

# Chin Hin Group Bhd

*Ramping-up its AAC Production*

**TP: RM0.79 (+5.3%)**

Last Traded: RM0.75

**Hold**

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We recently visited the new Autoclaved Aerated Concrete (AAC) plant in Kota Tinggi, Johor. The new AAC plant commenced operation in July 18, added 600k m<sup>3</sup> of new capacity to the existing production capacity of 435k m<sup>3</sup>, bringing the total AAC production capacity to 1.03mn m<sup>3</sup>. This enables CHINHIN to further strengthen its dominant position in manufacturing of AAC products in Malaysia. We expect the additional earnings contribution from the new plant to provide some cushion to the potential drop in group's earnings as we expect the earnings contribution from building materials, logistics, and ready-mixed concrete segments to stay lacklustre. We maintain Hold call with an unchanged target price of RM0.79.

## Visit to the New AAC Plant

The new AAC plant in Kota Tinggi, Johor commenced operation in July 18. The new plant added 600k m<sup>3</sup> of new capacity to the existing production capacity of 435k m<sup>3</sup>, bringing total AAC production capacity to 1.03mn m<sup>3</sup>. The core products manufactured at the new plant are mainly AAC blocks, lintels, and wall panels. The main raw materials use to manufacture AAC products are cement, sand, lime, gypsum, and aluminium. The group has invested about RM120mn which included land acquisition cost. Machineries are mainly sourced from Germany. The current plant utilisation rate is about 25% with workforce of 150 staffs. We expect the group to be able to ramp up its production in 1H19 once it fully optimises the manufacturing processes. Assuming the new AAC plant can run up to 75% utilisation rate in FY19, we expect the division to contribute additional RM12.5mn of PBT to the group.

## Advantages of AAC Products

AAC is a precast concrete building material that aims to replace the cement and clay bricks due to a few key advantages:

### a) Cost Effective

AAC blocks are only approximately one-third the density of conventional bricks, and this helps to reduce the deadweight load on foundation. As such, it could save up to 25% of building foundation cost. Besides, the walls build with AAC products do not require plastering due to its inherently smoother surface. It only requires a layer of skim coat which is more time saving and cost effective. Furthermore, the wall installation is speedier than conventional bricks due to larger dimension of AAC products which helps to reduce the number of joints required in wall masonry process. As such, AAC blocks are seen as a preferred alternative to traditional bricks.

## Share Information

Bloomberg Code	CHIN MK
Bursa	CHINHIN
Stock Code	5273
Listing	Main Market
Share Cap (mn)	556.4
Market Cap (RMmn)	417.3
52-wk Hi/Lo (RM)	1.33/0.73
12-mth Avg Daily Vol ('000 shrs)	527.7
Estimated Free Float (%)	27.0
Beta	1.2
Major Shareholders (%)	

Divine Inventions - 34.35  
Chiau Beng Teik- 26.57

## Forecast Revision

	FY18	FY19
Forecast Revision (%)	-	-
Net profit (RMmn)	27.5	47.3
Consensus	29.6	43.2
TA's / Consensus (%)	93.1	109.5
Previous Rating	Hold (Maintained)	

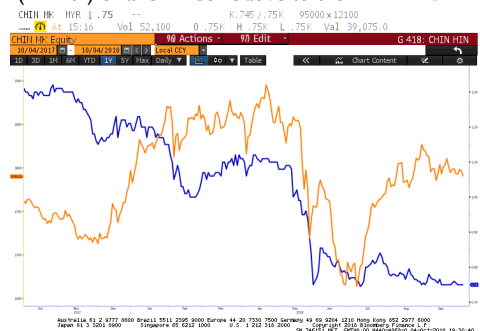
## Financial Indicators

	FY18	FY19
Net Debt / Equity (%)	70.7	62.4
CFPS (sen)	19.4	1.6
Price / CFPS (x)	3.9	47.0
ROA (%)	2.7	4.5
NTA/Share (RM)	0.8	0.8
Price/NTA (x)	1.0	0.9

## Share Performance (%)

Price Change	CHINHIN	FBM KLCI
1 mth	(3.8)	(1.2)
3 mth	(2.6)	6.0
6 mth	(29.2)	(1.4)
12 mth	(42.7)	1.6

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

### b) Fire, Water, and Sound Resistant

The AAC products are resistant to high temperatures for longer period of time in comparison to masonry products. The fire resistance period may go up to 4 hours depending on the thickness of the wall. Furthermore, the AAC products have good water-resistant feature as it contains millions of closed microscopic cells in a standard block due to its porous structure. Besides, the porous structure also enables AAC products to possess high sound absorption characteristic.

### c) IBS Certified and Eco Friendly

The AAC products have been certified as eco-friendly building materials by the Construction Industry Development Board and Singapore Environmental Council. The AAC blocks and AAC panels carry IBS score factors of 0.5 and 1.0 respectively.

In a nutshell, the outlook for AAC products is bright as it can be used for high rise projects, residential affordable housing projects as well as government infrastructure projects. Furthermore, AAC products have a long-proven track record which are widely used in developed markets especially in Europe.

