

26 August 2010 | 4QFY10 Results Review


C.I. Holdings

Reaffirm **BUY**

Sweeter and More Juicy

Increased Target Price (TP): RM3.77 (from RM3.40)

INVESTMENT HIGHLIGHTS

- **Above expectation.** C.I. Holdings (CIH) actual full year FY10 net profit exceeded ours and consensus estimates by 8% and 6.3% respectively. Impressive FY10 earnings growth of +82.1% was supported by strong soft drink sales, prudent cost control and lower effective tax rate.
- **Non-carbonated soft drinks to drive future growth.** Revenue contribution between non-carbonated and carbonated drinks for CIH is about 40% vs 60% currently and we estimate the product mix to be at 50%:50% in 2-3 years time. In particular, we expect stronger double-digit growth for the non-carbonated segment, which might help to achieve the target. In addition, given the track record of "Tropicana Twister" (launched in Mar 08), the No.1 ready-to-drink fruit juice in Malaysia with market share of about 35%, we believe CIH is able to capitalise on Tropicana brand name to introduce new fruit juice products.
- **Final dividend** of 7 sen per share gross has been proposed, pending shareholders' approval at the forthcoming AGM. For FY11, we expect net dividend yield of 3.1%.
- **Earnings revision.** Anticipating better sales growth, sustainable earnings margin (better operating efficiency to offset potential hike in sugar price) and lower effective tax rate (due to reinvestment allowance), we revised upward our FY11 earnings forecast by +10.9% to RM42.8m.
- **Reiterate BUY recommendation.** We are raising our Target Price for CIH to RM3.77 from RM3.40, after revising upwards our FY11 EPS forecast. Our derived TP is based on unchanged targeted PER of 12.5x. We expect continuous buying interest on CIH in view of the better than expected results. Management has also indicated that the company will continue to focus on its current core business to maximise growth and profitability while exploring other synergistic new business, which might be earnings accretive. On another perspective, CIH is currently trading at only 9.7x PER11, a huge discount to F&N's valuation of more than 16x.
- **Risks.** Higher sugar price might affect margin, assuming no selling price adjustment, which we believe is unlikely. Sugar and concentrate account about 30% of the production costs. On other mitigating side, stronger Ringgit will help to offset higher costs, of which 15-20% is denominated in USD. 

RETURN STATS

Price (25 Aug 10)	RM2.91
Target Price	RM3.77
Expected Share Price Return	+29.6%
Expected Dividend Yield	+3.1%
Expected Total Return	+32.7%

STOCK INFO

KLCI	1,396.97
Bursa / Bloomberg	2828 / CIH MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	142.00
Par Value (RM)	1.00
Market cap. (RM'm)	413.22
Price over NA	2.55x
52-wk price Range	RM1.09–RM3.12
Beta (against KLCI)	0.73
3-mth Avg Daily Vol	0.29m
3-mth Avg Daily Value	RM0.83m
Major Shareholders	
Johari bin Abd Ghani	28.17%
Continental S/B	10.44%
PNB	8.24%

INVESTMENT STATISTICS

FYE Dec	FY08	FY09	FY10E	FY11F
Revenue (RM'm)	290.5	363.0	516.4	578.4
EBIT (RM'm)	20.4	32.8	51.3	57.8
Pretax Profit (RM'm)	15.5	28.0	48.1	54.8
Net Profit (RM'm)	14.4	21.0	38.2	42.8
EPS (sen)	10.2	14.8	26.9	30.1
EPS growth (%)	84.0%	45.2%	82.1%	12.0%
PER(x)	28.6	19.7	10.8	9.7
Net Dividend (sen)	3.0	5.3	8.3	9.0
Net Dividend Yield (%)	1.0%	1.8%	2.8%	3.1%

Source: Company, Forecasts by MIDFR

CI Holdings: 4QFY09 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	4QFY10	%YoY	%QoQ	FY10	%YoY	
Revenue	140.4	46.4%	2.0%	516.4	42.3%	Driven by beverages division's continued growth in its non-carbonated portfolio, strong growth in isotonic beverages, successful festive selling campaigns, successful promotional campaigns and an aggressive distribution drive.
Cost of sales	-81.8	50.3%	1.1%	-304.6	35.6%	
Gross profit	58.6	41.3%	3.2%	211.8	53.0%	Helped by effective cost management.
Other op income	1.7	-65.7%	>100%	3.3	-38.6%	
Selling and distribution costs	-36.1	59.7%	3.8%	-126.2	69.3%	Enhancing selling and distribution coverage nationwide.
Admin. Expenses	-9.9	-3.6%	22.1%	-37.0	7.2%	
Finance costs	-0.5	-51.1%	-32.8%	-3.2	-34.2%	
Pre-tax profit	13.1	25.5%	-3.9%	48.1	71.9%	
Tax	-1.7	-45.0%	-37.7%	-10.0	41.0%	Lower in 4Q due to reinvestment allowance.
Net Profit	11.4	55.8%	4.7%	38.2	82.0%	
EPS (sen)	8.0	43.3%	4.7%	26.9	66.4%	
		+/- ppts	+/- ppts		+/- ppts	
EBIT margin (%)	9.7%	-2.3	-0.8	9.9%	0.9	
Tax rate (%)	13.2%	-16.9	-7.2	20.8%	-4.6	Due to reinvestment allowance.

Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.