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29 July 2010

CI Holdings

Pepped up by PepsiCo extension

RECOM	Buy
PRICE	RM2.88
MKT CAPITALISATION	RM409.0m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	Nil

CIH MK / CIHB.KL

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Investment highlights

- Maintain BUY.** CI Holdings (CIH) and NYSE-listed PepsiCo (PEP US, Not Rated) have inked an exclusive bottling agreement which renews the franchise bottling rights of CIH's Permanis for an unprecedented 10 years. This is a positive surprise as previous agreements between the two companies were renewed every five years. The extension of the agreement demonstrates PepsiCo's confidence in Permanis as a long-term strategic partner and allays concerns over a repeat of the contract breakdown between F&N (FNH MK, Underperform) and Coca-Cola. We maintain our earnings forecasts and target price of RM3.28 as we continue to value it at a 20% discount to our 15x target market P/E in view of the stock's relatively low liquidity. This news reaffirms our BUY recommendation and is a potential re-rating catalyst, along with capacity expansion and an increasingly marketable product line.
- A boost to a 37-year relationship.** The agreement between the two companies has been extended for 10 years until 30 Jun 2020, continuing a relationship that goes all the way back to 1973. The franchise bottling rights are held by Permanis, CIH's wholly-owned unit which manufactures and markets PepsiCo's beverages in Malaysia. The relationship between CIH and PepsiCo has gone from strength to strength. Over just the past three years, Permanis has introduced three PepsiCo brands, namely Tropicana Twister, 7-Up Revive and Mountain Dew, to favourable response.
- New capacity for Tropicana.** CIH generates 80% of its revenue from the PepsiCo brands. In recent years, it has poured much of its capex into expanding the sales of PepsiCo products. Currently, Permanis is installing a new RM45m production line at the Bangi facility to accommodate the phenomenal demand for Tropicana, which is Malaysia's biggest fruit juice brand with a 35% market share. Its competitors include Malaysia Milk's Marigold (30%) and F&N's Fruit Tree and Sunkist (13%).

Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	14.8	24.6
P/E (x)	19.5	11.7
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)	RM1.07/RM3.02	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	28.2	
Continental Theme Sdn Bhd	10.4	
PNB	8.2	

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)	47.8	28.1	19.5	11.7
P/Cash Flow (x)	17.9	13.1	10.4	8.0
P/Book Value (x)	4.3	4.1	3.9	3.6
Dividend Yield (%)	0.0	1.4	2.4	3.5
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

On 22 Jun, we hosted a Small to Mid Cap Conference which gave some fund managers the opportunity to meet CIH's management 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. Management fielded questions on its agreement with PepsiCo. Yesterday's joint press release should assuage investors' fears of non-renewal of the agreement.

Unlike F&N and TCCM whose soft drinks and fruit juices overlap, CIH and PepsiCo have a complementary relationship. PepsiCo's product line-up does not have products similar to CIH's in-house products such as Chill (Asian drinks). Other PepsiCo brands marketed by Permanis include Pepsi, ready-to-drink Lipton Tea, Mirinda, Sting, Gatorade and Evervess.

Earlier, 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 borrowings. The acquisition is necessary because the current warehouse measuring 200,000 sq ft is bursting at the seams due to 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 3.5%.

Figure 3: 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

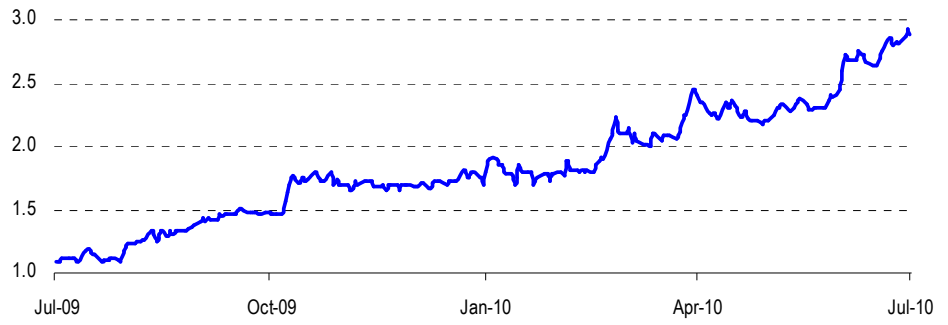
Source: Company, CIMB estimates

Recommendation

Undemanding valuations. Despite the improvement in its share price (Figure 4), CIH's P/E valuations remain undemanding at 10-12x (Figure 5) against a 3-year EPS CAGR of 20.3%, which is the highest in our F&B portfolio and superior to the sector average of 11.8% (see Sector comparisons table). Its dividend yield of 3-5% is an added attraction. Also, CIH may be an effective indirect exposure to PepsiCo (Figure 6) given that PepsiCo brands make up 85% of CIH's product portfolio and 80% of the company's revenue. Based on estimates available on Bloomberg, PepsiCo is trading at 17x P/E.

