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23 June 2010

CI Holdings

Putting money where the mouth is

RECOM	Buy
PRICE	RM2.31
MKT CAPITALISATION	RM328.0m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	None

CIH MK / CIHB.KL

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Investment highlights

- **Maintain BUY.** Our Small to Mid Cap Conference presented an opportunity for some fund managers to meet the management of CI Holdings (CIH) for the first time. In light of the contract breakdown between F&N (FNH MK, Underperform) and The Coca-Cola Company (TCCM), management talked about its agreements with PepsiCo during the Q&A session. It is confident that its relationship with PepsiCo will be intact as the two parties have a complementary relationship given that CIH's products are not in PepsiCo's line-up. We maintain our earnings forecasts and target price of RM3.28, pegged to an unchanged 20% discount to our 15x target market P/E to account for the stock's relatively low liquidity. CIH remains firmly a BUY, with the potential re-rating catalysts being 1) capacity expansion, and 2) an increasingly marketable product line.
- **Complementary relationship with PepsiCo.** The relationship between CIH and PepsiCo started in 1973. The agreements between the two companies are renewed every five years and the current agreements will be up for renewal at end-CY11. Unlike F&N and TCCM whose soft drinks and fruit juices overlap, CIH and PepsiCo have a complementary relationship. CIH's in-house products such as Chill (Asian drinks) are not available in PepsiCo's product line-up. Management is, therefore, confident that its relationship with PepsiCo will be intact.
- **Extra capacity for non-carbonated drinks.** From 20% two years ago, non-carbonated drinks, led by Tropicana, now account for 40% of group sales, with the remaining 60% represented by carbonated drinks. The revenue split between non-carbonated drinks and carbonated drinks is expected to hit 50:50 in two years' time given the additional capacity at the Bangi facility. The RM45m new lines are expected to be operational by Sep, just in time for Hari Raya.

Key stock statistics

FYE 30 Jun	2009	2010F
EPS (sen)	14.8	24.6
P/E (x)	15.6	9.4
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)	RM1.04/RM2.54	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	28.2	
Continental Theme Sdn Bhd	11.1	
PNB	5.7	

Per share data

FYE 30 Jun	2007	2008	2009	2010F
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)	38.3	22.5	15.6	9.4
P/Cash Flow (x)	14.4	10.5	8.3	6.4
P/Book Value (x)	3.5	3.3	3.1	2.9
Dividend Yield (%)	0.0	1.7	3.0	4.3
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.

Recent developments

Yesterday, we hosted a Small to Mid Cap Conference which presented some fund managers an opportunity to meet the management of CIH for the first time. The company was represented by Syed Khalil Syed Ibrahim, VP of corporate finance and planning and Erwin Selvarajah, CEO of Permanis. In light of the contract breakdown between F&N and TCCM, management talked about its agreements with PepsiCo during the Q&A session.

The relationship between CIH and PepsiCo started in 1973. The agreements between the two companies are renewed every five years and the current agreements will be up for renewal at end-CY11. Unlike F&N and TCCM whose soft drinks and fruit juices overlap, CIH and PepsiCo have a complementary relationship. CIH's in-house products such as Chill (Asian drinks) are not available in PepsiCo's product line-up. Management is, therefore, confident that its relationship with PepsiCo will be intact.

Meanwhile, on 3 Jun, CIH announced its proposed purchase of land and warehouse in Bangi industrial estate for RM29.5m, which will be funded by internal funds and bank borrowing. The acquisition is necessary because the current warehouse measuring 200,000 sq ft is already bursting at the seams given the company's swift growth in recent years.

Earnings outlook

CIH's 3QFY6/10 was the fourth straight quarter of results outperformance. FY10 is set to be a record year for the company. We forecast a net profit of RM35m (+67% yoy), with much of the earnings growth coming from Tropicana fruit juices and Lipton Tea variants. We are looking at an FY10 DPS of 10 sen, which gives a decent yield of 4.3%.

Figure 1: 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

Maintain BUY. We maintain our earnings forecasts and target price of RM3.28, pegged to an unchanged 20% discount to our 15x target market P/E to account for the stock's relatively low liquidity. CIH remains firmly a BUY, with the potential re-rating catalysts being 1) capacity expansion, and 2) an increasingly marketable product line.

Figure 2: 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)	20.6	14.3	9.4	8.7	8.2
FD EPS (sen)	10.2	14.8	24.6	26.5	28.2
FD P/E (x)	22.5	15.6	9.4	8.7	8.2
Gross DPS (sen)	4.0	7.0	10.0	11.0	12.0
Dividend yield (%)	1.7	3.0	4.3	4.8	5.2
P/NTA (x)	3.3	3.1	2.9	2.8	2.7
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)	10.5	8.3	6.4	6.0	5.8
EV/EBITDA (x)	8.0	5.8	4.6	4.4	5.0
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.02	1.01	1.05

Source: Company, CIMB Research, Reuters Estimates

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