

30 March 2016

Chin Hin Group Bhd

A One-Stop Building Materials Provider

By the Kenanga Research Team / research@kenanga.com.my

INVESTMENT MERIT

- Aiming to be a one-stop solution provider for contractors.** As one of the largest building materials and ready mixed concrete distributors with over 4,000 clients, CHINHIN's customer base is well diversified with none contributing >10% to its topline. Their clients comprise of reputable developers such as SPSETIA, SUNWAY and ECOWLD. However, due to razor-thin margins and intensive working capital required for its trading division, CHINHIN is expanding its manufacturing division aggressively to diversify from their bread and butter business. Currently, CHINHIN manufactures: (i) autoclaved aerated concrete, (ii) wire mesh, (iii) metal roofing, and (iv) precast jacking pipes with the intention to be an integrated solutions provider for contractors by FY18.
- Largest AAC manufacturer in Malaysia undergoing capacity expansion.** CHINHIN's autoclaved aerated concrete (AAC) products are a direct substitute for cement sand/clay bricks, which currently make up c.5% of the brick market. We believe that the IBS compliant AAC products have a huge growth potential in the market due to its superior thermal insulation, light weight and affordability, which will soon be contractors/developers preferred building material replacing cement sand/clay bricks. Due to strong market demand, its AAC plant is currently running at 80-90% of its existing capacity of 375,000mt and management are already executing its CAPEX plans to increase its plant capacity to 450,000mt. Its outstanding orderbook stands at RM37m with potential orders of >RM100m in the pipeline as we understand customers usually place orders at the eleventh hour.
- G-cast – A specialized precast player.** Its precast subsidiary G-cast which specializes in sewerage pipes commands GP margins of 20-30%, is already running at maximum capacity given that they are one of the few with the necessary manufacturing licenses and the technical knowledge. CHINHIN plans to expand their existing capacity of 45,000mt to 67,500mt utilising the IPO proceeds raised. To recap, they recently acquired 26 parcels of leasehold land for RM7.0m in Perak earmarked for a new factory capable of c.45,000mt capacity to be operational by early 2017. With the increased number of sewerage projects being rolled out in Malaysia and Singapore, we opine that G-Cast's replenishment prospects remain bright with current outstanding orderbook at RM100.7m providing visibility up till FY18.
- Stronger Earnings Growth Ahead.** Looking forward, we expect FY16-17E earnings to grow 37% and 20% to RM41.4m and RM49.8m, respectively, underpinned by stronger contribution from its AAC and precast manufacturing division but lower contributions from its trading segment is anticipated. Our earnings assumption is based on the AAC and precast capacity post-expansion of their existing plants. Additionally, we have incorporated c.RM1.9m/annum of solar income generated from their 1.46MW solar panels which began operations in FY16 under the 21-year government's scheme whereby solar energy generated is sold back to the government.
- Non-Rated.** At this juncture, we are valuing CHINHIN with a fair value of RM0.79 based on FY17 PER of 8.0x. We opt for a 2-year Fwd. valuation to reflect CHINHIN's expansion plans in which its new capacity will only reach optimum utilisation from FY17 onwards. We feel our valuations are justifiable against precast peers and distributors which are traded at FY17 trading range of 6.0-8.3x. Albeit the high net gearing of 0.8x post-IPO (previously 1.2x pre-IPO), CHINHIN's FY16/17E earnings growth rates of 37/20% are better compared to average peers' growth range of 21/12% as we expect CHINHIN's growing manufacturing contributions to provide margin expansions in the medium term.

	Rating	Fair Value
Last Price		RM0.865
Kenanga	Not Rated	RM0.790
Consensus	N.A.	N.A.

Stock Information

Shariah Compliant	No
Stock Name	CHIN HIN GROUP BHD
CAT Code	5273
Industry	Building Materials
Industry Sub-sector	Trading and distribution
YTD stock price chg	33.1%
Market Cap (RM m)	437.6
Issued shares (m)	505.9
52-week range (Hi)	0.875
52-week range (Low)	0.780
3-mth avg daily vol:	n.a.
Free Float	25%
Beta	n.a.
Altman's Z-score	n.a.

