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Institute Sdn Bhd
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Company No: 233327 -M

Corporate Highlights

Visit Note

15 January 2010

C.I. Holdings

Geared To Quench Thirst

Share Price	:	RM1.72
Recom	:	**Not Rated**

Table 1 : Investment Statistics (CIHLDG; Code: 2828) — **Bloomberg: CIH MK**

FYE June	Turnover (RMm)	Net profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Net Gearing (x)	ROE (%)	GDY (%)
2006a	220.6	(3.8)	n.m	n.m	n.m	n.m	7.8	0.0	n.m	0.0
2007a	265.8	7.9	5.5	n.m	31.0	n.m	5.3	0.1	9.2	0.0
2008a	290.5	14.5	10.2	84.9	16.8	n.m	4.0	0.1	15.0	2.3
2009a	363.0	21.0	14.8	44.2	11.6	n.m	2.9	Net cash	17.7	4.1

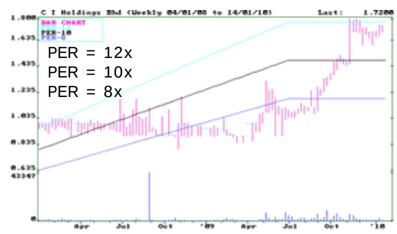
Main Board Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC — ** Consensus Based On IBES Estimates*

- **Background.** Currently, under its two subsidiaries namely Permanis and Doe Industries, C.I Holdings' principal activities are manufacturing and trading of beverages as well as tap ware and ceramic sanitary tap ware. Permanis has the exclusive right under a 5-year renewable EBA (Exclusive Bottling Agreement) with PepsiCo to manufacture, distribute and sell soft drinks under the Pepsi brand and other peripheral brands within Malaysia. Doe Industries is involved in manufacturing chrome-plated brass tap wares and sanitary fittings, while Potex (90% owned by Doe) is focused on manufacturing ceramic sanitary ware.
- **Prospects.** 1) Solid tie-up with PepsiCo; 2) sizeable and expanding beverage product lines; 3) small impact from higher sugar price; 4) boost from seasonal demand; 5) extensive distribution channels; and 6) cross selling between tap and sanitary ware.
- **1QFY06/10 strong growth.** 1QFY06/10 revenue increased by 29% qoq and 36.8% yoy, boosted mainly by 31.5% qoq and 42.6% yoy growth in the beverage division. PBT margin declined in 1QFY06/10 vs. 4QFY06/09 by 2.1%-pts due to the heavy promotions held during the quarter, although on a yoy basis, PBT margin jumped to 8.8% in 1QFY06/10 (vs. 6.3% in 1QFY06/09), attributed to better economies of scale and prudent cost control.
- **Earnings outlook.** For the next 3-5 years, management expects an early teens growth rate for revenue, driven by better demand from an increased distribution network and new products in the beverage division. This will be further boosted by cross-selling activities in the tap ware and sanitary ware divisions. Management expects profitability to post higher growth than top line growth, benefiting from higher economies of scale, as sales volume grow.
- **Risks.** The risks include: 1) significant drop in demand; 2) significant increase in raw material prices such as crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.
- **Investment case.** Currently, CIH is trading at 9.6x and 8.6x FY06/10 and FY06/11 earnings, respectively, based on consensus estimates, which is relatively low versus the consumer sector PE of 12.1-13.4x and its historical PE range of 11.6-16.8x over the past two years. This is also lower than its peers such as F&N with 2-year historical PE of 17-23x. Based on IBES consensus estimates of 17 sen and 20 sen EPS for FY06/10-11, we arrive at an estimated fair value of RM2.37 based on target CY10 PE of 13x, which is a 10% discount to our consumer sector target PE of 14.5x CY10, attributed for CIH's smaller market cap size and weaker liquidity.

