

4 November 2010 | 1QFY11 Results Review

C.I. Holdings

All about soft drinks

Reaffirm **BUY**

Increased Target Price (TP): RM4.37
(from RM3.77)

INVESTMENT HIGHLIGHTS

- Appealing soft drinks business.** C.I. Holdings (CIH) continued to deliver commendable results in 1QFY11 with net profit grew +43.2%yoy or +3.6%qoq to RM11.8m, which accounted for 27.6% of our full year estimates. Beverages division contributed about 93% of the total. Continuous good partnership with PepsiCo and sustained soft drinks demand especially for the non-carbonated segment offer earnings visibility to the company.
- Revenue grew +24.1%yoy or +9.4%qoq** driven mainly by the growth in non-carbonated and isotonic beverages, successful promotional campaigns during Hari Raya celebration and aggressive distribution forces. For the tap-ware and sanitary ware division, we believe that the favourable topline performance (+13.3%yoy or +9.9%qoq) is attributed to the recovery of property development activities and economy.
- New capacity and distribution outlets expansion to cater further rise in demand.** The new non-carbonated production line, which commenced its operation in Sep 2010, will address the capacity constraint faced by the company as a result of better-than-expected sales for Tropicana fruit juice since the product launched in Mar 2008. Management is targeting 20% utilisation rate for the new capacity, of which at full deployment, it can produce RM300m worth of products. This will translate into RM60m additional sales or equivalent to +11.6% of CIH's FY10 revenue. We are expecting revenue growth of about +12%yoy in FY11. This is also supported by additional 3k distribution networks (estimated to hit 45k outlets by end-FY11 from 42k and 35k in FY10 and FY09 respectively) and the launching of 2-3 new products.
- Earnings estimate unchanged.** Despite 1QFY11 earnings was better than our expectation, we are keeping our FY11 forecast unchanged, after taking a more conservative stance on potential sugar price hike and higher operating costs per output for the new production line due to its low utilisation rate at the initial stage.
- Reiterate BUY recommendation.** We are raising our Target Price for CIH to RM4.37 from RM3.77, after imputing a higher valuation of 14.5x PER (from 12.5x). This is justified by rising penetration rate of CIH products nationwide, continuous track record in delivering earnings, and improved market sentiment and liquidity.

RETURN STATS	
Price (3 Nov 10)	RM3.92
Target Price	RM4.37
Expected Share Price Return	+11.4%
Expected Dividend Yield	+2.3%
Expected Total Return	+13.7%

STOCK INFO	
KLCI	1,507.60
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)	556.64
Price over NA	3.2x
52-wk price Range	RM1.45–RM4.00
Beta (against KLCI)	0.80
3-mth Avg Daily Vol	0.20m
3-mth Avg Daily Value	RM0.78m
Major Shareholders	
Johari bin Abd Ghani	30.00%
Continental S/B	10.44%
PNB	8.24%

INVESTMENT STATISTICS

FYE June	FY08	FY09	FY10	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)	38.5	26.5	14.6	13.0
Net Dividend (sen)	3.0	5.3	8.3	9.0
Net Dividend Yield (%)	0.8%	1.3%	2.1%	2.3%

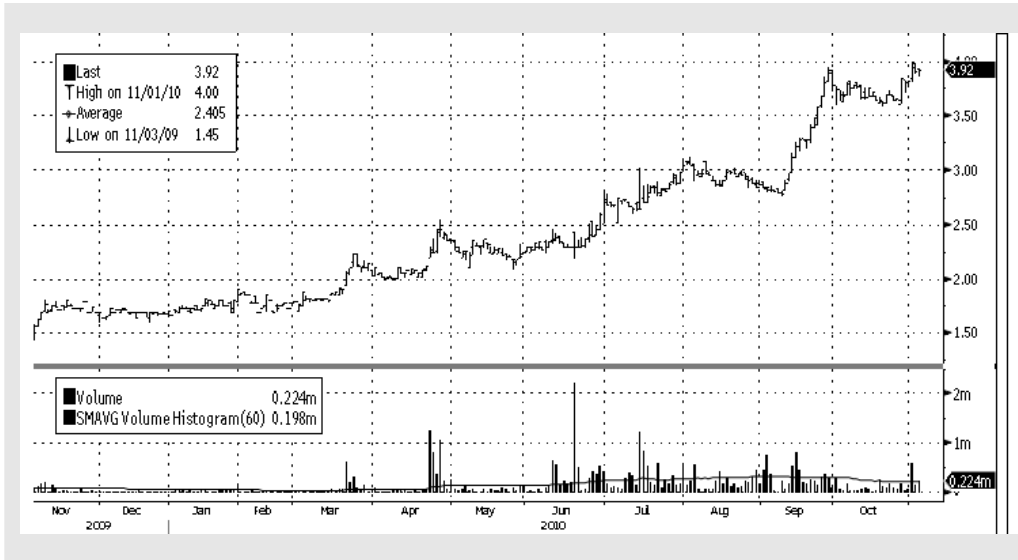
Source: Company, Forecasts by MIDFR

CI Holdings: 1QFY11 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Comments
	1QFY11	%YoY	%QoQ	
Revenue	153.6	24.1%	9.4%	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	-92.5	23.5%	13.1%	
Gross profit	61.1	25.0%	4.2%	Due to effective cost management.
Other op income	1.3	227.3%	-21.5%	
Selling and distribution costs	-34.2	23.2%	-5.4%	Enhancing selling and distribution coverage nationwide.
Admin. Expenses	-11.3	19.0%	14.5%	
Finance costs	-1.1	14.1%	93.1%	
Pre-tax profit	15.5	40.6%	18.4%	
Tax	-3.7	33.5%	>100%	Lower effective tax rate previously due to reinvestment allowance.
Net Profit	11.8	43.2%	3.6%	
EPS (sen)	8.3	43.2%	3.5%	
		+/- ppts	+/- ppts	
EBIT margin (%)	10.8%	1.1	1.1	
Tax rate (%)	24.0%	-1.3	10.8	

Sources: 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.