

Corporate Highlights

Results Note

27 January 2011

C.I. Holdings

1HFY06/11 Earnings Grew 43% Yoy

Share Price : RM3.51
 Fair Value : RM4.90
 Recom **Outperform**
 (Maintained)

Table 1 : Investment Statistics (CIHLDG; Code: 2828)

Bloomberg: CIH MK

FYE	Turnover	Net				Net						
		profit	EPS	Growth	PER	C.EPS*	P/NTA	Gearing	P/CF	ROE	GDY	
June	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(x)	(%)	(%)	
2010a	516.4	38.1	26.8	65.7	14.0	-	4.7	0.34	13.9	25.7	3.5	
2011f	623.1	49.5	34.8	29.8	10.1	31.0	4.1	13.2	0.2	27.5	3.0	
2012f	734.8	57.3	40.4	15.9	8.7	36.0	4.0	6.6	net	26.4	3.5	
2013f	860.7	64.4	45.3	12.3	7.7	37.0	3.9	4.3	net	24.8	3.9	

Main Board Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC

* Consensus Based On IBES Estimates

◆ **In line.** CI Holdings (CIH) 1HFY06/11 net profit of RM23.1m was in line with our but above consensus estimates, accounting for 46.1% of our and 52.4% of consensus full year earnings forecasts. We consider this to be in line with our forecast as historically, the first half of the FY usually accounts for 43-45% of overall net profit, due to seasonal factors in the 2H.

◆ **Dividends.** CIH announced a first interim dividend of 5 sen less 25% tax, or 3.75 sen net, which translates to a 23% net payout of its 1HFY06/11 earnings. The net payout is actually lower than our assumption of 30% for the whole year, although we are keeping it unchanged, in line with management's target of 30-35% net payout target. We believe that CIH's final dividend would fully reflect the target, as it did in FY10.

◆ **Performance review.** 1HFY06/11 net profit grew 43% on the back of a 26% growth in revenues. Revenue growth was driven mainly by its beverage division, which grew by 26.1%, while its tap and sanitary ware division grew by 25%, albeit coming from a low base. The strong earnings growth was a result of CIH's improved EBIT margin of 10.9% (1HFY10:9.8%). We believe that the improved EBIT margin was partially due to higher production volume for its beverage division resulting in better economies of scale as well as the change in product mix to more non-carb products.

◆ **Juicy 3Q prospects.** We are excited about CIH's 3Q prospects as we expect its earnings to be boosted by the festive season namely Chinese New Year. Recall in our initiation report dated 18 Nov 2010, we highlighted that CIH's newly installed non-carb production line which came on-stream in Sept, would be able to address seasonal capacity constraints, thus allowing CIH to be able to capitalise more on the seasonal jumps in demand such as the upcoming CNY celebrations. In previous years, CIH had to outsource part of its production to third party manufacturers due to the capacity constraints, putting pressure on margins.

◆ **Risks.** The risks include: 1) significant drop in demand; 2) significant increase in raw material prices such as crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.

◆ **Forecasts.** We are leaving our forecasts unchanged.

◆ **Investment case.** Our fair value remains unchanged at RM4.90 based on 13x target CY11 PER. Maintain **Outperform**.

RHBRI	Vs.	Consensus
✓	Above In Line Below	✓

Issued Capital (m shares)	142.0
Market Cap (RMm)	498.4
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	1.7-4.0

Major Shareholders:	(%)
Datuk Johari Abdul Ghani	30.0
Continental Theme	10.4
PNB	8.2

FYE June	FY10	FY11	FY12
EPS chg (%)	-	-	-
Var to Cons (%)	2.3	0.0	8.6

PE Band Chart



Relative Performance To FBM KLCI



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Table 2. CI Holdings Quarterly Results Review

FYE Jun	2Q10	1Q11	2Q11	QoQ	YoY	1H10	1H11	YoY	Comments
	RMm	RMm	RMm	%	%	RMm	RMm	%	
Revenue	114.5	153.6	146.7	(4.5)	28.1	238.3	300.2	26.0	Overall 1H revenue growth was mainly driven by growth in the beverage division, which grew by 26.1% yoy Refer to gross margin
Gross profit	47.5	61.1	60.4	(1.1)	27.1	96.4	121.5	26.1	
Other op income	0.7	1.3	1.4	6.5	99.7	1.1	2.4	120.9	
EBIT	11.5	16.5	16.2	(2.3)	40.4	23.4	32.7	39.5	Refer to EBIT margin
Finance costs	(0.9)	(1.1)	(1.3)	26.7	46.6	(1.8)	(2.4)	30.2	
PBT	10.6	15.5	14.8	(4.3)	39.9	21.6	30.3	40.2	
Tax	(2.7)	(3.7)	(3.5)	(4.5)	30.1	(5.5)	(7.3)	31.8	
<i>Tax rate</i>	<i>(25.7)</i>	<i>(24.0)</i>	<i>(23.9)</i>	<i>0.1</i>	<i>1.8</i>	<i>(25.5)</i>	<i>(23.9)</i>	<i>1.5</i>	Lower than statutory tax rate due to reinvestment allowance.
Minority int	(0.0)	(0.0)	(0.0)	(41.7)	(79.4)	(0.0)	(0.0)	(40.6)	
Net profit	7.9	11.8	11.3	(4.2)	42.7	16.1	23.1	43.0	
Margins (%)									
Gross	41.5	39.8	41.2	1.4	-0.3	40.4	40.5	0.0	Gross margin remained flat. EBIT margin expanded by 1.1%-pts, arising from better economies of scale as a result of improved production volume for its beverage division as well as change in prdt mix to more non-carb products
EBIT	10.0	10.8	11.0	0.3	1.0	9.8	10.9	1.1	
PBT	9.2	10.1	10.1	0.0	0.9	9.1	10.1	1.0	
Net profit	6.9	7.7	7.7	0.0	0.8	6.8	7.7	0.9	

Source: Company, RHBRI estimates

Table 3. Earnings Forecasts

FYE Jun (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	516.4	623.1	734.8	860.7
Turnover growth (%)	42.3	20.7	17.9	17.1
Cost of Sales	(304.6)	(364.8)	(432.0)	(511.6)
Gross Profit	211.8	258.3	302.8	349.2
EBITDA	64.8	85.2	99.4	106.3
EBITDA margin (%)	12.6	13.7	13.5	12.3
Depr&Amor	13.6	18.8	23.3	21.6
Net Interest	(3.2)	(3.1)	(2.7)	(2.2)
Pretax Profit	48.0	63.3	73.4	82.4
Tax	(10.0)	(13.9)	(16.2)	(18.1)
Net Profit	38.1	49.5	57.3	64.4

Source: Company, RHBRI Estimates

Table 4. Forecast Assumptions

FYE Jun	FY11F	FY12F	FY13F
Carb-lines	4.00	4.00	4.00
Utilisation	75%	85%	97%
Non-carb lines	3	3	3
Utilisation	46%	57%	69%

Source: Company, RHBRI

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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