data

Issued shares (m)	505.9
Mkt cap (RMm)/(US\$m)	412.3/102.9
Avg daily vol - 6mth (m)	-
52-wk range (RM)	0.78-0.9
Est free float	24.8%
BV per share (RM)	0.59
P/BV (x)	1.38
Net cash/ (debt) (RMm) (4Q15)	228.87
ROE (2015)	12.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Divine Inventions	60.0%
Beng Teik Chiau	14.7%
Pacific Mutual Fund	1.0%

Source: Affin, Bloomberg

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Growing with green future

Eco-friendly AAC Blocks

Chin Hin Group Berhad is a well-known player in the building materials industry for over 40 years. The group's current primary business activities are (i) distribution of building materials and provision of logistic services, (ii) manufacturing of AAC and precast concrete products, wire mesh and metal roofing system.

Its subsidiary, Starken AAC, is the largest manufacturer of light-weight AAC blocks (1/5 the weight of typical concrete block), which is 12% more cost effective on average compared to clay and cement sand bricks because it can save on plastering costs. It only applies a layer of skimcoat instead of plaster. AAC blocks are also approximately six times bigger than typical blocks.

Fig 1: Cost comparison

Description	AAC Blocks (RM)	Clay Bricks (RM)	Cement Sand Bricks (RM)
Material price per m ²	29	18 - 20	11-13
Labour and installation per m ²	10-13	10-13	10-13
Skim coating per m ²	11-15	0	0
Plastering per m ²	0	30-36	30-36
Total price per m ²	50-57	58-69	51-62

Source: Company Prospectus

Other strengths are high durability, fire resistance, excellent insulator, effective sound barrier, great ventilation and good workability due to its light weight and dimensional accuracy. Thus, this reduces its overall production time and labour input.

AAC products are certified as green product eco-friendly building material by Singapore Environment Council and Construction Industry Development Board (CIDB), and currently pending eco-labelling from SIRIM. Smartly positioned as an eco-friendly building material, Chin Hin has move ahead concurrently with Malaysia's government initiatives to promote sustainability in construction industry through Construction Industry Transformation Programme (CITP) 2016-2020 and the Green Building Index (GBI) incentives.

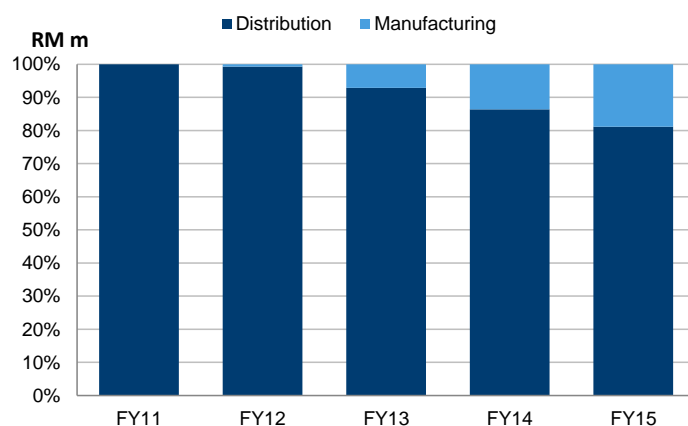
We anticipate the construction industry will adopt green building practices moving forward, underpinning the demand growth in green building materials, like AAC products. AAC is notably used in developed markets, especially Singapore. We believe AAC is a great alternative to clay and cement sand bricks in the future. Current order book for AAC products is RM37m.

Manufacturing facilities expansion

The group has diversified vertically from being a pure distributor of building materials in 2011 into manufacturing business in 2012. The revenue in manufacturing segment contributes 19.9% of revenue in FY15 compared to 13.6% of revenue in FY14.

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Fig 2: Segmental revenue breakdown



Source: Affin Hwang, company data

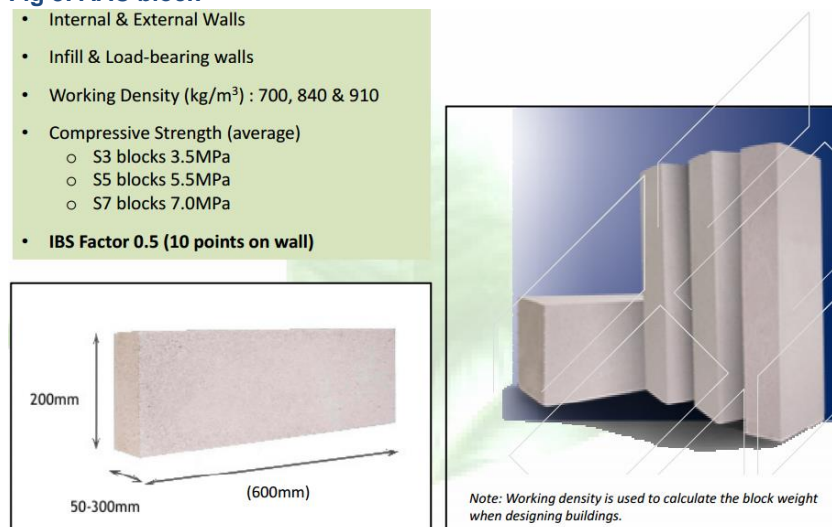
The management has been strategically focussing on growing the manufacturing business segment by expanding manufacturing facilities in its subsidiaries G–Cast Concrete and Starken AAC:

