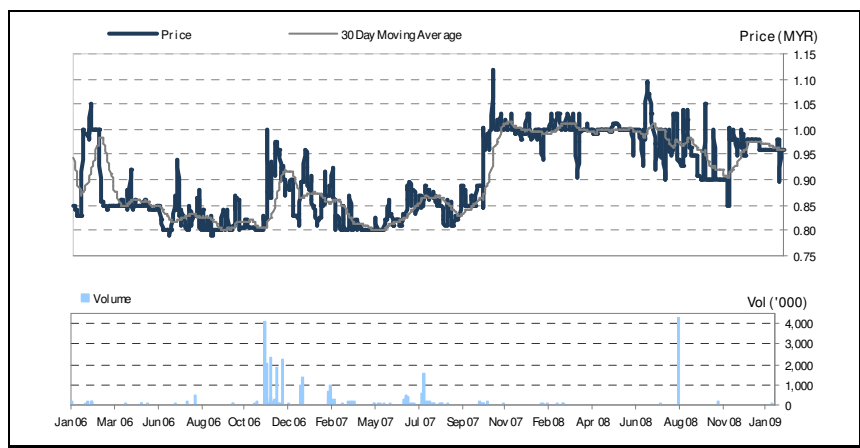


Recommendation: **HOLD**Stock Code: **2828**Bloomberg: **CIH MK**Price: **MYR0.96**12-Month Target Price: **MYR1.10**Date: **January 23, 2009****Board:** Main**Sector:** Consumer Products**GICS:** Consumer Staples/Soft Drinks**Market Value - Total:** MYR124.4 mln

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 2QFY09 (Jun) results were ahead of expectations, with revenue growing 22.8% YoY to MYR85.9 mln and net profit up 23.7% YoY to MYR4.0 mln. 1HFY09 net profit came to 60% of our full-year estimate.
- The strong results were attributable to the continued popularity of Tropicana Twister and prudent cost management from the beverage division. Beverage sales in 2QFY09 contributed to 91% of total revenue (vs. 88% in 1QFY09) while tap and sanitary ware sales made up the remaining 9%. Although the bulk of the Hari Raya festive sales was captured in 1QFY09, beverage sales remained strong in 2QFY09 (-2.1% QoQ and +22.6% YoY) due to the earlier timing of Chinese New Year. This was partially offset by the 27.6% QoQ decline in tap and sanitary ware sales in the current quarter.
- EBIT margin declined to 7.5% in 2QFY09 from 7.7% in 1QFY09 and 7.9% in 2QFY08, due to lower contribution from the tap and sanitary ware division. EBIT margin of 7.6% for 1HFY09 is higher than our previous projection of 6.4% for FY09.
- We raise our net estimates for FY09 and FY10 by 2%-7% to MYR15.1 mln (from MYR14.1 mln) and MYR16.2 mln (from MYR15.9 mln) respectively to factor in higher margins and higher effective tax charges. We expect earnings to be supported by strong beverage sales from the introduction of new products but the tap and sanitary division is likely to feel the pressure from the downturn in the Malaysian construction sector.

Recommendation & Investment Risks

- We maintain our Hold recommendation on CIH with a higher 12-month target price of MYR1.10 (from MYR1.03) following better-than-expected results. Our target price includes a projected net DPS of 3.0 sen for FY09.
- Our target price is derived from a DCF-based valuation and our key assumptions remained unchanged: WACC of 9% to 11% and terminal growth rate of 2%.
- CIH announced an interim dividend of 2 sen. We expect the group to maintain a gross DPS of 4 sen for FY09, which is in line with its dividend payout policy of 20%-30%. The stock is trading at FY09 PER of 8.3x, which is a discount to its peer average of 10.2x. We believe this is mainly due to its much smaller capitalization. Its dividend of 4.2% is also less attractive compared with that of its peers.
- 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.	2008	2009E
Reported EPS (sen)	11.2	11.6
PER (x)	8.6	8.3
Dividend/Share (sen)	4.0	4.0
NTA/Share (MYR)	0.43	0.52
Book Value/Share (MYR)	0.80	0.89
No. of Outstanding Shares (mln)	129.6	
52-week Share Price Range (MYR)	0.85 - 1.09	
Major Shareholders:	%	
Datuk Johari Bin Abdul Ghani	26.2	
Permodalan Nasional Bhd	18.5	
Continental Theme Sdn Bhd	10.0	

Per Share Data

FY Jun.	2006	2007	2008	2009E
Book Value (MYR)	0.63	0.69	0.80	0.89
Cash Flow (sen)	1.8	21.8	20.2	23.1
Reported Earnings (sen)	-2.9	6.1	11.2	11.6
Dividend (sen)	0.0	0.0	4.0	4.0
Payout Ratio (%)	0.0	0.0	26.4	25.5
PER (x)	NM	15.8	8.6	8.3
P/Cash Flow (x)	53.6	4.4	4.8	4.2
P/Book Value (x)	1.5	1.4	1.2	1.1
Dividend Yield (%)	0.0	0.0	4.2	4.2
ROE (%)	-10.8	16.5	15.0	13.7
Net Gearing (%)	88.7	59.2	63.8	56.3

*Stock deemed Shariah compliant by the Securities Commission.

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Quarterly Performance

FY Jun. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	85.9	70.0	22.8
Reported Operating Profit	6.5	5.5	17.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	5.2	4.3	21.2
Reported Net Profit	4.0	3.2	23.7
Reported Operating Margin (%)	7.5	7.9	-
Reported Pre-tax Margin (%)	6.0	6.1	-
Reported Net Margin (%)	4.7	4.6	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	265.8	290.2	326.6	348.5
Reported Operating Profit	18.7	20.4	23.5	25.2
Depreciation & Amortization	-14.1	-11.6	-14.8	-14.1
Net Interest Income / (Expense)	-4.9	-4.7	-5.2	-5.0
Reported Pre-tax Profit	7.3	15.5	18.3	20.1
Effective Tax Rate (%)	NM	7.1	18.0	20.0
Reported Net Profit	7.9	14.5	15.1	16.2
Reported Operating Margin (%)	7.0	7.0	7.2	7.2
Reported Pre-tax Margin (%)	2.7	5.4	5.6	5.8
Reported Net Margin (%)	3.0	5.0	4.6	4.6

Source: Company data, S&P Equity Research

Required Disclosures

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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.

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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	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

