



CIMB Research Report

CI Holdings

Juicy interim dividend surprise

2QFY09 RESULTS

22 January 2009

RECOM	Buy
PRICE	RM0.96
MKT CAPITALISATION	RM124.4m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	None

MALAYSIA

CIH MK / CIHB.KL

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Results highlights

- **Broadly in line.** CI Holdings' (CIH) 2QFY6/09 net profit surged 24% yoy to RM4m, bringing 1H net profit to RM8.5m. At 45% of our full-year forecast, it can be considered to be in line with our expectations given the likelihood of a stronger 2H. However, at 60% of consensus forecast, it was above consensus expectations. One thing that did surprise us was the gross interim DPS of 2 sen, which is the first interim dividend proposed by CIH since its return to profitability.
- **Tropicana leads.** 2Q09 is CIH's tenth straight quarter of profits. Similar to 1Q09, the bulk of the growth in 2Q09 came from strong sales of Tropicana Twister juices which were launched in Mar 08. The Tropicana Twister, a PepsiCo product, contributed 10% to Permanis's sales, which in turn made up an estimated 90% of CIH's sales. Although Tropicana is relatively new to the local market, it is now the leader of the fruit juice market with a 26% share, possibly at the expense of F&N's (FNH MK, Underperform) Fruit Tree. The second biggest player is Malaysia Milk Sdn Bhd's Marigold Peel Fresh which has around 21% market share
- **Hot response to chillers.** Improved brand visibility is another positive. Currently, there are no less than 12,000 Pepsi and Tropicana chillers nationwide, up from around 10,000 in Oct 08. There is certainly potential to increase sales of the chillers as CIH covers approximately 30,000 licensed retail outlets in Malaysia. Comparatively, F&N, whose bestseller is Coca-Cola, services more than 40,000.
- **Fizz from non-carbonated drinks.** Pepsi carbonated drinks remained the backbone of CIH with an estimated net profit contribution of 70% in 2Q09. However, we expect future growth to come from non-carbonated drinks, i.e. Tropicana, Lipton, Sting, Gatorade, Chill and Bleu, as the company leverages its new RM30m Bangi facility to grow products that were previously contract-packed.
- **Reiterate BUY.** Imputing the interim dividend, we increase our FY09-11 DPS forecasts from 4 sen to 6 sen, raising yields from 4.2% to 6.3%. As the impact on our EPS forecasts is not substantial, our target price is maintained at RM1.64, pegged to a P/E of 15x based on a 20% discount to the average valuation of bigger F&B producers. We continue to rate CIH a BUY as the stock could be in for a re-rating given a stronger product line and a wider distribution network.

Key stock statistics

	2008	2009F
FYE 30 Jun		
EPS (sen)	7.8	10.2
P/E (x)	12.3	9.4
Dividend/Share (sen)	4.0	6.0
NTA/Share (RM)	0.7	0.7
Book Value/Share (x)	0.7	0.7
Issued Capital (m shares)	129.6	129.6
52-weeks Share Price Range (RM)	RM0.80/RM1.20	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	26.2	
ASB	18.5	
Continental Theme Sdn Bhd	10.0	

Per share data

	2006	2007	2008	2009F
FYE 30 Jun				
Book Value (RM)	0.6	0.7	0.7	0.7
Cash Flow (sen)	5.8	16.1	22.0	26.2
Earnings (sen)	(2.9)	6.0	7.8	10.2
Dividend (sen)	0.0	0.0	4.0	6.0
Payout Ratio (%)	0.0	0.0	37.0	42.5
P/E (x)	nm	15.9	12.3	9.4
P/Cash Flow (x)	16.4	6.0	4.4	3.7
P/Book Value (x)	1.5	1.4	1.4	1.3
Dividend Yield (%)	0.0	0.0	4.2	6.3
ROE (%)	(4.6)	9.0	15.9	19.7
Net Gearing (%)	88.7	83.4	83.2	83.0

Source: Company, CIMB estimates, Bloomberg

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

Figure 3: Results comparison (RM m)

FYE Jun	2Q08	2Q09	% Change
Revenue	70.0	85.9	22.8
Operating Profit (EBIT)	26.8	29.8	11.3
Depreciation	n.a	n.a	-
Interest Expenses	(1.2)	(1.3)	4.2
Pretax Profit	4.3	5.2	21.2
Net Profit	3.2	4.0	23.7
Operating Margin	38.3	34.7	(9.3)
Pretax Margin	6.1	6.0	(1.2)
Net Margin	4.6	4.7	0.7

