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25 January 2011

# CI Holdings

*Cranking up the juice*

<b>RECOM</b>	Buy
<b>PRICE</b>	RM3.51
<b>MKT CAPITALISATION</b>	RM498.4m
<b>BOARD</b>	Main (Syariah stock)
<b>SECTOR</b>	Food & Beverage
<b>INDEX COMPONENT</b>	Nil

CIH MK / CIHB.KL

Norziana Mohd Inon + 60 (3) 2084-9645 – norziana.inon@cimb.com

## Investment highlights

- **Maintain BUY.** 2010 was a commendable year for CI Holdings (CIH) but 2011 is set to be even stronger given the company's additional capacity, a wider distribution network and new product launches. Introduced in Dec 10, the Tropicana Twister blackcurrant drink is expected to expand the ready-to-drink (RTD) blackcurrant market this year, taking on old favourite Ribena. We maintain our EPS forecasts but raise our target price from RM4.90 to RM5.15 to reflect our revised target market P/E of 14.5x (13.8x previously). CIH remains a BUY and our top pick in the F&B sector, thanks to the potential re-rating catalysts of 1) an increasingly marketable product line, and 2) M&A. We view the recent share price weakness as a buying opportunity.
- **Additional capacity.** In Sep 10, CIH started the operations of a RM45m new production line in Bangi. The new facility addresses the issue of capacity constraint and allows for future growth of Permanis's range of non-carbonated beverages. Tropicana Twister blackcurrant is produced at the new production line in Bangi. The new capacity will come in handy as CIH plans to roll out more fruit juices under the Tropicana umbrella in the coming years.
- **Wider distribution network.** CIH is looking to widen its nationwide retail coverage from 42,000 outlets as at Jun 10 to 45,000 by Jun 11. The company's recent extended partnership with Marrybrown to supply drinks at the fast-food operator's outlets augurs well for the company. Fast-food outlets, hypermarkets and convenience stores make up CIH's major accounts.

### Key stock statistics

	2010	2011F
<b>FYE 30 Jun</b>		
EPS (sen)	26.9	30.1
P/E (x)	13.1	11.7
Dividend/Share (sen)	11.0	12.0
NTA/Share (RM)	0.8	0.8
Book Value/Share (x)	0.8	0.8
Issued Capital (m shares)	142.0	142.0
52-weeks Share Price Range (RM)	RM1.70/RM4.00	
<b>Major Shareholders:</b>	%	
Datuk Johari Abdul Ghani	30.0	
Continental Theme Sdn Bhd	10.4	
PNB	8.4	

### Per share data

FYE 30 Jun	2008	2009	2010	2011F
Book Value (RM)	0.7	0.7	0.8	0.8
Cash Flow (sen)	22.0	26.1	36.1	42.1
Earnings (sen)	10.2	14.8	26.9	30.1
Dividend (sen)	4.0	7.0	11.0	12.0
Payout Ratio (%)	28.1	34.1	29.5	28.7
P/E (x)	34.3	23.7	13.1	11.7
P/Cash Flow (x)	15.9	13.4	9.7	8.3
P/Book Value (x)	5.0	4.7	4.4	4.2
Dividend Yield (%)	1.1	2.0	3.1	3.4
ROE (%)	15.9	21.8	33.5	36.3
Net Gearing (%)	83.2	83.0	73.6	71.7

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

## Recent developments

On 4 Jan 11, CI Holdings' wholly-owned unit Permanis extended its "multi-million ringgit partnership" with fast-food restaurant chain MARRYBROWN to continue supplying beverages for another five years. The deal, originally signed for a five-year period in 2006, will now continue until 2015. Permanis provides a variety of drinks that include Pepsi, 7Up, Mountain Dew, Revive and Mirinda Strawberry to all MARRYBROWN outlets in Malaysia.

## Earnings outlook

### A recap of CY10

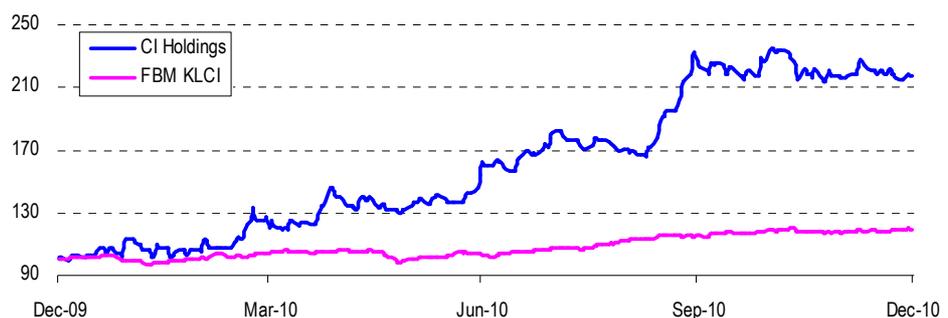
**A string of achievements in CY10.** CY10 was a commendable year for CIH. A bigger retail network, an extended bottling agreement, a new production line and a new product were the operational highlights.

