

Recommendation: **BUY**

Stock Code: 2828

Bloomberg: CIH MK

Price: MYR2.12

12-Month Target Price: MYR2.50

Date: April 22, 2010

Board: Main

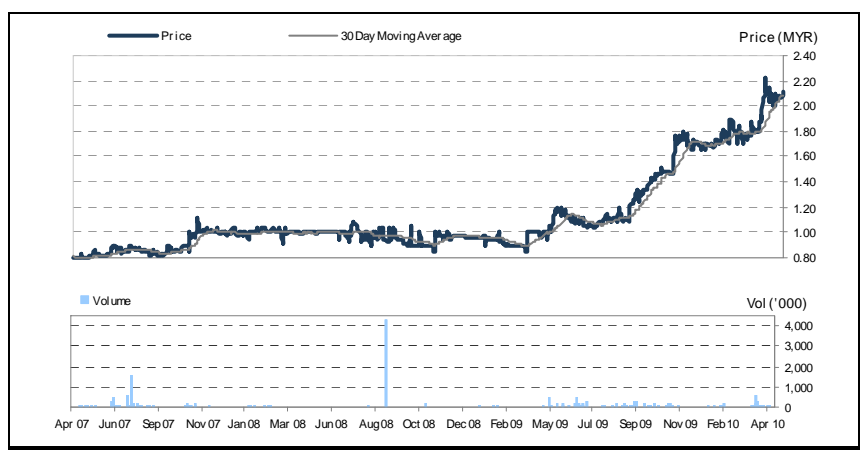
Sector: Consumer Products

GICS: Consumer Staples/Soft Drinks

Market Value - Total: MYR301.0 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: Chok Wai Lee, CFA



Results Review & Earnings Outlook

- CIH's 3QFY10 (Jun) results were above our expectations, with revenue growing 51.9% YoY to MYR137.7 mln and net profit up 107.8% YoY to MYR10.9 mln. The sharp improvement was mainly due to strong growth in its beverages division during Chinese New Year and prudent cost management. 9MFY10 net profit accounted for 91% of our original full-year estimate.
- CIH's gross margin has rose to 40.7% in 9MFY10 (from 36.3% in 9MFY09) as a result of improving sales mix (a shift to more profitable brands and packages). The beverages division contributed about 93% of the group's revenue, while contribution from the tap and sanitary ware business remains small at 7% amid a challenging environment in the construction sector.
- Management has increased its selling and distribution expenses by 72.9% YoY to MYR90.1 mln in 9MFY10, with the intention to grow its nationwide coverage to 42,000 outlets from 35,000 outlets by the end of the financial year. In our view, this move should be able to generate higher sales for CIH going forward. CIH has also launched the Mountain Dew brand at the end of 3QFY10.
- We raise our earnings forecasts for FY10 and FY11 by 16.5% and 20.5% to MYR34.2 mln and MYR36.9 mln respectively, taking into account the better-than-expected results.

Recommendation & Investment Risks

- We resume coverage of CIH with a Buy call and a 12-month target price of MYR2.50 (pre-suspension recommendation and target price: Buy, MYR2.00).
- Our target price continues to be derived from discounted cash flow 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 8.8x FY10 EPS and 8.2x FY11 EPS against the sector's average forward PER of 13.4x despite the strong outperformance in share price recently. A decent dividend yield of 4.2% should also provide support to its share prices.
- 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 the new production line, which the company is targeting to complete in early 2QFY11.
- 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	24.1
PER (x)	13.1	8.8
Dividend/Share (sen)	7.0	9.0
NTA/Share (MYR)	0.60	0.77
Book Value/Share (MYR)	0.94	1.11
No. of Outstanding Shares (mln)	142.0	
52-week Share Price Range (MYR)	0.94 - 2.23	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	25.4	
SISMA Group	20.0	
Continental Theme Sdn Bhd	10.4	

Per Share Data

FY Jun.	2007	2008	2009	2010E
Book Value (MYR)	0.69	0.80	0.94	1.11
Cash Flow (sen)	21.8	20.2	26.1	37.9
Reported Earnings (sen)	6.1	11.2	16.2	24.1
Dividend (sen)	0.0	4.0	7.0	9.0
Payout Ratio (%)	0.0	26.7	35.5	28.0
PER (x)	34.9	18.9	13.1	8.8
P/Cash Flow (x)	9.7	10.5	8.1	5.6
P/Book Value (x)	3.1	2.6	2.3	1.9
Dividend Yield (%)	0.0	1.9	3.3	4.2
ROE (%)	16.5	15.0	17.7	23.6
Net Gearing (%)	63.4	63.8	28.4	39.4

*Stock deemed Shariah compliant by the Securities Commission.

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Quarterly Performance

FY Jun. / MYR mln	3Q10	3Q09	% Change
Reported Revenue	137.7	90.6	51.9
Reported Operating Profit	14.4	7.9	82.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	13.6	6.7	>100
Reported Net Profit	10.9	5.2	>100
Reported Operating Margin (%)	10.5	8.7	-
Reported Pre-tax Margin (%)	9.9	7.3	-
Reported Net Margin (%)	7.9	5.8	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	290.5	363.0	492.3	561.9
Reported Operating Profit	20.4	32.8	48.5	53.8
Depreciation & Amortization	-11.6	-12.8	-17.4	-18.1
Net Interest Income / (Expense)	-4.8	-4.9	-3.6	-4.4
Reported Pre-tax Profit	15.5	28.0	44.7	49.3
Effective Tax Rate (%)	7.1	25.3	23.6	25.0
Reported Net Profit	14.5	21.0	34.2	36.9
Reported Operating Margin (%)	7.0	9.0	9.8	9.6
Reported Pre-tax Margin (%)	5.4	7.7	9.1	8.8
Reported Net Margin (%)	5.0	5.8	6.9	6.6

Source: Company data, S&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	Buy	2.50
1-Feb-10	Not Ranked	
28-Jan-10	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

