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27 January 2011

CI Holdings

Squeeze this stock into your portfolio

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

CIH MK / CIHB.KL

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Results highlights

- **In line; maintain BUY.** CI Holdings' (CIH) 2QFY6/11 net profit of RM11.3m took 1H bottomline to RM23.1m, which accounted for 54% of our full-year forecast and 53% of consensus estimate. We consider it to be broadly in line with expectations as 4Q is expected to be a slow quarter due to the absence of major festivities. Also not surprising is the interim DPS of 5 sen, higher than 1H10's 4 sen. We maintain our EPS forecasts and target price of RM5.15, pegged to an unchanged target market P/E of 14.5x. CIH remains a BUY and our top F&B pick, underpinned by the potential catalysts of 1) increasingly marketable product line, and 3) M&A. We view the recent share price weakness as a buying opportunity.
- **43% net profit growth yoy.** 2Q11 net profit jumped 43% yoy, aided mostly by new capacity and an aggressive distribution drive. The new RM45m production line for non-carbonated drinks in Bangi started its operations in Sep 10 as scheduled. Tropicana Twister blackcurrant, which was unveiled in Dec 10, is produced at the new facility. The extra capacity has also allowed the production of Lipton and Gatorade to be progressively taken back from contract packers to Bangi. Another major growth factor is a wider retail reach. As at Jun 10, CIH's beverages reached 42,000 outlets, an improvement on 36,595 outlets as at Jun 09. Fast-food outlets, hypermarkets and convenience stores make up CIH's major accounts. The company plans to expand its distribution outlets to 45,000 by Jun 11.
- **More fizz from non-carbonated drinks.** The non-carbonated beverages led the double-digit yoy growth, with Tropicana staying as the bestseller. From a 20:80 sales split between non-carbonated and carbonated portfolios a few years ago, non-carbonated drinks made up about 40% of 2Q11 revenue, thanks to the popularity of Tropicana. With the start of the new production line in Sep 10, CIH aims for a 50:50 sales contribution between non-carbonated and carbonated drinks over the next few years.

Key stock statistics

	2010	2011F
FYE 30 Jun		
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	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	30.0	
Continental Theme Sdn Bhd	10.4	
PNB	8.4	

Per share data

	2008	2009	2010	2011F
FYE 30 Jun				
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.

Figure 1: Results comparison (RM m)

FYE Jun	2Q10	2Q11	% Change
Revenue	114.5	146.7	28.1
Operating Profit (EBIT)	47.5	60.4	27.1
Depreciation	n.a	n.a	-
Interest Expenses	(0.9)	(1.3)	46.6
Pretax Profit	10.6	14.8	39.9
Net Profit	7.9	11.3	42.7
<i>Operating Margin</i>	<i>41.5</i>	<i>41.2</i>	<i>(0.7)</i>
<i>Pretax Margin</i>	<i>9.2</i>	<i>10.1</i>	<i>9.2</i>
<i>Net Margin</i>	<i>6.9</i>	<i>7.7</i>	<i>11.4</i>

Source: Company, CIMB estimates

Figure 2: 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
<i>Effective Tax Rate (%)</i>	<i>7.1</i>	<i>25.2</i>	<i>20.8</i>	<i>14.0</i>
Net Profit	14.5	21.0	38.2	42.8
<i>Operating Margin (%)</i>	<i>18.0</i>	<i>16.1</i>	<i>15.0</i>	<i>15.9</i>
<i>Pretax Margin (%)</i>	<i>5.4</i>	<i>7.7</i>	<i>9.3</i>	<i>8.5</i>
<i>Net Margin (%)</i>	<i>5.0</i>	<i>5.8</i>	<i>7.4</i>	<i>7.3</i>

Source: Company, CIMB estimates

Recommendation

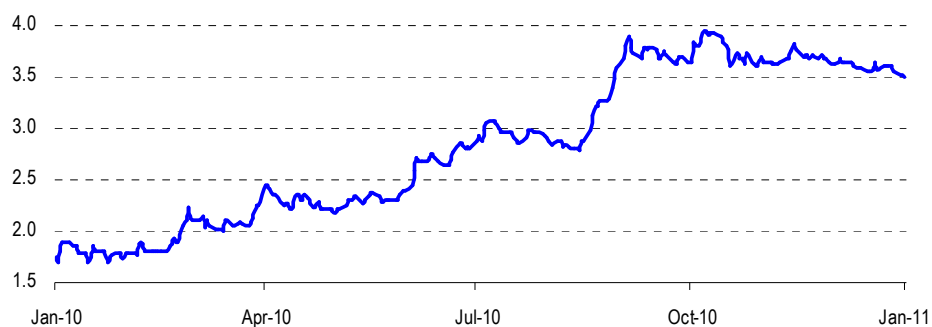
A new product in 2H. Tropicana is currently Malaysia's No. 1 ready-to-drink chilled orange juice brand with 40% market share, followed by Marigold Peel Fresh with 25% and F&N's (FNH MK, Underperform) Sunkist and Fruit Tree with 14%. In the overall orange juice market, which includes chilled and ambient products, CIH still leads the pack with some 25% slice of the market. Hitting the shelves in Dec 10, Tropicana Twister blackcurrant is CIH's second new launch in FY11 after the introduction of Revive Lime Burst in 1Q. We understand that a third new product will be made available in 2H. To recap, in FY10, CIH added three products to its portfolio: Lipton Green Tea 9, Mountain Dew and Mirinda Sarsi.

Encouraging CNY sales. 3Q is set to be a commendable quarter due to a well-received Chinese New Year (CNY) promotional campaign and the first full-quarter contribution from Tropicana Twister blackcurrant. Management indicated that CNY sales of both carbonated and non-carbonated drinks have been encouraging so far. Following the CNY sales in 3Q, we expect 4Q to be a relatively modest quarter due to the absence of major festivities.

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. We forecast a 3-year EPS CAGR of 11.5% excluding potential takeover moves.

Maintain BUY. We maintain our EPS forecasts and target price of RM5.15, pegged to 14.5x P/E which is in line with our target market P/E. After a new net profit high in FY10, the earnings momentum should continue in FY11 given the additional capacity, new products and bigger distribution 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 3: 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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