



CHIN HIN GROUP BERHAD

Outperform

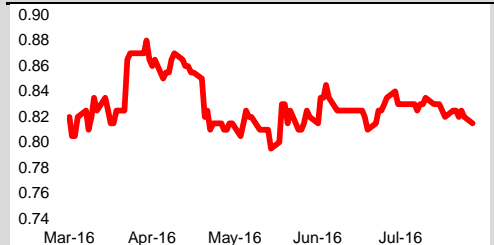
DESCRIPTION

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	RM1.08
Previous Target Price	RM1.06
Current Price	RM0.82
Expected Return	32.5%

Market	Main
Sector	Industrial Products
Bursa Code	5273
Bloomberg Ticker	CHIN MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.78-0.90
3-Month Average Vol('000)	554.1

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-1.2	2.4	-
Relative Returns	-3.5	0.4	-

KEY STOCK DATA

Market Capitalisation (RM m)	412.3
No. of Shares (m)	505.9

MAJOR SHAREHOLDERS

	%
Divine Inventions	60.0
Chiau Beng Teik	14.7

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Set For More Growth

We reassured of the Chin Hin's growth trajectory after our recent meeting with management. Higher adoption rate of AAC block which is reflected in the uptick of sales volume and higher contribution of manufacturing segments, underpinning its healthy orderbook will continue support the group's earnings going forward. Our **Outperform** call on the stock is reaffirmed with a higher target price of RM1.08 (RM1.06 previously), to account for the new wire mesh machine which targeted operational by 1QFY17. We continue to ascribe a 12.0x multiple to earnings which is justifiable given its robust growth levels in the next few financial years and PEG ratio stands at 0.4x. 2QFY16 results will be released on 18 August and is expected within our estimates.

§ **Autoclaved Aerated Concrete (AAC)** is a certified eco-friendly green building material which can be a direct substitution of clay brick or cement sand brick. With its unique characteristic, total building cost for using AAC block could save up an average 15%. Malaysian Government is strongly promoting green buildings development under 11th Malaysia Plan. Most of the new government buildings and affordable housing are adopting green building materials. Hence, we believe AAC block has ample growth in local market. The group's AAC sales volume increased 40.7% QoQ (as of 1QFY16), showing Malaysia's adoption rate is increasing gradually. With the strong demand from local market and insufficient capacity in existing plant, new autoclaved equipment with 60,000m³/annum capacity will be installed in the existing plant and expected to operational in 4QFY16. That aside, its production line is interchangeable between AAC block and wall panel. Its wall panel is currently well received in Singapore (sales volume: +>100% as of 1QFY16) and be appointed by Housing Development Board for using Starken wall panel for their government housing. Overall current orderbook stands at RM51m as of June 2016.

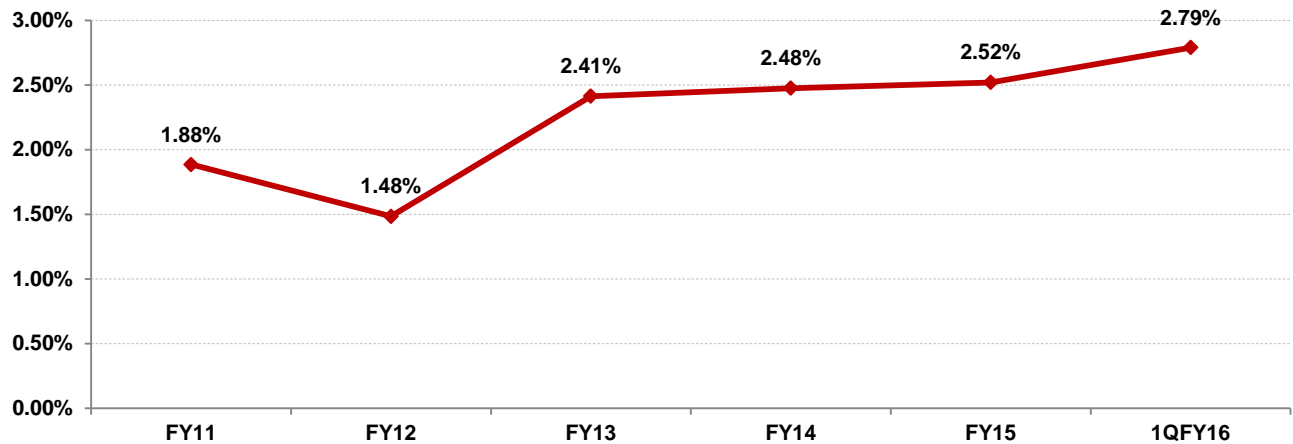
§ **Precast concrete.** The group specializes in high-end concrete pipes that command healthy margins. Its Serendah plant with total capacity of 45,000mt is running at maximum capacity. Due to the insufficient capacity and growing demand, another plant housing additional 45,000mt capacity in Bidor is under construction with estimated capex of RM15m and is targeted to operational by 4QFY16. Under 11th Malaysia Plan, Government aims to increase efficiency and productivity of water and sewerage services, by extending connected sewerage services particularly in rural areas. With government's continuous initiatives, we are optimistic on its order replenishment going forward. Its current outstanding orderbook at RM110m, due to be delivered in the next three years.