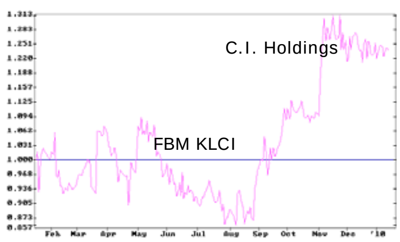
Issued Capital (m shares)	142.0
Market Cap(RMm)	224.2
Daily Trading Vol (m shs)	0.04
52wk Price Range (RM)	0.85-1.80
Major Shareholders:	**(%)**
Datuk Johari Abdul Ghani	25.3
PNB	15.6
Continental Theme	10.4

FYE June	FY10	FY11	FY12
EPS chg (%)	n.m	n.m	n.m
Var to Cons (%)	n.m	n.m	n.m

PE Band Chart



Relative Performance To FBM KLCI



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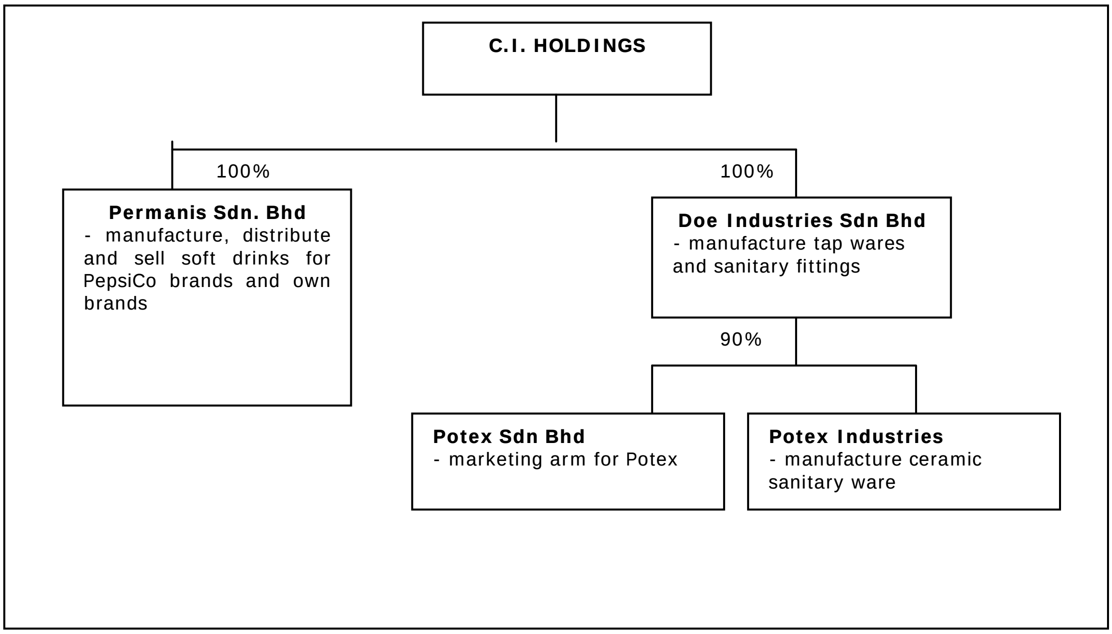
BACKGROUND

- **Principal activities.** C.I. Holdings was established in 1973 and was subsequently listed in Main Board of Bursa Malaysia in 1983. Currently, under its two subsidiaries namely Permanis and Doe Industries, C.I Holdings principal activities are manufacturing and trading of beverages as well as tap ware and ceramic sanitary tap ware.

