



## Chin Hin Group Berhad

AAC Manufacturing the Rising Star

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TP: RM0.95 (+15.2%)

Last traded: RM0.825

Not Rated

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While the rollouts of several mega infrastructure projects such as MRT line 2, LRT line 3, Southern Double Track and various highways are expected to benefit CHINHIN, the icing on the cake comes from the earnings growth prospects in its manufacturing divisions. This is supported by expected improved operational efficiency and expansion of manufacturing capacities. We see the manufacturing of AAC as a rising star in the group. The product has started to gain market acceptance, especially the AAC blocks which we see as a strong substitute, replacing the conventional clay/sand bricks. We projected earnings growths of 17.1%/23.4%/29.3% in FY16/FY17/FY18, mainly driven by the manufacturing divisions. Based on 11x CY17 EPS, we arrive at a fair value of RM0.95/share.

### Company Background

Chin Hin Group Berhad (CHINHIN) is involved in distribution of building materials and provision of logistics, supply of ready-mixed concrete and manufacturing of autoclaved aerated concrete (AAC), precast concrete products, wire mesh and metal roofing systems.

### AAC manufacturing, a rising star in the group

While Chin Hin is believed to be the largest distributor of building materials in Malaysia, generating over RM800mn of revenue from this segment, we see the earnings growth for the group to be driven by the manufacturing divisions, AAC in particular.

AAC is a lightweight, precast concrete building material that is an alternative to cement and clay bricks.

We feel positive on the prospects of its AAC manufacturing business after our recent visit together with our clients to its AAC manufacturing plant situated in Serendah. The state-of-the-art machinery, which is supplied by Wehrhahn, a German manufacturer, is highly automated. The management said the plant is operating 24 hours a day to cope with the strong demands from its customers.

### Expanding capacity

To meet the increasing demand for its AAC products, the group has allocated RM10mn out of the RM41mn IPO proceeds to expand the existing AAC manufacturing facilities and to purchase new equipment and machinery. These include 3 autoclaves, cutting line machine, 15 pre-curing moulds, packing machine, slurry tank, chiller and cement silo. Upon completion of the expansion targeted by the end of 2016, the production capacity will increase from 375,000m<sup>3</sup> to 600,000m<sup>3</sup>.

### A substitute to brick

The AAC manufacturing division produces blocks, lintels, and floor and wall panels marketed under the brand of "Starken". There are several advantages using AAC blocks, compared with the conventional bricks. Among the key benefits include:

### Share Information

Bloomberg Code	CHIN MK
Stock Code	5273
Listing	Main Market
Share Cap (mn)	505.9
Market Cap (RMmn)	417.4
Par Value	0.50
52-wk Hi/Lo (RM)	0.845/0.78
12-mth Avg Daily Vol ('000 shrs)	35,176.0
Estimated Free Float (%)	25.4
Beta	-

### Major Shareholders (%)

Divine Inventions	- 60.0
Datuk Chiau Beng Teik	- 14.6

### Forecast Revision

	FY16	FY17
Forecast Revision (%)	-	-
Net profit (RMm)	35.4	43.7
Consensus	-	-
TA's / Consensus (%)	NA	NA
Previous Rating	Not rated	

### Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	71.0	65.4
CFPS (sen)	10.5	9.5
Price / CFPS (x)	7.9	8.7
ROA (%)	4.1	5.0
NTA/Share (RM)	0.63	0.69
Price/NTA (x)	1.3	1.2

### Share Performance (%)

Price Change	CHINHIN	FBM KLCI
1 mth	-	3.1
3 mth	-	4.8
6 mth	-	3.2
12 mth	-	(4.6)

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

i) Cost saving

The density of AAC block is about one-third that of conventional bricks. This reduces the deadweight load on the foundation and could save up to 25% of foundation cost.

