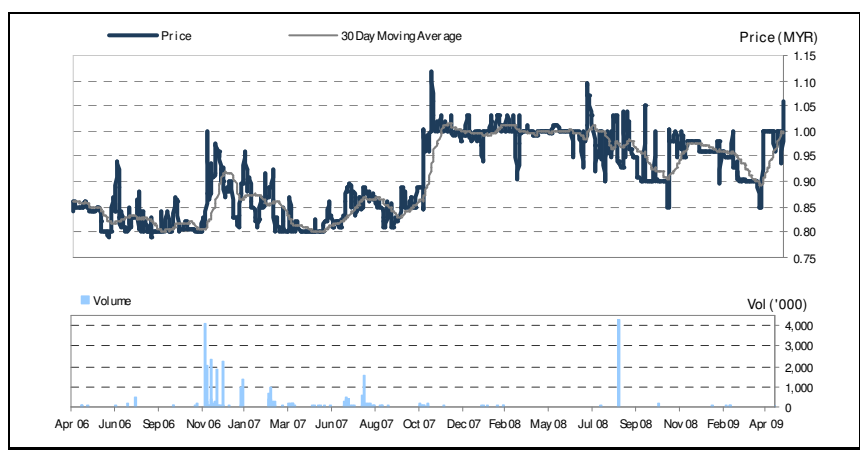


Recommendation: **BUY**Stock Code: **2828**Bloomberg: **CIH MK**Price: **MYR1.06**12-Month Target Price: **MYR1.30**Date: **April 27, 2009****Board:** Main**Sector:** Consumer Products**GICS:** Consumer Staples/Soft Drinks**Market Value - Total:** MYR137.4 mln

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 reported a 3QFY09 (Jun) net profit of MYR5.2 mln (+64.6% YoY and 30.6% QoQ) on the back of a 14.3% YoY and 5.5% QoQ growth in revenue to MYR90.6 mln. The strong performance in the current quarter was attributable to prudent cost management of the beverage division as well as successful promotional activities during the Chinese New Year. 9MFY09 net profit of MYR13.7 mln was higher than our expectations, due to higher-than-expected profit margins. CIH achieved an EBIT of 8.0% for 9MFY09 compared to our previous forecast of 7.2% for the full year.
- Beverage sales for 3QFY09 improved to MYR83.1 mln (+15.9% YoY and +6.2% QoQ) and contributed to 91.6% of total revenue due to the continued success of Tropicana Twister. Tap and sanitary ware division revenue declined by only 1.0% YoY and 1.4% QoQ despite the slowdown in the construction industry and prolonged site shutdown over the festive period.
- Management expects the non-carbonated beverage division to drive its revenue by growing its newly-launched Tropicana Twist (Juice) and leveraging on its new in-house production facilities to grow existing hot-fill products that were previously contract packed.
- We raise our FY09 and FY10 net profit estimates by 19% to MYR17.9 mln and MYR19.3 mln respectively after improving our revenue and margin assumptions for the beverage division.

Recommendation & Investment Risks

- We upgrade our recommendation on CIH to Buy (from Hold) with a higher-12-month target price of MYR1.30 (from MYR1.10) following better-than-expected results. Our target price includes a projected net DPS of 3.8 sen for FY09.
- Our target price is derived from a DCF-based valuation and our key assumptions remained unchanged: WACC of 9% to 10% and terminal growth rate of 2%.
- We believe the stock, at current valuation of 7.2x FY09 EPS offers attractive value relative to its peers, which trade at an average forward PER of 11.3x. Our target price of MYR1.30 implies a target PER of 9.4x, which is a fair 17% discount, in our opinion, for its smaller market capitalization. We like CIH's effective cost management which has helped the group achieve improvements in production efficiencies, despite cost increases in raw material, packaging and transportation during the current quarter.
- 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	13.8
PER (x)	9.5	7.7
Dividend/Share (sen)	4.0	5.0
NTA/Share (MYR)	0.43	0.54
Book Value/Share (MYR)	0.80	0.90
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	0.90
Cash Flow (sen)	1.8	21.8	20.2	25.3
Reported Earnings (sen)	-2.9	6.1	11.2	13.8
Dividend (sen)	0.0	0.0	4.0	5.0
Payout Ratio (%)	0.0	0.0	26.7	27.1
PER (x)	NM	17.5	9.5	7.7
P/Cash Flow (x)	59.2	4.9	5.3	4.2
P/Book Value (x)	1.7	1.5	1.3	1.2
Dividend Yield (%)	0.0	0.0	3.8	4.7
ROE (%)	-10.8	16.5	15.0	16.2
Net Gearing (%)	88.7	59.2	63.8	55.2

*Stock deemed Shariah compliant by the Securities Commission.

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Quarterly Performance

FY Jun. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	90.6	79.3	14.3
Reported Operating Profit	7.9	5.5	43.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	6.7	4.1	60.6
Reported Net Profit	5.2	3.2	64.6
Reported Operating Margin (%)	8.7	6.9	-
Reported Pre-tax Margin (%)	7.3	5.2	-
Reported Net Margin (%)	5.8	4.0	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	265.8	290.2	341.8	360.8
Reported Operating Profit	18.7	20.4	26.4	28.5
Depreciation & Amortization	-14.1	-11.6	-14.8	-14.1
Net Interest Income / (Expense)	-4.9	-4.7	-5.0	-4.8
Reported Pre-tax Profit	7.3	15.5	21.2	23.4
Effective Tax Rate (%)	NM	7.1	16.0	18.0
Reported Net Profit	7.9	14.5	17.9	19.3
Reported Operating Margin (%)	7.0	7.0	7.7	7.9
Reported Pre-tax Margin (%)	2.7	5.4	6.2	6.5
Reported Net Margin (%)	3.0	5.0	5.2	5.3

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	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
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