Chart 1. C.I. Holdings Corporate Structure

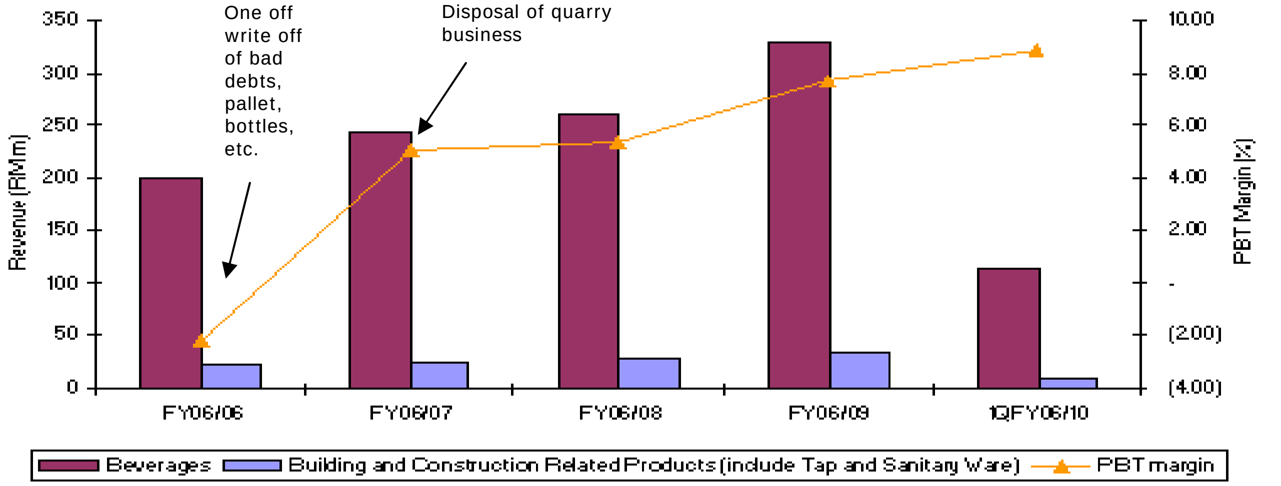


Source: Company

- **Beverage division.** This division under Permanis, has the exclusive rights under a 5-year renewable EBA (Exclusive Bottling Agreement) with PepsiCo to manufacture, distribute and sell soft drinks under the Pepsi brand and other peripheral brands within Malaysia. Circa 80% of CIH's total beverage portfolio are PepsiCo brands with a wide span of beverage categories such as carbonated drinks, isotonic, juice, etc. The remaining 20% is contributed by its own brand drinks which are the beverage categories not served by PepsiCo (see Table 2). Carbonated drinks account for 70% of total beverages portfolio currently. As at 1QFY06/10, beverages contributed circa 92% to CIH's total revenue with PBT contribution of 91.7% (PBT margin of about 8.8%) (Chart 2).

- **Tap ware and sanitary ware division.** Doe Industries is involved in manufacturing chrome-plated brass tap wares and sanitary fittings, while Potex is focused on manufacturing ceramic sanitary ware. Despite commanding higher prices, this division leverages on higher value proposition products with better quality, and is therefore well placed to compete against overseas competitors, especially from China, which competes by offering lower quality and lower-priced products. About 8% of CIH's revenue in 1QFY06/10 was contributed by this division, with PBT contribution of 8.3% (PBT margin of 10.2%).

Chart 2. Revenue Breakdown and PBT Margin



Source: Company

Table 2: CIH Beverage Portfolio

PepsiCo Brands	Own Brands
<u>Carbonated Soft Drinks</u> 1) Pepsi 2) 7Up 3) Mirinda 4) Everess 5) Kickapoo	<u>Carbonated Soft Drinks</u> 1) Frost
<u>Isotonic</u> 1) Revive 2) Gatorade	<u>Isotonic</u> 1) Excel
<u>"Ready to drink" (RTD) tea</u> 1) Lipton	<u>Asian Drinks</u> 1) Chill
<u>RTD Coffee</u> 1) Boss	<u>Water</u> 1) Bleu 2) Shot
<u>Energy Drinks</u> 1) Sting	
<u>Chilled RTD Juice</u> 1) Tropicana	

