Malaysia
MARKET DATELINE ● PP 7767/09/2011(028730)

RHB
RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

Corporate Highlights

Briefing Note

22 April 2011

C.I. Holdings

Uncertainty Lies Ahead

Share Price	:	RM2.94
Fair Value	:	RM3.30
Recom		**Market Perform** (Maintained)

Table 1 : Investment Statistics (CIHLDG; Code: 2828) — **Bloomberg: CIH MK**

FYE June	Turnover (RMm)	Net profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Net Gearing (x)	P/CF (x)	ROE (%)	GDY (%)
2010a	516.4	38.1	26.8	65.7	14.0	-	4.7	0.34	13.9	25.7	3.5
2011f	616.3	39.2	27.6	2.8	10.7	30.0	4.1	17.4	0.3	22.2	2.8
2012f	725.8	38.6	27.2	-1.6	10.8	34.0	4.0	9.9	net cash	19.0	2.8
2013f	860.0	40.5	28.5	5.1	10.3	37.0	3.9	7.2	net cash	17.5	2.9

Main Market Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC — ** Consensus Based On IBES Estimates*

- **Weak festive revenues due to slightly earlier timing of CNY, amongst other reasons.** During the analyst's briefing yesterday, management explained the reason for the flattish revenue growth of 1.7% yoy and -4.5% qoq during the 3Q, i.e. the festive season. The timing of the CNY which was earlier this year played a part in the weak yoy and also the decline in qoq revenues. Given that CNY trade activities usually begin six to eight weeks ahead of CNY itself, the earlier timing of CNY this year (as compared to last year) of two weeks caused quite a sizeable CNY trade volume to be reflected in Dec 2010 (2QFY11).
- **Contracting gross margins.** The higher sugar cost could be seen from CIH's gross margins in the 3QFY06/11, which contracted by 3.9%-pts qoq to 37.3%. We understand that the sugar price impact could be mitigated by an average price increase of 3-5% across the board for CIH's beverage division, although given that CIH is not generally the price leader, it would wait for competitors such as F&N and Coca-Cola to raise prices before it will.
- **Tweaking trade discounts.** As mentioned, CIH at the end of the 3QFY06/11 (Mar) started "tweaking" its trade discounts to mitigate the impact of the sugar price increase. Note that trade discounts are discounts of about 7-8% generally given to wholesalers and other distributors. We understand that CIH is trying to mitigate the impact of the higher sugar prices by selectively reducing the discounts to protect its margins.
- **Impact uncertain.** As mentioned above, given our view on the uncertain outcome of CIH's tweaking of its trade discounts, we are taking a conservative stance on the matter by reducing slightly our revenue growth assumptions for CIH's beverage division for FY11-13 by 0.7-2.3% to account for potential volume drop as a result of the tweaking of trade discounts. Given the uncertain outlook pertaining to the impact on margins, we are keeping our cost assumptions unchanged. In the long run, we believe that the only way for CIH to protect its margins is by a selling price increase, although due to the competitive reasons mentioned, we believe that it will only happen once the other players raise prices.
- **Risks.** The risks include: 1) significant rise in sales volume; 2) significant decrease in raw material prices like crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.
- **Forecasts.** After imputing our new revenue growth assumptions, our FY11-13 earnings were downgraded by 0.7-9%.
- **Maintain Market Perform.** Given the uncertain outlook of its revenue growth due to the trade discount–adjustments, we are reducing our CY11 target PER for CIH to 12x (from 13x previously), which is the high end of CIH's historical PE range of 8-12x over the last 5 years. Our fair value is thus reduced to RM3.30 (from RM3.88 previously). We maintain our **Market Perform** call on the stock. Rerating catalysts would be a price increase across the board of 3-5%.

Issued Capital (m shares)	142.0
Market Cap (RMm)	412.5
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	2.09-4.0
Major Shareholders:	**(%)**
Datuk Johari Abdul Ghani	30.0
Continental Theme	10.4
PNB	8.2

FYE June	FY11	FY12	FY13
EPS chg (%)	(7.3)	(9.3)	(0.7)
Var to Cons (%)	(8.0)	(20.0)	(27.0)

PE Band Chart

Relative Performance To FBM KLCI

Hoe Lee Leng
(603) 92802641
hoe.lee.leng@rhb.com.my

Key takeaways from analysts briefing

- **Weak festive revenues due to slightly earlier timing of CNY, amongst other reasons.** During the analyst's briefing yesterday, management explained the reason for the flattish revenue growth of 1.7% yoy and -4.5% qoq during the 3Q, i.e. the festive season. The timing of the CNY which was earlier this year played a part in the weak yoy and also the decline in qoq revenues. Given that CNY trade activities usually begin six to eight weeks ahead of CNY itself, the earlier timing of CNY this year (as compared to last year) of two weeks caused quite a sizeable CNY trade volume to be reflected in Dec 2010 (2QFY11). Furthermore, we understand that due to the higher sugar costs, CIH "tweaked" some of its trade discounts in an effort to mitigate the higher sugar costs in March after the festive season. We believe that this caused some volume weakness in March, although it can also be argued that the weaker sales in March was due to the after effects of heavy trade loading by wholesalers taking advantage of the festive season's trade discounts. Another reason for the weak revenues, albeit on a less significant level, was the unusually high level of rainfall during March. The high level of rainfall, which resulted in floods for a few areas in the country caused some logistics issues for distribution, although we believe the impact was minimal.

