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8 November 2010

# CI Holdings

*Grape expectations*

<b>RECOM</b>	Buy
<b>PRICE</b>	RM3.92
<b>MKT CAPITALISATION</b>	RM556.6m
<b>BOARD</b>	Main (Syariah)
<b>SECTOR</b>	Food & Beverage
<b>INDEX COMPONENT</b>	Nil

CIH MK / CIHB.KL

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## Investment highlights

- Maintain BUY.** The main takeaway from CI Holdings' (CIH) briefing last Thursday was the launch of the Tropicana Twister blackcurrant on 15 Nov. Going up against Ribena, the new product is expected to generate RM15m worth of annual revenue and expand the ready-to-drink (RTD) blackcurrant segment by 34%. Imputing the additional revenue from the new variant, we raise our EPS forecasts by 1.8% for FY6/11, 3.5% for FY12 and 2.9% for FY13. Our 3-year EPS CAGR rises from 10.4% to 11.5%, excluding potential takeover moves. The earnings upgrades have the effect of upping our target price from RM4.75 to RM4.90, still pegged to an unchanged target market P/E of 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.
- Third Tropicana Twister variant.** Management held a quarterly analyst briefing following the release of 1Q11 financial results the day before. Management presented to a packed room of 33, its biggest crowd ever. There were no surprises from the briefing but management took the opportunity to highlight the new product, which is CIH's third Tropicana Twister fruit juice variant after the introduction of the orange and apple juices in Mar 08. The Tropicana Twister blackcurrant will be produced at the new RM45m Bangi production line which was commissioned in Sep. Tropicana is a PepsiCo brand.
- Second new launch in FY11.** The Tropicana Twister blackcurrant is CIH's second product launch in FY11 after the rollout of the well-received Revive Lime Burst in 1Q. Leveraging the strong Tropicana brand, management will introduce more fruit juices under the Tropicana umbrella in the coming years. In FY10, CIH added three products to its portfolio – Lipton Green Tea 9, Mountain Dew and Mirinda Sarsi.

### Key stock statistics

	2010	2011F
FYE 30 Jun		
EPS (sen)	26.9	30.1
P/E (x)	14.6	13.0
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)	RM1.45/RM4.00	
<b>Major Shareholders:</b>	%	
Datuk Johari Abdul Ghani	30.0	
Continental Theme Sdn Bhd	10.4	
PNB	8.4	

### 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	42.1
Earnings (sen)	10.2	14.8	26.9	30.1
Dividend (sen)	4.0	7.0	11.0	12.0
Payout Ratio (%)	28.1	34.1	29.5	28.7
P/E (x)	38.3	26.5	14.6	13.0
P/Cash Flow (x)	17.8	15.0	10.9	9.3
P/Book Value (x)	5.6	5.3	4.9	4.7
Dividend Yield (%)	1.0	1.8	2.8	3.1
ROE (%)	15.9	21.8	33.5	36.3
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.

## Recent developments

On 3 Nov, CIH announced its 1Q11 financial results. The company's net profit of RM11.8m accounted for 28% of our full-year forecast and 27% of consensus estimate. We consider the performance to be broadly in line with expectations as 1Q and 3Q are typically stronger quarters due to festive sales. 1Q11 net profit jumped 43% yoy, aided by a strong Hari Raya selling campaign and aggressive distribution drive. The absence of an interim dividend was not surprising.

## Earnings outlook

**Tropicana Twister blackcurrant is CIH's latest product.** In our results note, we wrote about the unveiling of a new Tropicana product this month. There were no surprises at the briefing but management took the opportunity to share details on the new product, the Tropicana Twister blackcurrant. Management was represented by CEO Erwin Selvarajah and VP of corporate finance and planning Syed Khalil Syed Ibrahim.

**Improving investment profile.** 33 analysts and fund managers filled the room, which is a new venue because the old venue can no longer accommodate the swelling crowd. A compelling growth story, active investor relations and wider research coverage contributed to the big turnout. On 28 Nov 06, we were the first research house to initiate coverage on CIH. Bloomberg data show that 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.

**Ribena is the biggest competitor.** The Tropicana Twister blackcurrant will be the third variant after the orange and apple fruit juices introduced in Mar 08. The RTD blackcurrant market is now Ribena's turf with an estimated 90% market share and annual revenue of around RM40m. Assuming CIH generates RM15m annual revenue from the new variant, the company could enlarge the RTD blackcurrant segment by 34%. In comparison, the orange and apple variants are believed to have expanded their respective segments by 40% since their launches in Mar 08. Tropicana Twister is currently Malaysia's bestselling chilled orange juice brand with 40% market share, followed by Marigold Peel Fresh with 25% and F&N's (FNH MK, Underperform) Sunkist and Fruit Tree with 14%. In FY10, Tropicana Twister contributed an estimated 20-30% to Permanis revenue, which translates into 18-27% of group revenue.

**Second new launch in FY11.** The Tropicana Twister blackcurrant is CIH's second new launch in FY11 after the introduction of the well-received Revive Lime Burst in 1Q. To recap, in FY10, CIH added three products to its portfolio – Lipton Green Tea 9, Mountain Dew and Mirinda Sarsi. The blackcurrant variant will be produced at the new RM45m production line, which was commissioned in Sep as scheduled. Assuming annual revenue of RM15m, the new product will take up 5% of the new capacity. CIH runs nine production lines at the Bangi facility: carbonated drinks (4), non-carbonated drinks (3) and mineral water (2) (Figure 2).

