



CHIN HIN GROUP BERHAD

Outperform

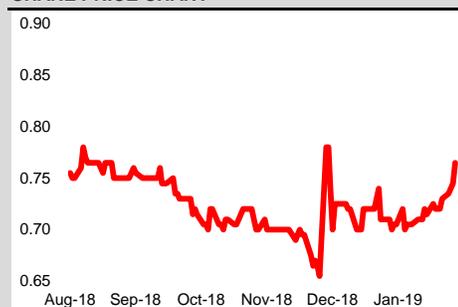
DESCRIPTION

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 m³ 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

FYE Dec (RM m)	4Q18	4Q17	3Q18	YoY chg (%)	QoQ chg (%)	FY18	FY17	YoY chg (%)	Comments
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	
Pre-tax profit	13.3	10.8	8.2	23.1	61.9	34.4	39.3	-12.4	
Taxation	-3.3	-2.4	-2.2	37.1	51.1	-9.1	-9.8	-6.7	
Reported net profit	9.4	8.5	6.4	10.9	47.4	24.2	29.6	-18.4	
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%		
Segmental Revenue									
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
Net Profit	29.6	24.2	42.3	49.2	52.9

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
Total Assets	957.8	1,197.0	1,038.6	1,031.6	1,048.3
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
Total Liabilities	557.6	777.7	592.6	551.9	531.1
Shareholders' Equity	400.2	419.3	446.1	479.8	517.2
Total Equity and Liabilities	957.8	1,197.0	1,038.7	1,031.6	1,048.3

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

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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PUBLIC INVESTMENT BANK BERHAD (20027-W)

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