

C.I. Holdings

Recommendation: **BUY**

Stock Code: **2828**

Bloomberg: **CIH MK**

Price: **MYR2.88**

12-Month Target Price: **MYR3.80**

Date: **August 27, 2010**

Board: Main

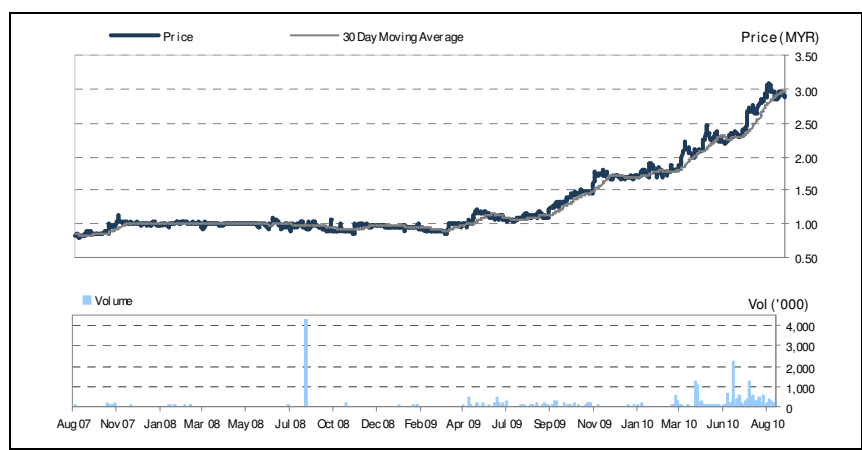
Sector: Consumer Products

GICS: Consumer Staples/Soft Drinks

Market Value - Total: MYR409.0 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 posted FY10 (Jun) net profit of MYR38.2 mln (+82.0% YoY). The earnings were above consensus and our expectations. The main variances were the higher-than-expected revenue from its beverages division and lower-than-expected tax expense.
- CIH's beverage division registered revenue of MYR479.9 mln (+46.4% YoY) in FY10. The strong growth was mainly due to continued growth in its non-carbonated portfolio (such as Tropicana and Lipton) and successful selling campaigns. In addition, the group has successfully expanded its distribution coverage to 42,000 outlets (from 35,000 outlets) in FY10.
- More positively, CIH's pretax margin has improved to 9.3% in FY10 (FY09: 7.7%) due to a better sales mix (a shift to more profitable brands and packages), prudent cost management and increased economies of scale.
- CIH has signed an exclusive bottling agreement to renew the franchise bottling rights for the manufacture and sale of PepsiCo's (PEP US, USD64.13, 4-STARS) beverage brands in Malaysia for the next ten years. We are positive about this as it shows PepsiCo's confidence in CIH's long-term prospects.
- We raise our earnings forecast for FY11 by 18.1% to MYR43.6 mln, taking into account the better-than-expected results. We also introduce our FY12 net profit estimate of MYR49.2 mln.

Recommendation & Investment Risks

- We maintain our Buy recommendation with a higher 12-month target price of MYR3.80 (from MYR2.50), following our earnings upgrades.
- We have changed our valuation methodology to relative PER valuation (from DCF) to reflect CIH's resilient earnings growth. Our target price is based on assigning a 12.5x PER multiple on our estimated FY11 EPS, a 20% discount to CIH's peers. We believe the discount is justified as CIH has a smaller market capitalization.
- Given CIH's significant growth in the past, its current in-house warehouse capacity is not sufficient for its daily operations. As a result, the group has proposed to purchase a piece of land (comprises an existing warehouse with built-up area of 252,458 sq ft and 426,594 sq ft of vacant land) in Bangi for MYR29.5 mln. In our view, this move should help CIH reduce its logistics costs going forward, as it now uses third party warehouses to satisfy its needs. Long-term prospects for CIH remain promising, as its new production line for non-carbonated beverages is coming on stream soon in September.
- 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.	2010	2011E
Reported EPS (sen)	26.9	30.7
PER (x)	10.7	9.4
Dividend/Share (sen)	11.0	12.0
NTA/Share (MYR)	0.80	1.02
Book Value/Share (MYR)	1.14	1.35
No. of Outstanding Shares (mln)	142.0	
52-week Share Price Range (MYR)	1.20 - 3.07	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	25.4	
SISMA Group	20.0	
Continental Theme Sdn Bhd	10.4	

Per Share Data

FY Jun.	2008	2009	2010	2011E
Book Value (MYR)	0.80	0.93	1.14	1.35
Cash Flow (sen)	20.2	26.1	43.6	49.6
Reported Earnings (sen)	11.2	16.2	26.9	30.7
Dividend (sen)	4.0	7.0	11.0	12.0
Payout Ratio (%)	26.7	35.5	30.7	29.3
PER (x)	25.7	17.8	10.7	9.4
P/Cash Flow (x)	14.3	11.0	6.6	5.8
P/Book Value (x)	3.6	3.1	2.5	2.1
Dividend Yield (%)	1.4	2.4	3.8	4.2
ROE (%)	15.0	17.7	26.0	24.6
Net Gearing (%)	63.8	29.0	33.6	42.2

*Stock deemed Shariah compliant by the Securities Commission.

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Quarterly Performance

FY Jun. / MYR mln	4Q10	4Q09	% Change
Reported Revenue	140.4	95.9	46.4
Reported Operating Profit	13.6	11.5	18.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	13.1	10.4	25.5
Reported Net Profit	11.4	7.3	55.8
Reported Operating Margin (%)	9.7	12.0	-
Reported Pre-tax Margin (%)	9.3	10.9	-
Reported Net Margin (%)	8.1	7.6	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2009	2010	2011E	2012E
Reported Revenue	363.0	516.4	603.9	689.9
Reported Operating Profit	32.8	51.3	59.8	67.9
Depreciation & Amortization	-12.8	-21.1	-26.9	-24.4
Net Interest Income / (Expense)	-4.9	-3.2	-3.7	-3.8
Reported Pre-tax Profit	28.0	48.1	55.8	63.9
Effective Tax Rate (%)	25.3	20.8	22.0	23.0
Reported Net Profit	21.0	38.2	43.6	49.2
Reported Operating Margin (%)	9.0	9.9	9.9	9.8
Reported Pre-tax Margin (%)	7.7	9.3	9.2	9.3
Reported Net Margin (%)	5.8	7.4	7.2	7.1

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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	3.80
22-Apr-10	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

