

# Chin Hin Berhad

Driven by Manufacturing of AAC and Precast Products

**TP: RM0.70** (-7.9%)

Last Traded: RM0.76

**Sell**

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### Results Review

- Stripping out a net exceptional loss amounting to RM459k, CHINHIN's 1QFY19 core profit of RM4.9mn came in below expectations, accounting for 11.0% and 11.9% of our and street's full-year estimates. The variance was mainly due to lower-than-expected revenue contribution from distribution of building materials, ready-mixed concrete, manufacturing of wire mesh, and modular building solutions segments as a result of slower-than-expected construction activities.
- YoY, 1QFY19 core profit surged 25.1% to RM4.9mn despite a 8.5% fell in revenue to RM242.7mn. The higher profitability was mainly due to margin expansion in Autoclaved Aerated Concretes (AAC) and precast products segment. Meanwhile, the drop in revenue was mainly attributed to lower revenue contribution from all the core businesses except for the manufacturing of AAC and precast products segment which recorded higher revenue and PBT growths which grew 68.8% and 239.2% to RM76.6mn and RM4.2mn respectively.
- QoQ, 1QFY19 core profit fell 20.0% to RM4.9mn while revenue dropped by 12.4% to RM242.7mn. The weaker results were mainly due to shorter working days due to Chinese New Year festival.

### Impact

- Following the weaker-than-expected results, adjustments are made to reflect lower revenue contribution from distribution of building materials, ready-mixed concrete, and modular building solutions segments. Consequently, earnings forecasts for FY19/FY20/FY21 were cut by 24.8%/14.5%/15.1% respectively.

### Outlook

- While the industry remains challenging, we expect the manufacturing of AAC and precast products segment will continue to be the key growth driver for the group due to healthy demand from local and export markets.
- The group believes the associate companies could continue to deliver better results due to its strong order books. In addition, the 45%-owned-associate, Solarvest Energy, is expected to secure some contracts from the third cycle of the large-scale solar scheme.

### Valuation

- Subsequent to the revision in earnings forecasts, we lower the target price from RM0.84 to **RM0.70**, based on unchanged 9x CY20 EPS. Downgrade CHINHIN from Buy to **Sell**.

### Share Information

Bloomberg Code	CHIN MK
Bursa	CHINHIN
Stock Code	5273
Listing	Main Market
Share Cap (mn)	556.4
Market Cap (RMmn)	422.9
52-wk Hi/Lo (RM)	0.96/0.63
12-mth Avg Daily Vol ('000 shrs)	415.0
Estimated Free Float (%)	26.1
Beta	1.1
<b>Major Shareholders (%)</b>	
	Divine Inventions - 35.2
	Chiau Beng Teik - 26.2

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	(24.8)	(14.5)
Net profit (RMmn)	33.6	43.2
Consensus	41.0	46.7
TA's / Consensus (%)	82.0	92.5
Previous Rating	Buy (Downgraded)	

### Financial Indicators

	FY19	FY20
Net Debt / Equity (%)	100.5	88.4
CFPS (sen)	1.4	(3.0)
Price / CFPS (x)	53.1	(25.3)
ROA (%)	3.0	3.8
NTA/Share (RM)	0.8	0.9
Price/NTA (x)	0.9	0.9

### Scorecard

	% of FY19	
vs. TA	11.0	Below
vs. Consensus	11.9	Below

### Share Performance (%)

Price Change	CHINHIN	FBM KLCI
1 mth	(3.2)	(2.2)
3 mth	0.7	(6.9)
6 mth	8.6	(5.5)
12 mth	(20.0)	(9.8)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Table 1: Earnings Summary**

FYE Dec (RMmn)	2017	2018	2019F	2020F	2021F
Revenue	1,015.4	1,105.4	1,143.0	1,230.8	1,256.0
Gross profit	101.5	101.5	134.3	137.0	142.9
EBITDA	71.4	72.9	92.1	102.6	104.0
EBITDA margin (%)	7.0	6.6	8.1	8.3	8.3
EBIT	53.0	50.8	69.1	69.9	72.2
PBT	39.5	33.7	45.7	57.1	61.5
Core PBT	42.7	29.4	45.7	57.1	61.5
PAT	29.7	24.1	35.2	43.9	47.4
Core profit	33.0	18.6	33.6	43.2	47.4
Core EPS (sen)	6.3	3.3	6.0	7.8	8.5
PER (x)	12.1	22.8	12.6	9.8	8.9
Gross dividend (sen)	3.5	1.5	1.0	2.0	2.0
Dividend yield (%)	4.6	2.0	1.6	2.8	2.8
ROE (%)	9.1	4.6	7.8	9.3	9.5

