CHIN HIN GROUP BERHAD

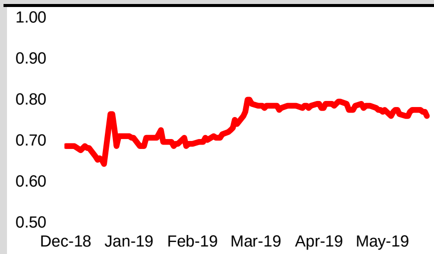
Outperform

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	RM0.76
Expected Return	31.6%
Market	Main
Sector	Industrial Products
Bursa Code	5273
Bloomberg Ticker	CHIN MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.63 – 0.99
3-Month Average Vol('000)	281.2

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-1.9	2.6	10.5
Relative Returns	-1.3	8.2	14.9

KEY STOCK DATA

Market Capitalisation (RM m)	418.1
No. of Shares (m)	550.1

MAJOR SHAREHOLDERS

	%
Divine Inventions	35.2
Datuk Seri Chiau Beng Teik	26.1

Ching Weng Jin
T 603 2268 3000
F 603 2268 3014
E research@publicinvestbank.com.my

Slow Start, To Get Better

Though Chin Hin Group only reported a 1QFY19 net profit of RM4.4m (+17.6% YOY, -52.9% QoQ) which is below expectations at 10.4% of our and 10.9% of consensus full-year estimates respectively, we anticipate stronger numbers in subsequent quarters to bring numbers in line. Pickups in utilization and the absence of pre-operating expenses in its recently expanded and/or newly-planted startups will lead to improved earnings contributions, particularly with the recent step-up in infrastructure related undertakings domestically. Gross profit margins improved further to 9.6% (4QFY18: 9.4%), reflective of growing traction in its higher-margin businesses. We continue to like the Group's prospects, underpinned by 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, and 3) increased contributions from its investment in 45%-owned Solarvest Holdings. Our ***Outperform*** call is retained with an unchanged target price of RM1.00, which translates to a ~11x multiple to a rolled-over FY20 EPS of 8.8sen.

- **Distribution of building materials** saw revenue growth (-12.6% YoY, -15.5% QoQ) this current 1QFY19 stymied by on-going weakness in the construction sector, though recent revival of the Bandar Malaysia and East Coast Rail Link projects are anticipated to have positive impacts, albeit medium to longer term.
- **Autoclaved-aerated concrete (AAC) and precast concrete** revenue growth (+68.8% YoY, +9.7% QoQ) is still driven by strong demand for panels in the local and Singapore market for the former, and a widening product portfolio amid greater adoption for the latter (ie. the Group has started to supply pre-stressed and reinforced concrete beams, crosshead, cable trough and emergency walkways to the infrastructure projects like the Duke Highway, Mass Rapid Transit, Light Rapid Transit, Gemas-Johor Baru (JB) Electrified Double Track Project and West Coast Expressway). A surge in export of polymer pipes to the Singapore market also helped. While the second AAC plant in Kota Tinggi with an additional capacity of 600,000 m^3 is still currently at 30% utilization, output will be ramped up in 2HFY19 to fulfill export market demand, with specific focus on the Philippines, Singapore and Taiwan.
- **Associate-related contributions** will be driven by stronger solar-related income from 45%-owned Solarvest with its RM212m EPCC contract value (4QFY18: RM170m) in hand. Further upside is expected, coming from the government's thrust in increasing the renewable energy generation mix**.** As is, the government is already undertaking an open tender for an estimated RM2bn worth of projects under the third cycle of the Large Scale Solar 3 scheme this year, currently running from February 27th to August 19th, which it expects to benefit from.

KEY FORECAST TABLE

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F	CAGR
Revenue	1,015.6	1,105.4	1,170.9	1,189.8	1,222.7	3.8%
Gross Profit	102.1	101.7	117.9	115.7	120.4	3.4%
Pre-tax Profit	39.3	34.4	59.7	68.6	73.4	13.3%
Net Profit	29.6	24.2	42.3	49.2	52.9	12.3%
EPS (Sen)	5.3	4.3	7.6	8.8	9.5	
P/E (x)	14.3	17.5	10.0	8.6	8.0	
DPS (Sen)	3.5	3.5	3.5	3.5	3.5	
Dividend Yield (%)	4.6	4.6	4.6	4.6	4.6	

Source: Company, PublicInvestResearch estimates

Table 1: Results Summary

FYE Dec (RM m)	1Q19	1Q18	4Q18	YoY chg (%)	QoQ chg (%)	YTD FY19	YTD FY18	YoY chg (%)	Comments
Revenue	242.7	265.3	277.0	-8.5	-12.4	242.7	265.3	-8.5	Driven by AAC/pre-cast segment
EBIT	9.3	8.9	17.5	4.6	-47.1	9.3	8.9	4.6	
Finance costs	-6.0	-4.7	-6.0	27.7	0.3	-6.0	-4.7	27.7	
Pre-tax profit	**5.5**	**5.7**	**13.3**	**-4.0**	**-58.8**	**5.5**	**5.7**	**-4.0**	
Taxation	-1.4	-1.5	**-3.3**	-7.2	-56.6	-1.4	-1.5	-7.2	
Reported net profit	**4.4**	**3.8**	**9.4**	**17.6**	**-52.9**	**4.4**	**3.8**	**17.6**	
Core net profit	**4.4**	**3.8**	**5.2**	**17.6**	**-14.6**	**4.4**	**3.8**	**17.6**	Excluding revaluation and one-off disposal gains
Reported EPS (sen)	0.8	0.7	1.7	19.1	-52.4	0.8	0.7	19.1	
EBIT Margin	3.8%	3.3%	6.3%			3.8%	3.3%		
Pre-tax Margin	2.3%	2.2%	4.8%			2.3%	2.2%		
Net Profit Margin	1.8%	1.4%	3.4%			1.8%	1.4%		
Segmental Revenue									
Distribution	133.3	152.5	157.8	-12.6%	-15.5%	133.3	152.5	-12.6	Slower construction activities
Ready-mixed concrete	16.4	27.0	19.8	-39.1%	-17.0%	16.4	27.0	-39.1	
AAC and Precast concrete	76.6	45.4	69.9	68.8%	9.7%	76.6	45.4	68.8	Driven by capacity expansion
Steel mesh and metal roofing	33.3	46.5	41.8	-28.3%	-20.2%	33.3	46.5	-28.3	
Manufacturing of fire-rated doors	10.6	5.2	7.0	101.5%	50.0%	10.6	5.2	101.5	Manufacture of new products (louvers, timber frame, handrail)
Modular Building Solutions	0.2	9.3	7.3	-98.0%	-97.5%	0.2	9.3	-98.0	Tail-end of current contract

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
Net Profit	**29.6**	**24.2**	**42.3**	**49.2**	**52.9**
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
Total Assets	**957.8**	**1,197.0**	**1,038.6**	**1,031.6**	**1,048.3**
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
Total Liabilities	**557.6**	**777.7**	**592.6**	**551.9**	**531.1**
Shareholders' Equity	400.2	419.3	446.1	479.8	517.2
Total Equity and Liabilities	**957.8**	**1,197.0**	**1,038.7**	**1,031.6**	**1,048.3**

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

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
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.

DISCLAIMER

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PUBLIC INVESTMENT BANK BERHAD (20027-W)
9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129