KEY FORECAST TABLE

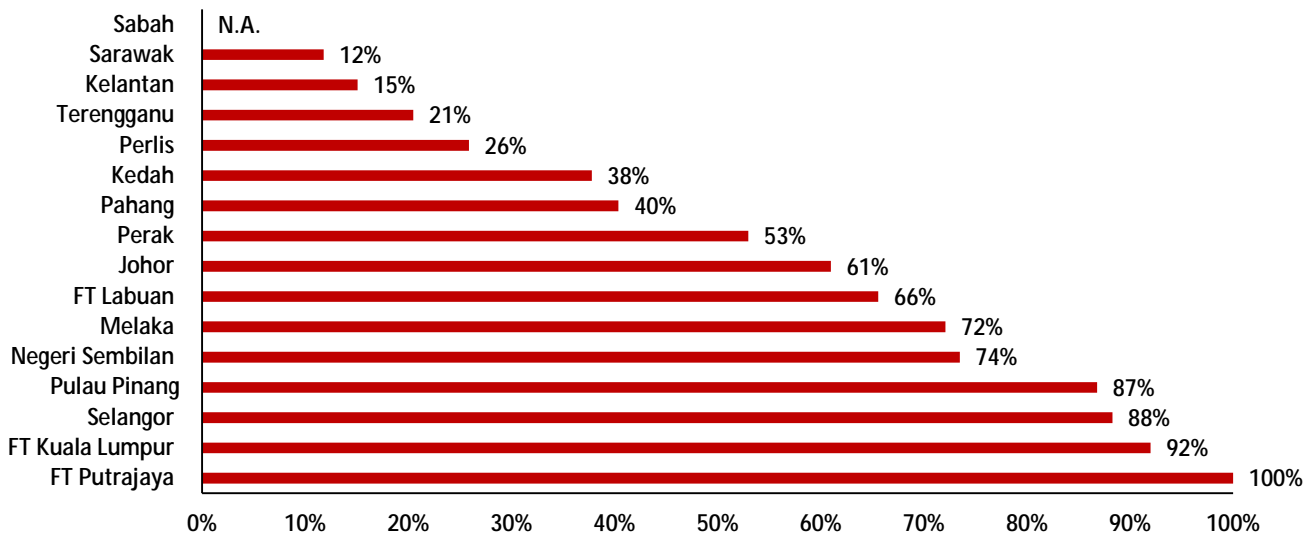
FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	1,219.4	1,199.2	1,267.6	1,398.6	1,472.0	4.8%
Gross Profit	88.5	101.5	105.8	118.7	125.1	9.0%
Pre-tax Profit	43.2	39.0	45.2	58.5	64.2	10.4%
Net Profit	30.2	30.2	35.0	45.3	49.7	13.3%
EPS (Sen)	6.0	6.0	6.9	9.0	9.8	13.3%
P/E (x)	13.8	13.8	11.9	9.2	8.4	
DPS (Sen)	-	-	-	-	-	
Dividend Yield (%)	-	-	-	-	-	

