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## Company Update

# CI Holdings

## Buoyed by Enlarging Beverage Market

The takeaways from CIH's analyst briefing on its 1QFY11 results last Thursday are: (i) CIH is launching another new product – blackcurrant juice – at the end of Nov/Dec; (ii) management expects margins to normalize in FY11; (iii) the group is setting up a new carbonated PET bottle line in FY12; and (iv) statistics show that Malaysians' consumption of ready-to-drink beverage is low, which offers substantial growth potential. Given the unchanged fundamentals and our belief that CIH has room to grow in the beverage space, we maintain our BUY call with a TP of RM4.78.

**One more new product.** Apart from providing insights on its 1QFY11 performance, the strong results were mainly driven by Tropicana, Lipton products, Mountain Dew and Revive Isotonic, management also said it is launching another non-carbonated product, blackcurrant juice at end-Nov or Dec 2010, in addition to the newly launched Revive Lime Burst in 1QFY11. Given local consumers' wide acceptance of Ribena's blackcurrant product, management believes that this new product, which contains blackcurrant juice, holds vast growth potential.

**Margins seen normalizing in FY11.** While CIH's EBITDA margins have been on an uptrend in the past few years due to increasing economies of scale, these have begun to normalize since FY10. Management has guided for EBITDA margin to stabilize to about 12.2%-12.5% in FY11 versus our estimate of 12.4% as the economies of scale are partially offset by higher raw material prices and operating expense from the commissioning of its new non-carbonated production line in Sept 2010. The group will focus less on lower margin products such as Asian drinks and mineral water and hopes to maintain gross profit margin at 38%-42%.

**Plans for new carbonated PET bottle line.** As we stated in our 1 Nov 2010 report, CIH is also considering expanding its carbonated production capacity with a new carbonated PET bottle line. The new line is likely to come onstream in FY12 at an estimated capex of range from RM20m-RM30m. We are forecasting RM50m in capex for FY11, which also factors in recurring maintenance capex of RM10m-RM12m/year, and capex of RM26.6m from the acquisition of a warehouse.

**Overall ready-to-drink beverage pie still growing.** Tropicana sales have been growing despite the launch of Minute Maid by Coca-cola in June 2010. CIH attributes this to: (i) the growing beverage market in most developing countries whereby the growth of beverage exceeds GDP growth, and (ii) the low per capital consumption of ready-to-drink beverage in Malaysia compared to other countries. According to Euromonitor, Permanis, Malaysia Milk SB and Pokka Ace managed to gain some soft drink market share from Yeoh Hiap Seng and F&N Coca-cola in 2009.

**BUY** ↔  
**Target**  
**Previous**  
**Price**

**RM4.78**  
**RM4.78**  
**RM3.92**

### CONSUMER

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

### Stock Statistics

	CIH MK
Bloomberg Ticker	142.0
Share Capital (m)	556.6
Market Cap (RMm)	4.00   1.60
52 week H L Price (RM)	198.6
3mth Avg Vol ('000)	129.2
YTD Returns	0.78
Beta (x)	

### Major Shareholders (%)

Bin Abdul Ghani Johari	30.00
Continental Theme SB	10.44
PNB	8.24

### Share Performance (%)

Month	Absolute	Relative
1m	8.0	1.0
3m	33.2	19.3
6m	77.6	56.0
12m	149.0	83.7

### 6-month Share Price Performance



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	-	-	-	43.6	49.4
EPS (sen)	10.2	14.8	26.9	31.9	37.3
DPS (sen)	4.0	7.0	11.0	12.8	14.9
Dividend yield (%)	1.0	1.8	2.8	3.3	3.8
ROE (%)	14.0	15.8	23.7	24.0	24.0
ROA (%)	5.5	7.1	9.8	10.5	11.0
PER (x)	38.3	26.5	14.6	12.3	10.5
BV/share (RM)	0.73	0.93	1.14	1.33	1.55
P/BV (x)	6.2	5.3	4.2	3.4	3.0
EV/ EBITDA (x)	28.2	19.8	13.1	9.9	8.4

## RECOMMENDATION

**Maintain BUY at a TP of RM4.78 (based on 15x FY11 EPS).** Given the unchanged fundamentals and as we believe that CIH will see more room to grow in the beverage space, we maintain our FY11/12 earnings forecast and BUY recommendation on the stock. While management has indicated that it is difficult to find a suitable acquisition target due to pricing factors and as most of the food companies are family-owned, we are looking forward for its potential acquisition of food players, which would help it widen its product range and realize cost synergy. Although PepsiCo is also involved in the manufacture of food (Cheetos, Tostitos, Walkers, Sunchips, Lay's, Smiths, Ruffles, Quaker and etc), we understand that unlike PepsiCo's beverage division, which operates a franchise model, the food division prefers company-owned models. Hence, we believe it would take some convincing for CIH to change PepsiCo's typical approach to allow it to manufacture and distribute Pepsi's food products in Malaysia.

**Figure 1: Products launched**

2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Lipton Green Tea	Pepsi Max	Boss coffee - original	Tropicana 100% Pure Premium Orange Juice	Mountain Dew
Pepsi Gold	Sting Energy - Regular & Strawberry	Boss coffee - Latte	Gatorade Grapefruit	Lipton 9 Green Tea
	7-up Revive	Tropicana Twister Juice - Orange	Gatorade Tiger	Mirinda Sarsi
		Tropicana Twister Juice - Apple		

Source: CI Holdings

**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)	4.0	7.0	11.0	12.8	14.9
Margin					
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
ROE (%)	14.0	15.8	23.7	24.0	24.0
ROA (%)	5.5	7.1	9.8	10.5	11.0
Balance Sheet					
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	263.2	294.9	388.4	432.4	481.1
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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Published and printed by :-

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