



CHIN HIN GROUP BERHAD

Outperform

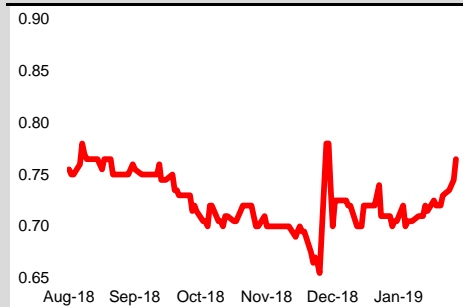
DESCRIPTION

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 RM1.00
Current Price RM0.765
Expected Return 30.7%

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

SHARE PRICE CHART



52 Week Range (RM) 0.63 - 1.13
3-Month Average Vol('000) 149.5

SHARE PRICE PERFORMANCE

Table with 4 columns: Metric, 1M, 3M, 12M. Rows: Absolute Returns, Relative Returns.

KEY STOCK DATA

Table with 2 columns: Metric, Value. Rows: Market Capitalisation (RM m), No. of Shares (m).

MAJOR SHAREHOLDERS

Table with 2 columns: Shareholder Name, %.

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A Better 2019 Expected

Chin Hin Group's headline 4QFY18 net profit was a stronger RM9.4m (+10.9% YoY, +47.4% QoQ), though it included RM4.2m in net revaluation gains. Excluding this, cumulative core FY18 net profit of RM19.9m (-9.3% YoY) came in below expectations at only 64% of our and consensus full-year estimates. While there were gradual pickups in capacity utilization at its new startups, production volumes were insufficient to help mitigate the relatively large pre-operating costs amounting to an estimated RM15m charged out during the year. Gross profit margins improved marginally to 9.4% in the quarter (3QFY18: 9.2%), reflective of growing traction in its higher-margin businesses. Despite the relatively large earnings miss, we are keeping estimates unchanged however as the Group will see 1) increased contributions from its autoclaved concrete (new export markets) and precast concrete businesses, 2) greater penetration in the higher-margined Industrial Modular Building System (IMBS) space as the Group positions itself as a total building materials solutions partner and 3) increased contributions from its investment in 45%-owned Solarvest Holdings. Our Outperform call is retained with unchanged target price of RM1.00, on a ~13x multiple to FY19 EPS of 7.6sen.

- § Distribution of building materials (+5.4% YoY) saw growth driven by higher sales of imported plywood, paint and fibre cement products, countering weaker cement sales (-13.1% YoY) as housing construction activities remained weak.
§ Autoclaved-aerated concrete (AAC) and precast concrete segment revenue growth (+20.3% YoY) was driven by strong demand for wall panels in the local and Singapore market for the former, and an increase in polymer pipe exports to Singapore, amongst others, for the latter. The second AAC plant in Kota Tinggi with an additional capacity of 600,000 m3 is currently at 30% utilization and will gradually be ramped up by increased demand from export sales.
§ A more exciting 2019 is in store, underpinned by potential increases in its pre-cast related orderbook (c.RM100m), new income stream from its recently-acquired Pengerang Workers' Complex project, and stronger solar-related income from 45%-owned Solarvest with its RM170m EPCC contract value in hand. Further upside can also be expected, coming from the government's thrust in increasing the renewable energy generation mix. Separately, the Group has also secured new contracts worth ~RM18m for its ultra-high performance concrete business which bodes well for earnings growth going forward given the high margins generated. Just as importantly, absence of pre-operating losses coupled with steady revenue growth in its key business segments will already ensure stronger years ahead, steady operating conditions notwithstanding.

KEY FORECAST TABLE

Table with 7 columns: FYE Dec (RM m), 2017A, 2018A, 2019F, 2020F, 2021F, CAGR. Rows: Revenue, Gross Profit, Pre-tax Profit, Net Profit, EPS (Sen), P/E (x), DPS (Sen), Dividend Yield (%).