Source: Company

Table 3: CIH Tap Ware and Sanitary Ware Portfolio

1) Ignite
2) Huber
3) Prima
4) Q'Tee
5) Colonial
6) Aria
7) Palesa
8) Suva
9) Viva
10) Doe Basics
11) Neu
12) Medlab
13) Estivo
14) Chefline
15) Serengetti
16) Ariston

Source: Company

PROSPECTS

- **Solid tie-up with PepsiCo.** There are a few factors that we believe will ensure the renewability of PepsiCo's EBA with Permanis: 1) strong relationship built over the past 37 years since 1973; 2) unlike the F&N and Coca-Cola contract which specifies that both parties are not allowed to produce products that will become direct competitors to each other's products, the product range developed by PepsiCo and Permanis' brands are complementary; 3) re-franchising to a new party every five years will be costly and not feasible as construction of a sizeable beverage plant that will be able to cater PepsiCo's manufacturing needs will take about 2 years to complete; and 4) PepsiCo's flexibility to work in hand with Permanis to develop products to serve local market needs.

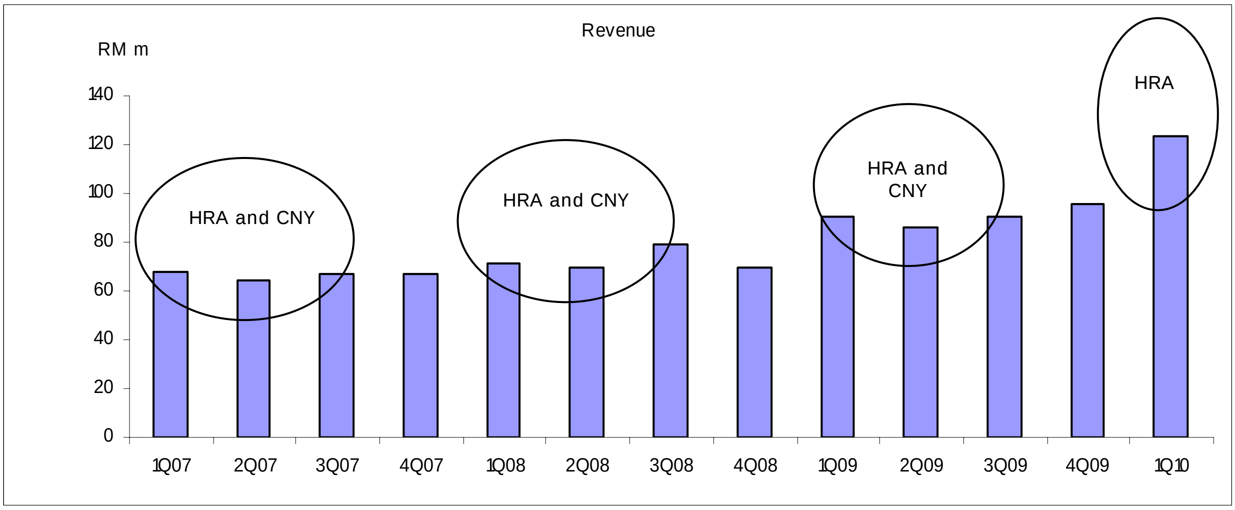
- **A beneficiary of F&N and Coca-Cola contract termination.** We believe the F&N and Coca-Cola distribution contract termination provide an opportunity for CIH to expand its market share. With the termination, CIH's main competitor, F&N would no longer be able to provide full range of beverages to its customers like restaurants, safes and small retail outlets. In order to do this, the restaurant on retail outlet owners would have to place two refrigerators (one for F&N products and one for Coca-Cola brand drinks) in the outlet, which would take up extra spare and incur additional cost. CIH would be able to leverage on this by promoting its full range of beverage products which can be placed in only one refrigerator. However, we note that this opportunity may only be available for a short term period, until such time that F&N / Coca-Cola build up a few product range in their refrigerators again. Recall that the contract between Coca-Cola and F&N will end on 30th September 2011.