Source: Company, CIMB estimates

Figure 4: P&L analysis (RM m)

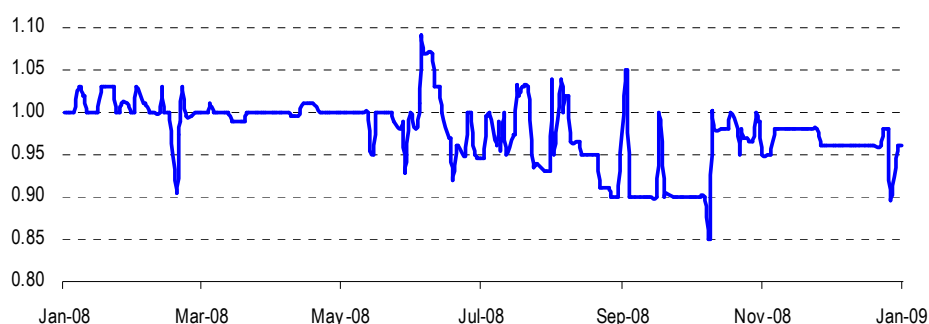
FYE 30 Jun	2006	2007	2008	2009 F
Revenue	222.2	267.0	290.2	362.8
Operating Profit (EBIT)	24.8	38.1	52.3	61.3
Depreciation	(11.3)	(13.0)	(14.0)	(15.0)
Interest Expenses	(7.0)	(4.9)	(8.7)	(9.2)
Pretax Profit	(4.8)	7.3	15.6	22.1
Effective Tax Rate (%)	na	(7.5)	7.1	14.0
Net Profit	(3.8)	7.8	14.5	19.0
Operating Margin (%)	11.2	14.3	18.0	16.9
Pretax Margin (%)	(2.2)	2.7	5.4	6.1
Net Margin (%)	(1.7)	2.9	5.0	5.2

Source: Company, CIMB estimates

Recommendation

Lower-priced treats. We continue to hold the view that the F&B sector provides a refuge with its defensive earnings and attractive dividends. We project GDP growth to decelerate to 3% in 2009 before picking up to 4.5% in 2010. While it is true that consumers are likely to be more cautious with their spending this year, CIH may not be much affected as some 80% of its volume consists of products that retail at RM2 or less, ideal for cost-conscious consumers who want to indulge in small treats.

Reiterate BUY. Imputing the interim dividend, we increase our FY09-11 DPS forecasts from 4 sen to 6 sen, raising yields from 4.2% to 6.3%. As the impact on our EPS forecasts is not substantial, our target price is maintained at RM1.64, pegged to a P/E of 15x based on a 20% discount to the average valuation of bigger F&B producers. We continue to rate CIH a BUY as the stock could be in for a re-rating given a stronger product line and a wider distribution network.

Figure 5: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (RM m)	267.0	290.2	362.8	435.3	522.4
EBITDA (RM m)	25.1	38.3	46.3	49.0	50.3
EBITDA margins (%)	9.4	13.2	12.8	11.2	9.6
Pretax profit (RM m)	7.3	15.6	22.1	23.3	24.4
Net profit (RM m)	7.8	14.5	19.0	20.0	21.0
EPS (sen)	6.0	11.2	14.7	15.4	16.2
EPS growth (%)	+308%	+86%	+31%	+5%	+5%
P/E (x)	15.9	8.6	6.5	6.2	5.9
FD EPS (sen)	6.0	7.8	10.2	10.7	11.2
FD P/E (x)	15.9	12.3	9.4	9.0	8.5
Gross DPS (sen)	-	4.0	6.0	6.0	6.0
Dividend yield (%)	-	4.2	6.3	6.3	6.3
P/NTA (x)	1.4	1.4	1.3	1.2	1.2
ROE (%)	9.0	15.9	19.7	19.7	19.9
Net gearing (%)	83.4	83.2	83.0	82.6	80.2
P/CF (x)	6.0	4.4	3.7	3.5	3.3
EV/EBITDA (x)	5.1	3.4	2.8	2.6	2.6
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.35	1.26	-

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

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