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28 January 2010

## CI Holdings

2Q results whet our appetite

<b>RECOM</b>	Buy
<b>PRICE</b>	RM1.70
<b>MKT CAPITALISATION</b>	RM241.4m
<b>BOARD</b>	Main (Syariah stock)
<b>SECTOR</b>	Food & Beverage
<b>INDEX COMPONENT</b>	None

CIH MK / CIHB.KL

Norziana Mohd Inon + 60 (3) 2084-9645 – norziana.inon@cimb.com

### Results highlights

- Above expectations; maintain BUY.** For the third straight quarter, CI Holdings (CIH) outdid expectations, turning in a juicy 2QFY6/10 net profit of RM7.8m. This took 1H bottomline to RM15.9m or 60% of our full-year forecast and consensus. We anticipate strong 3Q sales due to Chinese New Year stocking-up by retailers. Another nice surprise was the interim DPS of 4 sen, which is double 2Q09's 2 sen. Taking our cue from the strong 2Q performance, we raise our EPS forecasts by 7.7% for FY10, 7.1% for FY11 and 6.6% for FY12 and increase our FY10-12 DPS forecasts from 8 sen to 10 sen. This pushes our target price up from RM2.46 to RM2.63, pegged to an unchanged 20% discount to our 15x target market P/E to factor in the stock's relatively low liquidity. CIH remains firmly a BUY with the re-rating catalyst being an increasingly marketable product line. The dividend yield of 5.9% is an additional attraction.
- Tropicana and Lipton Tea lead the markets.** 2Q net profit rose an impressive 95% yoy despite the absence of new products. Much of the earnings surge in 2Q came from the good response to the Tropicana and Lipton Tea ranges. 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 which has a 13% slice of the market. Lipton Tea is also a leader in the RTD tea market with more than 30% market share, followed by F&N's (FNH MK, Underperform) Seasons with close around 28% share and Yeo Hiap Seng's (YHS MK, Not Rated) Yeo's with around 25% of the market.
- Shift to non-carbonated drinks.** About 92% of CIH's revenue comes from the beverage business while the remaining comes from the sanitary and tapware business. Currently, the revenue split between non-carbonated and carbonated drinks stands at 35:65. It is expected to hit 50:50 in two years' time given the expected new launches of Tropicana and Gatorade variants.

#### Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	14.8	19.7
P/E (x)	11.5	8.6
Dividend/Share (sen)	7.0	10.0
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/RM1.81	
<b>Major Shareholders:</b>	%	
Datuk Johari Abdul Ghani	27.0	
Continental Theme Sdn Bhd	11.1	
ASB	8.2	

#### Per share data

	2007	2008	2009	2010F
FYE 30 Jun				
Book Value (RM)	0.7	0.7	0.7	0.8
Cash Flow (sen)	16.1	22.0	27.8	31.0
Earnings (sen)	6.0	10.2	14.8	19.7
Dividend (sen)	0.0	4.0	7.0	10.0
Payout Ratio (%)	0.0	28.1	34.1	36.5
P/E (x)	28.2	16.6	11.5	8.6
P/Cash Flow (x)	10.6	7.7	6.1	5.5
P/Book Value (x)	2.5	2.4	2.3	2.1
Dividend Yield (%)	0.0	2.4	4.1	5.9
ROE (%)	9.0	15.9	21.8	24.6
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	2Q09	2Q10	% Change
Revenue	85.9	114.5	33.3
Operating Profit (EBIT)	29.8	47.5	59.4
Depreciation	n.a	n.a	-
Interest Expenses	(1.3)	(0.9)	(29.6)
Pretax Profit	5.2	10.5	103.0
Net Profit	4.0	7.8	95.1
Operating Margin	34.7	41.5	19.6
Pretax Margin	6.0	9.2	52.3
Net Margin	4.7	6.8	46.4

Source: Company, CIMB estimates

**Figure 2: P&L analysis (RM m)**

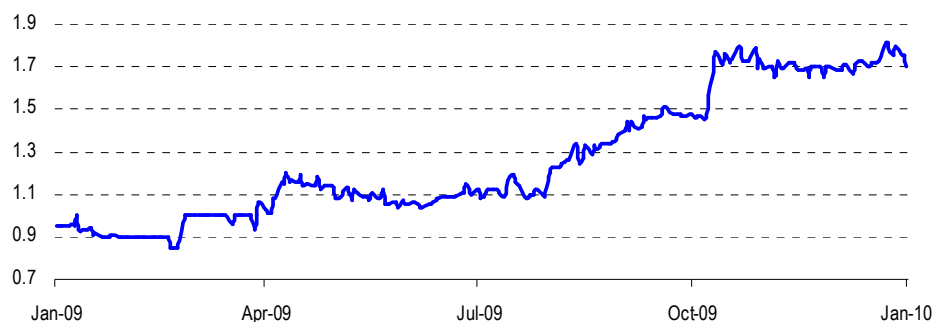
FYE 30 Jun	2007	2008	2009	2010F
Revenue	267.0	290.2	363.0	435.6
Operating Profit (EBIT)	38.1	52.3	67.2	74.3
Depreciation	(13.0)	(14.0)	(15.0)	(16.0)
Interest Expenses	(4.9)	(8.7)	(9.2)	(9.7)
Pretax Profit	7.3	15.6	28.0	32.6
Effective Tax Rate (%)	(7.5)	7.1	25.2	14.0
Net Profit	7.8	14.5	21.0	28.0
Operating Margin (%)	14.3	18.0	18.5	17.0
Pretax Margin (%)	2.7	5.4	7.7	7.5
Net Margin (%)	2.9	5.0	5.8	6.4

Source: Company, CIMB estimates

## Recommendation

**Improved distribution.** Another factor contributing 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 4.7% in 2Q09 to 6.8% in 2Q10.

**Maintain BUY.** Taking our cue from the strong 2Q performance, we raise our EPS forecasts by 7.7% for FY10, 7.1% for FY11 and 6.6% for FY12 and increase our FY10-12 DPS forecasts from 8 sen to 10 sen. This pushes our target price up from RM2.46 to RM2.63, pegged to an unchanged 20% discount 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 5.9% is an additional attraction.

**Figure 3: Share price chart (RM)**

Source: Bloomberg

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**Financial summary**

<b>FYE Jun</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Revenue (RM m)	290.2	363.0	435.6	522.7	632.5
EBITDA (RM m)	38.3	52.2	58.3	61.0	51.3
EBITDA margins (%)	13.2	14.4	13.4	11.7	8.1
Pretax profit (RM m)	15.6	28.0	32.6	35.1	37.3
Net profit (RM m)	14.5	21.0	28.0	30.2	32.1
EPS (sen)	11.2	16.2	19.7	21.3	22.6
EPS growth (%)	+86%	+44%	+22%	+8%	+6%
P/E (x)	15.1	10.5	8.6	8.0	7.5
Gross DPS (sen)	4.0	7.0	10.0	10.0	10.0
Dividend yield (%)	2.4	4.1	5.9	5.9	5.9
P/NTA (x)	2.4	2.3	2.1	2.0	2.0
ROE (%)	15.9	21.8	24.6	25.6	26.3
Net gearing (%)	83.2	83.0	73.6	71.7	69.8
P/CF (x)	7.7	6.1	5.5	5.1	5.0
EV/EBITDA (x)	5.9	4.3	3.9	3.7	4.4
% change in EPS estimates			7.7	7.1	6.6
CIMB/Consensus (x)			1.08	1.06	1.07

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

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