- a) Starken AAC: The management plans to utilise RM10m or 24% of the IPO proceeds from the listing exercise on 8 March 2016 to install new equipment and upgrade the existing machineries in their factory located in Serendah. This will increase the production capacity by 60% to 600,000 mt per year to cater for its secured order book of RM37m to be fulfilled in 2016. The orders of AAC products will be used in the construction of condominiums, low-rise residential homes, high-rise commercial buildings and shopping complexes. The expansion has started in 1H16 and is expected to be completed by the end of the year. The current utilisation rate is 80% as of August 2015.

- b) G-Cast Concrete: The group plans to use RM5m of the IPO proceeds to expand the manufacturing floor space by 69% to 3,660 m², which will increase G-Cast's production capacity by 22,500 mt or 50% to 67,500 mt per year. Currently, it is running at 100% utilisation rate. This expansion has commenced in January 2016 and is expected to complete by end-2016. The expansion will ensure timely delivery of secured purchase orders for various precast concrete pipe products amounting to RM100.7m to be fulfilled from 2016 to 2018.

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Fig 3: AAC block



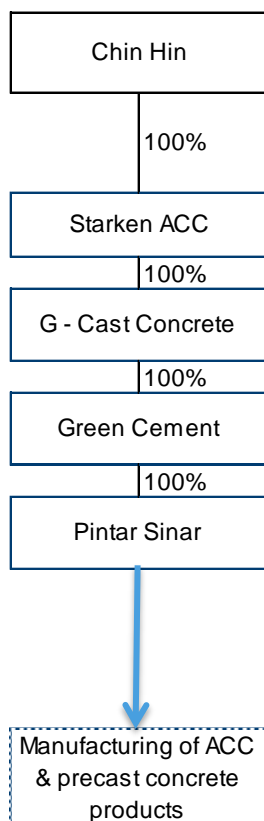
Source: Company data

Besides that, the group has also secured RM36m and RM3.9m order book for Metex Steel and Metal Sphere respectively to be fulfilled within 2016. Metex Steel is engaged in the production of wire mesh whereas Metal Sphere manufactures metal roofs and metal roofing products. One of its key advantages is the ability to supply extra-long roofing sheet for bigger buildings like exhibition centres, warehouses and shop offices with its mobile on-site rolling equipment. Thus, it is more cost effective in terms of transportation and materials usage. Currently, the wire mesh production per annum is 60,000 mt, running at 75% utilisation rate. As for metal roofing, it is currently running at an average of 70% utilisation.



Fig 4: Company Structure

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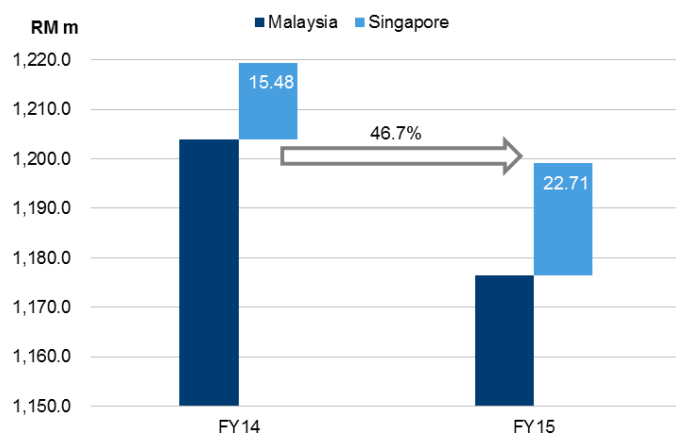


Source: Company Prospectus

Penetrate foreign markets and expand product range

The group is expanding into foreign markets as it presents vast potential for AAC products and wire mesh. The company intends to broaden the customer base and reduce the dependency on domestic customers by exporting products overseas. Revenue from Singapore market has grown an astounding 47% YoY contributing RM22.7m to the group's AAC product revenue.

