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27 August 2009

CI Holdings

Tropicana adds tang to a record year

RECOM	Buy
PRICE	RM1.18
MKT CAPITALISATION	RM197.7m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	None

CIH MK / CIHB.KL

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Results highlights

- **Above expectations.** As previewed, CI Holdings' (CIH) 4Q net profit of RM7.3m beat expectations, leading the full-year bottomline to a record RM21m (+44% yoy) or 10% above our forecast and 14% above consensus. CIH also surprised on the dividend front. It announced a final DPS of 5 sen, which took full-year DPS to 7 sen (yield: 5.9%), surpassing our forecast of 6 sen and consensus of 5.5 sen.
- **Juicy 4Q.** 4Q net profit, which made up 35% of the full-year amount, is the company's 12th straight quarter of profits. Much of the contribution in 4Q came from the strong response to the Tropicana orange and apple juices launched in Mar 08. We estimate that Tropicana, which is a PepsiCo product, contributed 19% to CIH's FY09 net profit. Tropicana is the first venture into the juice segment by CIH's wholly-owned Permanis. We understand that Tropicana currently leads the fruit juice market with a 26% share, followed by Marigold with 21%.
- **Improved distribution.** Another contributing factor is the reduction of middleman fees as CIH now handles the bulk of the distribution itself. Its products ultimately reach 36,595 outlets nationwide, ranging from major accounts such as supermarkets (Tesco, Carrefour and Giant), fast-food outlets (KFC and Pizza Hut) and convenience stores (petrol stations and 7-Eleven) to supermarkets and school canteens. Net margin improved from 5% in FY08 to 5.8% in FY09.
- **Maintain BUY.** Taking our cue from the strong FY09 performance, we raise our EPS forecasts by 17.5% for FY10 and 23.3% for FY11, and increase our DPS forecasts from 6 sen to 7 sen each year in FY10-11. The EPS upward adjustments push our target price from RM1.64 to RM1.98, still pegged to a forward P/E of 15x, which matches our target market P/E. CIH remains firmly a BUY as the stock could be in for a re-rating given its impressive FY09 performance and a stronger product line. CIH stands out in our F&B portfolio with its single-digit P/E valuations against double-digit EPS growth. The dividend yield of 5.9% is an additional attraction (Figure 4).

Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	11.2	12.6
P/E (x)	10.5	9.4
Dividend/Share (sen)	7.0	7.0
NTA/Share (RM)	0.8	0.8
Book Value/Share (x)	0.8	0.8
Issued Capital (m shares)	167.6	167.6
52-weeks Share Price Range (RM)	RM0.80/RM1.33	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	27.0	
ASB	15.7	
Continental Theme Sdn Bhd	11.1	

Per share data

	2007	2008	2009	2010F
FYE 30 Jun				
Book Value (RM)	0.7	0.7	0.8	0.8
Cash Flow (sen)	16.1	22.0	21.5	23.6
Earnings (sen)	6.0	7.8	11.2	12.6
Dividend (sen)	0.0	4.0	7.0	7.0
Payout Ratio (%)	0.0	37.0	44.9	40.1
P/E (x)	19.6	15.2	10.5	9.4
P/Cash Flow (x)	7.3	5.4	5.5	5.0
P/Book Value (x)	1.8	1.7	1.5	1.4
Dividend Yield (%)	0.0	3.4	5.9	5.9
ROE (%)	9.0	15.9	15.6	16.9
Net Gearing (%)	83.4	83.2	59.6	60.1

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	4Q08	4Q09	% Change
Revenue	69.8	95.9	37.5
Operating Profit (EBIT)	23.2	41.7	80.0
Depreciation	n.a	n.a	-
Interest Expenses	(1.2)	(1.1)	(4.9)
Pretax Profit	3.2	10.4	222.0
Net Profit	5.0	7.3	45.9
Operating Margin	33.2	43.5	30.9
Pretax Margin	4.6	10.9	134.2
Net Margin	7.2	7.6	6.1

Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

FYE 30 Jun	2007	2008	2009	2010F
Revenue	267.0	290.2	363.0	435.6
Operating Profit (EBIT)	38.1	52.3	67.2	69.0
Depreciation	(13.0)	(14.0)	(15.0)	(16.0)
Interest Expenses	(4.9)	(8.7)	(9.2)	(9.7)
Pretax Profit	7.3	15.6	28.0	27.3
Effective Tax Rate (%)	(7.5)	7.1	25.2	14.0
Net Profit	7.8	14.5	21.0	23.5
Operating Margin (%)	14.3	18.0	18.5	15.8
Pretax Margin (%)	2.7	5.4	7.7	6.3
Net Margin (%)	2.9	5.0	5.8	5.4

