



### CHIN HIN GROUP BERHAD

**Outperform**

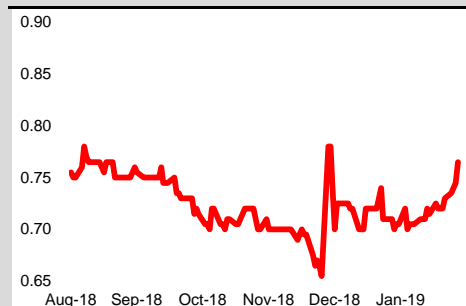
#### DESCRIPTION

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 RM1.00  
Current Price RM0.765  
Expected Return 30.7%

Market Main  
Sector Industrial Products  
Bursa Code 5273  
Bloomberg Ticker CHIN MK  
Shariah-compliant Yes

#### SHARE PRICE CHART



52 Week Range (RM) 0.63 - 1.13  
3-Month Average Vol('000) 149.5

#### SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	4.9	3.5	-24.5
Relative Returns	5.4	5.5	-17.9

#### KEY STOCK DATA

Market Capitalisation (RM m)	420.8
No. of Shares (m)	550.1

#### MAJOR SHAREHOLDERS

	%
Divine Inventions	34.8
Datuk Seri Chiau Beng Teik	26.1

#### Ching Weng Jin

T 603 2268 3000

F 603 2268 3014

E research@publicinvestbank.com.my

## A Better 2019 Expected

Chin Hin Group's headline 4QFY18 net profit was a stronger RM9.4m (+10.9% YoY, +47.4% QoQ), though it included RM4.2m in net revaluation gains. Excluding this, cumulative core FY18 net profit of RM19.9m (-9.3% YoY) came in below expectations at only 64% of our and consensus full-year estimates. While there were gradual pickups in capacity utilization at its new startups, production volumes were insufficient to help mitigate the relatively large pre-operating costs amounting to an estimated RM15m charged out during the year. Gross profit margins improved marginally to 9.4% in the quarter (3QFY18: 9.2%), reflective of growing traction in its higher-margin businesses. Despite the relatively large earnings miss, we are keeping estimates unchanged however as the Group will see 1) increased contributions from its autoclaved concrete (new export markets) and precast concrete businesses, 2) greater penetration in the higher-margined Industrial Modular Building System (IMBS) space as the Group positions itself as a total building materials solutions partner and 3) increased contributions from its investment in 45%-owned Solarvest Holdings. Our **Outperform** call is retained with unchanged target price of RM1.00, on a ~13x multiple to FY19 EPS of 7.6sen.

§ **Distribution of building materials (+5.4% YoY)** saw growth driven by higher sales of imported plywood, paint and fibre cement products, countering weaker cement sales (-13.1% YoY) as housing construction activities remained weak.

§ **Autoclaved-aerated concrete (AAC) and precast concrete** segment revenue growth (+20.3% YoY) was driven by strong demand for wall panels in the local and Singapore market for the former, and an increase in polymer pipe exports to Singapore, amongst others, for the latter. The second AAC plant in Kota Tinggi with an additional capacity of 600,000 m<sup>3</sup> is currently at 30% utilization and will gradually be ramped up by increased demand from export sales.

§ **A more exciting 2019** is in store, underpinned by potential increases in its pre-cast related orderbook (c.RM100m), new income stream from its recently-acquired Pengerang Workers' Complex project, and stronger solar-related income from 45%-owned Solarvest with its RM170m EPCC contract value in hand. Further upside can also be expected, coming from the government's thrust in increasing the renewable energy generation mix. Separately, the Group has also secured new contracts worth ~RM18m for its ultra-high performance concrete business which bodes well for earnings growth going forward given the high margins generated. Just as importantly, absence of pre-operating losses coupled with steady revenue growth in its key business segments will already ensure stronger years ahead, steady operating conditions notwithstanding.

#### KEY FORECAST TABLE

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F	CAGR
Revenue	1,015.6	1,105.4	1,170.9	1,189.8	1,222.7	3.8%
Gross Profit	102.1	101.7	117.9	115.7	120.4	3.4%
Pre-tax Profit	39.3	34.4	59.7	68.6	73.4	13.3%
Net Profit	29.6	24.2	42.3	49.2	52.9	12.3%
EPS (Sen)	5.3	4.3	7.6	8.8	9.5	12.3%
P/E (x)	14.4	17.6	10.1	8.7	8.1	
DPS (Sen)	3.5	3.5	3.5	3.5	3.5	
Dividend Yield (%)	4.6	4.6	4.6	4.6	4.6	