Source: Company, PublicInvestResearch estimates

- § **Margin improvement.** Higher revenue contribution from its manufacturing segments (from 7.1% in FY13 to 23.0% in 1QFY16) drives its yields climb from 2.4% to 2.8% in 1QFY16. We expect further margin improvement will be underpinned by higher contribution from its manufacturing segments, particularly AAC and precast concrete segment which provide average PBT margin of 9.9% and lower manufacturing costs owing to advantage from economies of scale. The group continues to invent new products to cater customers' needs and become a full integrated building materials solution provider. That aside, the group is planning to install a high speed wire mesh machine with additional capacity of 24,000mt in its existing factory in Nilai, targeted to operational in 1QFY17. As a result, our earnings estimates increase by 2% for FY17-FY18. We aware of steel price has surged 20% in last month, however we are not too concerned as the group could easily pass on cost to its customers.
- § **Reiterate Outperform.** With the higher adoption rate of AAC blocks locally and eating into conventional brick market share, we remain positive on Chin Hin's growth trajectory despite slower growth on property market. We anticipate the slower growth in trading segments could be mitigated by i) its healthy manufacturing orderbook of RM200m, ii) strategy of focusing on high margin products, iii) new products to be launched at end-2016.

Figure 1: Core Net Profit Margin


Source: Company, PublicInvest Research

Figure 2: Sewerage Connections (% of population)


* As of 2013.

Source: Eleventh Malaysia Plan

Figure 3: Cost Comparison Between AAC, Clay Bricks and Cement Sand Bricks

	Starken AAC			Clay Bricks			Cement Sand Bricks	
	Internal wall	External wall	Party wall	Internal wall	External wall	Party wall	Internal wall	External wall
Material	25.4	31.8	50.8	22.2	22.2	44.4	14.4	14.4
Labour + installation tools	13.2	14.8	17.0	12.8	12.8	25.6	12.8	12.8
Skim coat (Material + Labour + Mesh)	13.0	6.5	13.0	-	-	-	-	-
External Render (Material + Labour)	-	14.0	-	-	-	-	-	-
Plastering (Material + Labour)	-	-	-	33.0	40.0	33.0	33.0	40.0
Wastage (3% AAC, 5% Brick)	0.8	1.0	1.5	1.1	1.1	2.2	0.7	0.7
Total Cost	52.4	68.0	82.4	69.1	76.1	105.2	60.9	67.9

Source: Company, PublicInvest Research

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Revenue	1,219.4	1,199.2	1,267.6	1,398.6	1,472.0
Gross Profit	88.5	101.5	105.8	118.7	125.1
Operating Profit	45.6	58.2	61.8	70.4	74.1
Finance Costs	-18.7	-20.5	-22.2	-15.6	-13.5
Pre-tax Profit	43.2	39.0	45.2	58.5	64.2
Income Tax	-13.0	-8.8	-10.2	-13.2	-14.4
Effective Tax Rate (%)	30%	22%	23%	23%	23%
Minorities	-	-	-	-	-
Net Profit	30.2	30.2	35.0	45.3	49.7

Growth

Revenue	0%	-2%	6%	10%	5%
Gross Profit	26%	15%	4%	12%	5%
Net Profit	2%	0%	16%	29%	10%

Source: Company, PublicInvestResearch estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Property, Plant & Equipment	187.1	200.8	204.8	198.2	191.1
Cash and Cash Equivalents	118.0	168.9	111.5	107.9	143.3
Trade and Other Receivables	310.2	317.6	337.4	372.2	391.8
Other Assets	187.0	164.3	166.8	171.6	174.4
Total Assets	802.4	851.5	820.4	850.0	900.6
Trade and Other Payables	159.3	163.2	174.2	191.9	202.0
Borrowings	370.9	388.9	270.7	237.2	228.0
Deferred tax	4.1	7.2	4.3	4.3	4.3
Other Liabilities	37.4	31.0	34.0	34.0	34.0
Total Liabilities	571.7	590.3	483.1	467.3	468.2
Shareholders' Equity	230.6	261.2	337.3	382.7	432.4
Total Equity and Liabilities	802.4	851.5	820.4	850.0	900.6

Source: Company, PublicInvestResearch estimates

PER SHARE DATA AND RATIOS

FYE Dec	2014A	2015A	2016F	2017F	2018F
Book Value Per Share	0.5	0.5	0.7	0.8	0.9
NTA Per Share	0.5	0.5	0.7	0.8	0.9
EPS (Sen)	6.0	6.0	6.9	9.0	9.8
DPS (Sen)	-	-	-	-	-
Payout Ratio	-	-	-	-	-
ROA	4%	4%	4%	5%	6%
ROE	13%	12%	10%	12%	11%

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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