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## Company Update

# CI Holdings

BUY ↔

**Target** RM4.78  
**Previous Price** RM3.66  
**Price** RM3.81

### CONSUMER

CI Holdings is the exclusive bottler for PepsiCo as well as manufacturing tapware and sanitary ware fittings.

### Stock Statistics

	CIH MK
Bloomberg Ticker	CIH MK
Share Capital (m)	142.0
Market Cap (RMm)	541.0
52 week H L Price (RM)	3.95  1.44
3mth Avg Vol ('000)	198.4
YTD Returns	122.8
Beta (x)	0.78

### Major Shareholders (%)

Bin Abdul Ghani Johari	30.00
Continental Theme SB	10.44
Permodalan Nasional	8.24

### Share Performance (%)

Month	Absolute	Relative
1m	1.9	-5.2
3m	34.5	15.3
6m	60.7	43.8
12m	171.2	113.8

### 6-month Share Price Performance



## Sales Gush on Growing Thirst

Due to the high demand especially for bottled products, CIH has invested in a new non-carbonated bottle line which started production in September 2010. It also plans to launch another new manufacturing line for carbonated PET drinks in FY12. In addition to its launch of Revive Lime Burst in 1QFY11, CIH is likely to introduce 2 more new products in FY11. The group is also targeting to widen its sales network by 3,000 points in FY11 and is looking for M&A opportunities to boost earnings growth. We believe its 1QFY11 results will be encouraging, powered by its Tropicana drink and Mountain Dew sales and robust growth of its other brands. Given the higher stock liquidity and the re-rating of the sector's PE, we are raising our TP to RM4.78, pegged on a higher PE of 15x FY11 EPS.

**New non carbonated line takes off.** Due to capacity constraints and increasing demand for non-carbonated drinks, CI Holdings (CIH) has invested RM45m in a new non-carbonated manufacturing line. This new line, which has twice the speed of the last one, is expected to cater for 4-5 years of growth before the group starts to consider starting another line. Commercial production from the new line commenced in September 2010 and management aims to progressively ramp up utilization towards exceeding its 20% break even utilization rate by end-FY11. With the new line, CIH intends to address capacity constraints for its Tropicana products and move back some of its other products that are currently outsourced. We estimate that the new line could generate ~RM20m-40m in FY11.

**Looking to expand carbonated PET line.** Due to strong growth in its carbonated portfolio, especially carbonated isotonic, management is also considering expanding its carbonated production capacity with a new carbonated PET bottle line. The expected capex will range from RM20m-RM30m. Management said this new line is likely to come on board in FY12.

**New products, wider sales network to boost sales.** CIH launched 3 drinks, namely Lipton Green Tea 9, Mountain Dew and Mirinda Sarsi in FY10. So far, the group has launched Revive Lime Burst and we expect to see 2 other products being launched in FY11. CIH's strategy is to launch 2-4 products a year and focus on promoting them aggressively, thereby improving the success rate of its launches. We believe its 1QFY11 results would be encouraging, bolstered by Tropicana drink sales, the newly launched Mountain Dew as well as growth from its other brands. The company plans to expand its distribution outlets to 45,000 in FY11 from 42,000 in FY10. Meanwhile, the group is continuing on its search for M&A opportunities and prefers an acquisition target that could widen its product range and entails the same distribution channels to realize cost synergies.

FYE Jun (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	290.5	363.0	516.4	594.5	670.1
Net Profit	14.5	21.0	38.2	45.3	52.9
% chg y-o-y	84.9	44.2	82.0	18.6	16.9
Consensus				43.9	52.5
EPS (sen)	10.2	14.8	26.9	31.9	37.3
DPS (sen)	5.7	9.9	15.6	18.1	21.2
Dividend yield (%)	1.0	1.8	2.9	3.3	3.9
ROE (%)	14.0	15.8	23.7	24.0	24.0
ROA (%)	63.8	29.0	41.1	32.2	17.4
PER (x)	37.2	25.8	14.2	12.0	10.2
BV/share (RM)	0.73	0.93	1.14	1.33	1.55
P/BV (x)	6.0	5.2	4.1	3.4	2.9
EV/ EBITDA (x)	27.5	19.3	12.7	9.7	8.2

**RECOMMENDATION**

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**Raised TP to RM4.78.** We are forecasting FY11 and FY11 earnings to grow by 17%-19% to RM45.3m and RM52.5m respectively. Despite the stronger RM against USD, which would lower its raw material costs, we expect margins to be flattish in FY11 due to spiraling raw material prices and higher fixed costs given that the group's new line only started operating in September 2010. However, we expect margins to improve in the following year as the group achieves higher economies of scale. Given that the sector has undergone a re-rating recently, as well as our view that CIH deserves a higher PE and taking into account its market leadership of a few main products and stock liquidity which has tripled since June 2010, we are raising our target PE from 11.3x to 15x, in line with the food industry average, which in turn shores up our TP to RM4.78. We like CIH's business strategy in leveraging on PepsiCo's brands without duplicating the product offering of both parties and its introduction of fewer new products (2-4 new products/year) to ensure a higher success rate. Furthermore, the extension of its manufacturing agreement with Pepsico to 10 years instead of 5 years previously, has eased investor concern of the company not being able to renew the contract. CIH is expected to release its results on 3 Nov 2010.

**EARNINGS FORECAST**

<b>FYE Jun (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	290.5	363.0	516.4	594.5	670.1
EBITDA	31.5	45.5	62.7	73.5	86.8
PBT	15.5	28.1	48.2	57.2	66.9
Net Profit	14.5	21.0	38.2	45.3	52.9
EPS (sen)	10.2	14.8	26.9	31.9	37.3
DPS (sen)				11.0	12.8
<b>Margin</b>					
EBITDA (%)	10.9	12.5	12.1	12.4	13.0
PBT (%)	5.4	7.7	9.3	9.6	10.0
Net Profit (%)	5.0	5.8	7.4	7.6	7.9
<b>ROE (%)</b>	<b>14.0</b>	<b>15.8</b>	<b>23.7</b>	<b>24.0</b>	<b>24.0</b>
<b>ROA (%)</b>	<b>5.5</b>	<b>7.1</b>	<b>9.8</b>	<b>10.5</b>	<b>11.0</b>
<b>Balance Sheet</b>					
Fixed Assets	88.8	85.7	125.3	161.5	173.7
Current Assets	118.0	155.6	210.6	229.0	275.4
Total Assets	141.0	174.0	222.8	251.0	282.8
Current Liabilities	122.3	120.9	165.6	181.4	198.3
Net Current Assets	141.0	174.0	222.8	251.0	282.8
LT Liabilities	36.7	40.1	61.4	62.5	62.5
Shareholders Funds	104.2	132.8	161.4	188.5	220.3
Net Gearing (%)	63.8	29.0	41.1	32.2	17.4

**OSK Research Guide to Investment Ratings**

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated (NR):** Stock is not within regular research coverage

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