Source: Company, PublicInvestResearch estimates

**Table 1: Results Summary**

<b>FYE Dec (RM m)</b>	<b>4Q18</b>	<b>4Q17</b>	<b>3Q18</b>	<b>YoY chg (%)</b>	<b>QoQ chg (%)</b>	<b>FY18</b>	<b>FY17</b>	<b>YoY chg (%)</b>	<b>Comments</b>
Revenue	277.0	255.8	278.7	8.3	-0.6	1,105.4	1,015.6	8.8	Driven by AAC/pre-cast segment
EBIT	17.5	13.2	11.7	32.1	49.9	51.5	53.1	-3.0	
Finance costs	-6.0	-4.5	-6.0	34.8	1.1	-22.3	-16.3	36.7	
<b>Pre-tax profit</b>	<b>13.3</b>	<b>10.8</b>	<b>8.2</b>	<b>23.1</b>	<b>61.9</b>	<b>34.4</b>	<b>39.3</b>	<b>-12.4</b>	
Taxation	-3.3	-2.4	-2.2	37.1	51.1	-9.1	-9.8	-6.7	
<b>Reported net profit</b>	<b>9.4</b>	<b>8.5</b>	<b>6.4</b>	<b>10.9</b>	<b>47.4</b>	<b>24.2</b>	<b>29.6</b>	<b>-18.4</b>	
Core net profit	5.2	8.5	6.4	-39.0	-19.0	19.9	22.0	-9.3	Excluding revaluation gains
Reported EPS (sen)	1.7	1.6	1.2	4.3	47.8	4.4	5.8	-24.7	
EBIT Margin	6.3%	5.2%	4.2%			4.7%	5.2%		
Pre-tax Margin	4.8%	0.0%	3.0%			3.1%	3.9%		
Net Profit Margin	3.4%	3.3%	2.3%			2.2%	2.9%		
<b>Segmental Revenue</b>									
Distribution	157.8	154.3	173.5	2.2	-9.1	633.5	601.2	5.4	Higher plywood sales
Ready-mixed concrete	19.8	27.6	24.0	-28.3	-17.5	96.9	101.2	-4.3	Weaker construction activity
AAC and Precast concrete	69.9	50.5	55.1	38.3	26.9	221.0	183.7	20.3	Driven by capacity expansion
Steel mesh and metal roofing	41.8	43.0	40.4	-2.8	3.3	167.5	174.2	-3.8	
Manufacturing of fire-rated doors	7.0	5.6	6.5	26.5	8.0	24.5	28.7	-14.6	
Modular Building Solutions	7.3	-	1.6	n.a.	360.4	52.9	-	n.a	New income stream

n.a. = not applicable

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	1,015.6	1,105.4	1,170.9	1,189.8	1,222.7
Gross Profit	102.1	101.7	117.9	115.7	120.4
Operating Profit	53.0	51.5	77.1	79.4	83.2
Finance Costs	-16.3	-22.3	-18.5	-12.3	-9.8
Pre-tax Profit	39.3	34.4	59.7	68.6	73.4
Income Tax	-9.8	-9.1	-13.4	-15.4	-16.5
Effective Tax Rate (%)	25%	26%	23%	23%	23%
Minorities	0.1	-1.2	-4.0	-4.0	-4.0
<b>Net Profit</b>	<b>29.6</b>	<b>24.2</b>	<b>42.3</b>	<b>49.2</b>	<b>52.9</b>

#### Growth

Revenue	-4.1%	8.8%	5.9%	1.6%	2.8%
Gross Profit	3.3%	-0.4%	15.9%	-1.8%	4.1%
Net Profit	-28.5%	-18.5%	75.0%	16.3%	7.6%

Source: Company, PublicInvestResearch estimates

### BALANCE SHEET DATA

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Property, Plant & Equipment	381.1	469.4	482.4	471.4	459.1
Cash and Cash Equivalents	43.4	43.6	43.8	42.0	61.0
Trade and Other Receivables	325.2	428.7	311.6	316.6	325.4
Other Assets	208.1	255.3	200.7	201.6	202.7
<b>Total Assets</b>	<b>957.8</b>	<b>1,197.0</b>	<b>1,038.6</b>	<b>1,031.6</b>	<b>1,048.3</b>
Trade and Other Payables	164.3	237.5	158.0	161.1	165.4
Borrowings	382.4	512.8	417.2	373.4	348.4
Deferred tax	6.0	11.2	11.2	11.2	11.2
Other Liabilities	4.9	16.1	6.1	6.1	6.1
<b>Total Liabilities</b>	<b>557.6</b>	<b>777.7</b>	<b>592.6</b>	<b>551.9</b>	<b>531.1</b>
Shareholders' Equity	400.2	419.3	446.1	479.8	517.2
<b>Total Equity and Liabilities</b>	<b>957.8</b>	<b>1,197.0</b>	<b>1,038.7</b>	<b>1,031.6</b>	<b>1,048.3</b>

Source: Company, PublicInvestResearch estimates

### PER SHARE DATA AND RATIOS

FYE Dec	2017A	2018A	2019F	2020F	2021F
Book Value Per Share	0.72	0.75	0.79	0.84	0.90
NTA Per Share	0.72	0.75	0.80	0.86	0.93
EPS (Sen)	5.3	4.3	7.6	8.8	9.5
DPS (Sen)	3.5	3.5	3.5	3.5	3.5
Payout Ratio	66%	81%	46%	40%	37%
ROA	3.1%	2.0%	4.1%	4.8%	5.0%
ROE	7.4%	5.8%	9.6%	10.5%	10.5%

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.

## **DISCLAIMER**

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

### **Published and printed by:**

#### **PUBLIC INVESTMENT BANK BERHAD (20027-W)**

9<sup>th</sup> Floor, Bangunan Public Bank  
6, Jalan Sultan Sulaiman  
50000 Kuala Lumpur  
T 603 2268 3000  
F 603 2268 3014  
Dealing Line 603 2268 3129