TA SECURITIES
A MEMBER OF THE TA GROUP

Friday, February 22, 2019
FBMKLCI: 1,730.68
Sector: Building Materials

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Chin Hin Berhad

TP: RM0.84 (+9.8%)

Last Traded: RM0.765

Buy

Eying the Third Cycle of the Large-scale Solar Scheme

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Results Review

- Excluding fair value adjustment gains on investment properties of RM5.4mn, impairments on trade receivables and equipment of RM4.9mn, and a gain of RM0.6mn from the disposal of investment in a subsidiary, CHINHIN's FY18 core profit of RM23.1mn came in within our expectation but below consensus' forecast, accounting for 95.3% and 74.6% of ours and consensus' full-year estimates.
- A first and final dividend of 1.5sen/share was declared. (FY17: 3.5sen/share)
- YoY, FY18 core profit dropped 22.6% to RM23.1mn despite a 8.9% increase in revenue to RM1,105.4mn. The lower profitability was mainly due to the initial start-up cost which included higher administration expenses and finance cost from the new Autoclaved Aerated Concretes (AAC) and precast products manufacturing lines. Nevertheless, the weaker performances were cushioned by maiden earnings contribution of RM9.2mn PBT from the Pengerang Project in Johor. In addition, the group has successfully turnaround the wire mesh segment due to lower raw material cost. Meanwhile, the revenue growth was supported by strong market demand for AAC and precast products.
- QoQ, 4QFY18 core profit fell 19.8% to RM6.1mn while revenue dropped slightly by 0.6% to RM277.0mn. The weaker results were mainly dragged by lower earnings contribution from both ready mixed concrete business, and distribution of building materials and logistics services.

Impact

- Maintain our FY19 to FY20 earnings forecasts. We introduce FY21 earnings forecasts of RM55.8mn, representing an earnings growth of 10.4%.

Outlook

- The new AAC plant in Johor had achieved 30% of plant utilisation rate as at January 2019. We expect the group to be able to further ramp up its production once it fully optimises the manufacturing processes.
- The group is expected to be one of the primary beneficiaries from the third cycle of the large-scale solar scheme as it owns 45% stake in Solarvest Energy Sdn Bhd (SESS), a company that specialises in large-scale solar farming and provision of solar photovoltaic solutions. The Malaysian government has called for tender for an estimated RM2.0bn worth of projects in which the contractor for engineering, construction and commissioning must be local company. We believe the solar business could be the next earnings growth driver for the group. Besides, SESS has recently submitted its application to list the solar business in Bursa Malaysia.

Share Information	
Bloomberg Code	CHIN MK
Bursa	CHINHIN
Stock Code	5273
Listing	Main Market
Share Cap (mn)	556.4
Market Cap (RMmn)	425.6
52-wk Hi/Lo (RM)	1.13/0.63
12-mth Avg Daily Vol ('000 shrs)	464.4
Estimated Free Float (%)	27.0
Beta	1.3
Major Shareholders (%)	
	Divine Inventions - 34.8
	Chiau Beng Teik- 26.2

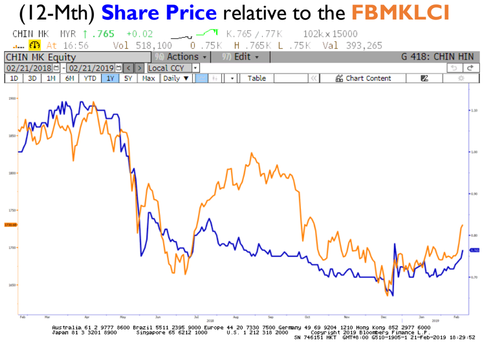
Forecast Revision	FY19	FY20
Forecast Revision (%)	-	-
Net profit (RMmn)	44.7	50.5
Consensus	42.0	47.7
TA's / Consensus (%)	106.4	105.8
Previous Rating	Buy (Upgraded)	

Financial Indicators	FY19	FY20
Net Debt / Equity (%)	87.9	76.3
CFPS (sen)	5.0	(2.0)
Price / CFPS (x)	15.3	(38.4)
ROA (%)	4.2	4.9
NTA/Share (RM)	0.8	0.9
Price/NTA (x)	0.9	0.9

Scorecard	% of FY18	
vs. TA	95.3	Within
vs. Consensus	74.6	Below

Share Performance (%)		
Price Change	**CHINHIN**	**FBM KLCI**
1 mth	7.7	2.3
3 mth	7.7	2.1
6 mth	0.0	(3.8)
12 mth	(23.5)	(6.9)

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



Source: Bloomberg

Valuation

- We roll forward our valuation base year to CY20 and revise the target price from RM0.745 to **RM0.84,** based on unchanged 9x CY20 EPS. Upgrade CHINHIN from Hold to **Buy**.