- **Contracting gross margins.** Another key issue that was raised during the analyst briefing was the higher sugar cost structure that affected CIH and 13 other beverage manufacturers, which was implemented beginning Jan 1. In brief, the beverage manufacturers which include CIH, F&N, Coca-cola, among others, were no longer allowed to purchase subsidised sugar. Subsidised sugar price is currently RM2.10/kg while unsubsidised sugar is RM2.62/kg. Note that we have an extensive explanation pertaining to the sugar issue in our CIH report dated 28 Jan. The higher sugar cost could be seen from CIH's gross margins in the 3QFY06/11, which contracted by 3.9%-pts qoq to 37.3%. We understand that the sugar price impact could be mitigated by an average price increase of 3-5% across the board for CIH's beverage division, although given that CIH is not generally the price leader, it would wait for competitors such as F&N and Coca-Cola to raise prices before it follows suit. We don't expect a price increase in the short term, as competitors such as F&N have other products to fall back on to boost the overall group margins such as their dairy products, while for Coca-Cola, given that it is still being bottled by F&N, we believe that any price increase would be done after their separation from F&N in October 2011.

- **Tweaking trade discounts.** As mentioned, CIH at the end of the 3QFY06/11 (Mar) started "tweaking" its trade discounts to mitigate the impact of the sugar price increase. Note that trade discounts are discounts of about 7-8% generally given to wholesalers and other distributors. We understand that CIH is trying to mitigate the impact of the higher sugar prices by selectively reducing the discounts to protect its margins. Given that it only started tweaking after the festive season, we understand that it is still too early to gauge the impact on both revenues and margins. Assuming the method does work on margins, we believe it could put downward pressure on CIH's revenues, especially if some wholesalers/retailers refuse to take the lesser discount and not carry CIH's products.

- **Impact uncertain.** As mentioned above, given our view on the uncertain outcome of CIH's tweaking of its trade discounts, we are taking a conservative stance on the matter by reducing slightly our revenue growth assumptions for CIH's beverage division for FY11-13 by 0.7-2.3% to account for potential volume drop as a result of the tweaking of trade discounts. Given the uncertain outlook pertaining to the impact on margins, we are keeping our cost assumptions unchanged. In the long run, we believe that the only way for CIH to protect its margins is by a selling price increase, although due to the competitive reasons mentioned, we believe that it will only happen once the other players raise prices.

- **New PET line by mid-2012.** Besides the issue of the higher cost, management also indicated that they are going to add a new carbonated PET line which will come in by mid-2012. The new carbonated PET line would incur approximately RM20-25m in capex and is expected to increase CIH's carbonated PET capacity by ~30-40%. We are thus increasing our capex assumptions for FY06/12 to RM35m (from RM12m previously) to include the cost of the new line, while we have also imputed the new capacity into our forecast for FY06/13. Note that this would be the last major capex for CIH in the coming years.

Forecasts

- **Forecasts.** After imputing our new revenue growth and capex assumptions, our FY11-13 earnings were downgraded by 0.7-9%.

Risks

- **Risks to our view.** The risks include: 1) significant rise in sales volume; 2) significant decrease in raw material prices like crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.

Valuations and recommendations

- **Maintain Market Perform.** Given the uncertain outlook of its revenue growth due to the trade discount adjustments, we are reducing our CY11 target PER for CIH to 12x (from 13x previously), which is the high end of CIH's historical PE range of 8-12x over the last 5 years. Our fair value is thus reduced to RM3.30 (from RM3.88 previously). We maintain our **Market Perform** call on the stock. Rerating catalysts would be a price increase across the board of 3-5%.

Table 2. Earnings Forecasts

FYE Jun (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	**516.4**	**616.3**	**725.8**	**860.0**
Turnover growth (%)	42.3	19.3	17.8	18.5
Cost of Sales	(304.6)	(373.3)	(449.9)	(541.7)
Gross Profit	211.8	243.0	275.9	318.4
EBITDA	**64.8**	**72.0**	**75.3**	**75.7**
EBITDA margin (%)	12.6	11.7	10.4	8.8
Depr&Amor	13.6	18.8	23.3	21.6
Net Interest	(3.2)	(3.1)	(2.7)	(2.2)
Pretax Profit	**48.0**	**50.1**	**49.3**	**51.9**
Tax	(10.0)	(11.0)	(10.9)	(11.4)
Net Profit	**38.1**	**39.2**	**38.6**	**40.5**

Source: Company, RHBRI Estimates

Table 3. Forecast Assumptions

FYE Jun	FY11F	FY12F	FY13F
Carb-lines	4.00	4.00	4.00
Utilisation	75%	85%	75%
Non-carb lines	3	3	3
Utilisation	45%	56%	69%

Source: Company, RHBRI

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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