Securities

Fig 5: Revenue contribution based on geographical area

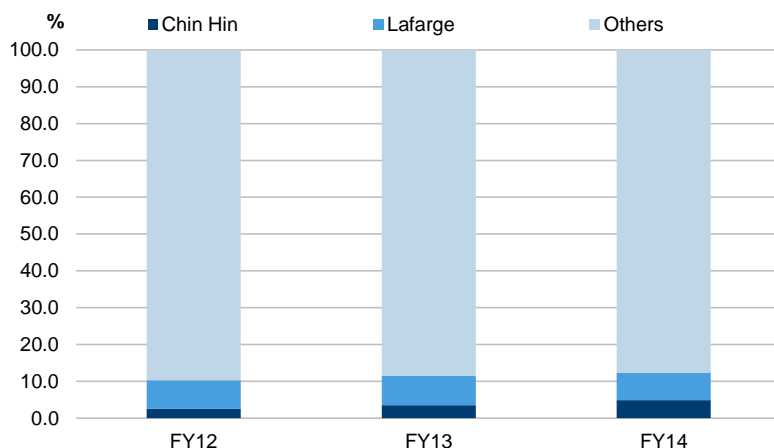
Source: Affin Hwang, company data

The management has allocated a total of RM2.1m from the IPO proceeds for marketing, promotion and branding activities. At this point of time, Starken AAC has secured repeated purchase orders for its AAC products from customers in Taiwan, Australia, Hong Kong, Singapore, Philippines and Indonesia.

The group plans to expand the present range of wire mesh with a focus on fencing systems and engineering mesh such as twin wire mesh and staggered mesh. The group has been increasing its market share from 0.3% in FY12 to a significant 6.3% in FY14 among other structural metal manufacturers in Malaysia.

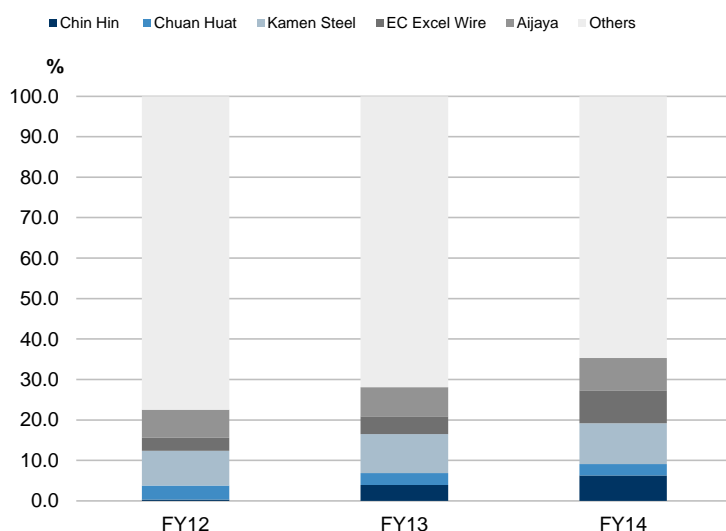
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Fig 6: Market share in structural metal products

Source: Affin Hwang, company data

Similarly, the group has expanded their market share from 2.6% in FY12 to 4.9% or RM255m in FY14, eating into the market shares of other concrete and cement manufacturers. This is in line with its strategic focus on producing industrialised building system precast products and jacking pipe. It came up with cast-in anti-slide steel collars that prevent sliding while providing greater rigidity. Also, the group is exploring the possibilities of using alternative types of raw materials and developing various designs to suit different customers' needs in order to cater for a broader market.

Fig 7: Market share in concrete and cement

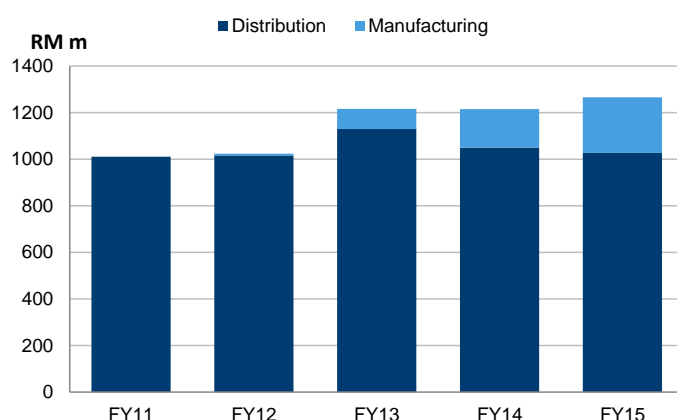
Source: Affin Hwang, company data

Financials and valuation

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In FY11, the group registered RM1bn revenue from the distribution of building materials and ready-mixed concrete with a net profit margin of 1.9%. In FY12, the group has vertically diversified into manufacturing building materials like pre-cast concrete products, metal roofing system and wire mesh, which yield higher profit margins.