**Table 2: IQFY19 Results Analysis**

FYE Dec (RMmn)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	3MFY18	3MFY19	YoY (%)
<b>Revenue</b>	265.3	277.0	242.7	(12.4)	(8.5)	265.3	242.7	(8.5)
Distribution of building materials and logistics services	152.5	157.8	133.3	(15.5)	(12.6)	152.5	133.3	(12.6)
Ready Mixed Concrete	27.0	19.8	16.4	(17.0)	(39.1)	27.0	16.4	(39.1)
Manufacturing of AAC and Precast Products	45.4	69.9	76.6	9.7	68.8	45.4	76.6	68.8
Manufacturing of wire mesh and metal roofing	46.5	41.8	33.3	(20.2)	(28.3)	46.5	33.3	(28.3)
Manufacturing of fire rated door	5.2	7.0	10.6	50.0	101.5	5.2	10.6	101.5
Modular building solutions	9.3	7.3	0.2	(97.5)	(98.0)	9.3	0.2	(98.0)
Investment holding and management services	2.1	9.9	1.3	(87.2)	(40.3)	2.1	1.3	(40.3)
Adjustments and eliminations	(22.7)	(36.4)	(29.0)	(20.3)	27.6	(22.7)	(29.0)	27.6
Cost of Sales	(241.8)	(250.9)	(219.3)	(12.6)	(9.3)	(241.8)	(219.3)	(9.3)
Gross profit	23.5	26.1	23.4	(10.4)	(0.5)	23.5	23.4	(0.5)
Operating profit	8.9	13.3	9.3	(30.1)	4.6	8.9	9.3	4.6
Finance Costs	(4.7)	(6.0)	(6.0)	0.3	27.7	(4.7)	(6.0)	27.7
Share of Associates	1.6	1.9	2.3	22.9	42.1	1.6	2.3	42.1
<b>PBT</b>	5.7	13.3	5.5	(58.8)	(4.0)	5.7	5.5	(4.0)
Distribution of building materials and logistics services	1.3	2.0	1.0	(50.0)	(23.0)	1.3	1.0	(23.0)
Ready Mixed Concrete	0.9	(0.1)	(0.8)	1,298.3	<(100.0)	0.9	(0.8)	<(100.0)
Manufacturing of AAC and Precast Products	1.2	2.4	4.2	75.8	239.2	1.2	4.2	239.2
Manufacturing of wire mesh and metal roofing	(1.4)	5.2	(0.5)	<(100.0)	(67.3)	(1.4)	(0.5)	(67.3)
Manufacturing of fire rated door	0.7	0.8	0.3	(66.8)	(64.0)	0.7	0.3	(64.0)
Modular building solutions	1.8	3.7	(0.7)	<(100.0)	<(100.0)	1.8	(0.7)	<(100.0)
Investment holding and management services	(0.2)	8.2	(0.2)	<(100.0)	8.3	(0.2)	(0.2)	8.3
Core PBT	5.9	10.0	6.0	(40.6)	1.5	5.9	6.0	1.5
Income tax expense	(1.5)	(3.3)	(1.4)	(56.6)	(7.2)	(1.5)	(1.4)	(7.2)
Net profit	3.8	9.4	4.4	(52.9)	17.6	3.8	4.4	17.6
Core profit	3.9	6.1	4.9	(20.0)	25.1	3.9	4.9	25.1
Reported EPS (sen)	0.7	1.7	0.8	(52.4)	18.9	0.7	0.8	18.9
Core EPS (sen)	0.6	1.0	1.0	(6.0)	53.1	0.6	1.0	53.1
Dividend (sen)	0.0	1.5	0.0	(100.0)	na	0.0	0.0	na
<b>Margin (%):</b>				% pts	% pts			% pts
- Core PBT	2.2	3.6	2.5	(1.2)	0.2	2.2	2.5	0.2
Distribution of building materials and logistics services	0.9	1.3	0.8	(0.5)	(0.1)	0.9	0.8	(0.1)
Ready Mixed Concrete	3.5	(0.3)	(5.0)	(4.7)	(8.5)	3.5	(5.0)	(8.5)
Manufacturing of AAC and Precast Products	2.7	3.4	5.5	2.1	2.7	2.7	5.5	2.7
Manufacturing of wire mesh and metal roofing	(3.0)	12.4	(1.4)	(13.8)	1.6	(3.0)	(1.4)	1.6
Manufacturing of fire rated door	13.4	10.8	2.4	(8.4)	(11.0)	13.4	2.4	(11.0)
Modular building solutions	19.3	50.5	(361.2)	<(100.0)	<(100.0)	19.3	(361.2)	<(100.0)
Investment holding and management services	(8.4)	82.6	(15.3)	(97.9)	(6.9)	(8.4)	(15.3)	(6.9)
- Core PAT	1.5	2.2	2.0	(0.2)	0.5	1.5	2.0	0.5
- Effective tax rate	27.1	24.9	26.2	1.3	(0.9)	27.1	26.2	(0.9)

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, May 24, 2019, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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