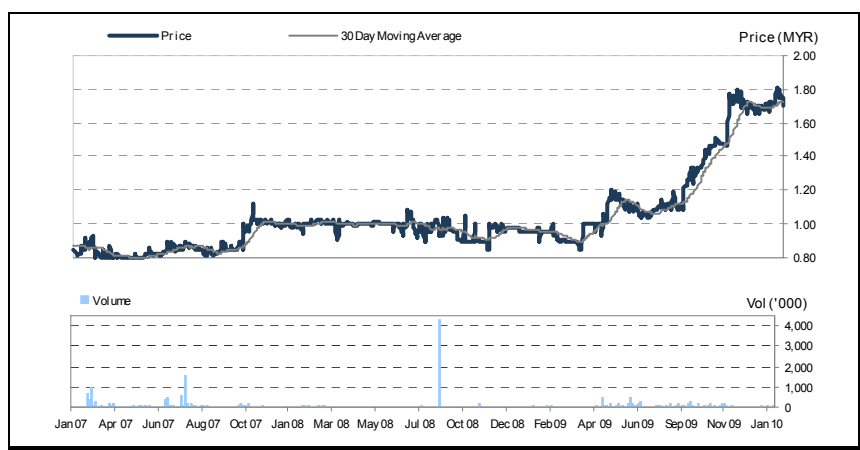


Recommendation: **BUY**Stock Code: **2828**Bloomberg: **CIH MK**Price: **MYR1.70**12-Month Target Price: **MYR2.00**Date: **January 28, 2010****Board:** Main**Sector:** Consumer Products**GICS:** Consumer Staples/Soft Drinks**Market Value - Total:** MYR241.4 mln

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 2QFY10 (Jun) results were ahead of expectations, with revenue growing 33.3% YoY to MYR114.5 mln and net profit up 95.1% YoY to MYR7.8 mln. 1HFY10 net profit came to 61% of our previous full-year estimate. The strong results were attributable to the continued popularity of its beverages and prudent cost management. However, 2QFY10 pre-tax profit declined 3.8% QoQ to MYR10.5 mln as the strong seasonal sales from the Hari Raya festive period was captured in the preceding quarter.
- Beverage sales contributed to 92% of total revenue in 1HFY10, improving by 35.5% YoY, due mainly to continued growth of its non-carbonated beverages. Higher investment in selling and distribution expenses was effective in generating higher sales (selling and distribution costs comprised 23.2% of total revenue in 1HFY10 vs 20.1% in 1HFY09). Pre-tax margin of beverage division improved to 9.2% in 2QFY10 compared with 8.8% in 1QFY10 as a result of a shift to more profitable brands and packages. Contribution from the tap and sanitary ware division remains small at 7% in 2QFY10 (vs. 8% in 1QFY10) amid a challenging environment in the construction sector.
- We lift our net earnings estimate for FY10 and FY11 by 12.6% and 7.6% to MYR29.3 mln and MYR30.6 mln, respectively to factor better-than-expected results. We project revenue growth slowing down to 9.2% in FY11 as its growth may be constrained by production capacity (its PET non-carbonated capacity is running at full capacity).

Recommendation & Investment Risks

- We maintain our Buy recommendation on a higher 12-month target price of MYR2.00 (from MYR1.80) which reflects our earnings upgrades. The group is looking to invest in a new plant to cater to strong demand for its products. Our earnings forecast for FY11 is conservative as we have not included contribution from a new PET line, which the company is targeting to complete in 1QFY11.
- 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%.
- The stock's current valuation still looks attractive at 8.2x FY10 EPS and 7.7x FY11 EPS against the sector's average forward PER of 11.1x despite the strong outperformance in share price recently. CIH also announced an interim dividend of 4 sen. Dividend yield is decent at 5.3% based on the company's dividend payout ratio of 30%-35%.
- 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.	2009	2010E
Reported EPS (sen)	16.2	20.7
PER (x)	10.5	8.2
Dividend/Share (sen)	7.0	9.0
NTA/Share (MYR)	0.60	0.74
Book Value/Share (MYR)	0.94	1.07
No. of Outstanding Shares (mln)	142.0	
52-week Share Price Range (MYR)	0.85 - 1.81	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	25.4	
Permodalan Nasional Bhd	15.7	
Continental Theme Sdn Bhd	10.4	

Per Share Data

FY Jun.	2007	2008	2009	2010E
Book Value (MYR)	0.69	0.80	0.94	1.07
Cash Flow (sen)	21.8	20.2	26.1	32.1
Reported Earnings (sen)	6.1	11.2	16.2	20.7
Dividend (sen)	0.0	4.0	7.0	9.0
Payout Ratio (%)	0.0	26.7	35.5	32.7
PER (x)	28.0	15.1	10.5	8.2
P/Cash Flow (x)	7.8	8.4	6.5	5.3
P/Book Value (x)	2.5	2.1	1.8	1.6
Dividend Yield (%)	0.0	2.4	4.1	5.3
ROE (%)	16.5	15.0	17.7	20.6
Net Gearing (%)	63.4	63.8	28.4	31.1

*Stock deemed Shariah compliant by the Securities Commission.

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Quarterly Performance

FY Jun. / MYR mln	2Q10	2Q09	% Change
Reported Revenue	114.5	85.9	33.3
Reported Operating Profit	11.4	6.5	76.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	10.5	5.2	>100
Reported Net Profit	7.8	4.0	95.1
Reported Operating Margin (%)	10.0	7.5	-
Reported Pre-tax Margin (%)	9.2	6.0	-
Reported Net Margin (%)	6.8	4.7	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	290.5	363.0	479.2	523.3
Reported Operating Profit	20.4	32.8	45.0	47.6
Depreciation & Amortization	-11.6	-12.8	-14.4	-14.6
Net Interest Income / (Expense)	-4.8	-4.9	-4.4	-5.0
Reported Pre-tax Profit	15.5	28.0	40.1	42.1
Effective Tax Rate (%)	7.1	25.2	27.0	27.0
Reported Net Profit	14.5	21.0	29.3	30.6
Reported Operating Margin (%)	7.0	9.0	9.4	9.1
Reported Pre-tax Margin (%)	5.4	7.7	8.4	8.0
Reported Net Margin (%)	5.0	5.8	6.1	5.8

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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.

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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	Buy	2.00
4-Nov-09	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