### Impact

Maintain FY18 to FY20 earnings forecasts.

### Valuation

No change to our target price of **RM0.79**, based on unchanged 9x CY19 EPS. Maintain **Hold** call on CHINHN.

## Earnings Summary

### Profit & Loss (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
Revenue	1058.8	1015.4	1139.1	1224.9	1290.3
EBITDA	83.7	71.4	85.0	107.1	105.2
Dep. & amortisation	(16.3)	(18.4)	(24.0)	(23.4)	(22.9)
Net finance cost	(16.3)	(16.2)	(18.8)	(20.1)	(10.0)
PBT	51.2	39.5	42.2	63.6	73.3
Taxation	(9.7)	(9.8)	(9.7)	(14.6)	(16.9)
Net profit	41.4	29.7	32.5	49.0	56.5
Core profit	30.8	30.1	27.5	47.3	56.5
GDPS (sen)	3.5	3.5	2.5	4.0	5.0
Div Yield (%)	4.7	4.7	3.6	5.4	7.0

### Cash Flow (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
PBT	51.2	39.5	42.2	63.6	73.3
Non cash expenses	18.3	31.8	42.8	43.5	32.9
Non Operating expenses	(26.5)	(28.3)	(28.5)	(34.7)	(26.8)
Changes in WC	(36.9)	(4.0)	13.7	(17.1)	(10.6)
<b>Operational cash flow</b>	<b>6.0</b>	<b>38.9</b>	<b>70.2</b>	<b>55.3</b>	<b>68.8</b>
Capex	(63.8)	(73.3)	(20.0)	(20.0)	(20.0)
Others	12.0	(61.6)	4.4	4.4	4.4
<b>Investment cash flow</b>	<b>(51.8)</b>	<b>(134.9)</b>	<b>(15.6)</b>	<b>(15.6)</b>	<b>(15.6)</b>
Debt raised/(repaid)	(77.5)	32.2	75.0	10.9	(22.1)
Dividend	(7.6)	(21.2)	(14.6)	(22.0)	(28.2)
Others	34.1	63.0	(10.0)	(20.0)	(20.0)
<b>Financial cash flow</b>	<b>(51.0)</b>	<b>73.9</b>	<b>50.4</b>	<b>(31.1)</b>	<b>(70.3)</b>
Forex effect	0.2	(0.2)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(96.5)</b>	<b>(22.3)</b>	<b>105.0</b>	<b>8.6</b>	<b>(17.1)</b>
<b>Beginning cash</b>	<b>165.9</b>	<b>69.4</b>	<b>47.1</b>	<b>152.1</b>	<b>160.7</b>
<b>Ending cash</b>	<b>69.4</b>	<b>47.1</b>	<b>152.1</b>	<b>160.7</b>	<b>143.6</b>