Source: Company, PublicInvestResearch estimates

**Table 1: Results Summary**

<b>FYE Dec (RM m)</b>	<b>4Q18</b>	<b>4Q17</b>	<b>3Q18</b>	<b>YoY chg (%)</b>	<b>QoQ chg (%)</b>	<b>FY18</b>	<b>FY17</b>	<b>YoY chg (%)</b>	<b>Comments</b>
Revenue	<b>277.0</b>	<b>255.8</b>	<b>278.7</b>	<b>8.3</b>	<b>-0.6</b>	<b>1,105.4</b>	<b>1,015.6</b>	<b>8.8</b>	Driven by AAC/pre-cast segment
EBIT	17.5	13.2	11.7	32.1	49.9	51.5	53.1	-3.0	
Finance costs	-6.0	-4.5	-6.0	34.8	1.1	-22.3	-16.3	36.7	
<b>Pre-tax profit</b>	<b>13.3</b>	<b>10.8</b>	<b>8.2</b>	<b>23.1</b>	<b>61.9</b>	<b>34.4</b>	<b>39.3</b>	<b>-12.4</b>	
Taxation	-3.3	-2.4	-2.2	37.1	51.1	-9.1	-9.8	-6.7	
<b>Reported net profit</b>	<b>9.4</b>	<b>8.5</b>	<b>6.4</b>	<b>10.9</b>	<b>47.4</b>	<b>24.2</b>	<b>29.6</b>	<b>-18.4</b>	
Core net profit	5.2	8.5	6.4	-39.0	-19.0	19.9	22.0	-9.3	Excluding revaluation gains
Reported EPS (sen)	1.7	1.6	1.2	4.3	47.8	4.4	5.8	-24.7	
EBIT Margin	6.3%	5.2%	4.2%			4.7%	5.2%		
Pre-tax Margin	4.8%	0.0%	3.0%			3.1%	3.9%		
Net Profit Margin	3.4%	3.3%	2.3%			2.2%	2.9%		
<b>Segmental Revenue</b>									
Distribution	157.8	154.3	173.5	2.2	-9.1	633.5	601.2	5.4	Higher plywood sales
Ready-mixed concrete	19.8	27.6	24.0	-28.3	-17.5	96.9	101.2	-4.3	Weaker construction activity
AAC and Precast concrete	69.9	50.5	55.1	38.3	26.9	221.0	183.7	20.3	Driven by capacity expansion
Steel mesh and metal roofing	41.8	43.0	40.4	-2.8	3.3	167.5	174.2	-3.8	
Manufacturing of fire-rated doors	7.0	5.6	6.5	26.5	8.0	24.5	28.7	-14.6	
Modular Building Solutions	7.3	-	1.6	n.a.	360.4	52.9	-	n.a.	New income stream
n.a. = not applicable									
Source: Company, PublicInvest Research									

**KEY FINANCIAL DATA**
**INCOME STATEMENT DATA**

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	1,015.6	1,105.4	1,170.9	1,189.8	1,222.7
Gross Profit	102.1	101.7	117.9	115.7	120.4
Operating Profit	53.0	51.5	77.1	79.4	83.2
Finance Costs	-16.3	-22.3	-18.5	-12.3	-9.8
Pre-tax Profit	39.3	34.4	59.7	68.6	73.4
Income Tax	-9.8	-9.1	-13.4	-15.4	-16.5
Effective Tax Rate (%)	25%	26%	23%	23%	23%
Minorities	0.1	-1.2	-4.0	-4.0	-4.0
<b>Net Profit</b>	<b>29.6</b>	<b>24.2</b>	<b>42.3</b>	<b>49.2</b>	<b>52.9</b>

**Growth**

Revenue	-4.1%	8.8%	5.9%	1.6%	2.8%
Gross Profit	3.3%	-0.4%	15.9%	-1.8%	4.1%
Net Profit	-28.5%	-18.5%	75.0%	16.3%	7.6%

Source: Company, PublicInvestResearch estimates

**BALANCE SHEET DATA**

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Property, Plant & Equipment	381.1	469.4	482.4	471.4	459.1
Cash and Cash Equivalents	43.4	43.6	43.8	42.0	61.0
Trade and Other Receivables	325.2	428.7	311.6	316.6	325.4
Other Assets	208.1	255.3	200.7	201.6	202.7
<b>Total Assets</b>	<b>957.8</b>	<b>1,197.0</b>	<b>1,038.6</b>	<b>1,031.6</b>	<b>1,048.3</b>
Trade and Other Payables	164.3	237.5	158.0	161.1	165.4
Borrowings	382.4	512.8	417.2	373.4	348.4
Deferred tax	6.0	11.2	11.2	11.2	11.2
Other Liabilities	4.9	16.1	6.1	6.1	6.1
<b>Total Liabilities</b>	<b>557.6</b>	<b>777.7</b>	<b>592.6</b>	<b>551.9</b>	<b>531.1</b>
Shareholders' Equity	400.2	419.3	446.1	479.8	517.2
<b>Total Equity and Liabilities</b>	<b>957.8</b>	<b>1,197.0</b>	<b>1,038.7</b>	<b>1,031.6</b>	<b>1,048.3</b>

Source: Company, PublicInvestResearch estimates

**PER SHARE DATA AND RATIOS**

FYE Dec	2017A	2018A	2019F	2020F	2021F
Book Value Per Share	0.72	0.75	0.79	0.84	0.90
NTA Per Share	0.72	0.75	0.80	0.86	0.93
EPS (Sen)	5.3	4.3	7.6	8.8	9.5
DPS (Sen)	3.5	3.5	3.5	3.5	3.5
Payout Ratio	66%	81%	46%	40%	37%
ROA	3.1%	2.0%	4.1%	4.8%	5.0%
ROE	7.4%	5.8%	9.6%	10.5%	10.5%

Source: Company, PublicInvestResearch estimates

## **RATING CLASSIFICATION**

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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