Table 1: Earnings Summary

FYE Dec (RMmn)		2017	2018	2019F	2020F	2021F
Revenue		1,015.4	1,105.4	1,219.9	1,230.8	1,262.2
Gross profit		101.5	101.7	147.9	146.5	153.2
EBITDA		71.4	73.3	106.1	103.6	107.9
EBITDA margin	(%)	7.0	6.6	8.7	8.4	8.5
EBIT		53.0	51.5	80.3	78.1	82.7
PBT		39.5	34.4	60.2	68.2	73.7
Core PBT		39.9	33.5	60.2	68.2	73.7
PAT		29.7	25.3	46.4	52.5	56.8
Core profit		30.1	23.1	44.7	50.5	55.8
Core EPS	(sen)	5.8	4.3	8.3	9.4	10.3
PER	(x)	13.3	17.9	9.2	8.2	7.4
Gross dividend	(sen)	3.5	1.6	3.0	4.5	5.0
Dividend yield	(%)	4.6	2.0	3.8	6.1	6.7
ROE	(%)	8.3	5.7	10.4	11.0	11.4

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Table 2: 4QFY18 Results Analysis

FYE Dec (RMmn)	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	255.8	278.7	277.0	(0.6)	8.3	1,015.4	1,105.4	8.9
Distribution of building materials and logistics services	154.3	173.5	157.8	(9.1)	2.2	625.0	633.5	1.3
Ready Mixed Concrete	27.6	24.0	19.8	(17.5)	(28.3)	101.2	96.9	(4.3)
Manufacturing of AAC and Precast Products	50.5	55.1	69.9	26.9	38.3	183.7	221.0	20.3
Manufacturing of wire mesh and metal roofing	43.0	40.4	41.8	3.3	(2.8)	174.2	167.5	(3.8)
Manufacturing of fire rated door	5.6	6.5	7.0	8.0	26.5	28.7	24.5	(14.6)
Modular building solutions	na	1.6	7.3	360.4	na	0.0	52.9	na
Investment holding and management services	2.6	1.8	9.9	451.5	288.6	9.1	16.2	78.4
Adjustments and eliminations	(27.7)	(24.1)	(36.4)	50.9	31.3	(106.4)	(107.1)	0.6
Cost of Sales	(230.6)	(253.1)	(250.9)	(0.9)	8.8	(913.5)	(1,003.7)	9.9
Gross profit	25.3	25.6	26.1	1.8	3.2	102.1	101.7	(0.4)
Operating profit	13.1	11.7	13.3	13.5	1.2	52.9	47.2	(10.7)
Finance Costs	(4.5)	(6.0)	(6.0)	1.1	34.8	(16.3)	(22.3)	36.7
PBT	10.8	8.2	13.4	62.7	23.7	39.3	34.5	(12.2)
Distribution of building materials and logistics services	4.7	3.1	2.0	(34.0)	(57.2)	15.4	7.6	(50.6)
Ready Mixed Concrete	1.6	0.8	(0.1)	<(100.0)	<(100.0)	3.1	2.7	(12.4)
Manufacturing of AAC and Precast Products	5.0	1.3	2.4	78.3	(52.4)	22.2	11.7	(47.4)
Manufacturing of wire mesh and metal roofing	0.5	0.2	5.2	2,961.5	906.6	(3.6)	3.3	<(100.0)
Manufacturing of fire rated door	0.6	0.7	0.8	12.2	21.9	3.8	2.4	(37.7)
Modular building solutions	na	(0.1)	3.7	<(100.0)	na	0.0	9.2	na
Investment holding and management services	13.0	(0.2)	8.2	<(100.0)	(36.7)	22.8	8.1	(64.2)
Core PBT	10.7	9.5	10.1	6.5	(5.6)	39.5	33.5	(15.3)
Income tax expense	(2.4)	(2.2)	(3.3)	51.1	37.1	(9.8)	(9.1)	(6.7)
Net profit	8.5	6.4	9.4	47.4	10.4	29.6	24.2	(18.5)
Core profit	8.4	7.6	6.1	(19.8)	(27.0)	29.9	23.1	(22.6)
Reported EPS (sen)	1.6	1.2	1.7	47.4	4.0	5.8	4.3	(24.9)
Core EPS (sen)	1.6	1.5	1.0	(29.1)	(36.7)	5.9	4.0	(31.7)
Dividend (sen)	1.5	0.0	1.5	na	0.0	3.5	1.5	(57.1)
Margin (%):				% pts	% pts			% pts
- Core PBT	4.2	3.4	3.6	0.2	(0.5)	3.9	3.0	(0.9)
Distribution of building materials and logistics services	3.1	1.8	1.3	(0.5)	0.0	2.5	1.2	(1.3)
Ready Mixed Concrete	5.7	3.5	(0.3)	(3.8)	(6.0)	3.1	2.8	(0.3)
Manufacturing of AAC and Precast Products	9.9	2.4	3.4	1.0	(6.5)	12.1	5.3	(6.8)
Manufacturing of wire mesh and metal roofing	1.2	0.4	12.4	12.0	11.2	(2.1)	2.0	4.0
Manufacturing of fire rated door	11.2	10.4	10.8	0.4	(0.4)	13.3	9.7	(3.6)
Modular building solutions	na	(8.5)	50.5	58.9	na	na	17.3	na
Investment holding and management services	507.6	(8.4)	82.6	91.0	<(100.0)	250.4	50.2	<(100.0)
- Core PAT	3.3	2.7	2.2	(0.5)	(1.1)	2.9	2.1	(0.8)
- Effective tax rate	22.3	26.6	24.8	(1.9)	2.4	24.9	26.4	1.6

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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.

As of Friday, February 22, 2019, 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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