

Recommendation: **BUY**

Stock Code: 2828

Bloomberg: CIH MK

Price: MYR1.56

12-Month Target Price: MYR1.80

Date: November 4, 2009

Board: Main

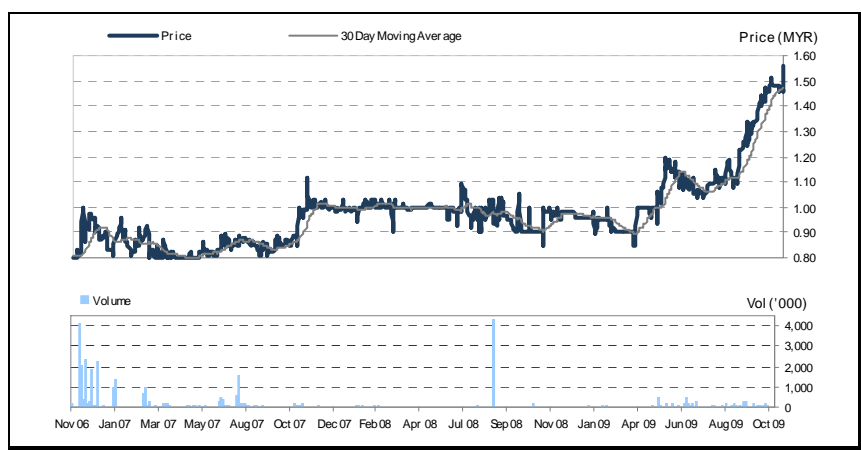
Sector: Consumer Products

GICS: Consumer Staples/Soft Drinks

Market Value - Total: MYR221.5 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 1QFY10 (Jun) results were ahead of expectations, net profit of MYR8.1 mln (+82.8% YoY and 11.0% QoQ) accounting for 34.1% of our original full-year forecast. The variance lies in higher-than-expected beverage sales, resulting in revenue growing 36.8% YoY and 29.0% QoQ to MYR123.8 mln.
- Strong topline growth was due to successful Hari Raya festive promotions as well as the continued growth from the non-carbonated beverages. Beverage sales accounted for 92% (vs. 90% in 4QFY09) of group revenue due to seasonal factors. Operating margin improved to 9.6% in 1QFY10 from 7.7% in 1QFY09 as a result of economies of scale from higher turnover.
- Management aims to achieve strong growth in its non-carbonated beverage sales by investing further into product branding, distribution and production capacity. This could put some pressure on profit margins, going forward. While we expect the group to deliver strong revenue in coming quarters, the bottomline growth is unlikely to commensurate with the growth at the topline.
- We raise our net profit forecasts for FY10 and FY11 by 4.4% to 9.3% to MYR26.0 mln and MYR28.5 mln respectively. The revisions were due to lifting revenue growth assumptions and lowering operating margins to 8.9% (from 9.1%) and 8.6% (from 9.2%).

Key Stock Statistics

	2009	2010E
FY Jun.		
Reported EPS (sen)	16.2	18.3
PER (x)	9.6	8.5
Dividend/Share (sen)	7.0	8.0
NTA/Share (MYR)	0.60	0.72
Book Value/Share (MYR)	0.94	1.06
No. of Outstanding Shares (mln)	142.0	
52-week Share Price Range (MYR)	0.85 - 1.56	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	25.4	
Permodalan Nasional Bhd	15.7	
Continental Theme Sdn Bhd	10.4	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We downgrade our recommendation by a notch to Buy (from Strong Buy) but raise our 12-month target price to MYR1.80 (from MYR1.70) to reflect the upgrade to our earnings forecasts. The potential upside to our target price has narrowed after strong run-up in share price since our last report in August. Our less aggressive view is also premised on possible cost challenges from rising commodity prices which may impact profit margins negatively. Thus far, the strength of the MYR against the USD has offset the effect of higher commodity prices.
- 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%.
- Despite the strong outperformance in share price, CIH's current valuation of 8.5x FY10 EPS and 7.8x FY11 EPS still looks attractive, in our opinion, compared with the sector's average FY11 PER of 11.4x.
- 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	1.06
Cash Flow (sen)	21.8	20.2	26.1	29.7
Reported Earnings (sen)	6.1	11.2	16.2	18.3
Dividend (sen)	0.0	4.0	7.0	8.0
Payout Ratio (%)	0.0	26.7	35.5	32.7
PER (x)	25.7	13.9	9.6	8.5
P/Cash Flow (x)	7.2	7.7	6.0	5.2
P/Book Value (x)	2.3	1.9	1.7	1.5
Dividend Yield (%)	0.0	2.6	4.5	5.1
ROE (%)	16.5	15.0	17.7	18.4
Net Gearing (%)	63.4	63.8	28.4	30.2

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Quarterly Performance

FY Jun. / MYR mln	1Q10	1Q09	% Change
Reported Revenue	123.8	90.5	36.8
Reported Operating Profit	11.8	6.9	70.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	10.9	5.7	90.8
Reported Net Profit	8.1	4.4	82.8
Reported Operating Margin (%)	9.6	7.7	-
Reported Pre-tax Margin (%)	8.8	6.3	-
Reported Net Margin (%)	6.6	4.9	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	290.5	363.0	452.4	508.3
Reported Operating Profit	20.4	32.8	40.1	43.9
Depreciation & Amortization	-11.6	-12.8	-14.4	-14.6
Net Interest Income / (Expense)	-4.8	-4.9	-4.3	-4.6
Reported Pre-tax Profit	15.5	28.0	35.1	38.3
Effective Tax Rate (%)	7.1	25.2	26.0	26.0
Reported Net Profit	14.5	21.0	26.0	28.5
Reported Operating Margin (%)	7.0	9.0	8.9	8.6
Reported Pre-tax Margin (%)	5.4	7.7	7.7	7.5
Reported Net Margin (%)	5.0	5.8	5.8	5.6

Source: Company data, S&P Equity Research

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Glossary

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	Buy	1.80
27-Aug-09	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
23-Aug-06	Strong Sell	0.57
17-May-06	Strong Sell	0.64