Fig 8: Segmental Revenue

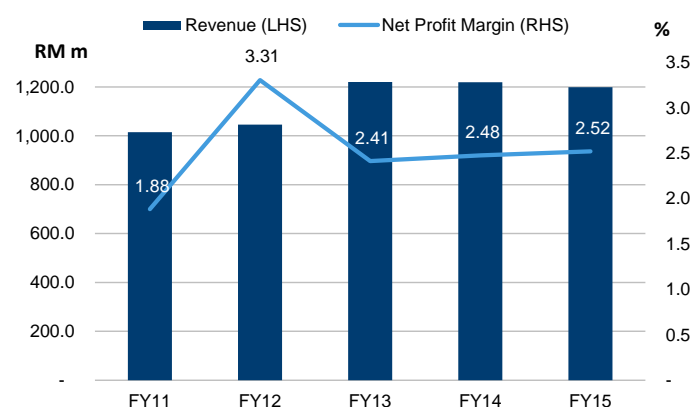


Source: Affin Hwang, company data

The group has increased revenue to RM239m in FY15, an increase of 44.5% YoY in its manufacturing business segment albeit the distribution revenue has shrunk by 2.2% YoY. The group's manufacturing revenue constitutes 20% of its total revenue for that year. Consistent with the increase in manufacturing revenue, overall net profit margin has expanded from 2.48% in FY14 to 2.52% in FY15.

There's a surge on net profit margin from 1.9% in FY11 to 3.3% in FY12 due to the increase in other operating income by RM19m, arising from fair valuation gain on investment properties. However, this led to a decline in net profit in FY13. Excluding the one-off gains, the group showed a net profit margin of 1.5% on FY12. FY13 recorded 61.9% YoY growth in its net profit.

Fig 9: Revenue and Net Profit Margin



Source: Affin Hwang, company data

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Tax incentive: The group is entitled to 80% tax exemption on its pre-tax profit because of the pioneer status it received for Starken AAC. Thus, we expect the group to benefit from a lower effective tax going forward.

Gearing level: The group has reduced its gearing level 1.65x to 1.39x after the listing because they have allocated RM15m from the IPO proceeds to repay its banker acceptances.

Moving forward, the management is expecting a 5% revenue growth to RM1.3bn in FY16 despite challenging market environment. This is based on their strong order book and recurring income by supplying solar PV system to TNB. It is a 20-year concession and expected to generate a pre-tax profit of RM2m. The margin expansion is also supported by higher economies of scale and cost optimization.

Fig 10: Peer Comparison Table

Stock	6/5/2016		Last		Core EPS (sen)		EPS Growth (%)		PE		EV/EBITDA		ROE (%)		Price to Book		Year End
	Price	Mkt Cap	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	
CHUAN HUAT RESOURCES BHD	0.4	74.2	(0.9)	-	-	-	-	-	-	-	-	-	-	-	0.3	-	Dec
IPMUDA BERHAD	1.0	73.9	2.4	-	(87.5)	-	42.5	40.5	7.6	7.5	1.1	-	0.4	-	Mar		
HARRISONS HOLDINGS MALAYSIA	3.0	205.4	22.9	-	(283.2)	-	13.1	-	-	-	5.4	-	0.7	-	Dec		
ENGTEX GROUP BHD	1.2	351.4	13.6	19.0	(8.7)	39.7	8.5	6.1	8.6	8.2	9.1	-	0.4	-	Mar		
ATTA GLOBAL GROUP BHD	0.5	35.6	6.3	-	(878.2)	-	8.4	-	-	-	-	-	0.3	-	Dec		
AJIYA BHD	3.3	250.5	28.9	-	21.2	-	11.4	-	-	-	-	-	0.8	-	Mar		
CHIN HIN GROUP BHD	0.8	412.3	6.0	8.5	-	42.4	13.6	11.5	5.5	7.1	12.3	12.0	1.4	1.2	Dec		
						Weighted PER	10.5										

NB:

- For comparison purposes, Chuan Huat Resources and Ipimuda have been excluded from the computation of average PER due to the losses incurred for FY15.
- The selected companies may not be directly comparable to the group as there is no listed company involved in all the business segments of Chin Hin. However, the selected peers are based on companies provided in the prospectus, which are involved in certain business segments similar to Chin Hin.

Valuation:

Chin Hin is trading at premium PER of 13.6x compared to weighted average sector PER of 10.5x and peers such as Harrisons Holdings (13.1x), Ajiya (11.4x), Engtex (8.5x) and Atta Global (8.4x). FY16 PER is 11.5x assuming 20% growth in net profit to RM36m. based on management's target.

Key Risks

Management sees the downside risks include; (i) price volatility of raw materials like cement, sand, aggregates and steel bars; (ii) price competition among the manufacturing and distribution building materials players; (iii) construction sector growth could soften to 6.5% in FY16 based on our estimates compared to 8.2% in FY15; (iv) currency exchange risks.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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