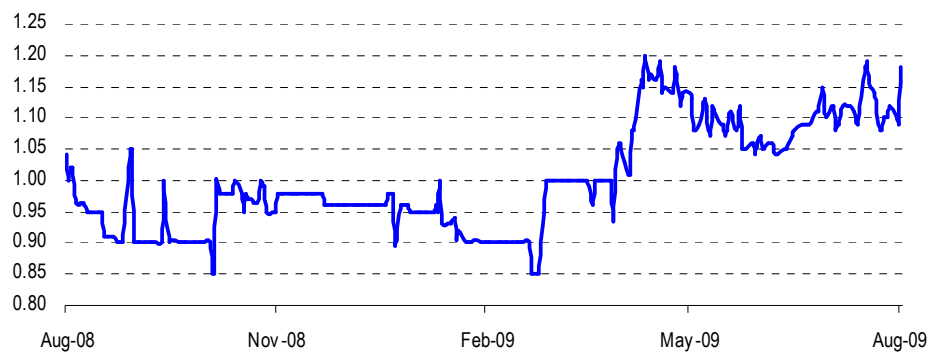
Source: Company, CIMB estimates

Recommendation

More chillers nationwide. Brand visibility and product accessibility will be further improved. Currently, 12,000 Pepsi and Tropicana chillers pepper the nation, up from around 10,000 in Oct 08. This improvement is commendable but there is definitely more room for growth given CIH's distribution network of 36,595 outlets.

Small treats. We project GDP growth to decelerate to 3% in 2009 before picking up to 3.5% in 2010. While it is true that consumers are likely to be more cautious with their spending this year, CIH may not be much affected as some 80% of its volume consists of products that retail at RM2 or less, ideal for cost-conscious consumers who want to indulge in small treats.

Maintain BUY. Taking our cue from the strong FY09 performance, we raise our EPS forecasts by 17.5% for FY10 and 23.3% for FY11, and increase our DPS forecasts from 6 sen to 7 sen each year in FY10-11. The EPS upward adjustments push our target price from RM1.64 to RM1.98, still pegged to a forward P/E of 15x, which matches our target market P/E. CIH remains firmly a BUY as the stock could be in for a re-rating given its impressive FY09 performance and a stronger product line. CIH stands out in our F&B portfolio with its single-digit P/E valuations against double-digit EPS growth. The dividend yield of 5.9% is an additional attraction.

Figure 3: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (RM m)	290.2	363.0	435.6	522.7	632.5
EBITDA (RM m)	38.3	52.2	53.0	56.0	47.1
EBITDA margins (%)	13.2	14.4	12.2	10.7	7.5
Pretax profit (RM m)	15.6	28.0	27.3	30.1	33.1
Net profit (RM m)	14.5	21.0	23.5	25.9	28.5
EPS (sen)	11.2	12.5	14.0	15.5	17.0
EPS growth (%)	+86%	+12%	+12%	+10%	+10%
P/E (x)	10.5	9.4	8.4	7.6	6.9
FD EPS (sen)	7.8	11.2	12.6	13.9	15.2
FD P/E (x)	15.2	10.5	9.4	8.5	7.8
Gross DPS (sen)	4.0	7.0	7.0	7.0	7.0
Dividend yield (%)	3.4	5.9	5.9	5.9	5.9
P/NTA (x)	1.7	1.5	1.4	1.4	1.3
ROE (%)	15.9	15.6	16.9	18.1	19.3
Net gearing (%)	83.2	59.6	60.1	59.0	57.7
P/CF (x)	5.4	5.5	5.0	4.6	4.4
EV/EBITDA (x)	4.1	3.0	3.0	2.8	3.3
% change in EPS estimates			17.5	23.3	-
CIMB/Consensus (x)			1.20	1.06	-

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

Figure 4: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x)		3-yr EPS CAGR (%)	P/BV (x)	ROE (%)	Div yield (%)
						CY2009	CY2010				
CI Hldgs	CIH MK	B	1.18	1.95	56	9.9	8.6	10.6	1.4	16.2	5.9
F&N Hldgs	FNH MK	U	9.60	6.70	971	15.7	18.2	3.8	3.3	20.9	5.6
Nestle (M)	NESZ MK	U	34.00	29.10	2,262	21.3	20.4	6.2	19.8	92.0	7.6
QSR	QSR MK	O	2.77	5.30	225	8.1	7.3	11.9	1.7	21.1	4.3
Simple average						13.8	13.6	8.1	6.6	37.6	5.9

O = Outperform, N = Neutral, U = Underperform, B = Buy, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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