



CHIN HIN GROUP BERHAD

Outperform

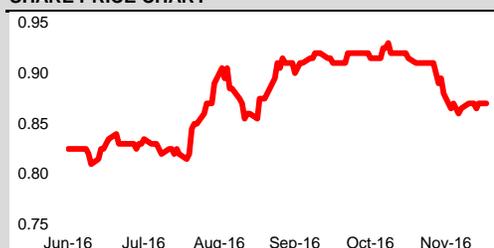
DESCRIPTION

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	RM1.12
Current Price	RM0.87
Expected Return	+29.1%

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

SHARE PRICE CHART



52 Week Range (RM)	0.78-0.94
3-Month Average Vol('000)	761.4

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-5.4	1.2	6.7
Relative Returns	-2.4	4.6	6.1

KEY STOCK DATA

Market Capitalisation (RM m)	440.1
No. of Shares (m)	505.9

MAJOR SHAREHOLDERS

Divine Inventions	60.0	%
Datuk Chiau Beng Teik	12.1	%

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Better 4Q Expected

Chin Hin reported a 12.7% YoY drop in 9MFY16 revenue owing to lower contributions from the trading and ready-mixed concrete segments. Core net profit grew 24.2% YoY to RM24.8m however, accounting for 70.8% of our earnings estimates, as strong contributions from its manufacturing segment which commands better margins helped take up the slack. With the government's continuous initiatives in the water and sewerage sector and affordable housing developments, we are optimistic on Chin Hin's growth prospects. Our **Outperform** call is reaffirmed with an unchanged target price of RM1.12 premised on 12.0x multiple to its FY17 EPS of 9.4sen.

§ **3QFY16** revenue fell 12.4% YoY, dragged by lower contributions from the trading (-22.5% YoY) and ready mixed concrete (-11.9% YoY) segments, mainly due to sluggish housing construction activities. The lower revenue is anticipated, due to festivities such as Hari Raya Aidilfitri and month of Ramadan in the quarter. The negative impact was partly mitigated by higher revenue from its manufacturing segment however, particularly AAC and precast concrete (+43.2% YoY). Group EBIT and core net profit margin improved to 5.9% and 3.4% respectively (3QFY15 EBIT: 4.5%, PAT: 1.7%), mainly attributed to i) stronger contribution from manufacturing segment which commands better margin, ii) better product mix in trading and ready mixed segment.

§ **Shifting its selling mix.** Due to the persistently soft property market, Chin Hin is shifting its strategy in the trading segment, from 'high volume and low margin' to 'low volume and high margin'. The group has reduced its reliance on sales of cement which commands gross margins of c.4%, from 50% of trading revenue in FY15 to 40% in 3QFY16, opting instead for higher margin items like steel bar products (25% of revenue), roofing tile, floor tile, and other finishing products (35%). This move has led to its trading PBT margins improving from 1.5% in 3QFY15 to 2.7% in 3QFY16. In line with this shift, we have lowered our revenue estimates for the division by between 18% and 21% for FY16 to FY18, though earnings are largely unchanged on higher margin assumptions.

§ **Maintain Outperform with unchanged TP of RM1.12.** In Budget 2017, the Government reaffirmed its focus on affordable housing developments such as Perumahan Rakyat 1Malaysia (PR1MA), People's Housing Programme (PPR), People's Friendly Home (PMR) and others. We believe these developments would spur orderbook growth of AAC blocks and wall panels going forward. We also see Chin Hin benefitting from government initiatives in the water and sewerage sectors, amongst which are the Langat 2 and Langat sewerage projects.

