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28 October 2010

## CI Holdings

No pulp fiction

<b>RECOM</b>	Buy
<b>PRICE</b>	RM3.84
<b>MKT CAPITALISATION</b>	RM545.3m
<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.** From our recent communication with CI Holdings' (CIH) management, we gathered that 1) the new RM45m production line in Bangi started its operations last month as scheduled, 2) the distribution network will be enhanced from 42,000 outlets at end-FY6/10 to 45,000 at end-FY11, and 3) management is still mulling over the possibility of a food-related acquisition. We maintain our EPS forecasts but raise our target price from RM4.20 to RM4.75 as we roll it over to end-CY11. In view of the stock's improved liquidity (Figure 3) and investors' recent appreciation for the company's strong prospects, we remove the 10% discount to our target market P/E, which has been revised from 15x to 13.8x. CIH remains a BUY, underpinned by the potential re-rating catalysts of 1) additional capacity, 2) increasingly marketable product line, and 3) M&A.
- **New line is up and running.** Currently, the new line is running at 20% utilisation. At full capacity, it will have the ability to manufacture products worth RM300m p.a. The new facility is used for the production of non-carbonated beverages, which include the star performer Tropicana. It also allows for the in-house manufacture of non-carbonated products, i.e. Lipton tea, which was previously contract-packed.
- **Improved distribution.** CIH plans to expand its distribution outlets by 7% yoy to 45,000 by end-FY11. A bigger distribution network is positive as it helps to cut out middleman fees, thereby allowing wholly-owned Permanis to handle the bulk of the distribution itself. In the process, brand visibility and product accessibility are enhanced, especially in non-urban areas.
- **Potential food-related acquisition.** Management is still considering M&As with local food-related companies to leverage its improved retail coverage. However, it stressed that talks are still in a preliminary stage and that it is not ready to sign any agreement yet. In our earlier notes, we had highlighted the possibility of CIH taking over a snack company, which would immediately give it an exposure to the food business.

Key stock statistics			Per share data				
	2010	2011F	FYE 30 Jun	2008	2009	2010	2011F
FYE 30 Jun			Book Value (RM)	0.7	0.7	0.8	0.8
EPS (sen)	26.9	29.6	Cash Flow (sen)	22.0	26.1	36.1	41.5
P/E (x)	14.3	13.0	Earnings (sen)	10.2	14.8	26.9	29.6
Dividend/Share (sen)	11.0	12.0	Dividend (sen)	4.0	7.0	11.0	12.0
NTA/Share (RM)	0.8	0.8	Payout Ratio (%)	28.1	34.1	29.5	29.2
Book Value/Share (x)	0.8	0.8	P/E (x)	37.5	26.0	14.3	13.0
Issued Capital (m shares)	142.0	142.0	P/Cash Flow (x)	17.4	14.7	10.6	9.2
52-week Share Price Range (RM)	RM1.44/RM3.95		P/Book Value (x)	5.4	5.2	4.8	4.6
<b>Major Shareholders:</b>			Dividend Yield (%)	1.0	1.8	2.9	3.1
Datuk Johari Abdul Ghani			ROE (%)	15.9	21.8	33.5	35.6
Continental Theme Sdn Bhd			Net Gearing (%)	83.2	83.0	73.6	71.7
PNB							

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

## Recent developments

On 30 Aug-8 Sep, CIH's MD and biggest shareholder Datuk Johari Abdul Ghani bought 2.6m shares at an estimated average cost of RM2.83/share. Consequently, his stake rose from 28.2% to 30.0%. Over the past few years, Datuk Johari has been accumulating CIH shares as the company's earnings continued to improve. When we initiated coverage on the stock on 28 Nov 06, his stake stood at 23.2%.

## Earnings outlook

**New facilities in Bangi.** Launched in Mar 08, Tropicana has gone from strength to strength. The favourable response to Tropicana has surpassed CIH's expectations, prompting management to install a new line for the production of non-carbonated drinks at its Bangi facility. Another substantial investment is the RM29.5m purchase of a warehouse, also in Bangi, as the current warehouse is already fully utilised. Apart from the new line and new warehouse, management said that there are no other substantial investments planned. Annual maintenance capex is about RM10m.

**Bigger distribution coverage.** CIH's distribution network has expanded from 36,595 outlets as at end-FY09 to 42,000 as at end-FY10. The company expects its retail reach to cover 45,000 outlets by FY11. 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.

**3-year EPS CAGR of 10.4%.** In our view, the improvement in the share price and trading volume (Figures 2 and 3) reflect investors' recognition of the strategic direction that CIH is taking and management's dynamism. 4Q10 was CIH's 16<sup>th</sup> consecutive quarter of profits and 5<sup>th</sup> straight quarter of results outperformance. Correspondingly, the stock's average daily trading volume has risen more than fourfold from 39,332 shares in CY09 to 167,774 shares in CY10 to date (Figure 3). After a new net profit high in FY10, we expect the earnings momentum to continue in FY11 given the additional capacity and bigger retail network. The M&A angle provides an added attraction. We forecast a 3-year EPS CAGR of 10.4% excluding potential takeover moves.

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

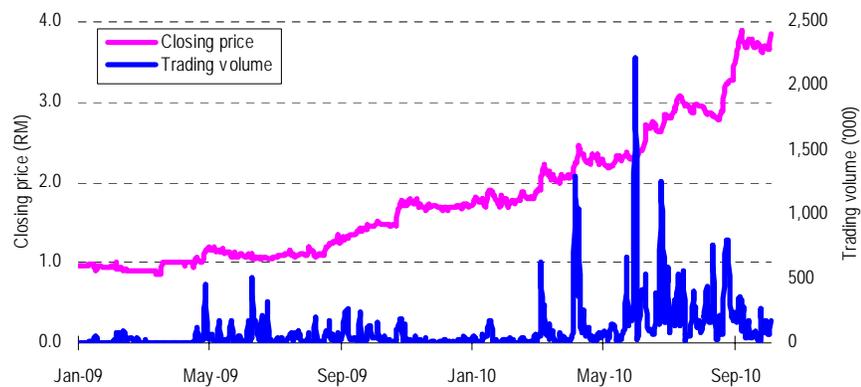
**Maintain BUY.** We maintain our EPS forecasts but raise our target price from RM4.20 to RM4.75 as we roll it over to end-CY11 and remove the 10% discount to our target market P/E, which has been revised from 15x to 13.8x. CIH remains a BUY, underpinned by the potential re-rating catalysts of 1) additional capacity, 2) increasingly marketable product line, and 3) M&A

Figure 2: Share price, Oct 09 – Oct 10 (RM)



Source: Bloomberg

Figure 3: Share price vs trading volume, Jan 09 – Oct 10



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)	23.7	14.3	13.0	11.8	10.6
Gross DPS (sen)	7.0	11.0	12.0	12.0	12.0
Dividend yield (%)	1.8	2.9	3.1	3.1	3.1
P/NTA (x)	5.2	4.8	4.6	4.5	4.3
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)	14.7	10.6	9.2	8.8	8.2
EV/EBITDA (x)	11.0	7.8	6.7	7.4	7.0
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.00	0.88	1.00

Source: Company, CIMB Research, Bloomberg

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