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UPDATE REPORT

CIMB

CIMB Research Report

27 August 2010

CI Holdings

Drinking in the good news at analyst briefing

RECOM	Buy
PRICE	RM2.88
MKT CAPITALISATION	RM409m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	Nil

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Investment highlights

- **Maintain BUY.** The main takeaway from CI Holdings' (CIH) briefing yesterday was management's assurance that the construction of the RM45m new production line will be completed next month as scheduled. The new line will be used to produce non-carbonated beverages, including the star performer Tropicana. The large investment and the recently renewed bottling agreement with PepsiCo demonstrate a strong, long-term partnership between CIH and PepsiCo. We maintain our forecasts and target price of RM4.20, pegged to an unchanged 10% 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) additional capacity, and 2) an increasingly marketable product line.
- **A well-attended briefing.** Yesterday, CIH held a quarterly analyst briefing following the release of 4Q10 financial results the day before. Management presented to a packed room of 30. There were no surprises from the briefing but management took the opportunity to shed more light on two matters, namely the new production line and its agreement with PepsiCo.
- **New production line.** The strong response to Tropicana has surpassed CIH's expectations, prompting management to install a new line for the production of non-carbonated drinks. Yesterday, management confirmed that that the new line will be ready next month as scheduled. The additional capacity is expected to generate RM300m worth of annual sales. The breakeven level is 20% utilisation, which management aims to achieve by end-FY11.
- **Agreement with PepsiCo.** The large investment that CIH is making to expand capacity signals to the market that the company and PepsiCo are in for the long haul. The relationship has been cemented by the renewal of the bottling rights of wholly-owned Permanis for an unprecedented 10 years effective this year. It allays concerns over a contract breakdown which may disrupt operations.

Key stock statistics

FYE 30 Jun	2010	2011F
EPS (sen)	26.9	29.6
P/E (x)	10.7	9.7
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
Major Shareholders:		%
Datuk Johari Abdul Ghani		28.2
Continental Theme Sdn Bhd		10.4
PNB		9.5

Per share data

FYE 30 Jun	2008	2009	2010	2011F
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)	28.1	19.5	10.7	9.7
P/Cash Flow (x)	13.1	11.0	8.0	6.9
P/Book Value (x)	4.1	3.9	3.6	3.5
Dividend Yield (%)	1.4	2.4	3.8	4.2
ROE (%)	15.9	21.8	33.5	35.6
Net Gearing (%)	83.2	83.0	73.6	71.7

Source: Company, CIMB estimates, Bloomberg

Recent developments

On 25 Aug, CIH announced the appointment of Erwin Selvarajah as CEO. Erwin joined PepsiCo Beverages International's regional office in Thailand in 1995. His last position was finance director of Southeast Asia and Micronesia, based in Singapore. In 1999, he returned to Malaysia and joined Permanis as president and CEO and continued to hold his position until he was appointed as the new CEO of CIH. Datuk Johari Abdul Ghani, who is the biggest shareholder with a 28.2% stake, remains as MD.

Earnings outlook

Beating expectations for the 5th consecutive quarter. To recap, CIH beat expectations with a record 4Q net profit of RM11m, which took the full-year net profit to an all-time high RM38m (+82% yoy). This is the fifth straight quarter of results outperformance. The company also announced a full-year DPS of 11 sen, which is the highest payout ever. At yesterday's briefing, management was represented by the newly-appointed CEO Erwin and VP of corporate finance and planning Syed Khalil Syed Ibrahim. There were no surprises from the briefing but management took the opportunity to shed more light on two matters, namely the new production line and its recently-renewed bottling agreement with PepsiCo.

Improving investment profile. The first thing that struck us at the briefing was the size of the crowd. 30 analysts and fund managers filled the room, a major improvement on the small group of five, including us, who turned up at a briefing two years ago. A compelling growth story, active investor relations and wider research coverage contributed to the big turnout. In Dec 06, we were the first research house to initiate coverage on CIH, then a little-known loss-making F&B player that many still associated with KFC Holdings (KFC MK, Not Rated). There are now three houses tracking the stock. We also note that management has been keenly engaging with the investment community. In addition to the quarterly briefings, management has participated in four brokers' events this year including our small- to mid-cap conference in Jun.

RM300m annual sales from extra capacity. A production facility that sells all that it produces and hits maximum capacity in two years instead of the planned five years is something that some F&B producers can only dream of. In late CY09, management found itself in this situation, thanks to the strong response to non-carbonated drinks, in particular Tropicana. Launched in Mar 08, Tropicana has gone from strength to strength. To address the capacity constraint, management commissioned the construction of a new RM45m production line at its Bangi facility. During the briefing, management confirmed that that the new line will be ready next month as scheduled. The additional capacity is expected to generate RM300m worth of annual sales. The breakeven level is 20% utilisation, which management aims to achieve by end-FY11. Another substantial investment is the RM29.5m purchase of a warehouse, also in Bangi, as the current warehouse is bursting at the seams. Apart from the new line and new warehouse, management said that there are no other substantial investments planned. Annual maintenance capex is about RM10m.