KEY FORECAST TABLE

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	1,219.4	1,199.2	1,039.2	1,145.8	1,257.7	0.8%
Gross Profit	88.5	101.5	97.5	112.1	124.7	8.9%
Pre-tax Profit	43.2	39.0	45.2	61.1	70.3	13.0%
Net Profit	30.2	30.2	35.0	47.4	54.5	15.9%
EPS (Sen)	6.0	6.0	6.9	9.4	10.8	15.9%
P/E (x)	15.4	15.4	13.3	9.8	8.5	
DPS (Sen)	-	-	3.0	3.0	3.0	
Dividend Yield (%)	-	-	3.3	3.3	3.3	

Source: Company, PublicInvestResearch estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>3Q16</u>	<u>2Q16</u>	<u>3Q15</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	241.8	268.6	276.2	-12.4	-10.0	794.8	910.9	-12.7	Lower contribution from distribution of building material, steel mesh, metal roofing, and ready-mixed concrete segments.
EBIT	14.2	15.7	12.4	13.8	-10.0	45.0	43.0	4.7	
Finance costs	-3.8	-4.0	-5.2	-27.5	-6.2	-12.8	-15.3	-16.6	
Pre-tax profit	10.4	11.7	7.2	43.9	-11.3	29.3	27.7	5.9	
Taxation	-2.2	-3.0	-2.6	-14.1	-25.2	-7.4	-7.7	-3.5	
Core net profit	8.1	8.7	4.6	76.4	-6.6	24.8	20.0	24.2	
EPS (sen)	1.7	1.8	1.0	65.4	-4.4	4.6	4.5	1.8	
EBIT Margin	5.9%	5.9%	4.5%	30.0	0.0	5.7%	4.7%	20.0	
Pre-tax Margin	4.3%	4.4%	2.6%	64.4	-1.5	3.7%	3.0%	21.4	
Net Profit Margin	3.4%	3.2%	1.7%	101.5	3.7	3.1%	2.2%	42.3	
Segmental Revenue									
Distribution of building material and logistics services	141.0	161.8	181.9	-22.5%	-12.9%	341.4	425.0	-19.7%	Due to softening housing construction activities
Ready-mixed concrete	30.8	37.8	34.9	-11.9%	-18.5%	77.1	88.9	-13.3%	
AAC and Precast concrete	33.9	30.1	23.7	43.2%	12.6%	59.6	44.5	33.9%	
Steel mesh and metal roofing system	35.1	37.8	34.6	1.2%	-7.4%	72.7	73.9	-1.7%	
Others	1.1	1.1	1.1	4.0%	-0.2%	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	1,039.2	1,145.8	1,257.7
Gross Profit	88.5	101.5	97.5	112.1	124.7
Operating Profit	45.6	58.2	61.7	73.5	82.1
Finance Costs	-18.7	-20.5	-22.2	-15.6	-13.5
Pre-tax Profit	43.2	39.0	45.2	61.1	70.3
Income Tax	-13.0	-8.8	-10.2	-13.8	-15.8
Effective Tax Rate (%)	30%	22%	23%	23%	23%
Minorities	-	-	-	-	-
Net Profit	30.2	30.2	35.0	47.4	54.5

Growth

Revenue	0%	-2%	-13%	10%	10%
Gross Profit	26%	15%	-4%	15%	11%
Net Profit	2%	0%	16%	35%	15%

Source: Company, PublicInvestResearch estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Property, Plant & Equipment	187.1	200.8	242.7	266.7	264.5
Cash and Cash Equivalents	118.0	168.9	95.2	51.6	65.1
Trade and Other Receivables	310.2	317.6	276.6	304.9	334.7
Other Assets	187.0	164.3	157.8	161.6	165.6
Total Assets	802.4	851.5	772.4	784.9	829.9
Trade and Other Payables	159.3	163.2	141.3	155.1	170.0
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
Total Liabilities	571.7	590.3	450.2	430.5	436.2
Shareholders' Equity	230.6	261.2	322.2	354.4	393.7
Total Equity and Liabilities	802.4	851.5	772.4	784.9	829.9

Source: Company, PublicInvestResearch estimates

PER SHARE DATA AND RATIOS

FYE Dec	2014A	2015A	2016F	2017F	2018F
Book Value Per Share	0.5	0.5	0.6	0.7	0.8
NTA Per Share	0.5	0.5	0.6	0.7	0.8
EPS (Sen)	6.0	6.0	6.9	9.4	10.8
DPS (Sen)	-	-	3.0	3.0	3.0
Payout Ratio	-	-	43%	32%	28%
ROA	4%	4%	5%	6%	7%
ROE	13%	12%	11%	13%	14%

Source: Company, PublicInvestResearch estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	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.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

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

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