

**Board:** Main

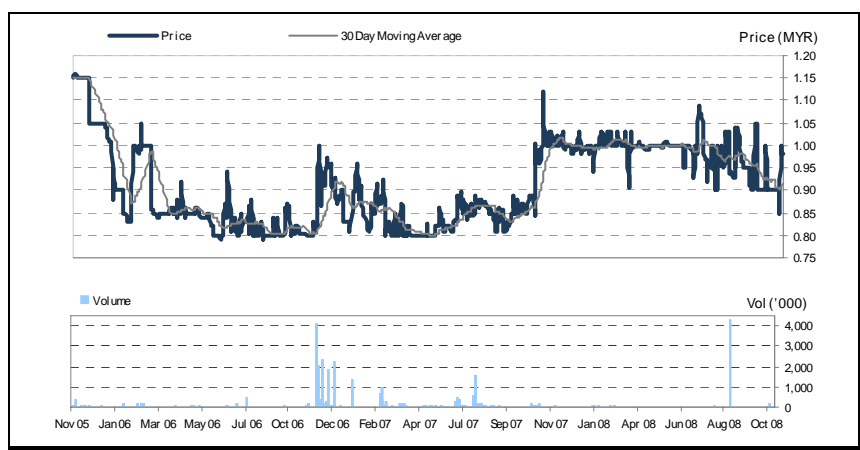
**Sector:** Consumer Products

**GICS:** Consumer Staples/Soft Drinks

**Market Value - Total:** MYR127.0 mln

**Summary:** C.I. Holdings (CIH) is primarily engaged in bottling, selling and distribution of beverages, and manufacturing and trading of tap and sanitary ware.

**Analyst:** Ai Lien Ng



**Results Review & Earnings Outlook**

- CIH's 1QFY09 (Jun) revenue improved 27.2% YoY to MYR90.5 mln and net profit reached 32% of our full year forecast. The results were within our expectations. The strong results were due to the increase in beverage sales during the Hari Raya festive period which occurred earlier this year as well as the continued success of Tropicana Twister introduced in March 2008.
- Beverage sales contributed to 88% of total revenue (+23.6% YoY) while the tap and sanitary ware division contributed to the remaining 12% (+57.7% YoY). The tap and sanitary ware division benefited from contribution from newly acquired sanitary ware subsidiary, Potex.
- Escalating raw material costs eroded gross margin which declined to 41.3% in 1QFY09 vs 44.8% in 1QFY08. However, operating margin improved to 7.7% in 1QFY09 from 7.0% in 1QFY08, due to greater economies of scale and prudent management of marketing expenses.
- Management aims to focus on operational improvements in its beverage division and grow existing non-carbonated products that were previously contract packed. In the tap and sanitary ware division, it will leverage on cross promotional opportunities and expand its export business.
- We are leaving our earnings forecasts for FY09 and FY10 broadly unchanged. Our revised FY09 and FY10 estimates are MYR14.1 mln (from MYR13.9 mln) and MYR15.9 mln (unchanged), respectively.

**Recommendation & Investment Risks**

- We maintain our Hold recommendation on CIH with a lower 12-month target price of MYR1.03 (from MYR1.12). Our target price also includes a projected net DPS of 3.0 sen for FY09.
- We have reduced our target price after adjusting lower our revenue forecasts for FY11 onwards to reflect more conservative growth assumptions. Our target price is derived from a DCF-based valuation and our key assumptions are: WACC of 9% to 11% (unchanged) and terminal growth rate of 2% (unchanged).
- CIH currently trades at an FY09 PER of 9.0x, which is a discount to its peer average of 13x. We believe this is mainly due to its much smaller market capitalization. Its dividend yield of 4.1% is also less attractive compared with that of its peers.
- Risks to our recommendation and target price include higher-than-expected raw material and packaging costs (like aluminum and corrugated cartons), increased competition from other beverage products, and slower-than-expected consumer spending, which would affect demand for its products.

**Key Stock Statistics**

FY Jun.	2008	2009E
Reported EPS (sen)	11.2	10.9
PER (x)	8.7	9.0
Dividend/Share (sen)	4.0	4.0
NTA/Share (MYR)	0.43	0.99
Book Value/Share (MYR)	0.80	1.36
No. of Outstanding Shares (mln)	129.6	
52-week Share Price Range (MYR)	0.85 - 1.09	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	23.2	
Datin Mariam Prudence Binti Yusof	20.2	
Skim Amanah Saham Bumiputera	18.5	

**Per Share Data**

FY Jun.	2006	2007	2008	2009E
Book Value (MYR)	0.63	0.69	0.80	1.36
Cash Flow (sen)	1.8	21.8	20.2	22.2
Reported Earnings (sen)	-2.9	6.1	11.2	10.9
Dividend (sen)	0.0	0.0	4.0	4.0
Payout Ratio (%)	0.0	0.0	26.4	27.2
PER (x)	NM	16.1	8.7	9.0
P/Cash Flow (x)	54.7	4.5	4.9	4.4
P/Book Value (x)	1.6	1.4	1.2	0.7
Dividend Yield (%)	0.0	0.0	4.1	4.1
ROE (%)	-10.8	16.5	15.0	10.0
Net Gearing (%)	88.7	59.2	51.3	24.7

\*Stock deemed Shariah compliant by the Securities Commission.

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**Quarterly Performance**

FY Jun. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	90.5	71.2	27.2
Reported Operating Profit	6.9	5.0	39.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	5.7	3.9	45.7
Reported Net Profit	4.4	3.1	43.6
Reported Operating Margin (%)	7.7	7.0	-
Reported Pre-tax Margin (%)	6.3	5.5	-
Reported Net Margin (%)	4.9	4.4	-

Source: Company data

**Profit & Loss**

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	265.8	290.2	326.7	348.6
Reported Operating Profit	18.7	20.4	21.0	22.8
Depreciation & Amortization	-14.1	-11.6	-14.7	-14.0
Net Interest Income / (Expense)	-4.9	-4.7	-3.0	-1.6
Reported Pre-tax Profit	7.3	15.5	16.4	18.6
Effective Tax Rate (%)	NM	7.1	15.0	15.0
Reported Net Profit	7.9	14.5	14.1	15.9
Reported Operating Margin (%)	7.0	7.0	6.4	6.5
Reported Pre-tax Margin (%)	2.7	5.4	5.0	5.3
Reported Net Margin (%)	3.0	5.0	4.3	4.6

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Hold	1.03
26-Nov-07	Hold	1.12
17-May-07	Hold	0.91
5-Mar-07	Hold	0.90
23-Feb-07	Hold	0.93
22-Nov-06	Sell	0.78
10-Nov-06	Sell	0.74
23-Aug-06	Strong Sell	0.57
17-May-06	Strong Sell	0.64
20-Dec-05	Strong Sell	0.78