Major Shareholders

DIVINE INVENTIONS	60.0%
BENG TEIK CHIAU	14.7%
HAI PENG LEE	0.1%

Financials

FYE May (RM'm)	2015A	2016E	2017E
Revenue	1199.2	1169.8	1190.8
EBIT	59.7	69.3	85.9
Net Profit	30.2	37.4	49.8
Core net profit (CNP)	30.2	41.4	49.8
EPS (sen)	0.1	0.1	0.1
BV/Share (RM)	0.5	0.7	0.8
PER	14.5	10.6	8.8
Price/BV (x)	1.7	1.3	1.2
Net Gearing (x)	0.8	0.5	0.3
DPS (sen)	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0

Quarterly Financial Data

	2Q15	3Q15	4Q15
Revenue	n.a.	n.a.	288.3
PBT	n.a.	n.a.	11.1
Net Profit (NP)	n.a.	n.a.	10.3
EPS (sen)	n.a.	n.a.	2.3
EPS Growth (QoQ)	n.a.	n.a.	n.a.
Rev. Growth (QoQ)	n.a.	n.a.	n.a.
PBT Margin	n.a.	n.a.	3.8%

	PER (FY16)	Div. Yld (%)	Mkt Cap (RM'm)
Peers Comparisons			
OKA	9.3	5.0	158.1
ENGT	6.6	1.3	354.4
KIMLUN	7.7	3.4	529.0
Average	12.3	3.2	347.2
FBM Small Cap	10.4	3.2	94.5b
FBM KLCI	15.6	4.3	1.01T

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Daily Charting – Chin Hin Group Berhad



Comment: While there is lack of historical data available for us to vet through given that CHINHIN was just listed early of the month, there are a few signs we can read from the candlestick and trading volume. The appearance of the 'Hammer' candlestick a few days ago is implicating a bullish reversal pattern and confirmed by the sharp rally shown yesterday. Besides, the share price has also recorded higher-highs during the past few weeks to suggest that the underlying trend outlook is positive. From here, we reckon that the share price could look to trade with an upside-bias, with immediate resistance set at RM0.87 (R1) while support is seen at RM0.855 (S1).

Source: Kenanga Research

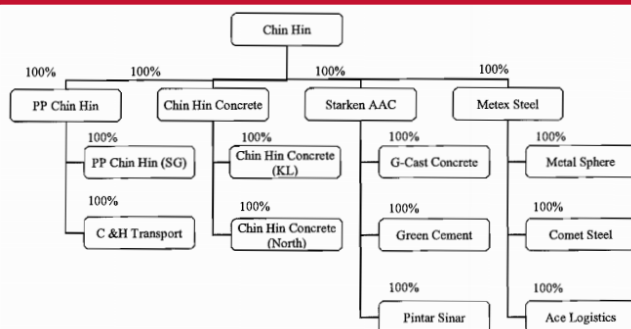
About the stock:

Name : Chin Hin Group Bhd
Bursa Code : CHINHIN
CAT Code : 5273

Key Support & Resistance level

Resistance : RM0.870 (R1) RM0.885 (R2) RM0.900 (R3)
Support : RM0.855 (S1) RM0.835 (S2) RM0.810 (S3)
Outlook : Bullish

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- CHINHIN was incorporated in 1974 by Datuk Chiau Beng Teik as a small building materials trader. Since then, it have grown into an Integrated Buildings Conglomerate who not only does trading but also manufacturing and was recently listed on the 8th of March 2016.
- With the wide range of products being offered, they are beginning to grow into a One Stop Centre for contractors. CHINHIN is actively looking out for opportunities to grow their manufacturing capabilities.

BUSINESS DIVISION

- Trading of building materials and ready mixed concrete.** CHINHIN's trading division make up most of the bulk of the group's revenue with an annual turnover of >RM900m.
- Manufacturing.** Currently, CHINHIM manufactures four types of products namely: wire mesh, metal Roofing systems, autoclaved aerated concrete and precast concrete products.

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Peer Comparison

CORE COVERAGE

NAME	Price (29/3/16)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
KIMLUN CORP BHD	1.79	538.0	8.4	7.7	6.4	3.4	13.7	1.1	64.4	70.0	83.8	8.7	19.7	2.10	Outperform	29.71
OKA CORP BHD	1.00	157.3	10.5	9.3	8.3	5.0	12.6	1.2	15.0	17.0	19.0	13.6	11.8	n.a.	n.a.	7.57
AJIYA BHD	3.52	268.0	12.7	n.a.	n.a.	n.a.	n.a.	n.a.	21.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-20.00
ENGTEX GROUP BHD	1.19	360.5	8.9	6.6	6.0	1.3	n.a.	n.a.	40.3	55.0	60.0	36.4	9.1	1.68	Take Profit	-6.30
CHIN HIN GROUP BHD	0.87	437.59	14.5	10.6	8.8	0.0	12.6	1.3	30.2	41.4	49.8	37.0	20.3	0.8	Not Rated	n.a.
Average			11.7	8.8	7.7											

Source: Kenanga Research

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