**Exhibit 1: Cost comparison between AAC blocks and bricks**

Description	AAC Blocks (RM)	Claybricks (RM)	Cement sand bricks (RM)
Material price per m <sup>2</sup>	29	18 to 20	11 to 13
Labour and installation per m <sup>2</sup>	10 to 13	10 to 13	10 to 13
Skim coating per m <sup>2</sup>	11 to 15	-	-
Plastering per m <sup>2</sup>	-	30 to 36	30 to 36
<b>Total price per m<sup>2</sup></b>	<b>50 to 57</b>	<b>58 to 69</b>	<b>51 to 62</b>

Source: Chin Hin

In addition, as AAC has smoother surface, it requires only thin layer of skim coating instead of plastering required by brickwall. Not only this reduces the cost, skim coating is easier to apply and thus saves time.

ii) Speedier installation

The construction of wall using AAC blocks is faster as AAC blocks come in bigger dimension. Besides, application of skim coating in lieu of plastering is speedier as skim coating is easier to apply than the thicker plastering. It is estimated that wall construction using AAC blocks is at least 2 times faster than construction of wall using traditional bricks

iii) Fire resistance

AAC blocks are more superior than traditional masonry products in term of fire resistance. Starken AAC block with 100mm thickness could provide fire resistance period of up to 4 hours versus 2 hours by brickwall of the same thickness.

iii) Thermal insulation

AAC products contain millions of tiny pores that are filled with air, and thus providing superior thermal insulation and reducing heating and air conditioning energy costs of a building.

iv) Sound insulation

Due to its porous structure, AAC products have high sound absorption. Hence AAC products provide good sound insulation characteristic.

v) IBS certified

Starken's AAC products are IBS certified. The Starken blocks have a IBS score factor of 0.5 (versus 0.0 for common brickwall) while its wall panels have a IBS score factor of 1.0. We expect the AAC products to gain market share as the Construction Industry Development Board has been urging contractors to adopt IBS in construction. Labour shortage and increasing labour costs would hasten contractor switching to IBS products.

Having the advantages in terms of cost, quality and speed, we see more switching from conventional bricks to AAC blocks as the products gain market recognition. The expected increase in demand for AAC blocks bodes well for the group.

### Growing customer base

We understand that Starken is currently the largest AAC manufacturers in Malaysia. The group are supplying AAC products to various renowned developers. It has penetrated into foreign markets and exports AAC products to Indonesia, Australia, New Zealand, Hong Kong, Taiwan and Singapore. Its AAC products are certified as a green product eco-friendly building material by the Singapore Environment Council.

### Valuation

We arrive at a fair value of **RM0.95**, based on 11x CY17 EPS. The fair value is higher than RM0.77 in our IPO note dated 23 February 2016 in which our valuation was based on 11x CY16 EPS.

