

Recommendation: **STRONG BUY**

Stock Code: 2828

Bloomberg: CIH MK

Price: MYR1.18

12-Month Target Price: MYR1.70

Date: August 27, 2009

Board: Main

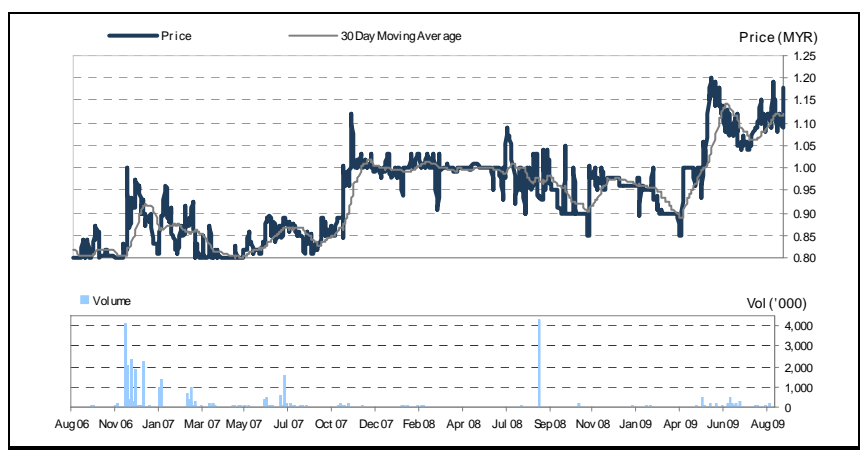
Sector: Consumer Products

GICS: Consumer Staples/Soft Drinks

Market Value - Total: MYR167.6 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 reported FY09 (Jun) net profit of MYR21.0 mln, +44.4% YoY, which was 17% above our forecast of MYR17.9 mln. The variance lies in higher-than-expected revenue, higher gross margin and an MYR2.0-mln debt write-back in 4QFY09.
- Beverage sales for FY09 grew 25.4% and contributed to 90.3% of revenue mainly due to rapidly growing non-carbonated division. The success of Tropicana Twister and expansion of hot-fill products in-house continued to drive the non-carbonated beverage sales. The tap and sanitary ware division also fared well, achieving revenue growth of 20.4% in FY09 as it leveraged on cross promotional activities between the tap ware and sanitary ware divisions. Increased sales of non-carbonated beverage, which enjoys higher margin, resulted in higher gross margin.
- Going forward, management expects to aggressively grow its non-carbonated beverages by investing further in non-carbonated beverage brands. It also expects its tap and sanitary ware division to benefit from infrastructure projects linked to the government's economic stimulus package.
- After factoring higher revenue and gross profit margin assumptions, we lift our net profit estimate for FY10 by 23% to MYR23.8 mln. We also introduce our FY11 net profit forecast of MYR27.3 mln assuming a revenue growth of 11.7% and stable EBIT margin of 9.2%.

### Key Stock Statistics

	2009	2010E
FY Jun.		
Reported EPS (sen)	16.2	17.4
PER (x)	7.3	6.8
Dividend/Share (sen)	7.0	8.0
NTA/Share (MYR)	0.60	0.71
Book Value/Share (MYR)	0.94	1.04
No. of Outstanding Shares (mln)	142.0	
52-week Share Price Range (MYR)	0.85 - 1.20	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	27.0	
Permodalan Nasional Bhd	15.7	
Continental Theme Sdn Bhd	11.1	

\*Stock deemed Shariah compliant by the Securities Commission.

## Recommendation & Investment Risks

- We upgrade our recommendation on CIH to Strong Buy (from Buy) with a higher 12-month target price of MYR1.70 (from MYR1.30), following earnings forecast upgrade. We also add a final net DPS of 3.8 sen for FY09.
- Our target price is derived from DCF-derived valuation and our key assumptions remained unchanged: WACC of 9% to 10% and terminal growth rate of 2%.
- Current valuation of 6.8x FY10 EPS appears attractive relative to its peers, which trade at an average forward PER of 11.3x. Our target PER of 9.7x would be a fair 14% discount, in our opinion, for its smaller market capitalization. Share price is also supported by a dividend yield of 6.8%.
- Strong cashflow from its business and conversion of warrants, which expired in Jun.09, has strengthened the group's balance sheet. The group raised MYR13.4 mln from conversion of 12.4 mln warrants, boosting cash to MYR40.9 mln and lowering net gearing to 28.4%.
- 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.

### Per Share Data

	2007	2008	2009	2010E
FY Jun.				
Book Value (MYR)	0.69	0.80	0.94	1.04
Cash Flow (sen)	21.8	20.2	26.9	28.0
Reported Earnings (sen)	6.1	11.2	16.2	17.4
Dividend (sen)	0.0	4.0	7.0	8.0
Payout Ratio (%)	0.0	26.7	35.5	36.0
PER (x)	19.4	10.5	7.3	6.8
P/Cash Flow (x)	5.4	5.9	4.4	4.2
P/Book Value (x)	1.7	1.5	1.3	1.1
Dividend Yield (%)	0.0	3.4	5.9	6.8
ROE (%)	16.5	15.0	17.7	16.9
Net Gearing (%)	63.4	63.8	28.4	28.0

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**Quarterly Performance**

FY Jun. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	95.9	69.8	37.5
Reported Operating Profit	11.5	4.4	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	10.4	3.2	>100
Reported Net Profit	7.3	5.0	45.9
Reported Operating Margin (%)	12.0	6.3	-
Reported Pre-tax Margin (%)	10.9	4.6	-
Reported Net Margin (%)	7.6	7.2	-

Source: Company data

**Profit & Loss**

FY Jun. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	290.5	363.0	406.5	454.3
Reported Operating Profit	20.4	32.8	36.9	41.6
Depreciation & Amortization	-11.6	-13.9	-14.4	-14.6
Net Interest Income / (Expense)	-4.8	-4.9	-5.2	-5.4
Reported Pre-tax Profit	15.5	28.0	31.5	36.0
Effective Tax Rate (%)	7.1	25.2	25.0	25.0
Reported Net Profit	14.5	21.0	23.7	27.1
Reported Operating Margin (%)	7.0	9.0	9.1	9.2
Reported Pre-tax Margin (%)	5.4	7.7	7.7	7.9
Reported Net Margin (%)	5.0	5.8	5.8	6.0

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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	1.70
27-Apr-09	Buy	1.30
23-Jan-09	Hold	1.10
4-Nov-08	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