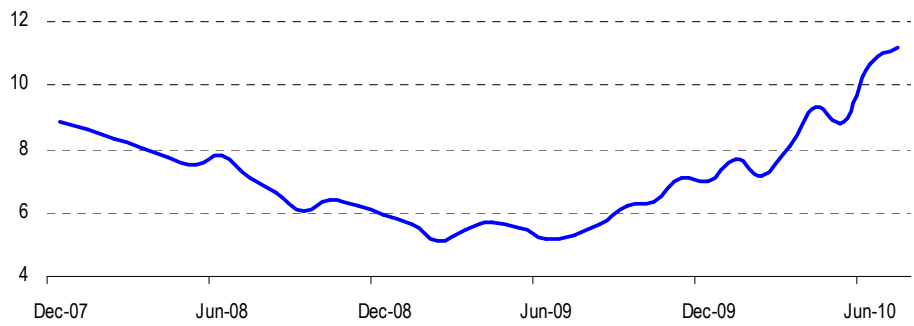
Maintain BUY. We maintain our earnings forecasts and target price of RM3.28 as we continue to value it at a 20% discount to our 15x target market P/E in view of the stock's relatively low liquidity. This news reaffirms our BUY recommendation and is a potential re-rating catalyst along with capacity expansion and an increasingly marketable product line.

Figure 4: CI Holdings' share price chart (RM)



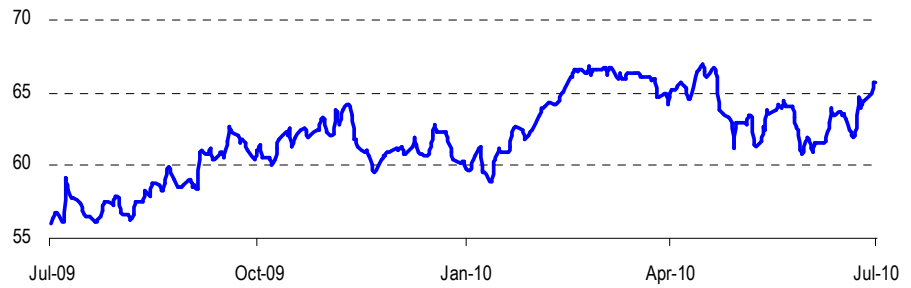
Source: Bloomberg

Figure 5: CI Holdings' 1-year forward P/E chart (x)



Source: Bloomberg

Figure 6: PepsiCo's share price chart (US\$)



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)	25.7	17.8	11.7	10.9	10.2
Gross DPS (sen)	4.0	7.0	10.0	11.0	12.0
Dividend yield (%)	1.4	2.4	3.5	3.8	4.2
P/NTA (x)	4.1	3.9	3.6	3.5	3.4
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)	13.1	10.4	8.0	7.5	7.3
EV/EBITDA (x)	9.9	7.2	5.7	5.4	6.2
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.02	1.01	1.05

Source: Company, CIMB Research, Reuters Estimates

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 (%)
						CY2010	CY2011				
CI Holdings	CIH MK	B	2.88	3.28	125	11.3	10.5	20.3	3.6	31.3	3.8
Nestle (M)	NESZ MK	U	39.20	28.00	2,882	24.6	23.5	5.2	15.2	68.3	5.2
Cocoaland	COLA MK	N	2.94	3.26	122	19.4	12.2	17.2	3.0	17.5	3.4
F&N Hldgs	FNH MK	U	14.70	8.80	1,643	20.5	19.7	6.5	3.6	35.3	3.6
QSR	QSR MK	O	4.40	5.60	395	12.2	11.0	9.9	2.8	22.7	3.0
Simple average						17.6	15.4	11.8	5.6	35.0	3.8

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

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