

Chin Hin Group Berhad

Eying Solar Business

TP: RM0.745 (+3.5%)

Last Traded: RM0.72

Hold

Chan Mun Chun

Tel: +603-2167 9731

mcchan@ta.com.my

www.taonline.com.my

Following our recent meetup with the management, we remain cautious on the outlook for CHINHIN as the building materials sector has been adversely affected by softer demand and wary sentiment in the construction and property sectors post-GE14. Nevertheless, the earnings are expected to be backed by healthy order book from the manufacturing segment, Pengerang Project, and growing contribution from associates. The management believes that solar business could be the next earnings growth driver of the group. All in, we maintain Hold call with a lower target price of RM0.745.

Earnings are Still Driven by Manufacturing Segment

The group currently has a healthy order book of RM200.0mn, which can last the group for at least 12 months. The order book mainly comprises orders from autoclaved aerated concrete (AAC) and pre-cast products. The new AAC plant in Kota Tinggi has ramped up its plant utilisation rate to about 35% since it commenced operation in July 18. Meanwhile, the wire mesh segment has finally returned to the black in 3QFY18 and the management expects it to contribute decent earnings moving forward as the group is able source for cheaper raw materials from alternative suppliers currently. Nevertheless, the management is cautious on the outlook for distribution of building materials and ready-mixed concrete segments due to persisting weak demand in the construction and property sectors post-GE14.

Latest Updates from the Pengerang Project

Recap, the group has secured a 1-year fast track project in December 2017 to construct an integrated workers complex which was supposed to deliver by the end of 2018. The management guided that the project would be delayed until 2019 pending revision of building plan layout by the developer. The integrated workers complex consists of 23 blocks, of which 6 blocks have been completed so far. The unbilled amount is estimated to be about RM150.0mn, which could be recognised in CY19. Assuming a PBT margin of 12%, we expect the project to contribute a PBT of RM18.0mn to CY19 earnings.

Looking Forward to Solar Business

The management believes solar business could be the next earnings growth driver of the group. The group currently has 45% stake in Atlantic Blue Sdn Bhd (ABSB), an associate that specialises in large-scale solar farming and provision of solar photovoltaic solutions. We expect the profit contribution from the solar business to be about RM4.5mn for FY18, with higher earnings contribution expected moving forward as ABSB might be able to secure at least 10% to 20% from the RM2.0bn worth of government solar jobs under the third cycle of the large-scale solar scheme. Besides, the management and its business partners are working on the listing of the solar business in Bursa Malaysia.

Share Information

Bloomberg Code	CHIN MK
Bursa	CHINHIN
Stock Code	5273
Listing	Main Market
Share Cap (mn)	556.4
Market Cap (RMmn)	400.6
52-wk Hi/Lo (RM)	1.24/0.63
12-mth Avg Daily Vol ('000 shrs)	465.8
Estimated Free Float (%)	27.0
Beta	1.3

Major Shareholders (%)

Divine Inventions -	33.71
Chiau Beng Teik-	27.24

Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	(2.0)
Net profit (RMmn)	24.3	44.7
Consensus	31.0	42.7
TA's / Consensus (%)	78.3	104.7
Previous Rating	Hold (Maintained)	

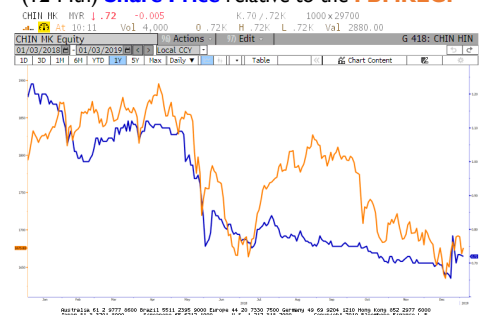
Financial Indicators

	FY18	FY19
Net Debt / Equity (%)	102.9	85.8
CFPS (sen)	(6.1)	6.8
Price / CFPS (x)	(11.9)	10.7
ROA (%)	2.4	4.2
NTA/Share (RM)	0.8	0.8
Price/NTA (x)	0.9	0.9

Share Performance (%)

Price Change	CHINHIN	FBM KLCI
1 mth	2.9	(1.4)
3 mth	(4.0)	(6.7)
6 mth	(6.5)	(0.3)
12 mth	(39.5)	(6.5)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Impact

We maintain our FY18 earnings forecasts but cut FY19 and FY20 earnings forecasts by 2.0% and 3.1% respectively after factoring in lower contribution from both distribution of building materials, and ready-mixed concrete segments amid the cautious outlook for the broader building materials sector. Besides, we also take this opportunity to perform house-keeping to our earnings model.

