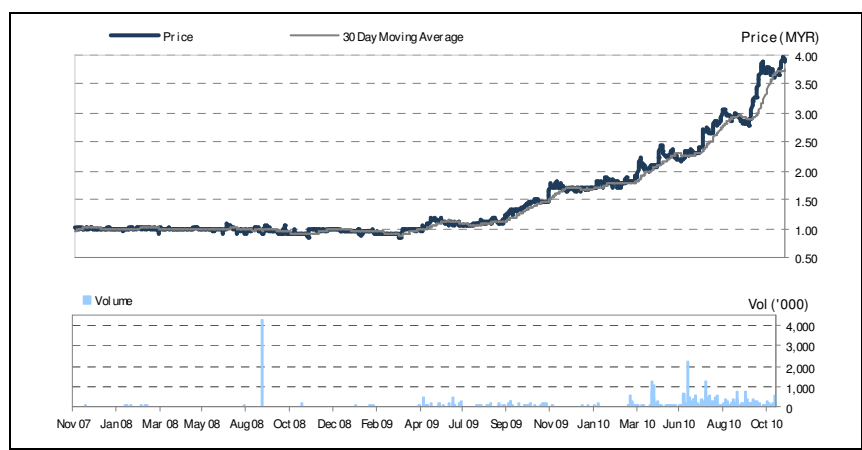


Recommendation: **BUY**Stock Code: **2828**Bloomberg: **CIH MK**Price: **MYR3.92**12-Month Target Price: **MYR4.65**Date: **November 4, 2010****Board:** Main**Sector:** Consumer Products**GICS:** Consumer Staples/Soft Drinks**Market Value - Total:** MYR556.6 mln

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: Chok Wai Lee, CFA**Results Review & Earnings Outlook**

- CIH reported 1QFY11 (Jun) net profit of MYR11.8 mln (+43.2% YoY). The results were in line with consensus and our expectations. The sharp rise in earnings was largely attributed to continuous revenue growth from both its beverages and tap & sanitary ware divisions, as well as prudent cost management. CIH's 1QFY11 gross margin has improved slightly to 39.8% (1QFY10: 39.5%).
- CIH's beverages division remains to be the biggest revenue contributor (about 92.9% of total revenue), with revenue growing 25.2% YoY to MYR142.6 mln in 1QFY11. The strong growth was mainly due to a successful Hari Raya promotional campaign and newly launched products such as Mountain Dew. The group targets to expand its distribution coverage to 45,000 outlets in FY11 (from 42,000 outlets in FY10).
- Meanwhile, the group's tap & sanitary ware division also recorded improved results, with revenue rising 11.3% YoY to MYR11.0 mln. The division has benefited from incremental sales to various public projects and a strengthening MYR.
- We leave our earnings estimates largely unchanged. We expect future earnings growth to be supported by additional capacity from its new non-carbonated beverage line, which commenced production in September 2010.

Recommendation & Investment Risks

- We maintain our Buy recommendation with a higher 12-month target price of MYR4.65 (from MYR3.80), after rolling forward our valuation parameter.
- Our target price is based on assigning a 13.5x PER multiple (from 12.5x, in line with higher peer valuations) on our estimated FY12 EPS (rolled over from FY11). Our target PER is a 20% discount to CIH's peers average as CIH has a smaller market capitalization.
- In addition to focusing on its core business, CIH is actively looking to invest in other synergistic new businesses (such as food-related businesses, which can utilize its strong distribution network) to further fuel both its revenue and profit growth. If these materialize, long-term prospects for CIH would remain exciting.
- 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	30.6
PER (x)	14.6	12.8
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)	1.64 - 3.95	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	30.0	
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	49.5
Reported Earnings (sen)	11.2	16.2	26.9	30.6
Dividend (sen)	4.0	7.0	11.0	12.0
Payout Ratio (%)	26.7	35.5	30.7	29.4
PER (x)	34.9	24.2	14.6	12.8
P/Cash Flow (x)	19.4	15.0	9.0	7.9
P/Book Value (x)	4.9	4.2	3.4	2.9
Dividend Yield (%)	1.0	1.8	2.8	3.1
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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Page 1 of 4

Quarterly Performance

FY Jun. / MYR mln	1Q11	1Q10	% Change
Reported Revenue	153.6	123.8	24.1
Reported Operating Profit	16.5	11.9	38.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	15.5	11.0	40.6
Reported Net Profit	11.8	8.2	43.2
Reported Operating Margin (%)	10.8	9.6	-
Reported Pre-tax Margin (%)	10.1	8.9	-
Reported Net Margin (%)	7.7	6.6	-

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	59.6	67.8
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	55.6	63.7
Effective Tax Rate (%)	25.3	20.8	22.0	23.0
Reported Net Profit	21.0	38.2	43.4	49.1
Reported Operating Margin (%)	9.0	9.9	9.9	9.8
Reported Pre-tax Margin (%)	7.7	9.3	9.2	9.2
Reported Net Margin (%)	5.8	7.4	7.2	7.1

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.

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	4.65
27-Aug-10	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
17-May-07	Hold	0.91

