



### CHIN HIN GROUP BERHAD

**Outperform**

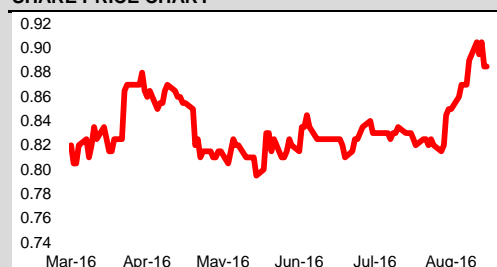
#### DESCRIPTION

Primarily involved in the distribution of building materials and provision of logistics, supply of ready-mixed concrete and manufacturing of AAC, precast concrete products, wire mesh and metal roofing

**12-Month Target Price** RM1.08  
**Current Price** RM0.89  
**Expected Return** +21.5%

**Market** Main  
**Sector** Industrial Products  
**Bursa Code** 5273  
**Bloomberg Ticker** CHIN MK  
**Shariah-compliant** No

#### SHARE PRICE CHART



52 Week Range (RM) 0.78-0.92  
 3-Month Average Vol('000) 865.5

#### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	6.6	11.2	-
Relative Returns	5.1	5.3	-

#### KEY STOCK DATA

Market Capitalisation (RM m)	447.7
No. of Shares (m)	505.9

#### MAJOR SHAREHOLDERS

	%
Divine Inventions	60.0
Chiau Beng Teik	14.7

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## Within Expectations

Chin Hin's 2QFY16 results were broadly in line, making up 43.6% and 47.6% of our revenue and core net profit estimates respectively. Despite sluggish housing construction activities adversely affected its sales performance which declining by 12.9% YoY, the group registered higher 1HFY16 core net profit of RM16.7m (+8.5% YoY). Higher performance was led by i) contribution from the manufacturing of AAC block and precast concrete segment, ii) better margin from steel mesh products following increased in its average selling price. Our earnings estimates are raised 6% for FY18, to account new capacities of AAC and precast concrete. Our **Outperform** call on the stock is reaffirmed with revised target price of RM1.08 premised on 12.0x multiple to its EPS of 8.9sen.

§ **2QFY16** revenue of RM268.6m (-15.3% YoY, -5.5% QoQ) was dragged by lower contribution from distribution of building material (-24.1% YoY, -9.9% QoQ) and ready mixed concrete (-12.4% YoY, -4.0% QoQ) due to the sluggish housing construction activities. The negative impact however was partly offset by its AAC and precast concrete segments (+27.8% YoY, +1.7% QoQ) while steel mesh products and metal roofing system revenue remain resilient at RM37.8m (+5.0% YoY, +8.6% QoQ).

§ **Margins up marginally.** Despite softer sales performance, its EBIT margin and core net profit margin improved to 5.9% and 3.2% (1QFY16 EBIT: 5.3%, core PAT: 2.8%). The slight improvement was mainly led by better product mix in its trading segment, which focuses on high yield products, resulting in trading segment's PBT margin improved to 2.5% (1QFY16: 1.3%) and lower manufacturing costs owing to cost advantage by purchasing bulk of raw materials through its trading segments. At the same time, the group benefitted from the sudden local steel shortage over the last quarter, resulting in steel price spiked up c.20%. With lower raw materials costs from its old inventories and increased in average selling price following steel prices, steel mesh products commands better margin in this quarter.

#### KEY FORECAST TABLE

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	1,219.4	1,199.2	1,267.6	1,398.6	1,568.6	6.5%
Gross Profit	88.5	101.5	105.8	118.7	133.3	10.8%
Pre-tax Profit	43.2	39.0	45.2	58.5	67.9	12.0%
Net Profit	30.2	30.2	35.0	45.3	52.6	14.9%
EPS (Sen)	6.0	6.0	6.9	9.0	10.4	14.9%
P/E (x)	15.2	15.1	13.1	10.1	8.7	
DPS (Sen)	-	-	-	-	-	
DivYield (%)	-	-	-	-	-	

Source: Company, PublicInvestResearch estimates

§ **Expansion plan.** Due to insufficient capacity of existing plant to fulfill its customer demand (as reflected in longer lead time of 4-5 months), the group is planning to further expand its wall panel and AAC in Johor with additional capacity of 420,000m<sup>3</sup>. In addition, a precast concrete plant with additional 45,000mt will be built next to the AAC plant in Johor. Contribution from the new plants will only kick-in by 1QFY18. The group allocated a total of RM85m capex for its expansion plan in Johor. With its strong net cash position, we are not concerned on funding. Our earnings estimates are raised by 6% for FY18, to account new capacities of AAC and precast concrete.

§ **Maintain Outperform.** We maintain our target price of RM1.08 with an Outperform call. With government's continuous initiatives to develop the water and sewerage sector and green buildings development, we are optimistic on its order replenishment going forward. We see higher adoption rate of AAC block locally which reflected in the uptick of sales volume (+22.4% YoY). To-date, its manufacturing orderbook stands at RM200m.