10-year PepsiCo bottling agreement. The new line will be used to produce more Tropicana, which is a PepsiCo product. It will also be used to churn out other PepsiCo drinks, i.e. Gatorade and Lipton Tea, which are now contract packed by third parties due to CIH's capacity constraint. The large investment that CIH is making signals to the market that the company and PepsiCo are in for the long haul. The partnership has been further cemented by the renewal of Permanis's bottling rights for an unprecedented 10 years – instead of the usual 5-year term – effective this year. The extended agreement represents PepsiCo's strong commitment to Malaysia and its consumers. Therefore, at least for the next 10 years, investors can take comfort in CIH not running the risk of having a world-renowned partner turn competitor and building a plant that can cater to regional demand in its own backyard. About a year after F&N Holdings (FNH MK, Underperform) and The Coca-Cola Company announced in Feb 09 that they would part ways, Coca-Cola started the construction of a 12ha RM1bn bottling plant in Nilai.

Figure 1: P&L analysis (RM m)

FYE 30 Jun	2008	2009	2010	2011F
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

New net profit highs. 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 loss-making, debt-ridden company. As at end-Jul, 5.59% of CIH's shares were held by foreign investors. After a record performance in FY10, we expect the earnings momentum to continue in FY11 given the new line. At CY10-11 P/Es of 9-11x, CIH is the cheapest stock in our Malaysian F&B portfolio, offering a decent 3-year EPS CAGR of 10.4% and dividend yields of 4.0% (see Sector comparisons table).

Maintain BUY. We maintain our forecasts and target price of RM4.20, pegged to an unchanged 10% 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) additional capacity, and 2) an increasingly marketable product line.

Figure 2: 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)	17.8	10.7	9.7	8.8	8.0
Gross DPS (sen)	7.0	11.0	12.0	12.0	12.0
Dividend yield (%)	2.4	3.8	4.2	4.2	4.2
P/NTA (x)	3.9	3.6	3.5	3.4	3.2
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)	11.0	8.0	6.9	6.6	6.2
EV/EBITDA (x)	8.3	5.9	5.1	5.6	5.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.08	0.91	N/A

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2010	CY2011	3-yr EPS CAGR (%)	P/BV (x) CY2010	ROE (%) CY2010	Div yield (%) CY2010
CI Hldgs	CIH MK	B	2.88	4.20	125	10.2	9.3	10.4	3.6	34.6	4.0
Cerebos	CER SP	O	4.30	5.98	1,000	13.3	12.1	12.1	3.5	26.9	5.8
Charoen Pokphand	CPF TB	O	25.25	16.40	6,055	20.0	18.5	(0.3)	3.0	15.7	2.5
China Fishery	CFG SP	N	1.88	1.75	1,391	10.4	10.4	15.0	2.0	22.7	1.4
China Green	904 HK	O	8.78	10.45	998	10.0	7.9	21.4	2.0	21.9	2.5
Huiyuan	1886 HK	N	5.70	6.00	1,077	25.3	18.9	197.3	1.5	5.9	1.0
Mengniu	2319 HK	O	22.30	30.30	4,982	23.6	18.6	24.3	3.2	15.0	1.1
China Yurun	1068 HK	O	27.60	30.50	6,260	27.1	18.7	32.9	3.8	20.9	1.2
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	1,640	16.2	19.2	7.0	3.4	41.1	3.7
Indofood	INDF IJ	TB	4,500	4,950	4,394	15.2	13.6	22.5	3.2	23.8	2.1
Mayora	MYOR IJ	O	9,450	9,100	806	16.2	12.3	25.8	3.7	25.3	1.1
Nestle (M)	NESZ MK	U	39.48	28.00	2,946	24.8	23.7	5.2	15.3	68.3	5.1
Pacific Andes	PAH SP	O	0.29	0.36	608	5.9	6.0	17.3	0.7	12.5	5.6
Petra Foods	PETRA SP	N	1.45	1.50	654	17.2	13.4	25.2	2.2	15.3	2.6
QSR	QSR MK	O	4.47	5.60	407	12.4	11.2	9.9	2.8	22.8	3.4
TUF	TUF TB	O	61.00	38.50	1,718	15.9	15.0	8.2	2.9	19.5	3.2
TVO	TVO TB	N	24.70	16.80	582	14.1	13.3	1.5	3.2	23.8	4.3
Tingyi	322 HK	U	19.26	15.50	13,837	34.0	29.9	13.7	8.2	25.9	1.5
Want Want	151 HK	U	6.13	5.01	10,415	26.7	21.3	21.7	9.5	37.3	3.3
Simple average						**17.9**	**15.3**	**24.4**	**4.0**	**24.8**	**2.9**

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

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