Valuation

Following the earnings adjustment, we reduce the target price from RM0.76 to **RM0.745**, based on unchanged 9x CY19 EPS. Maintain **Hold** call on the stock.

Earnings Summary

Profit & Loss (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
Revenue	1058.8	1015.4	1139.1	1219.9	1174.2
EBITDA	83.7	71.4	80.8	105.9	102.9
Dep. & amortisation	(16.3)	(18.4)	(24.0)	(25.6)	(25.3)
Net finance cost	(16.3)	(16.2)	(18.8)	(20.1)	(10.0)
PBT	51.2	39.5	38.0	60.2	68.6
Taxation	(9.7)	(9.8)	(8.7)	(13.8)	(15.8)
Net profit	41.4	29.7	29.2	46.4	52.8
Core profit	30.8	30.1	24.3	44.7	52.8
GDPS (sen)	3.5	3.5	1.5	3.0	5.0
Div Yield (%)	4.9	4.9	2.2	4.0	6.8

Cash Flow (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
PBT	51.2	39.5	38.0	60.2	68.6
Non cash expenses	18.3	31.8	42.8	45.7	35.3
Non Operating expenses	(26.5)	(28.3)	(27.6)	(34.0)	(25.7)
Changes in WC	(36.9)	(4.0)	(91.8)	9.8	13.8
Operational cash flow	6.0	38.9	(38.6)	81.8	92.0
Capex	(63.8)	(73.3)	(55.0)	(25.0)	(25.0)
Others	12.0	(61.6)	4.4	4.4	4.4
Investment cash flow	(51.8)	(134.9)	(50.6)	(20.6)	(20.6)
Debt raised/(repaid)	(77.5)	32.2	75.0	10.9	(22.1)
Dividend	(7.6)	(21.2)	(8.5)	(15.6)	(26.4)
Others	34.1	63.0	(10.0)	(20.0)	(20.0)
Financial cash flow	(51.0)	73.9	56.5	(24.7)	(68.5)
Forex effect	0.2	(0.2)	0.0	0.0	0.0
Net cash flow	(96.5)	(22.3)	(32.7)	36.5	2.9
Beginning cash	165.9	69.4	47.1	14.4	50.9
Ending cash	69.4	47.1	14.4	50.9	53.8

Balance Sheet (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
Fixed assets	293.7	381.2	407.8	402.8	398.1
Others	71.4	129.4	129.4	129.4	129.4
NCA	365.1	510.6	537.2	532.2	527.4
Cash	73.5	50.0	17.3	53.8	56.7
Others	381.9	407.3	458.2	472.9	454.1
CA	455.4	457.3	475.6	526.7	510.8
Total assets	820.4	967.9	1012.8	1058.9	1038.2
ST borrowings	284.1	315.6	380.6	371.5	329.5
Other liabilities	169.0	178.3	137.5	161.9	156.9
CL	453.0	493.9	518.1	533.5	486.4
Shareholders' funds	324.3	400.3	421.1	451.8	478.2
LT borrowings	36.3	66.9	66.9	66.9	66.9
Other LT liabilities	6.8	6.8	6.8	6.8	6.8
NCL	43.1	73.6	73.6	73.6	73.6
Total capital	820.4	967.9	1012.8	1058.9	1038.2

Ratio

YE Dec 31	2016	2017	2018F	2019F	2020F
EBITDA Margins (%)	7.9	7.0	7.1	8.7	8.8
Core EPS (sen)	6.2	5.8	4.5	8.3	9.8
EPS Growth (%)	(8.8)	(7.6)	(21.9)	84.1	18.2
PER (x)	11.6	12.5	16.0	8.7	7.4
GDPS (sen)	3.5	3.5	1.5	3.0	5.0
Div Yield (%)	4.9	4.9	2.2	4.0	6.8
Net debt (RMmn)	(250.5)	(335.0)	(432.7)	(387.1)	(342.2)
Net gearing (%)	77.2	83.8	102.9	85.8	71.7
ROE (%)	10.5	8.3	5.9	10.3	11.4
ROA (%)	3.8	3.1	2.4	4.2	5.1
NTA (RM)	0.7	0.8	0.8	0.8	0.9
P/NTA(x)	1.1	0.9	0.9	0.9	0.8

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Friday, January 04, 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

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my