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3 August 2010

## CI Holdings

*Make this stock your main squeeze*

<b>RECOM</b>	Buy
<b>PRICE</b>	RM3.07
<b>MKT CAPITALISATION</b>	RM435.9m
<b>BOARD</b>	Main (Syariah stock)
<b>SECTOR</b>	Food & Beverage
<b>INDEX COMPONENT</b>	Nil

CIH MK / CIHB.KL

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### Investment highlights

- **Maintain BUY with RM3.90 target price.** CI Holdings (CIH) continues to invest ahead of growth by increasing its nationwide coverage from 36,595 outlets in Mar 09 to 42,000 outlets in Jun 10. We are raising our EPS forecasts by 2.9% for FY6/10, 5.9% for FY11 and 5.5% for FY12 due to a wider distribution network. This, together with a halving of the discount we apply to our 15x target market P/E to 10% to reflect the stock's improved liquidity, raises our target price from RM3.28 to RM3.90. CIH remains a BUY, with the potential re-rating catalysts being 1) additional production capacity, and 2) an increasingly marketable product line.
- **Bigger retail reach.** CIH derives its revenue from beverages (90%) and tap and sanitary-ware (10%). The beverage business is handled by wholly-owned Permanis, which has a wide national distribution network that covers cities and major towns. To cut out middleman fees, Permanis handles the bulk of the distribution process itself. In the process, brand visibility and product accessibility are enhanced. Permanis's beverages now reach 42,000 outlets nationwide, ranging from major accounts such as hypermarkets (i.e. Tesco, Carrefour and Giant), fast-food outlets (i.e. Pizza Hut and KFC) and convenience stores (i.e. petrol stations and 7-Eleven) to supermarkets, school canteens, mom-and-pop outlets and sports centres.
- **More fizz for non-carbonated drinks.** The sales of Tropicana are going strong despite competition from newcomers F&N's (FNH MK, Underperform) Sunkist Dash and The Coca-Cola Company's (TCCC) Minute Maid. Tropicana fruit juices and ready-to-drink Lipton tea contribute 35% to beverage sales. Currently, Permanis's 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 new RM45m production line that CIH is installing at the Bangi facility.

#### Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	14.8	25.4
P/E (x)	20.8	12.1
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/RM3.10	
<b>Major Shareholders:</b>	%	
Datuk Johari Abdul Ghani	28.2	
Continental Theme Sdn Bhd	11.1	
PNB	5.7	

#### 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	36.6
Earnings (sen)	6.0	10.2	14.8	25.4
Dividend (sen)	0.0	4.0	7.0	10.0
Payout Ratio (%)	0.0	28.1	34.1	28.4
P/E (x)	50.9	30.0	20.8	12.1
P/Cash Flow (x)	19.1	13.9	11.1	8.4
P/Book Value (x)	4.6	4.3	4.1	3.8
Dividend Yield (%)	0.0	1.3	2.3	3.3
ROE (%)	9.0	15.9	21.8	31.6
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.

## Recent developments

On 28 Jul, CIH and NYSE-listed PepsiCo (PEP US, Not Rated) issued a joint press statement on the inking of an exclusive bottling agreement which renewed the franchise bottling rights of Permanis for 10 years (see our note dated 29 Jul). The move was unprecedented 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 and TCCC.

## Earnings outlook

**2-6% EPS upgrades.** We are raising our EPS forecasts by 2.9% for FY10, 5.9% for FY11 and 5.5% for FY12 as we revise upwards our revenue assumptions, especially for non-carbonated drinks, which include Tropicana fruit juices and ready-to-drink Lipton tea. This, together with a halving of the discount we apply to our 15x target market P/E to 10% to reflect the stock's improved liquidity, raises our target price from RM3.28 to RM3.90.

Figure 1: P&L analysis (RM m)

FYE 30 Jun	2007	2008	2009	2010F
Revenue	267.0	290.2	363.0	526.4
Operating Profit (EBIT)	38.1	52.3	67.2	83.6
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	41.9
Effective Tax Rate (%)	(7.5)	7.1	25.2	14.0
Net Profit	7.8	14.5	21.0	36.0
Operating Margin (%)	14.3	18.0	18.5	15.9
Pretax Margin (%)	2.7	5.4	7.7	8.0
Net Margin (%)	2.9	5.0	5.8	6.8

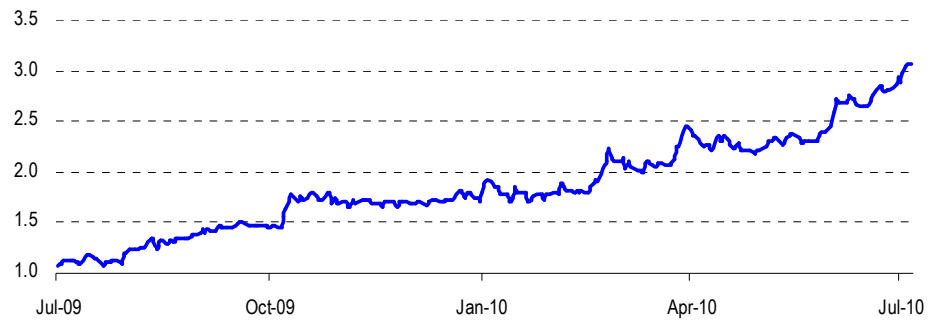
Source: Company, CIMB estimates

## Recommendation

**Improved volume.** In our view, the share price increase (Figure 2) 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. 3Q10 is CIH's 15<sup>th</sup> consecutive quarter of profits. Correspondingly, trading volume has improved in line with upward movement of the share price. To date, the average daily volume stands at 153,000 shares compared with 40,000 shares for the whole of CY09.

**Maintain BUY.** Despite the improvement in its share price, CIH's P/E valuations remain undemanding at 10-12x against a 3-year EPS CAGR of 22.5%, which is the highest in our F&B portfolio and superior to the sector average of 12.3%. Its dividend yield of 3-4% is an added attraction. CIH remains a BUY, with the potential re-rating catalysts being 1) additional production capacity, and 2) an increasingly marketable product line.

**Figure 2: CI Holdings' share price chart (RM)**



Source: Bloomberg

**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	526.4	631.6	757.9
EBITDA (RM m)	38.3	52.2	67.6	72.2	63.2
EBITDA margins (%)	13.2	14.4	12.8	11.4	8.3
Pretax profit (RM m)	15.6	28.0	41.9	46.3	49.2
Net profit (RM m)	14.5	21.0	36.0	39.8	42.3
EPS (sen)	11.2	16.2	25.4	28.0	29.8
EPS growth (%)	+86%	+44%	+56%	+11%	+6%
P/E (x)	27.4	18.9	12.1	11.0	10.3
Gross DPS (sen)	4.0	7.0	10.0	11.0	12.0
Dividend yield (%)	1.3	2.3	3.3	3.6	3.9
P/NTA (x)	4.3	4.1	3.8	3.7	3.6
ROE (%)	15.9	21.8	31.6	33.8	34.7
Net gearing (%)	83.2	83.0	73.6	71.7	69.8
P/CF (x)	13.9	11.1	8.4	7.7	7.5
EV/EBITDA (x)	10.5	7.7	6.0	5.6	6.4
% change in EPS estimates			2.9	5.9	5.5
CIMB/Consensus (x)			1.01	1.01	1.03

Source: Company, CIMB Research, Reuters Estimates

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