- Jun: CIH's beverages reached 42,000 outlets nationwide, an improvement on 36,595 outlets as at Jun 09.
- Jul: CIH and PepsiCo inked an exclusive bottling agreement which renews the franchise bottling rights of Permanis for an unprecedented 10 years. Previous agreements between the two companies were renewed every five years.
- Sep: CIH launched a RM45m new production line in Bangi. The new facility addresses the issue of capacity constraint and allows for future growth of Permanis's range of non-carbonated beverages.
- Dec: CIH unveiled Tropicana Twister blackcurrant, the third Tropicana Twister fruit juice variant after the introduction of the orange and apple juices in Mar 08. Tropicana Twister blackcurrant is produced at the new production line in Bangi.

**New CEO took over the helm.** On 25 Aug, CIH announced the appointment of Erwin Selvarajah as CEO. Erwin joined PepsiCo Beverages International's regional office in Thailand in 1995. His last position was finance director of Southeast Asia and Micronesia, based in Singapore. In 1999, he returned to Malaysia and joined Permanis as president and CEO, and continued to hold his position until he was appointed as the new CEO of CIH. Datuk Johari Abdul Ghani, who is the biggest shareholder with a 30% stake, remains as MD.

**Record net profits.** Throughout CY10, CIH maintained its leadership of the chilled RTD fruit juice segment with a market share of 40%, followed by Marigold Peel Fresh with 25% share and F&N's (FNH MK, Underperform) Sunkist and Fruit Tree which had a 14% slice of the market. CIH's Lipton Tea was also a leader in the RTD tea market with more than 30% market share, followed by F&N's Seasons with close to around 28% share and Yeo Hiap Seng's (YHS MK, Not Rated) Yeo's with some 25% of the market. The leadership positions were reflected in CIH's financial performance. The company's FY6/10 net profit stood at a record RM38m (+82% yoy). Its 1QFY11 quarterly net profit scaled a new high of RM11.8m (+43% yoy), aided by a strong Hari Raya selling campaign and aggressive distribution drive. By end-CY10, the stock, whose share price tracked the company's rising earnings, soared a scorching 117% and outperformed the FBM KLCI by 98% (Figure 1).

Figure 1: CI Holdings' share price vs. FBM KLCI, 2010



Source: Bloomberg

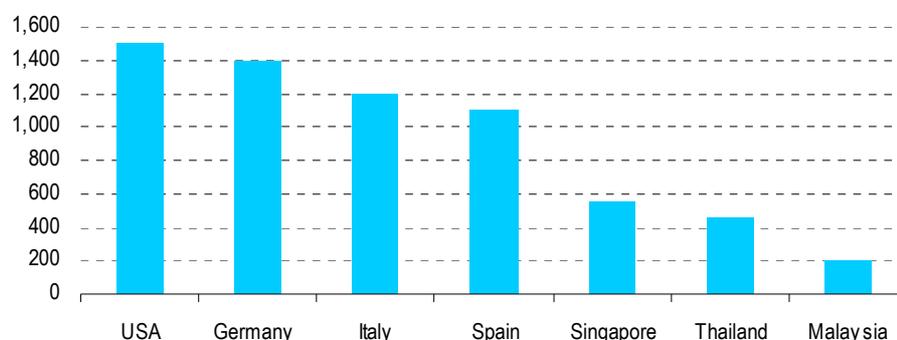
## What to expect in CY11

**Fast-food affiliation boosts retail coverage.** CIH started CY11 on a positive note with the extension of its supply agreement with Marrybrown. CIH services 70% of the fast-food market, which contributes around 7% to annual revenue. Profits are not exciting but the move is positive for branding and is in line with the company's plan to widen its retail coverage. Fast-food outlets, such as Marrybrown, Pizza Hut and KFC, are among CIH's major accounts that also include supermarkets (Tesco, Carrefour, Giant) and convenience stores (petrol stations and 7-Eleven). Supermarkets, sundry shops and school canteens round off the clientele list. In recent years, CIH has been actively enhancing its distribution and now handles the bulk of the distribution itself. Its nationwide retail coverage is expected to grow from 42,000 outlets as at Jun 10 to 45,000 by Jun 11.