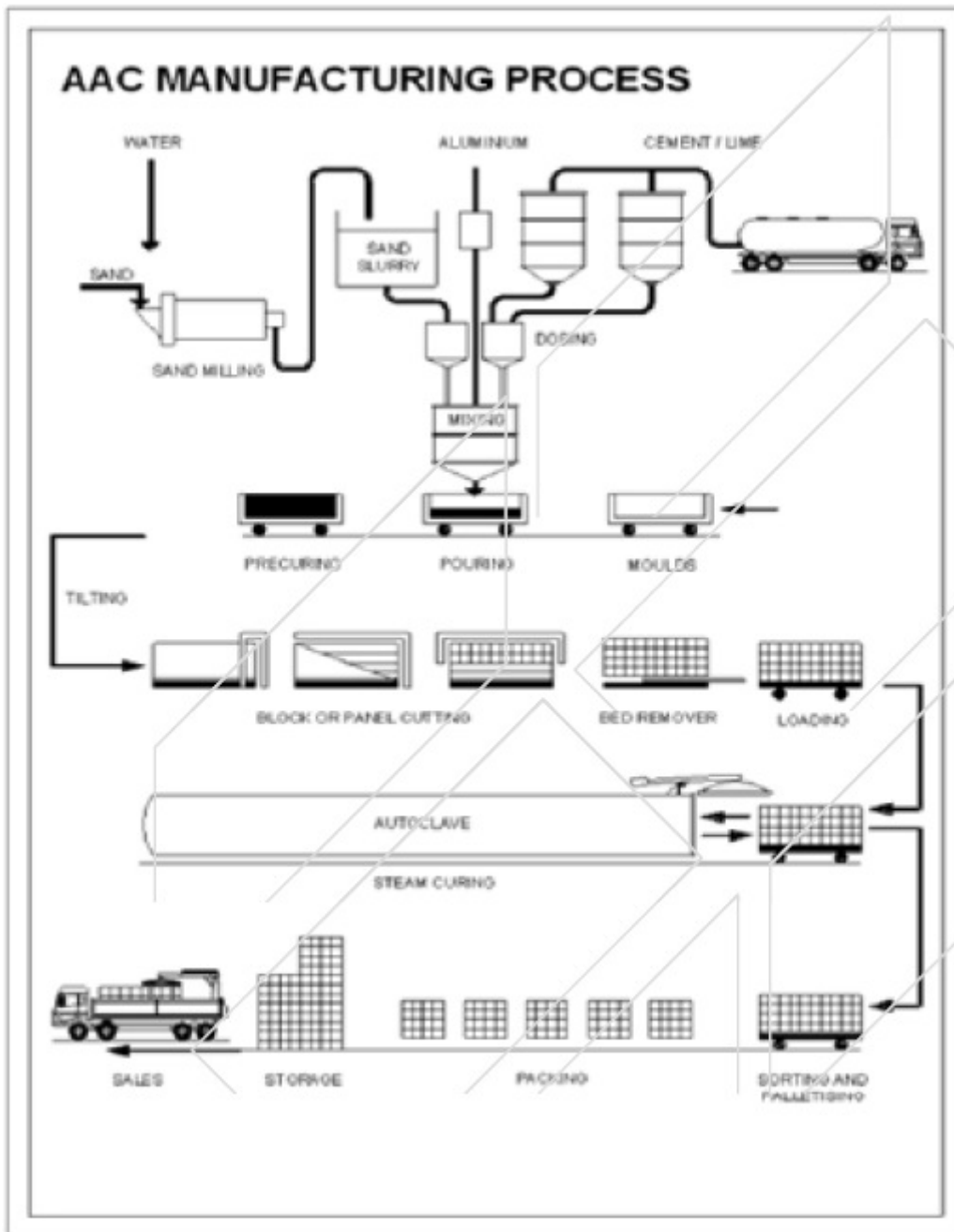
We think the target PE multiple of 11x is justifiable. This is given several mega projects such as MRT Line 2, LRT line 3, Southern Double Track, various highway projects which are expected to benefit Chin Hin group, being the market leader in distribution of building materials. This is besides its growth potential from its manufacturing divisions, especially the AAC and precast concrete divisions. We projected earnings growths of 17.1%/23.4%/29.3% in FY16/FY17/FY18, to be driven by capacity expansions in its manufacturing divisions. **Not Rated.**

### Earnings Summary

FYE Dec (RMmn)	2014	2015	2016F	2017F	2018F
Revenue	1,219.4	1,199.2	1,221.5	1,305.2	1,350.9
Gross profit	88.5	102.6	125.4	156.6	176.4
EBITDA	75.0	74.4	90.4	118.9	130.5
EBITDA margin (%)	6.2	6.2	7.4	9.1	9.7
EBIT	61.9	59.7	71.8	90.8	105.2
PBT	43.2	38.8	46.1	58.3	67.9
PAT	30.2	30.2	35.4	43.7	56.5
EPS (sen)	6.0	6.0	7.0	8.6	11.2
PER (x)	13.8	13.8	11.8	9.6	7.4
Gross dividend (sen)	na	na	1.5	2.0	3.0
Dividend yield (%)	na	na	1.8	2.4	3.6
ROE (%)	na	12.3	12.0	12.6	14.7

APPENDIX

Exhibit 2: AAC Manufacturing Process



Source: Chin Hin

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