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Company Update

CI Holdings

BUY ↔

Target
Previous
Price

RM4.37
RM4.47
RM3.60

CONSUMER

CI Holdings is the exclusive bottler for PepsiCo as well as a manufacturer of tapware and sanitary ware fittings.

Stock Statistics

Bloomberg Ticker	CIH MK
Share Capital (m)	142.0
Market Cap (RMm)	511.2
52 week H L Price (RM)	4.00 1.70
3mth Avg Vol ('000)	83.0
YTD Returns	-1.4
Beta (x)	0.85

Major Shareholders (%)

Bin Abdul Ghani Johari	30
Continental Theme SB	10.44
PNB	8.24

Share Performance (%)

Month	Absolute	Relative
1m	-0.6	-2.0
3m	-6.3	-7.0
6m	25.2	10.9
12m	120.6	65.6

6-month Share Price Performance



No More Subsidized Sugar

During the analyst briefing yesterday, other than explaining that the good results were mainly driven by Mountain Dew, Revive Lime Burst, Tropicana twister and base carbonated drinks, the management also gave us insight that they have put in measures to mitigate the higher sugar price since CI (amongst other big beverage players) is no longer eligible for subsidized sugar. After factoring in the higher sugar price, slight retail price increase and minimal internal cost control, our FY11 and FY12 earnings is reduced by 2.3% - 3.1% to RM41.3m and RM47.0m respectively. Our TP is hence reduced accordingly from RM4.47 to RM4.37 which is based on 15x FY11.

A good 1HFY11 results. During the analyst briefing, management explained that the good 1HFY11 numbers (sales +26%; net profit +43% y-o-y) were mainly due to (i) successful execution of promotional campaigns (ii) strong growth in newly launched products such as Mountain Dew and Revive Lime Burst as well as (iii) the continued growth in the non-carbonated portfolio especially market leading Tropicana Twister. Although Tropicana Twister Blackcurrant's sales has been encouraging since its launch in Dec 2010, it has minimal contribution to 1HFY11 results. Management indicated that there will be one more new launch in FY11. Going forward, we believe that the non-carbonated which currently accounts for 40% of its sales would grow strongly riding on the high demand and by leveraging on the recently commissioned new production capacity.

Preempting higher sugar price. Effective Jan 2011, the nations top 13 big beverage players, including CI, are no longer eligible for subsidized sugar. Although management warned that margins could come under pressure in the coming quarters, the group has identified various measures to mitigate the impact. The measures include (i) driving mix shift to profitable products/channels/ packages (ii) cost control to fully leverage economies of scale (iii) driving incremental volume growth (iv) selectively increase the retail price for certain products and/or control trade promotions. Despite the past 3 rounds of sugar price hike since 2QFY10 when the sugar price was at RM1.45, CI's EBIT margin hovered above 9.6%, thanks to the stronger RM against USD, favourable mix shift (higher demand for non-carbonated and bottle products) and economies of scale. To fully mitigate the impact of the most recent sugar price hike to open market pricing, CI would needs to either increase retail selling price by 4% or increase sales volume by 18.5%.

Impact should be minimal. After factoring in the higher sugar price of RM2.50-RM2.60/kg, slight retail price increase of 1%-2% and minimal internal cost control, our FY11 and FY12 earnings is reduced by 2.3% - 3.1% to RM41.3m and RM47.0m respectively. Our TP is hence reduced accordingly from RM4.47 to RM4.37 which is based on 15x FY11.

FYE Jun (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	290.5	363.0	516.4	600.0	682.7
Net Profit	14.5	21.0	38.2	41.3	47.0
% chg y-o-y	84.9	44.2	82.0	8.3	13.7
Consensus				42.8	48.5
EPS (sen)	10.2	14.8	26.9	29.1	33.1
DPS (sen)	4.0	7.0	11.0	11.6	13.2
Dividend yield (%)	1.1	1.9	3.1	3.2	3.7
ROE (%)	14.0	15.8	23.7	22.2	21.9
ROA (%)	5.5	7.1	9.8	9.5	9.8
PER (x)	35.1	24.4	13.4	12.4	10.9
BV/share (RM)	0.73	0.93	1.14	1.31	1.51
P/BV (x)	5.7	4.9	3.9	3.2	2.7
EV/ EBITDA (x)	26.2	18.3	12.1	9.2	8.4

EARNINGS FORECAST

FYE Jun (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	290.5	363.0	516.4	600.0	682.7
EBITDA	31.5	45.5	62.7	68.5	79.3
PBT	15.5	28.1	48.2	52.2	59.4
Net Profit	14.5	21.0	38.2	41.3	47.0
EPS (sen)	10.2	14.8	26.9	29.1	33.1
DPS (sen)	4.0	7.0	11.0	11.6	13.2
Margin					
EBITDA (%)	10.9	12.5	12.1	11.4	11.6
PBT (%)	5.4	7.7	9.3	8.7	8.7
Net Profit (%)	5.0	5.8	7.4	6.9	6.9
ROE (%)	14.0	15.8	23.7	22.2	21.9
ROA (%)	5.5	7.1	9.8	9.5	9.8
Balance Sheet					
Fixed Assets	88.8	85.7	125.3	161.5	173.7
Current Assets	118.0	155.6	210.6	229.9	275.4
Total Assets	263.2	294.9	388.4	433.7	482.1
Current Liabilities	122.3	120.9	165.6	185.0	205.2
Net Current Assets	141.0	174.0	222.8	248.7	276.9
LT Liabilities	36.7	40.1	61.4	62.5	62.5
Shareholders Funds	104.2	132.8	161.4	186.2	214.4
Net Gearing (%)	63.8	29.0	41.1	33.6	20.6

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