

# Chin Hin Group Berhad

**TP: RM0.70** (-6.7%)

Expecting Better 2H19

Last Traded: RM0.75

**Sell**

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Following our recent meetup with the management, we are slightly more optimistic on the outlook for CHINHIN, underpinned by its healthy order book from the manufacturing segment and growing earnings contribution from associates. The management indicates that the demand for building materials is recovering gradually in 1H19 and it is expected to pick up in 2H19 following the revival of several mega infrastructure projects. On the other hand, the integrated workers complex project is facing some hiccups as the developer revises the project layout plan in order to suit the potential demographic change of Pengerang workforce. Meanwhile, the management is planning to trim the gearing level via disposal of non-core assets. We maintain Sell call with an unchanged target price of RM0.70.

## Driven by Manufacturing and Solar Businesses

The management indicates that the demand for building materials is recovering gradually in 1H19 and it is expected to pick up in 2H19 following the revival of several mega infrastructure projects. The group currently has a healthy order book of RM269.0mn, which can last the group for at least 12 months. The order book mainly comprises orders for autoclaved aerated concrete (AAC) and pre-cast products. The utilisation rate for the new AAC plant in Kota Tinggi is hovering around at 30%. The management intends to ramp up the utilisation rate in 2H19, backed by expected higher demand from export markets especially from Philippine and Singapore.

The management also foresees growing earnings contribution from its 45%-owned associate, Atlantic Blue Sdn Bhd (ABSB), which is a specialist contractor in large-scale solar farming and provision of solar photovoltaic solutions. We estimate the solar business could potentially contribute about RM6mn-RM7mn profit to the group for FY19. In addition, Solarvest, a wholly owned-subsiary of ABSB, has been aggressively tendered for more solar jobs under the third cycle of the large-scale solar scheme. Besides, the management guided that Solarvest has already obtained the approval from the regulators to proceed for listing in Ace Market, targeted in 2H19.

## Some Hiccups at the Pengerang Project

The integrated workers complex project is facing some hiccups as the developer revises the project layout plan in order to suit the potential demographic change of Pengerang workforce. Currently, the group managed to complete 6 out of 23 blocks, which can accommodate about 2,496 workers. Based on the management guidance, the group has already successfully secured some anchor tenants. Assuming all the 6 blocks are fully taken up, the management expects a monthly rental contribution of RM2mn to the group.

### Share Information

Bloomberg Code	CHIN MK
Bursa	CHINHIN
Stock Code	5273
Listing	Main Market
Share Cap (mn)	556.4
Market Cap (RMmn)	417.3
52-wk Hi/Lo (RM)	0.86/0.63
12-mth Avg Daily Vol ('000 shrs)	364.7
Estimated Free Float (%)	26.1
Beta	1.0

### Major Shareholders (%)

Divine Inventions	- 35.2
Chiau Beng Teik	- 26.2

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	33.6	43.2
Consensus	37.3	44.0
TA's / Consensus (%)	90.2	98.1
Previous Rating	Sell (Maintained)	

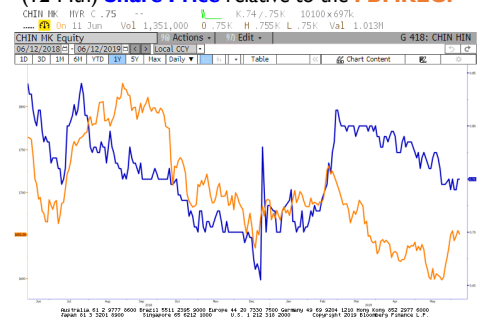
### Financial Indicators

	FY19	FY20
Net Debt / Equity (%)	104.7	89.1
CFPS (sen)	(1.9)	(0.2)
Price / CFPS (x)	(38.6)	(323.5)
ROA (%)	3.0	3.8
NTA/Share (RM)	0.8	0.9
Price/NTA (x)	0.9	0.9

### Share Performance (%)

Price Change	CHINHIN	FBM KLCI
1 mth	(2.0)	2.5
3 mth	(6.3)	(0.8)
6 mth	7.9	(0.1)
12 mth	(10.7)	(7.0)

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



Source: Bloomberg

## Eying for Lower Gearing

As at IQFY19, the group's net gearing position stood at 1.1x. The high net gearing was mainly driven by high capital expenditures incurred during the expansion stage in the recent years. The management indicates that the group will not incur any major capex for plant expansion in near term, and instead, there are some plans to trim the gearing level. For instance, the group is in the midst of discussion with several potential buyers to dispose some of the non-core assets such as shop offices and vacant sites that worth more than RM100mn in order to pare down the borrowings.

## Impact

Maintain FY19 to FY21 earnings forecasts.

## Valuation

No change to our target price of **RM0.70**, based on unchanged 9x CY20 EPS. Maintain **Sell** call on CHINHIN.