**Purple reign.** Hitting the shelves in Dec 10, the Tropicana Twister blackcurrant was CIH's second product launch in FY11 after the rollout of the well-received Revive Lime Burst in 1Q. The sales of Tropicana Twister blackcurrant have been encouraging. The RTD blackcurrant market is now Ribena's turf with an estimated 90% market share and annual revenue of around RM40m. However, CIH is confident of growing the market in CY11. Assuming CIH generates RM15m annual revenue from the new variant, the company could enlarge the RTD blackcurrant segment by 34%. In comparison, the orange and apple variants are believed to have expanded their respective segments by 40% since their launches in Mar 08.

**Significant room for growth.** In Malaysia, the estimated per capita RTD beverage consumption is 200 8-oz servings compared with 550 in Singapore and 450 in Thailand (Figure 2). The local figure is far below the 1,500 recorded by the US, PepsiCo's home ground. We suspect that the low figure in Malaysia is driven by the popularity of restaurant- and stall-made drinks, which limits the growth of RTD beverages. This wide gap suggests substantial room for growth for CIH. Leveraging the strong Tropicana brand, management will roll out more fruit juices under the Tropicana umbrella in the coming years.

Figure 2: Estimated per capita RTD beverage consumption (8-oz serving per person p.a.)



2009 statistics for USA, Germany, Italy and Spain  
2010 statistics for Singapore, Thailand and Malaysia  
Source: Company

Figure 3: P&L analysis (RM m)

FYE 30 Jun	2008	2009	2010	2011F
Revenue	290.2	363.0	516.4	582.5
Operating Profit (EBIT)	52.3	58.5	77.4	92.6
Depreciation	(14.0)	(12.8)	(13.1)	(17.0)
Interest Expenses	(8.7)	(4.9)	(3.2)	(9.9)
Pretax Profit	15.6	28.0	48.1	49.7
Effective Tax Rate (%)	7.1	25.2	20.8	14.0
Net Profit	14.5	21.0	38.2	42.8
Operating Margin (%)	18.0	16.1	15.0	15.9
Pretax Margin (%)	5.4	7.7	9.3	8.5
Net Margin (%)	5.0	5.8	7.4	7.3

Source: Company, CIMB estimates

## Recommendation

**Dividends and M&A.** CIH does not have a dividend policy but targets to pay 30-40% of its net profits as dividends. The dividend payout ratio will be maintained at 30-40% unless the company undertakes M&A activities. For FY11-13, we forecast DPS of 12 sen p.a., giving a decent yield of 3.4%. We have noted before that management is still considering M&As with local food-related companies to capitalise on its improved retail coverage. Currently, CIH does not have any exposure to the food business.

**Maintain BUY.** We maintain our EPS forecasts but raise our target price from RM4.90 to RM5.15 to reflect our revised target market P/E of 14.5x (13.8x previously). After a new net profit high in FY10, the earnings momentum should continue in FY11 given the additional capacity, new products and bigger retail network. We continue to rate CIH a BUY and our top pick in the F&B sector, thanks to the potential share price triggers of 1) an increasingly marketable product line, and 2) M&A. We view the recent share price weakness as a buying opportunity.

Figure 4: Share price chart (RM)



Source: Bloomberg

### Financial summary

FYE Jun	2009	2010	2011F	2012F	2013F
Revenue (RM m)	363.0	516.4	582.5	640.8	704.8
EBITDA (RM m)	45.7	64.4	75.6	69.7	73.5
EBITDA margins (%)	12.6	12.5	13.0	10.9	10.4
Pretax profit (RM m)	28.0	48.1	49.7	55.7	61.5
Net profit (RM m)	21.0	38.2	42.8	47.9	52.9
EPS (sen)	16.2	26.9	30.1	33.7	37.3
EPS growth (%)	+44%	+66%	+12%	+12%	+10%
P/E (x)	21.7	13.1	11.7	10.4	9.4
Gross DPS (sen)	7.0	11.0	12.0	12.0	12.0
Dividend yield (%)	2.0	3.1	3.4	3.4	3.4
P/NTA (x)	4.7	4.4	4.2	4.1	4.0
ROE (%)	21.8	33.5	36.3	39.3	42.0
Net gearing (%)	83.0	73.6	71.7	69.8	67.9
P/CF (x)	13.4	9.7	8.3	7.8	7.3
EV/EBITDA (x)	10.1	7.1	6.1	6.6	6.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.00	0.99	1.00

Source: Company, CIMB Research, Bloomberg

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