**Significant room for growth.** In Malaysia, the estimated per capita RTD beverage consumption is 200 8-oz servings compared with 550 in Singapore and 450 in Thailand (Figure 3). The local figure is far below the 1,500 recorded by the US, PepsiCo's home ground. We suspect that the low figure in Malaysia is driven by the popularity of restaurant- and stall-made drinks, which limits the growth of RTD beverages. This wide gap suggests substantial room for growth for CIH. Leveraging the strong Tropicana brand, management will roll out more fruit juices under the Tropicana umbrella in the coming years.

**Dividends and M&A.** CIH does not have a dividend policy but targets to pay 30-40% of its net profits as dividends. The dividend payout ratio will be maintained at 30-40% unless the company undertakes M&A activities. We have noted before that management is still considering M&As with local food-related companies to capitalise on its improved retail coverage. However, talks are still at a preliminary stage and management is not ready to sign any agreement yet. As at Jun 10, CIH's beverages reached 42,000 outlets nationwide, an improvement on 36,595 outlets as at Jun 09. The company plans to expand its distribution outlets to 45,000 by Jun 11.

**Figure 1: P&L analysis (RM m)**

FYE 30 Jun	2008	2009	2010	2011F
Revenue	290.2	363.0	516.4	582.5
Operating Profit (EBIT)	52.3	58.5	77.4	92.6
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	49.7
Effective Tax Rate (%)	7.1	25.2	20.8	14.0
Net Profit	14.5	21.0	38.2	42.8
Operating Margin (%)	18.0	16.1	15.0	15.9
Pretax Margin (%)	5.4	7.7	9.3	8.5
Net Margin (%)	5.0	5.8	7.4	7.3

Source: Company, CIMB estimates

## Recommendation

**3-year EPS CAGR of 11.5%.** Imputing RM15m additional annual revenue from the Tropicana Twister blackcurrant, we raise our EPS forecasts by 1.8% for FY11, 3.5% for FY12 and 2.9% for FY13. Our 3-year EPS CAGR rises from 10.4% to 11.5%, excluding potential takeover moves. The earnings upgrades have the effect of upping our target price from RM4.75 to RM4.90, still pegged to an unchanged target market P/E of 13.8x. After a new net profit high in FY10, we expect the earnings momentum to continue in FY11 given the additional capacity, new products and bigger retail network. We continue to rate CIH a BUY with the potential share price triggers being 1) additional capacity, 2) increasingly marketable product line, and 3) M&A.

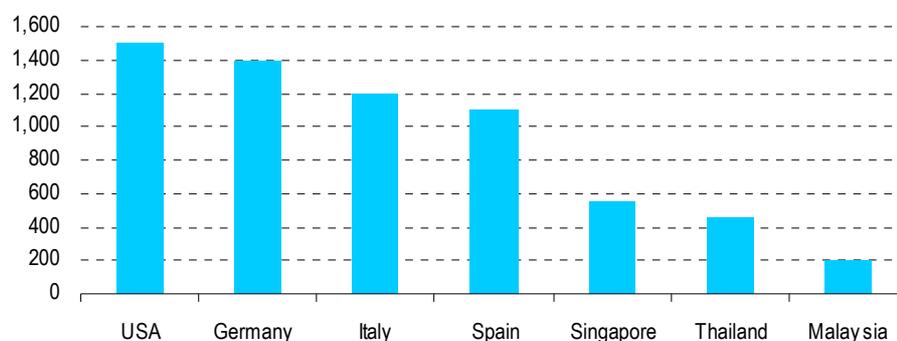
**Figure 2: Production lines**

	Carbonated drinks	Non-carbonated drinks	Mineral water
No. of lines	4	3	2
Max. annual capacity*	RM430m	RM560m	RM10m
Utilisation rate	50%	65%	100%

\* Three shifts per day

Source: Company

**Figure 3: Estimated per capita RTD beverage consumption (8-oz serving per person p.a.)**



2009 statistics for USA, Germany, Italy and Spain

2010 statistics for Singapore, Thailand and Malaysia

Source: Company

**Figure 4: Share price chart (RM)**



Source: Bloomberg

**Financial summary**

<b>FYE Jun</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue (RM m)	363.0	516.4	582.5	640.8	704.8
EBITDA (RM m)	45.7	64.4	75.6	69.7	73.5
EBITDA margins (%)	12.6	12.5	13.0	10.9	10.4
Pretax profit (RM m)	28.0	48.1	49.7	55.7	61.5
Net profit (RM m)	21.0	38.2	42.8	47.9	52.9
EPS (sen)	16.2	26.9	30.1	33.7	37.3
EPS growth (%)	+44%	+66%	+12%	+12%	+10%
P/E (x)	24.2	14.6	13.0	11.6	10.5
Gross DPS (sen)	7.0	11.0	12.0	12.0	12.0
Dividend yield (%)	1.8	2.8	3.1	3.1	3.1
P/NTA (x)	5.3	4.9	4.7	4.6	4.4
ROE (%)	21.8	33.5	36.3	39.3	42.0
Net gearing (%)	83.0	73.6	71.7	69.8	67.9
P/CF (x)	15.0	10.9	9.3	8.7	8.2
EV/EBITDA (x)	11.2	8.0	6.8	7.4	7.0
% change in EPS estimates			1.8	3.5	2.9
CIMB/Consensus (x)			0.98	0.97	1.03

Source: Company, CIMB Research, Bloomberg

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