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26 August 2010

## CI Holdings

*Raising our glass to a record year*

<b>RECOM</b>	Buy
<b>PRICE</b>	RM2.91
<b>MKT CAPITALISATION</b>	RM413.2m
<b>BOARD</b>	Main (Syariah stock)
<b>SECTOR</b>	Food & Beverage
<b>INDEX COMPONENT</b>	Nil

CIH MK / CIHB.KL

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### Results highlights

- **Above; maintain BUY.** CI Holdings (CIH) exceeded expectations with a record 4QFY6/10 net profit of RM11m that took full-year bottomline to an all-time high of RM38m, 6% above our forecast and consensus estimates. We had underestimated CIH's sales volume growth which kept going, even after the Chinese New Year selling campaign. Another pleasant surprise was the final DPS of 7 sen, which took FY10 DPS to 11 sen vs. our forecast of 10 sen. Taking our cue from the 4Q performance, we raise our EPS forecasts by 5.5% for FY11 and 9.5% for FY12 as we revise our sales assumptions. We also up our DPS forecast from 11 sen to 12 sen for FY11 while maintaining our FY12 forecast of 12 sen. Our target price goes up from RM3.90 to RM4.20, 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, underpinned by the potential re-rating catalysts of 1) a strong 4Q performance, 2) an increasingly marketable product line, and 3) additional production capacity.
- **82% net profit growth.** This is the fifth straight quarter of results outperformance. 4Q10 net profit jumped 56% yoy, aiding a full-year earnings surge of 82%. Much of the growth came from a strong response to non-carbonated drinks, especially Tropicana Twister which is showing no signs of slowing down. Despite its late entry into the fruit juice market in Mar 08, Tropicana took only months to reach the No. 1 spot. It now holds 35% of the market, followed by Marigold Peel Fresh (30%) and Fruit Tree and Sunkist (13%).
- **Improved distribution.** Another contributing factor is the aggressive distribution drive. As at Jun 10, CIH's beverages reached 42,000 outlets nationwide, an improvement on 36,595 outlets as at Jun 09. Its 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

	2010	2011F
<b>FYE 30 Jun</b>		
EPS (sen)	26.9	29.6
P/E (x)	10.8	9.8
Dividend/Share (sen)	11.0	12.0
NTA/Share (RM)	0.8	0.8
Book Value/Share (x)	0.8	0.8
Issued Capital (m shares)	142.0	142.0
52-weeks Share Price Range (RM)	RM1.09/RM3.12	
<b>Major Shareholders:</b>	%	
Datuk Johari Abdul Ghani	28.2	
Continental Theme Sdn Bhd	10.4	
PNB	9.5	

#### Per share data

	2008	2009	2010	2011F
<b>FYE 30 Jun</b>				
Book Value (RM)	0.7	0.7	0.8	0.8
Cash Flow (sen)	22.0	26.1	36.1	41.5
Earnings (sen)	10.2	14.8	26.9	29.6
Dividend (sen)	4.0	7.0	11.0	12.0
Payout Ratio (%)	28.1	34.1	29.5	29.2
P/E (x)	28.4	19.7	10.8	9.8
P/Cash Flow (x)	13.2	11.1	8.1	7.0
P/Book Value (x)	4.1	3.9	3.6	3.5
Dividend Yield (%)	1.4	2.4	3.8	4.1
ROE (%)	15.9	21.8	33.5	35.6
Net Gearing (%)	83.2	83.0	73.6	71.7

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	4Q09	4Q10	% Change
Revenue	95.9	140.4	46.4
Operating Profit (EBIT)	41.5	58.6	41.3
Depreciation	n.a	n.a	-
Interest Expenses	(1.1)	(0.5)	(51.1)
Pretax Profit	10.4	13.1	25.5
Net Profit	7.3	11.4	55.8
Operating Margin	43.2	41.7	(3.5)
Pretax Margin	10.9	9.3	(14.2)
Net Margin	7.6	8.1	6.4