### Balance Sheet (RMmn)

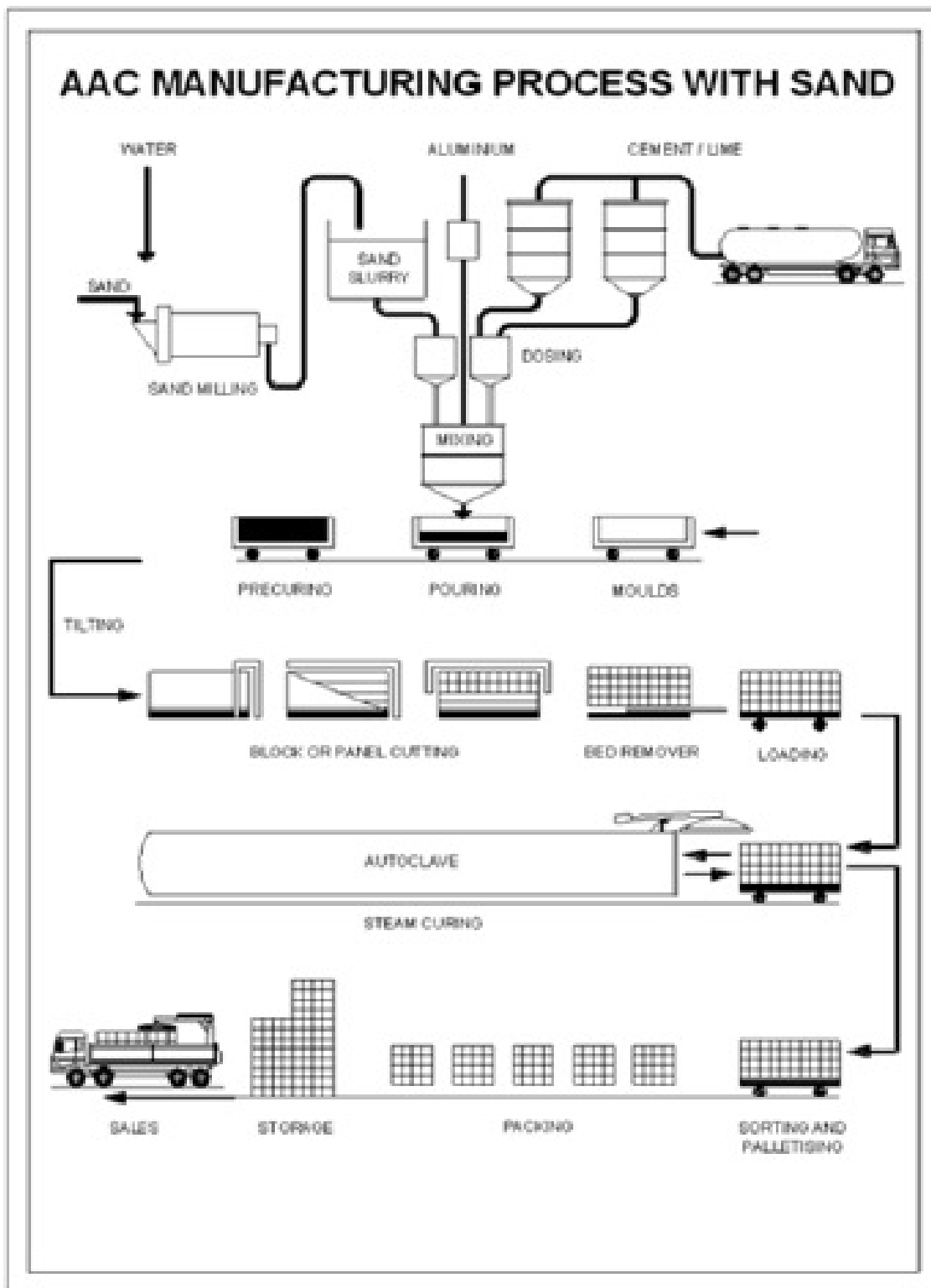
YE Dec 31	2016	2017	2018F	2019F	2020F
Fixed assets	293.7	381.2	372.8	365.0	357.6
Others	71.4	129.4	129.4	129.4	129.4
<b>NCA</b>	<b>365.1</b>	<b>510.6</b>	<b>502.2</b>	<b>494.4</b>	<b>487.0</b>
Cash	73.5	50.0	155.0	163.6	146.5
Others	381.9	407.3	375.9	402.9	421.1
<b>CA</b>	<b>455.4</b>	<b>457.3</b>	<b>530.8</b>	<b>566.5</b>	<b>567.6</b>
<b>Total assets</b>	<b>820.4</b>	<b>967.9</b>	<b>1033.0</b>	<b>1060.9</b>	<b>1054.6</b>
ST borrowings	284.1	315.6	380.6	371.5	329.5
Other liabilities	169.0	178.3	160.6	170.6	178.2
<b>CL</b>	<b>453.0</b>	<b>493.9</b>	<b>541.2</b>	<b>542.1</b>	<b>507.7</b>
<b>Shareholders' funds</b>	<b>324.3</b>	<b>400.3</b>	<b>418.2</b>	<b>445.1</b>	<b>473.4</b>
LT borrowings	36.3	66.9	66.9	66.9	66.9
Other LT liabilities	6.8	6.8	6.8	6.8	6.8
<b>NCL</b>	<b>43.1</b>	<b>73.6</b>	<b>73.6</b>	<b>73.6</b>	<b>73.6</b>
<b>Total capital</b>	<b>820.4</b>	<b>967.9</b>	<b>1033.0</b>	<b>1060.9</b>	<b>1054.6</b>

### Ratio

YE Dec 31	2016	2017	2018F	2019F	2020F
EBITDA Margins (%)	7.9	7.0	7.5	8.7	8.2
Core EPS (sen)	6.2	5.8	5.1	8.8	10.5
EPS Growth (%)	(8.8)	(7.6)	(11.4)	71.8	19.3
PER (x)	12.0	13.0	14.7	8.6	7.2
GDPS (sen)	3.5	3.5	2.5	4.0	5.0
Div Yield (%)	4.7	4.7	3.6	5.4	7.0
Net cash (RMmn)	(250.5)	(335.0)	(295.0)	(277.3)	(252.3)
Net gearing (%)	77.2	83.8	70.7	62.4	53.4
ROE (%)	10.5	8.3	6.7	11.0	12.3
ROA (%)	3.8	3.1	2.7	4.5	5.4
NTA (RM)	0.7	0.8	0.8	0.8	0.9
P/NTA(x)	1.1	1.0	1.0	0.9	0.9

## Appendix

### Manufacturing Process of AAC Products



**Exhibit 1: Loading Bay for Raw Materials**



**Exhibit 2: Sand Milling**



**Exhibit 3: Mixing and Pouring of Raw Materials**



**Exhibit 4: Tilting**





**Exhibit 5: Block Cutting**



**Exhibit 6: Steam Curing**



**Exhibit 7: Quality Checking**



**Exhibit 8: Packing**



**Exhibit 9: Finished Product**



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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, October 05, 2018, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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