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>2Q16</u>	<u>1Q16</u>	<u>2Q15</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD 16</u>	<u>YTD 15</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	268.6	284.4	317.1	-15.3	-5.5	553.0	634.7	-12.9	Lower contribution from distribution of building material, steel mesh, metal roofing, and ready-mixed concrete segments. Additional income from its solar panel
EBIT	15.7	15.1	16.6	-5.4	4.0	30.8	30.6	1.0	
Finance costs	-4.0	-4.9	-5.0	-19.3	-18.2	-9.0	-10.1	-11.0	
Pre-tax profit	11.7	7.3	11.6	0.7	61.0	18.9	20.5	-7.4	
Taxation	-3.0	-2.2	-3.0	0.0	32.2	-5.2	-5.1	1.9	
Net Profit	8.7	5.0	8.6	0.9	73.9	13.7	15.3	-10.5	
Core Net Profit	8.72	7.9	8.6	0.9	9.9	16.7	15.3	8.5	After stripping out one-off listing expenses of RM2.92m in 1QFY16
EPS (sen)	1.8	1.1	2.0	-7.7%	69.8%	2.9	3.5	-0.2	
EBIT Margin	5.9%	5.3%	5.2%	11.7%	10.1%	5.6%	4.8%	15.9%	
Pre-tax Margin	4.4%	2.6%	3.7%	18.8%	70.4%	3.4%	3.2%	6.2%	
Net Profit Margin	3.2%	2.8%	2.7%	19.1%	16.3%	3.0%	2.4%	24.5%	
<u>Segmental Revenue</u>									
Distribution of building material and logistics services	161.8	179.6	213.2	-24.1%	-9.9%	341.4	425.0	-19.7%	Due to softening housing construction activities
Ready-mixed concrete	37.8	39.4	43.1	-12.4%	-4.0%	77.1	88.9	-13.3%	
AAC and Precast concrete	30.1	29.6	23.5	27.8%	1.7%	59.6	44.5	33.9%	
Steel mesh and metal roofing system	37.8	34.8	36.0	5.0%	8.6%	72.7	73.9	-1.7%	
Others	1.1	1.1	1.2	-8.0%	4.4%	2.2	2.3	-6.5%	

Source: Company, PublicInvest Research estimates

**KEY FINANCIAL DATA**
**INCOME STATEMENT DATA**

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Revenue	1,219.4	1,199.2	1,267.6	1,398.6	1,568.6
Gross Profit	88.5	101.5	105.8	118.7	133.3
Operating Profit	45.6	58.2	61.8	71.1	79.6
Finance Costs	-18.7	-20.5	-22.2	-15.6	-13.5
Pre-tax Profit	43.2	39.0	45.2	58.5	67.9
Income Tax	-13.0	-8.8	-10.2	-13.2	-15.3
Effective Tax Rate (%)	30%	22%	23%	23%	23%
Minorities	-	-	-	-	-
Net Profit	30.2	30.2	35.0	45.3	52.6

**Growth**

Revenue	0%	-2%	6%	10%	12%
Gross Profit	26%	15%	4%	12%	12%
Net Profit	2%	0%	16%	29%	16%

Source: Company, PublicInvestResearch estimates

**BALANCE SHEET DATA**

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Property, Plant & Equipment	187.1	200.8	225.5	250.6	268.3
Cash and Cash Equivalents	118.0	168.9	90.8	55.5	53.0
Trade and Other Receivables	310.2	317.6	337.4	372.2	417.5
Other Assets	187.0	164.3	166.8	171.6	178.0
<b>Total Assets</b>	<b>802.4</b>	<b>851.5</b>	<b>820.4</b>	<b>850.0</b>	<b>916.7</b>
Trade and Other Payables	159.3	163.2	174.2	191.9	215.2
Borrowings	370.9	388.9	270.7	237.2	228.0
Deferred tax	4.1	7.2	4.3	4.3	4.3
Other Liabilities	37.4	31.0	34.0	34.0	34.0
<b>Total Liabilities</b>	<b>571.7</b>	<b>590.3</b>	<b>483.1</b>	<b>467.3</b>	<b>481.4</b>
Shareholders' Equity	230.6	261.2	337.3	382.7	435.3
<b>Total Equity and Liabilities</b>	<b>802.4</b>	<b>851.5</b>	<b>820.4</b>	<b>850.0</b>	<b>916.7</b>

Source: Company, PublicInvestResearch estimates

**PER SHARE DATA AND RATIOS**

FYE Dec	2014A	2015A	2016F	2017F	2018F
Book Value Per Share	0.5	0.5	0.7	0.8	0.9
NTA Per Share	0.5	0.5	0.7	0.8	0.9
EPS (Sen)	6.0	6.0	6.9	9.0	10.4
DPS (Sen)	-	-	-	-	-
Payout Ratio	-	-	-	-	-
ROA	4%	4%	4%	5%	6%
ROE	13%	12%	10%	12%	12%

Source: Company, PublicInvestResearch estimates

## **RATING CLASSIFICATION**

### **STOCKS**

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### **SECTOR**

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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