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22 April 2010

CI Holdings

Let's drink to the record 3Q

RECOM	Buy
PRICE	RM2.12
MKT CAPITALISATION	RM301.0m
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) blew us away with its record 3QFY6/10 net profit of RM10.9m, which took 9M bottomline to RM26.8m, just 4% shy of our full-year forecast (there are no consensus estimates). This is the fourth straight quarter of results outperformance. This time around, it appears that we had underestimated the Chinese New Year sales volume. Taking our cue from the 3Q performance and additional production capacity, we raise our FY10-11 EPS forecasts by around 25%. We also up our DPS forecasts from 10 sen to 11 sen for FY11 and 12 sen for FY12 while maintaining our FY10 forecast of 10 sen. Our target price goes up from RM2.63 to RM3.28, pegged to an unchanged 20% discount to our 15x target market P/E in view of the stock's relatively low liquidity. The new target price gives a 55% upside. CIH remains firmly a BUY, with the potential re-rating catalysts being 1) the strong 3Q performance, 2) an increasingly marketable product line, and 3) additional production capacity. Dividend yields are decent at 4-6%.
- **Market leaders.** 3Q10 net profit was more than double 3Q09's RM5.2m despite the absence of new products. Much of the earnings growth was contributed by the Tropicana and Lipton Tea ranges. Tropicana is leading the chilled ready-to-drink (RTD) juice segment with a market share of some 35%. Lipton Tea is also a leader in the RTD tea market with around 30% of the market.
- **Extra capacity.** The market's response to Tropicana fruit juices has surpassed management's expectations, forcing the company to expand its facility in Bangi way earlier than expected. The RM35m facility, which was commissioned in Mar 08, was initially expected to hit maximum production in five years' time at the earliest but Tropicana's success has shortened it to two years. To address the capacity constraint, CIH is now installing a RM45m new production line for non-carbonated beverages at the facility. Construction of the new production line has started and is expected to be completed by this Sep.

Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	14.8	24.6
P/E (x)	14.3	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)	RM0.90/RM2.23	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	27.0	
Continental Theme Sdn Bhd	11.1	
ASB	7.0	

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	35.9
Earnings (sen)	6.0	10.2	14.8	24.6
Dividend (sen)	0.0	4.0	7.0	10.0
Payout Ratio (%)	0.0	28.1	34.1	29.2
P/E (x)	35.2	20.7	14.3	8.6
P/Cash Flow (x)	13.2	9.6	7.6	5.9
P/Book Value (x)	3.2	3.0	2.8	2.6
Dividend Yield (%)	0.0	1.9	3.3	4.7
ROE (%)	9.0	15.9	21.8	30.7
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	3Q09	3Q10	% Change
Revenue	90.6	137.7	51.9
Operating Profit (EBIT)	33.1	56.8	71.6
Depreciation	n.a	n.a	-
Interest Expenses	(1.2)	(0.8)	(33.5)
Pretax Profit	6.7	13.6	104.2
Net Profit	5.2	10.9	107.8
Operating Margin	36.5	41.3	12.9
Pretax Margin	7.3	9.9	34.4
Net Margin	5.8	7.9	36.8

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	508.2
Operating Profit (EBIT)	38.1	52.3	67.2	82.4
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	40.7
Effective Tax Rate (%)	(7.5)	7.1	25.2	14.0
Net Profit	7.8	14.5	21.0	35.0
Operating Margin (%)	14.3	18.0	18.5	16.2
Pretax Margin (%)	2.7	5.4	7.7	8.0
Net Margin (%)	2.9	5.0	5.8	6.9

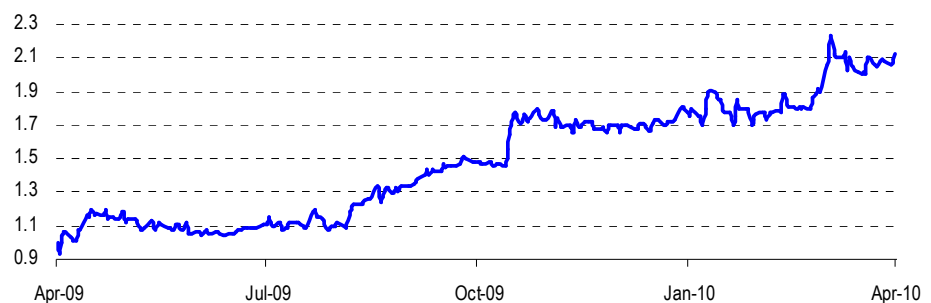
Source: Company, CIMB estimates

Recommendation

Shift to non-carbonated drinks. About 92% of CIH's revenue comes from the beverage business while the remainder comes from the sanitary and tapware business. Currently, the revenue split between non-carbonated and carbonated drinks stands at 40:60. It is expected to hit 50:50 in two years' time given the additional capacity.

Maintain BUY. Taking our cue from the 3Q performance and additional production capacity, we raise our EPS forecasts by 25.0% for FY10, 24.5% for FY11 and 24.9% for FY12. We also up our DPS forecasts from 10 sen to 11 sen for FY11 and 12 sen for FY12 while maintaining our FY10 forecast. Consequently, our target price goes up from RM2.63 to RM3.28, pegged to an unchanged 20% discount to our 15x target market P/E in view of the stock's relatively low liquidity. CIH remains firmly a BUY, with the re-rating catalysts being 1) the strong 3Q performance, 2) an increasingly marketable product line, and 3) additional production capacity. Dividend yields are decent at 4-6%.

Figure 3: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (RM m)	290.2	363.0	508.2	609.8	731.8
EBITDA (RM m)	38.3	52.2	66.4	69.6	60.6
EBITDA margins (%)	13.2	14.4	13.1	11.4	8.3
Pretax profit (RM m)	15.6	28.0	40.7	43.7	46.6
Net profit (RM m)	14.5	21.0	35.0	37.6	40.1
EPS (sen)	11.2	16.2	24.6	26.5	28.2
EPS growth (%)	+86%	+44%	+52%	+7%	+7%
P/E (x)	18.9	13.1	8.6	8.0	7.5
FD EPS (sen)	10.2	14.8	24.6	26.5	28.2
FD P/E (x)	20.7	14.3	8.6	8.0	7.5
Gross DPS (sen)	4.0	7.0	10.0	11.0	12.0
Dividend yield (%)	1.9	3.3	4.7	5.2	5.7
P/NTA (x)	3.0	2.8	2.6	2.6	2.5
ROE (%)	15.9	21.8	30.7	31.9	32.9
Net gearing (%)	83.2	83.0	73.6	71.7	69.8
P/CF (x)	9.6	7.6	5.9	5.5	5.4
EV/EBITDA (x)	7.3	5.4	4.2	4.0	4.6
% change in EPS estimates			25.0	24.5	24.9
CIMB/Consensus (x)			N/A	N/A	N/A

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

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