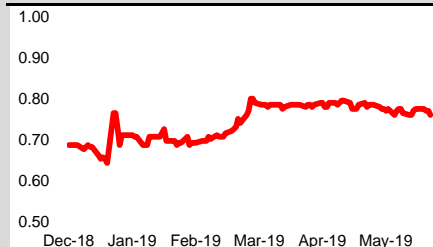


**CHIN HIN GROUP BERHAD****Outperform****DESCRIPTION**

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 Sector** Main 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<sup>3</sup> 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 27<sup>th</sup> to August 19<sup>th</sup>, 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**

<u>FYE Dec</u> <u>(RM m)</u>	<u>1Q19</u>	<u>1Q18</u>	<u>4Q18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YTD</u> <u>FY19</u>	<u>YTD</u> <u>FY18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
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	
<b>Pre-tax profit</b>	<b>5.5</b>	<b>5.7</b>	<b>13.3</b>	<b>-4.0</b>	<b>-58.8</b>	<b>5.5</b>	<b>5.7</b>	<b>-4.0</b>	
Taxation	-1.4	-1.5	-3.3	-7.2	-56.6	-1.4	-1.5	-7.2	
<b>Reported net profit</b>	<b>4.4</b>	<b>3.8</b>	<b>9.4</b>	<b>17.6</b>	<b>-52.9</b>	<b>4.4</b>	<b>3.8</b>	<b>17.6</b>	
Core net profit	<b>4.4</b>	<b>3.8</b>	<b>5.2</b>	<b>17.6</b>	<b>-14.6</b>	<b>4.4</b>	<b>3.8</b>	<b>17.6</b>	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%		
<b>Segmental Revenue</b>									
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
<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.

## **DISCLAIMER**

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

### **Published and printed by:**

#### **PUBLIC INVESTMENT BANK BERHAD (20027-W)**

9<sup>th</sup> Floor, Bangunan Public Bank  
6, Jalan Sultan Sulaiman  
50000 Kuala Lumpur  
T 603 2268 3000  
F 603 2268 3014  
Dealing Line 603 2268 3129