- **Sizeable and expanding beverage product lines.** Given the sizeable and expanding product ranges served by PepsiCo's brands and CIH's own brands, we believe demand will continue to be sustainable. On-going improvements are being made to its products across all brands and is expected to gain momentum, especially in catching up with the current market trend for health-oriented drinks such as juice. PepsiCo's Tropicana Twister in particular, is already the market leader (currently with 30% market share) in the chilled ready-to-drink (RTD) juice market and the enhancements currently being made to the product (ie. Tropicana 100% and Tropicana Juice Plus) will further help to penetrate the RTD juice market. CIH is also banking on Lipton's established name in the tea market by selling Lipton RTD tea products, which currently leads the market with circa 30% market share. In addition, management is currently exploring further enhancements to its existing drinks as well as engaging in various discussions to introduce new products in order to meet the changing market demand.

- **Small impact from higher sugar price.** We understand that the 20 sen increase in sugar prices starting 1st Jan 2010 can be covered by circa 1% increase in revenue. Even though management indicated that a selling price increase for CIH's beverages is unlikely in the near term in order to pass on the sugar price increase to consumers, we understand that CIH will cover the higher costs indirectly through other means such as trade promotions and discounts to push sales volumes up. Going forward however, we believe that if the sugar subsidy is reduced more significantly or lifted altogether, CIH would more likely be able to pass on the increase to consumers along with the other players in the beverage industry, in view of the relatively inelastic demand for its products. Note that the last time CIH increased prices of its carbonated drinks was in 2006, whereas prices for its non-carbonated drinks have not been increased as yet. Post the price increase, we note that demand remained solid as CIH did not experience any declines in its sales volume.

- **Boost from seasonal demand.** The demand for beverages is positively influenced by major festive seasons such as Hari Raya Aidilfitri (HRA) and Chinese New Year (CNY), and we note that demand would normally pick up prior to the festive month (see Chart 3). According to management, CNY normally brings in on average of circa 10% higher revenue vs. Hari Raya Aidilfitri for beverages, given the more modern Chinese lifestyle which prefers RTD beverages for gatherings. This together with a recovering economy and consumer sentiment should bode well for CIH in 1QFY06/10 and 3QFY06/10.

Chart 3. FY06/07-FY06/10 Qoq Revenue Breakdown



Source: Company, RHBRI

- **Extensive distribution channels.** Currently, CIH distributes its beverages to about 40,000 licensed outlets nationwide, as opposed to its closest competitor with circa 42,000 distributors out of the total beverage distribution channels of 75,000. We understand that this number excludes in-direct distributors who sell the products on a small scale. If we were to include these passive distribution channels, CIH beverages would have reached a far wider market range from the bigger scale distributors such as hypermarkets and restaurant franchises such as KFC and Pizza Hut (CIH is exclusive beverage supplier to the above mentioned restaurant outlets) to the small-scale distributors such as hawker stalls. CIH aims to surpass its closest competitor in terms of the number of distribution channels in the medium term as it is targeting to grow its distributors to about 45,000.

- **Cross selling of tap and sanitary ware.** Potex was acquired in February 2008, in order to complement CIH's existing Doe business of tap ware. Post-acquisition and a rationalisation exercise, management has (since late CY08) begun cross-selling activities for the products, with encouraging results. The success rate of its cross-selling activities have been about 30-60% so far. Currently, CIH's market share in tap ware is circa 30% while the market share for sanitary ware is less than 5%, although we note that the sanitary ware industry is two times larger than the tap ware industry. Doe and Potex products are targeted to the middle and upper middle class segments, which we believe distinguishes itself and give it a competitive edge against imported lower quality products especially from China which competes on lower prices. As we anticipate an increase in construction activities due to the improved economy, we believe CIH's advantage as the only locally manufactured "one-stop-shop" for tap and sanitary ware products would prove more fruitful in the future.

