



CHIN HIN GROUP BERHAD

Outperform

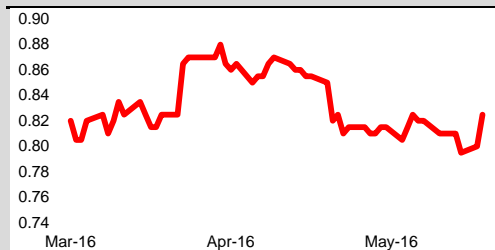
DESCRIPTION

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	RM1.06
Current Price	RM0.82
Expected Return	+29.6%

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)	-

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-6.4	-	-
Relative Returns	1.8	-	-

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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Going As Planned

Chin Hin's 1QFY16 results came within our expectations, making up 21.7% and 22.4% of our revenue and core net profit estimates respectively. The group registered a revenue of RM284.4m (-10.5% QoQ, -1.3% YoY), with a core net profit of RM7.9m (+18.3% QoQ, -22.6% YoY) after stripping out one-off listing expenses of RM2.9m. Some housekeeping changes will see our FY16-17 estimates lowered by 1%. We are maintaining our fair value at RM1.06 premised on a 12x multiple to FY17 EPS of 8.8 sen. With the growing demand for its Autoclaved Aerated Concrete (AAC) product despite softer property market conditions coupled with its healthy orderbook in hand, we remain positive on Chin Hin's growth prospects and formalize our coverage on the stock post-IPO note (dated 23 February, 2016) with an **Outperform** call. A 1.5sen per share interim dividend was declared.

§ **1QFY16** revenue was weighed by lower contribution from its distribution business (-15.2% YoY), metal roofing and ready-mixed concrete segments (-14.0% YoY) due to softening housing construction activities. The lower revenue is anticipated, due to festivities and shorter working days in the current quarter. The negative impact was however mitigated by its manufacturing of AAC and precast concrete (+40.7% YoY) and steel mesh. EBIT and core net profit margin improved to 5.3% and 2.8% (1QFY15 EBIT: 4.4%, PAT: 2.1%), owing to i) higher contribution from high margin products (AAC and precast concrete: 9.9%), and ii) additional income from its solar power generation. To-date, the group's orderbook from its manufacturing segments stand at RM208m.

§ **Updates.** The group is currently supplying 1.4MW worth of renewable energy to Tenaga Nasional Berhad (TNB) with a 21-year agreement. It is increasing its electricity production capacity by an additional 1MW to 2.4MW after receiving approval from SEDA in early-May, expecting to start earnings contribution in 4QFY16. Due to insufficient capacity and strong demand of precast concrete and AAC, a precast concrete plant housing additional 45,000mt capacity is under construction in Bidor and expected to be completed and commenced by early of 4QFY16. The group is planning to further expand its wall panel AAC capacity with recently-purchased German machinery, which could reduce wastage and improve efficiency.

§ **Outperform.** We remain positive on Chin Hin's prospects, on the back i) higher adoption rate of AAC products in the market and eating into the conventional brick market share, ii) healthy orderbook in its manufacturing segment, iii) additional recurring earnings with tax exemption from its solar power panels.

KEY FORECAST TABLE

FYE Dec (RM m)	2013A	2014A	2015A	2016F	2017F	CAGR
Revenue	1,220.4	1,219.4	1,199.2	1,267.6	1,377.6	3.1%
Gross Profit	70.5	88.5	101.5	105.8	117.0	13.5%
Pre-tax Profit	37.3	43.2	39.0	45.2	57.5	11.4%
Net Profit	29.5	30.2	30.2	35.0	44.5	10.9%
EPS (Sen)	5.8	6.0	6.0	6.9	8.8	10.9%
P/E (x)	14.0	13.7	13.6	11.8	9.3	
DPS (Sen)	-	-	-	-	-	
Dividend Yield (%)	-	-	-	-	-	

