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4 November 2009

CI Holdings

An appetising starter

RECOM	Buy
PRICE	RM1.56
MKT CAPITALISATION	RM221.5m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	None

CIH MK / CIHB.KL

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Results highlights

- Above expectations; maintain BUY.** CI Holdings (CIH) had a juicy start to FY6/10, with 1Q net profit surging 83% yoy and 11% qoq to RM8.1m, which works out to 35% of our full-year forecast and consensus estimate. Although 1Q benefited from a seasonal boost from Hari Raya stocking-up by retailers, we still consider the performance to be above expectations. The absence of an interim dividend was expected. Taking our cue from the strong 1Q performance, we raise our EPS forecasts by 14.0% for FY10, 15.5% for FY11 and 17% for FY12 and increase our FY10-12 DPS forecasts from 7 sen to 8 sen. Note that we are also revising our fully enlarged share base assumptions from 187m to 142m as some of its warrants expired unconverted. The EPS upgrades, a smaller share base and the rollover of our valuation horizon to CY11 push our target price from RM1.98 to RM2.46 even though we now peg it to a 20% discount (previously zero) to our 15x target market P/E to factor in the stock's relatively low liquidity. CIH remains firmly a BUY as the stock could be in for a re-rating given an increasingly marketable product line. The dividend yield of 5.1% is an additional attraction.
- Tropicana and Lipton Tea lead the markets.** Much of the earnings surge in 1Q came from the strong response to the Tropicana fruit juices and Lipton Tea range. Launched in Mar 08, Tropicana, a PepsiCo brand, is leading the chilled ready-to-drink (RTD) juice segment with a market share of 32%, followed by Marigold Peel Fresh with 30% share and Sunkist with a 13% slice of the market. Lipton Tea is also a leader in the RTD tea market with some 30% market share.
- Shift to non-carbonated drinks.** 90% of CIH's revenue comes from the beverage business while the remaining 10% comes from the sanitary and tapware business. Capitalising on the rising consumer demand for non-carbonated beverages, CIH has launched new Tropicana variants (i.e. Tropicana 100% Pure Premium Orange Juice) and Gatorade sports drinks (i.e. Gatorade Grapefruit and Gatorade Tiger). Currently, the revenue split between non-carbonated and carbonated drinks stands at 35:65 but it is expected to hit 50:50 in two years' time.

Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	14.8	18.3
P/E (x)	10.5	8.5
Dividend/Share (sen)	7.0	8.0
NTA/Share (RM)	0.7	0.8
Book Value/Share (x)	0.7	0.8
Issued Capital (m shares)	129.6	142.0
52-weeks Share Price Range (RM)	RM0.85/RM1.52	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	27.0	
ASB	15.3	
Continental Theme Sdn Bhd	11.1	

Per share data

	2007	2008	2009	2010 F
FYE 30 Jun				
Book Value (RM)	0.7	0.7	0.7	0.8
Cash Flow (sen)	16.1	22.0	27.8	29.6
Earnings (sen)	6.0	10.2	14.8	18.3
Dividend (sen)	0.0	4.0	7.0	8.0
Payout Ratio (%)	0.0	28.1	34.1	31.5
P/E (x)	25.9	15.2	10.5	8.5
P/Cash Flow (x)	9.7	7.1	5.6	5.3
P/Book Value (x)	2.3	2.2	2.1	1.9
Dividend Yield (%)	0.0	2.6	4.5	5.1
ROE (%)	9.0	15.9	21.8	22.8
Net Gearing (%)	83.4	83.2	83.0	73.6

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	1Q09	1Q10	% Change
Revenue	90.5	123.8	36.8
Operating Profit (EBIT)	34.0	48.8	43.7
Depreciation	n.a	n.a	-
Interest Expenses	(1.2)	(0.9)	(24.5)
Pretax Profit	5.7	10.9	90.8
Net Profit	4.4	8.1	82.8
Operating Margin	37.6	39.5	5.0
Pretax Margin	6.3	8.8	39.5
Net Margin	4.9	6.6	33.7

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	71.9
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	30.2
Effective Tax Rate (%)	(7.5)	7.1	25.2	14.0
Net Profit	7.8	14.5	21.0	26.0
Operating Margin (%)	14.3	18.0	18.5	16.5
Pretax Margin (%)	2.7	5.4	7.7	6.9
Net Margin (%)	2.9	5.0	5.8	6.0

