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24 April 2009

CI Holdings

CNY sales add fizz to a record quarter

RECOM	Buy
PRICE	RM1.00
MKT CAPITALISATION	RM129.6m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	None

CIH MK / CIHB.KL

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Results highlights

- **Broadly in line.** CI Holdings' (CIH) 3QFY6/09 net profit surged 64% yoy to RM5.2m (Figure 1), bringing 9M net profit to RM13.7m. At 72% of our full-year forecast, it can be considered to be in line with our expectations given the likelihood of a stronger 4Q. However, at 80% of consensus forecast, it was above market expectations. Also expected was the absence of an interim dividend.
- **Strong CNY sales.** Successful Chinese New Year promotions and efficient cost control contributed to a record quarter and 11th straight quarter of profits. Similar to 1H, the bulk of the growth in 3Q came from strong sales of Tropicana Twister juices which were introduced in Mar 08. It is now the leader of the fruit juice market with a 26% share, followed by Marigold Peel Fresh with a 21% slice of the market. Isotonic drink Revive also enjoyed a boost in sales following the launch of television advertisements. However, Revive trails F&N's (FNH MK, Underperform) 100Plus in terms of market share. As at Dec 08, 100Plus led the market for carbonated soft drinks and isotonic drinks with 26.3% share vs. Revive's 1.5% (Figure 3).
- **Margin enhancement.** Margins improved significantly (Figure 1) as CIH now handles the bulk of the distribution itself, cutting out middlemen fees. Its products ultimately reach 36,595 outlets nationwide (Figure 4), ranging from major accounts such as hypermarkets (i.e. Tesco, Carrefour and Giant), fast-food outlets (i.e. KFC and Pizza Hut) and convenience stores (i.e. petrol stations and 7-Eleven) to supermarkets, school canteens, mom-and-pop outlets and sports centres. In comparison, F&N distributes to more than 40,000 outlets.
- **Reiterate BUY.** We maintain our forecasts and target price of RM1.64, still pegged to 15x P/E, which is 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)	12.9	9.8
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 Johani 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	16.6	12.9	9.8
P/Cash Flow (x)	17.1	6.2	4.5	3.8
P/Book Value (x)	1.6	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	4.0	6.0
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 1: Results comparison (RM m)

FYE Jun	3Q08	3Q09	% Change
Revenue	79.3	90.6	14.3
Operating Profit (EBIT)	28.0	33.1	18.3
Depreciation	n.a	n.a	-
Interest Expenses	(1.3)	(1.2)	(8.0)
Pretax Profit	4.1	6.7	60.6
Net Profit	3.2	5.2	64.3
Operating Margin	35.3	36.5	3.5
Pretax Margin	5.2	7.3	40.5
Net Margin	4.0	5.7	43.7

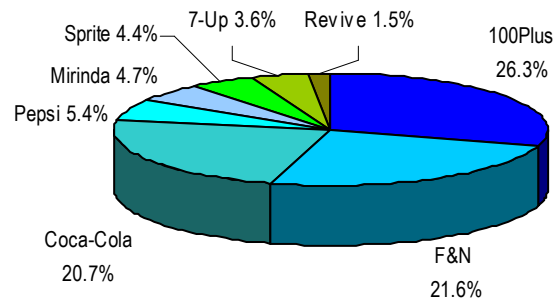
Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

FYE 30 Jun	2006	2007	2008	2009F
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

Figure 3: Market shares for carbonated soft drinks and isotonic drinks, Dec 08



Source: AC Nielsen

Figure 4: Distribution model

	Modern Trade (Hypers, Supers, C&G)	On Premise	Traditional Trade (Coffee, provision etc)		Wholesalers	
			KL/ JB/ KK	Other Regions		
% of Sales:	31%	7%	19%	23%	20%	= 100%
# Outlets	3,611	930	11,547	18,933	1,572	= 36,595
# Front line Selling Staff	78	15	67	98	11	= 269
Distribution Model	Direct by Permanis (DSD)	Direct by Permanis (DSD)	Direct by Permanis (DSD)	Via agents (ASND)	Large – Direct by Permanis Small - Via agents	
Partners	<ul style="list-style-type: none"> •Major national accounts •e.g. Carrefour, Giant, Jusco, •Makro, Tesco, 7-11, Gas 	<ul style="list-style-type: none"> •Major national accounts •e.g. KFC, Pizza Hut 	<ul style="list-style-type: none"> •3rd Party transporters 	<ul style="list-style-type: none"> •~22 Strong multi-brand Agents 	<ul style="list-style-type: none"> Large regional wholesalers 	
<p>← Direct Channels 57% of Volume, 44% of Outlets</p>						
<p>← Active Channels 80% of Volume, 96% of Outlets</p>				<p>← Passive Channels 20% of Volume, 4% of Outlets</p>		

Source: Company

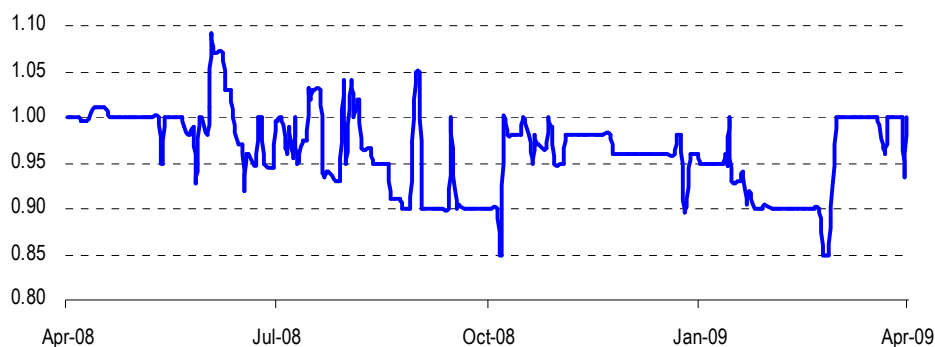
Recommendation

31% FD EPS growth in FY6/09. We expect CIH's turnaround story to continue. We forecast a fully-diluted EPS growth of 31% in FY6/09, thanks to the first full-year contribution from Tropicana juices and an overall improvement in the sales of other products, i.e. Lipton, Sting, Gatorade, Chill and Bleu, as the company uses its new Bangi factory for products that were previously contract-packed. Please refer to our note dated 30 Mar on our Bangi factory visit.

Small treats. Our economic research team projects Malaysia's GDP to contract by 3.0% in 2009 before picking up by 3.5% 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. We maintain our forecasts and target price of RM1.64, still pegged to 15x P/E, which is based on a 20% discount to the average valuation of bigger F&B producers. Dividend yield is attractive at 6.0%. We acknowledge that the stock's lack of liquidity is a hindrance to active trading despite the strong fundamentals. However, we understand that the company is working on this issue. 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 4: 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)	16.6	8.9	6.8	6.5	6.2
FD EPS (sen)	6.0	7.8	10.2	10.7	11.2
FD P/E (x)	16.6	12.9	9.8	9.3	8.9
Gross DPS (sen)	-	4.0	6.0	6.0	6.0
Dividend yield (%)	-	4.0	6.0	6.0	6.0
P/NTA (x)	1.5	1.4	1.3	1.3	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)	6.2	4.5	3.8	3.6	3.4
EV/EBITDA (x)	5.4	3.5	2.9	2.7	2.7
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.11	1.10	-

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

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