## Earnings Summary

### Profit & Loss (RMmn)

YE Dec 31	2017	2018	2019F	2020F	2021F
Revenue	1015.4	1105.4	1143.0	1230.8	1256.0
EBITDA	71.4	72.9	92.1	102.6	104.0
Dep. & amortisation	(18.4)	(22.0)	(23.0)	(32.7)	(31.9)
Net finance cost	(16.2)	(22.3)	(23.4)	(12.8)	(10.7)
PBT	39.5	33.7	45.7	57.1	61.5
Taxation	(9.8)	(9.6)	(10.5)	(13.1)	(14.2)
Net profit	29.7	24.1	35.2	43.9	47.4
Core profit	33.0	18.6	33.6	43.2	47.4
GDPS (sen)	3.5	1.5	1.5	2.0	2.0
Div Yield (%)	4.7	2.0	2.0	2.7	2.7

### Cash Flow (RMmn)

YE Dec 31	2017	2018	2019F	2020F	2021F
PBT	39.5	33.7	45.7	57.1	61.5
Non cash expenses	31.8	35.9	46.4	45.5	42.5
Non Operating expenses	(28.3)	(28.2)	(33.9)	(25.9)	(24.8)
Changes in WC	(4.0)	(110.3)	(32.6)	(4.5)	9.6
<b>Operational cash flow</b>	<b>38.9</b>	<b>(68.8)</b>	<b>25.6</b>	<b>72.2</b>	<b>88.9</b>
Capex	(73.3)	(56.1)	(25.0)	(25.0)	(25.0)
Others	(61.6)	4.2	4.4	4.4	4.4
<b>Investment cash flow</b>	<b>(134.9)</b>	<b>(51.9)</b>	<b>(20.6)</b>	<b>(20.6)</b>	<b>(20.6)</b>
Debt raised/(repaid)	32.2	118.8	10.9	(22.1)	(21.1)
Dividend	(21.2)	(8.3)	(6.7)	(10.8)	(11.8)
Others	63.0	(6.9)	(20.0)	(20.0)	(20.0)
<b>Financial cash flow</b>	<b>73.9</b>	<b>103.5</b>	<b>(15.8)</b>	<b>(52.9)</b>	<b>(52.9)</b>
Forex effect	(0.2)	(0.1)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(22.3)</b>	<b>(17.3)</b>	<b>(10.8)</b>	<b>(1.3)</b>	<b>15.4</b>
<b>Beginning cash</b>	<b>69.4</b>	<b>47.1</b>	<b>29.8</b>	<b>19.0</b>	<b>17.7</b>
<b>Ending cash</b>	<b>47.1</b>	<b>29.8</b>	<b>19.0</b>	<b>17.7</b>	<b>33.0</b>

### Balance Sheet (RMmn)

YE Dec 31	2017	2018	2019F	2020F	2021F
Fixed assets	381.2	469.7	467.2	455.1	443.8
Others	129.4	139.2	139.2	139.2	139.2
<b>NCA</b>	<b>510.6</b>	<b>608.9</b>	<b>606.5</b>	<b>594.3</b>	<b>583.1</b>
Cash	50.0	52.7	41.9	40.6	56.0
Others	407.3	495.8	487.3	508.9	505.6
<b>CA</b>	<b>457.3</b>	<b>548.5</b>	<b>529.2</b>	<b>549.5</b>	<b>561.6</b>
<b>Total assets</b>	<b>967.9</b>	<b>1157.4</b>	<b>1135.7</b>	<b>1143.9</b>	<b>1144.7</b>
ST borrowings	315.6	425.3	416.2	374.2	333.1
Other liabilities	178.3	207.5	159.8	176.2	182.6
<b>CL</b>	<b>493.9</b>	<b>632.8</b>	<b>576.1</b>	<b>550.4</b>	<b>515.7</b>
<b>Shareholders' funds</b>	<b>400.3</b>	<b>417.7</b>	<b>452.7</b>	<b>486.6</b>	<b>522.1</b>
LT borrowings	66.9	95.1	95.1	95.1	95.1
Other LT liabilities	6.8	11.8	11.8	11.8	11.8
<b>NCL</b>	<b>73.6</b>	<b>106.9</b>	<b>106.9</b>	<b>106.9</b>	<b>106.9</b>
<b>Total capital</b>	<b>967.9</b>	<b>1157.4</b>	<b>1135.7</b>	<b>1143.9</b>	<b>1144.7</b>

### Ratio

YE Dec 31	2017	2018	2019F	2020F	2021F
EBITDA Margins (%)	7.0	6.6	8.1	8.3	8.3
Core EPS (sen)	6.3	3.3	6.0	7.8	8.5
EPS Growth (%)	1.2	(47.1)	81.2	28.4	9.7
PER (x)	11.9	22.5	12.4	9.7	8.8
GDPS (sen)	3.5	1.5	1.5	2.0	2.0
Div Yield (%)	4.7	2.0	2.0	2.7	2.7
Net debt (RMmn)	(335.0)	(468.7)	(470.4)	(429.6)	(373.2)
Net gearing (%)	83.8	112.7	104.7	89.1	72.1
ROE (%)	9.1	4.6	7.8	9.3	9.5
ROA (%)	3.4	1.6	3.0	3.8	4.1
NTA (RM)	0.8	0.7	0.8	0.9	0.9
P/NTA(x)	1.0	1.0	0.9	0.9	0.8

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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.

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As of Wednesday, June 12, 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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