Source: Company, CIMB estimates

**Figure 2: P&L analysis (RM m)**

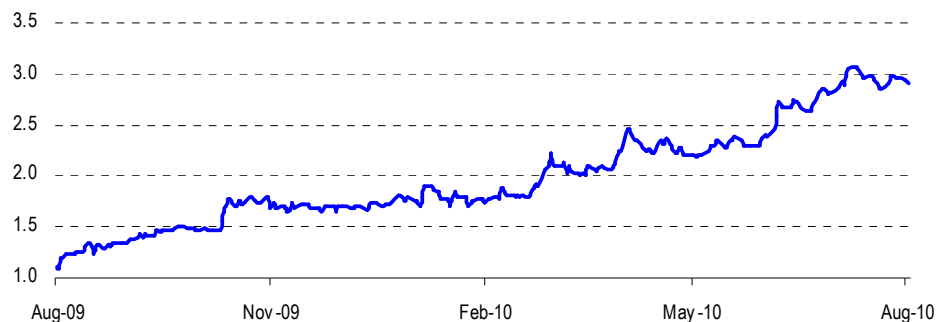
FYE 30 Jun	2008	2009	2010	2011 F
Revenue	290.2	363.0	516.4	568.0
Operating Profit (EBIT)	52.3	58.5	77.4	91.7
Depreciation	(14.0)	(12.8)	(13.1)	(17.0)
Interest Expenses	(8.7)	(4.9)	(3.2)	(9.9)
Pretax Profit	15.6	28.0	48.1	48.8
Effective Tax Rate (%)	7.1	25.2	20.8	14.0
Net Profit	14.5	21.0	38.2	42.0
Operating Margin (%)	18.0	16.1	15.0	16.1
Pretax Margin (%)	5.4	7.7	9.3	8.6
Net Margin (%)	5.0	5.8	7.4	7.4

Source: Company, CIMB estimates

## Recommendation

**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 line has started and is expected to be completed next month as scheduled. RM35m of the RM45m investment was incurred in FY10. Of the RM35m, RM25m was funded by a debt facility. Further drawdown of the facility will be made in FY11.

**New net profit highs.** After a record performance in FY10, we expect the earnings momentum to continue in FY11 given the new line. 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 CY10-11 P/E's of 9-11x, CIH is the cheapest stock in our F&B portfolio, offering a decent 3-year EPS CAGR of 10.4% and dividend yields of 4.0% (see Sector comparisons table).

**Figure 3: Share price chart (RM)**

Source: Bloomberg

## Financial summary

FYE Jun	2009	2010	2011F	2012F	2013F
Revenue (RM m)	363.0	516.4	568.0	624.8	687.3
EBITDA (RM m)	45.7	64.4	74.7	67.8	71.8
EBITDA margins (%)	12.6	12.5	13.2	10.9	10.4
Pretax profit (RM m)	28.0	48.1	48.8	53.8	59.8
Net profit (RM m)	21.0	38.2	42.0	46.3	51.4
EPS (sen)	16.2	26.9	29.6	32.6	36.2
EPS growth (%)	+44%	+66%	+10%	+10%	+11%
P/E (x)	18.0	10.8	9.8	8.9	8.0
Gross DPS (sen)	7.0	11.0	12.0	12.0	12.0
Dividend yield (%)	2.4	3.8	4.1	4.1	4.1
P/NTA (x)	3.9	3.6	3.5	3.4	3.3
ROE (%)	21.8	33.5	35.6	38.0	40.8
Net gearing (%)	83.0	73.6	71.7	69.8	67.9
P/CF (x)	11.1	8.1	7.0	6.6	6.2
EV/EBITDA (x)	8.4	5.9	5.1	5.6	5.3
% change in EPS estimates			5.5	9.5	N/A
CIMB/Consensus (x)			1.08	0.91	N/A

Source: Company, CIMB Research, Bloomberg

## 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	2.91	4.20	126	10.3	9.4	10.4	3.6	34.6	4.0
CocoaLand	COLA MK	N	2.87	3.26	121	18.9	11.9	17.2	3.0	17.5	3.5
F&N Hldgs	FNH MK	U	14.46	9.20	1,641	16.2	19.2	7.0	3.4	41.1	3.7
Nestle (M)	NESZ MK	U	39.48	28.00	2,947	24.8	23.7	5.2	15.3	68.3	5.1
QSR	QSR MK	O	4.37	5.60	398	12.1	10.9	9.9	2.8	22.8	3.4
<b>Simple average</b>						<b>16.5</b>	<b>15.0</b>	<b>9.9</b>	<b>5.6</b>	<b>36.9</b>	<b>3.9</b>

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

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