Source: Company, PublicInvestResearch estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>1Q16</u>	<u>4Q15</u>	<u>1Q15</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD 16</u>	<u>YTD 15</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	284.4	288.3	317.6	-10.5	-1.3	284.4	317.6	-10.5	Lower contribution from distribution of building material, metal roofing, and ready-mixed concrete segments.
EBIT	15.1	16.7	13.9	8.5	-9.4	15.1	13.9	8.5	Additional income from its solar panel
Finance costs	-4.9	-5.6	-5.1	-2.7	-11.8	-4.9	-5.1	-2.7	
Pre-tax profit	7.3	11.1	8.9	-18.0	-34.5	7.3	8.9	-18.0	
Taxation	-2.2	-0.8	-2.1	4.5	169.5	-2.2	-2.1	4.5	
Net Profit	5.0	10.3	6.7	-25.2	-51.1	5.0	6.7	-25.2	
Core Net Profit	7.9	10.3	6.7	18.3	-22.6	7.9	6.7	18.3	After stripping out one-off listing expenses of RM2.92m
EPS (sen)	1.1	2.3	1.5	-29.8%	-54.3%	1.1	1.5	-0.3	
EBIT Margin	5.3%	5.8%	4.4%	21.2%	-8.2%	5.3%	4.4%	21.2%	
Pre-tax Margin	2.6%	3.8%	2.8%	-8.4%	-33.7%	2.6%	2.8%	-8.4%	
Net Profit Margin	1.8%	3.6%	2.1%	-16.5%	-50.4%	1.8%	2.1%	-16.5%	
<u>Segmental Revenue</u>									
Distribution of building material and logistics services	179.6	-	211.8	-	-15.2%	179.6	211.8	-15.2%	Due to softening housing activities
Ready-mixed concrete	39.4	-	45.8	-	-14.0%	39.4	45.8	-14.0%	
AAC and Precast concrete	29.6	-	21.0	-	40.7%	29.6	21.0	40.7%	
Steel mesh and metal roofing system	34.8	-	37.9	-	-8.0%	34.8	37.9	-8.0%	
Others	1.1	-	1.1	-	-4.9%	1.1	1.1	-4.9%	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2013A	2014A	2015A	2016F	2017F
Revenue	1,220.4	1,219.4	1,199.2	1,267.6	1,377.6
Gross Profit	70.5	88.5	101.5	105.8	117.0
Operating Profit	34.0	45.6	58.2	61.8	69.4
Finance Costs	-14.5	-18.7	-20.5	-22.2	-15.6
Pre-tax Profit	37.3	43.2	39.0	45.2	57.5
Income Tax	-7.9	-13.0	-8.8	-10.2	-12.9
Effective Tax Rate (%)	21%	30%	22%	23%	23%
Minorities	-	-	-	-	-
Net Profit	29.5	30.2	30.2	35.0	44.5

Growth

Revenue	17%	0%	-2%	6%	9%
Gross Profit	24%	26%	15%	4%	11%
Net Profit	90%	2%	0%	16%	27%

Source: Company, PublicInvestResearch estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2013A	2014A	2015A	2016F	2017F
Property, Plant & Equipment	205.5	187.1	200.8	204.8	198.2
Cash and Cash Equivalents	36.3	118.0	168.9	111.5	110.6
Trade and Other Receivables	354.4	310.2	317.6	337.4	366.7
Other Assets	236.4	187.0	164.3	166.8	170.9
Total Assets	832.6	802.4	851.5	820.4	846.3
Trade and Other Payables	187.1	159.3	163.2	174.2	189.0
Borrowings	408.2	370.9	388.9	270.7	237.2
Deferred tax	2.8	4.1	7.2	4.3	4.3
Other Liabilities	41.7	37.4	31.0	34.0	34.0
Total Liabilities	639.7	571.7	590.3	483.1	464.4
Shareholders' Equity	192.9	230.6	261.2	337.3	381.9
Total Equity and Liabilities	832.6	802.4	851.5	820.4	846.3

Source: Company, PublicInvestResearch estimates

PER SHARE DATA AND RATIOS

FYE Dec	2013A	2014A	2015A	2016F	2017F
Book Value Per Share	0.4	0.5	0.5	0.7	0.8
NTA Per Share	0.4	0.5	0.5	0.7	0.8
EPS (Sen)	5.8	6.0	6.0	6.9	8.8
DPS (Sen)	-	-	-	-	-
Payout Ratio	-	-	-	-	-
ROA	4%	4%	4%	4%	5%
ROE	15%	13%	12%	10%	12%

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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