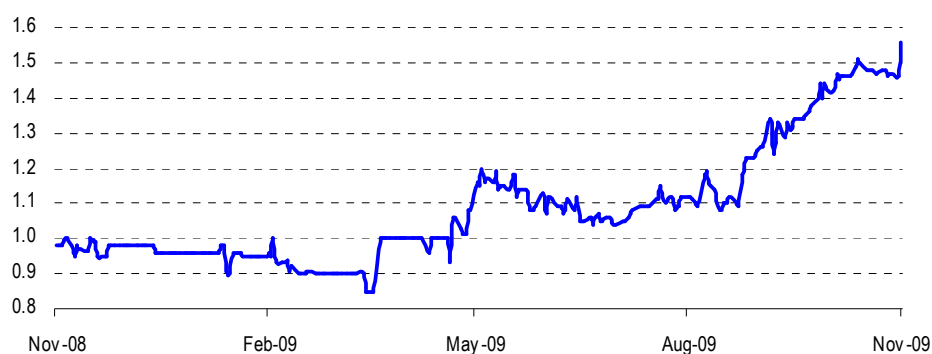
Source: Company, CIMB estimates

Recommendation

Improved distribution. Another contributing factor to the strong earnings 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 hypermarkets (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 4.9% in 1Q09 to 6.6% in 1Q10.

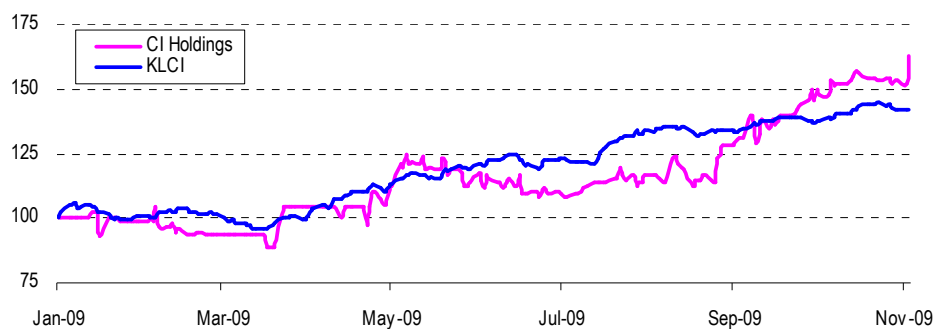
Share price jump is justified. YTD, the share price has risen by 63%, outperforming the FBM KLCI by 21% (Figure 4). In our view, the share price increase reflects investors' recognition of the strategic direction that CIH is taking and management's dynamism which has been instrumental in turning around this once debt-ridden company. 1Q10 is CIH's 13th consecutive quarter of profits.

Maintain BUY. Taking our cue from the strong 1Q performance, we raise our EPS forecasts by 14.0% for FY10, 15.5% for FY11 and 17% for FY12 and increase our DPS forecasts from 7 sen to 8 sen each year in FY10-12. Note that we are also revising our fully enlarged share base assumptions from 187m to 142m as some warrants expired unconverted. The EPS upgrades, a smaller share base and the rollover of our valuation horizon to CY11 push our target price from RM1.98 to RM2.46 even though we now peg it to a 20% discount (previously zero) to our 15x target market P/E to factor in the stock's relatively low liquidity. CIH remains firmly a BUY as the stock could be in for a re-rating given an increasingly marketable product line. The dividend yield of 5.1% is an additional attraction.

Figure 3: Share price chart (RM)

Source: Bloomberg

Figure 4: CI Holdings vs. FBM KLCI, YTD



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	55.9	58.7	49.0
EBITDA margins (%)	13.2	14.4	12.8	11.2	7.7
Pretax profit (RM m)	15.6	28.0	30.2	32.8	35.0
Net profit (RM m)	14.5	21.0	26.0	28.2	30.1
EPS (sen)	11.2	16.2	18.3	19.9	21.2
EPS growth (%)	+86%	+44%	+13%	+8%	+7%
P/E (x)	13.0	9.0	8.0	7.4	6.9
Gross DPS (sen)	4.0	7.0	8.0	8.0	8.0
Dividend yield (%)	2.7	4.8	5.5	5.5	5.5
P/NTA (x)	2.1	2.0	1.8	1.8	1.7
ROE (%)	15.9	21.8	22.8	23.9	24.7
Net gearing (%)	83.2	83.0	73.6	71.7	69.8
P/CF (x)	6.6	5.3	4.9	4.6	4.5
EV/EBITDA (x)	5.1	3.7	3.5	3.3	4.0
% change in EPS estimates			14.0	15.5	17.0
CIMB/Consensus (x)			1.10	1.04	-

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

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