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16 August 2010

CI Holdings

Twisting its way to a record year

RECOM	Buy
PRICE	RM2.86
MKT CAPITALISATION	RM406.1m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	Nil

CIH MK / CIHB.KL

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Investment highlights

- **FY10 results preview.** CI Holdings's (CIH) 4QFY6/10 net profit is expected to be in line with our forecast of RM9.2m (+26% yoy). Full-year bottomline may come in around RM36m (+71% yoy), which would be a new high. We project a full-year record DPS of 10 sen (FY09: 7 sen), giving a dividend yield of 3.5%. The results are scheduled to be released on 25 Aug. We maintain our earnings forecasts and target price of RM3.90 as we continue to value the stock at a 10% discount to our 15x target market P/E in view of its relatively low liquidity. The expectation of an all-time high net profit reaffirms our BUY recommendation and is a potential re-rating catalyst, along with capacity expansion and an increasingly marketable product line.
- **From zero to top spot.** We believe that much of the 71% estimated earnings expansion came from a strong response to Tropicana Twister, whose sales have not shown signs of slowing down since its launch in Mar 08. Although it was a late entrant in the fruit juice market, Tropicana took only months to reach the No. 1 position. It now holds 35% of the market, followed by Malaysia Milk's Marigold Peel Fresh (30%) and F&N Holdings' (FNH MK, Underperform) Fruit Tree and Sunkist (13%). Revive and Mountain Dew also enjoyed a boost in sales following a media blitz.
- **Improved distribution.** Another contributing factor is a bigger retail network. The beverage business is handled by wholly-owned Permanis. To cut out middleman fees, Permanis handles the bulk of the distribution process itself. In the process, brand visibility and product accessibility are enhanced. As at Jun 10, Permanis's beverages reached 42,000 outlets nationwide, an improvement on 36,595 outlets as at Jun 09. Permanis's clients range 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.

Key stock statistics

	2009	2010F
FYE 30 Jun		
EPS (sen)	14.8	25.4
P/E (x)	19.3	11.3
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/RM3.12	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	28.2	
Continental Theme Sdn Bhd	11.1	
PNB	5.3	

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)	47.4	27.9	19.3	11.3
P/Cash Flow (x)	17.8	13.0	10.3	7.8
P/Book Value (x)	4.3	4.1	3.8	3.6
Dividend Yield (%)	0.0	1.4	2.4	3.5
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 had been 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 Coca-Cola.

Earnings outlook

3-year EPS CAGR of 22.5%. 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. 4Q10 will be CIH's 16th consecutive quarter of profits. After a potential new net profit high in FY10, we expect the earnings momentum to continue in FY11 given the RM45m new production line at the Bangi plant. The new line is slated to be operational by Sep. To keep up with the increasing demand for non-carbonated drinks, CIH has also proposed a RM29.5m purchase of land and warehouse in Bangi. The current 200,000 sq ft warehouse is already fully utilised due to the company's swift growth in recent years. At CY09-11 P/Es of 9-11x, CIH is the cheapest stock in our F&B portfolio despite offering a 3-year EPS CAGR of 22.5%, which is the highest in our F&B portfolio (see Sector comparisons table).

Figure 1: P&L analysis (RM m)

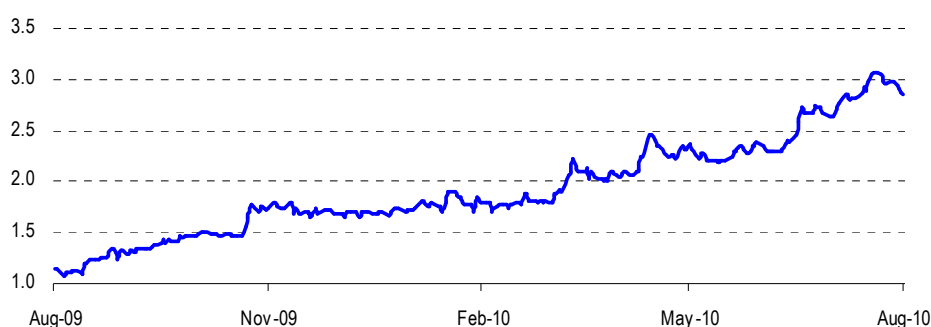
FYE 30 Jun	2007	2008	2009	2010F
Revenue	267.0	290.2	363.0	526.4
Operating Profit (EBIT)	38.1	52.3	67.2	83.6
Depreciation	(13.0)	(14.0)	(15.0)	(16.0)
Interest Expenses	(4.9)	(8.7)	(9.2)	(9.7)
Pretax Profit	7.3	15.6	28.0	41.9
Effective Tax Rate (%)	(7.5)	7.1	25.2	14.0
Net Profit	7.8	14.5	21.0	36.0
Operating 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

Maintain BUY. We maintain our earnings forecasts and target price of RM3.90, pegged to a 10% discount to our 15x target market P/E given the stock's relatively low liquidity. CIH remains firmly a BUY, with the potential re-rating catalysts being 1) strong 4Q10 results, 2) capacity expansion, and 3) 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	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)	25.5	17.6	11.3	10.2	9.6
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	3.8	3.6	3.4	3.3
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)	13.0	10.3	7.8	7.2	7.0
EV/EBITDA (x)	9.8	7.2	5.6	5.2	5.9
% change in EPS estimates			-	-	-
CIMB/Conse nsus (x)			1.01	1.01	1.03

Source: Company, CIMB Research, Reuters Estimates

Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x) CY2010	Core P/E (x) CY2011	3-yr EPS CAGR (%)	P/BV (x) CY2010	ROE (%) CY2010	Div yield (%) CY2010
CI Holdings	CIH MK	B	2.86	3.90	124	10.7	9.9	22.5	3.5	32.7	3.7
Cocoaland	COLA MK	N	2.55	3.26	106	16.8	10.6	17.2	2.6	17.5	3.9
F&N Hldgs	FNH MK	U	13.98	9.20	1,573	15.6	18.5	7.0	3.3	41.1	3.8
Nestle (M)	NESZ MK	U	39.00	28.00	2,887	24.5	23.4	5.2	15.1	68.3	5.2
QSR	QSR MK	O	4.17	5.60	377	11.5	10.4	9.9	2.6	22.7	3.1
Simple average						15.8	14.6	12.4	5.4	36.5	3.9

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

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