- **Dividend.** CIH has a 30-35% net dividend payout policy, which has yielded net yields of 1.7-3% p.a. over the past two years. According to management, this is expected to continue going forward.

EARNINGS REVIEW

- **1QFY06/10 strong growth.** 1QFY06/10 revenue increased by 29% qoq and 36.8% yoy, boosted mainly by 31.5% qoq and 42.6% yoy growth in the beverage division. This was mainly due to the increase in demand during HRA following aggressive festive promotions as well as persistent growth from Tropicana Twister and Lipton. Even though the tap and sanitary ware division revenue declined by 6.9% yoy in 1QFY06/10, we are not overly concerned as we believe demand from construction activities has begun to pick up, as shown in the sequential quarterly growth of 5.6% qoq from 4QFY06/09. As for overall PBT margin, this declined in 1QFY06/10 vs. 4QFY06/09 by 2.1 % pts due to the heavy promotions held during the quarter, although on a yoy basis, PBT margin jumped to 8.8% in 1QFY06/10 (vs. 6.3% in 1QFY06/09), attributed to better economies of scale and prudent cost control.

- **Balance sheet.** As at 1QFY06/10, CIH had total borrowings of RM74.9m, or a net gearing of 0.3x. However, we are not too concerned about the net gearing level given that the bulk of its borrowings are short term in nature (68.6% of total borrowings) which are used for its working capital requirements. Netting off the short term debt, CIH is in a net cash position. More importantly, CIH's net interest cover (including short term debt) is comfortable at 12.8x as at 1QFY06/10. Going forward, given no major capex (circa only RM10m p.a. for marketing and purchase of refrigerators), we expect CIH will continue reduce its net debt position.

- **Sustainable earnings.** For the next 3-5 years, management expects an early teens growth rate for revenue, driven by better demand from an increased distribution network and new products in the beverage division. This will be further boosted by cross selling activities in the tap ware and sanitary ware divisions. Management expects profitability to post higher growth than top line growth, benefiting from economies of scale, as sales volumes grow.

RISKS

- **Risks to our view.** The risks include: 1) significant drop in demand; 2) significant increase in raw material prices like crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.

VALUATIONS

- **Investment case.** Currently, CIH is trading at 10.1x and 8.8x FY06/10 and FY06/11 earnings, respectively, based on consensus estimates, which is relatively low versus the consumer sector PE of 12.1-13.4x and its historical PE range of 11.6-16.8x over the past two years. This is also lower than its peers such as F&N with 2-year historical PE of 17-23x and in the range of Yeo Hiap Seng's historical PEx of 8-19x. Based on IBES consensus estimates of 17 sen and 20 sen EPS for FY06/10-11, we arrive at an estimated fair value of RM2.37 based on target CY10 PE of 13x, which is a 10% discount to our consumer sector target PE of 14.5x CY10, attributed for CIH's smaller market cap size and weaker liquidity.

Table 3: Earnings History

FYE June (RMm)	FY06	FY07	FY08	FY09
Turnover	**220.6**	**265.8**	**290.5**	**363.0**
Turnover growth (%)	(76.6)	20.5	9.3	25.0
Cost of Sales	(154.8)	(170.3)	(183.7)	(224.6)
Gross Profit	65.9	95.5	106.8	138.4
EBITDA	**12.2**	**28.9**	**31.8**	**45.8**
EBITDA margin (%)	5.5	10.9	10.9	12.6
Depr&Amor	11.1	10.2	11.4	12.9
Net Interest	(5.3)	(5.2)	(4.8)	(4.9)
Pretax Profit	**(4.2)**	**13.5**	**15.5**	**28.0**
Tax	0.8	0.5	(1.1)	(7.1)
Minorities	(0.0)	0.0	0.1	0.1
Net Profit	**(3.8)**	**7.9**	**14.5**	**21.0**

Source: Company data

IMPORTANT DISCLOSURES

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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