



CIMB Research Report

Your guide to making
intelligent investment
decisions

CBRS
FREE Expert
Analysis Reports

5 July 2011

CI Holdings

Quenching Asahi's thirst for M&A?

RECOM	Buy
PRICE	RM3.30
MKT CAPITALISATION	RM468.6m
BOARD	Main (Syariah stock)
SECTOR	Food & Beverage
INDEX COMPONENT	Nil

CIH MK / CIHB.KL

Norziana Mohd Inon + 60 (3) 2084-9645 – norziana.inon@cimb.com

Investment highlights

- **Maintain BUY.** News that Japanese beer maker Asahi is in talks to acquire CI Holdings' (CIH) wholly-owned Permanis is a positive surprise, especially if the price tag turns out to be the reported US\$200m (RM600m). This is 28% above CIH's market cap, 8x what CIH paid for Permanis. It works out to an attractive FY6/12 P/E of 15x. We maintain our EPS forecasts and target price of RM4.78, which we continue to peg to our target market P/E of 14.5x. This news could catalyse a re-rating, along with CIH's increasingly marketable product line. Even if this deal does not pan out, CIH will remain an attractive investment proposition at 9-11x FY12-13 P/Es. CIH remains a BUY and our top pick, not only for the F&B sector but also for our small-cap universe.
- **Scenario 1: If the acquisition materialises.** Should the acquisition by Asahi go through, CIH would be left with its sanitary fittings business. It may prompt management to look more aggressively into opportunities in the food segment. CIH's MD and largest shareholder Datuk Johari Abdul Ghani has extensive experience in the food business, having been the MD of QSR Brands (QSR MK, Outperform) and its subsidiary KFC Holdings (KFC MK, Not Rated) before 2006 when Johor Corp took over the QSR group and put in its own management team.
- **Scenario 2: If the acquisition does not materialise.** In the event of no deal, CIH would remain a Buy for its own fundamentals 1) Market leadership – Tropicana has market leadership of the juice market with a 25% slice only three years after its launch. 2) An expanding product portfolio – A new non-carbonated drink, Tropicana Twister in lychee variant, was launched recently. In 3QFY11, non-carbonated drinks accounted for 43% of beverage sales compared with 20% a few years ago. CIH is aiming for a 50:50 sales split between carbonated and non-carbonated in the next few years. 3) Attractive valuations – CIH is trading at 9-11x FY12-13 P/Es.

Key stock statistics

	2010	2011F
FYE 30 Jun		
EPS (sen)	26.9	27.6
P/E (x)	12.3	12.0
Dividend/Share (sen)	11.0	12.0
NTA/Share (RM)	0.8	0.8
Book Value/Share (x)	0.8	0.8
Issued Capital (m shares)	142.0	142.0
52-weeks Share Price Range (RM)	RM2.47/RM4.00	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	30.0	
Continental Theme Sdn Bhd	10.4	
PNB	8.4	

Per share data

	2008	2009	2010	2011F
FYE 30 Jun				
Book Value (RM)	0.7	0.7	0.8	0.8
Cash Flow (sen)	22.0	26.1	36.1	39.6
Earnings (sen)	10.2	14.8	26.9	27.6
Dividend (sen)	4.0	7.0	11.0	12.0
Payout Ratio (%)	28.1	34.1	29.5	31.3
P/E (x)	32.2	22.3	12.3	12.0
P/Cash Flow (x)	15.0	12.6	9.1	8.3
P/Book Value (x)	4.7	4.4	4.1	4.0
Dividend Yield (%)	1.2	2.1	3.3	3.6
ROE (%)	15.9	21.8	33.5	33.3
Net Gearing (%)	83.2	83.0	73.6	71.7

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

Recent developments

Yesterday, Bloomberg reported that Japan's biggest beer producer by sales volume, Asahi Group Holdings Ltd, is in talks with CIH to acquire the latter's wholly-owned Permanis for about RM600m. Asahi is reportedly competing with another company to buy the beverage maker from CIH. The newswire added that a deal may be concluded in 4-6 weeks' time.

Permanis has exclusive rights to bottle, distribute and sell drinks under the PepsiCo brand and other peripheral brands (i.e. Mirinda, Seven-Up and Mountain Dew) within Malaysia. It also manufactures its own drinks under various trademarks including Chill, Excel, Bleu and Shot.

Earnings outlook

A positive surprise. The report is a positive surprise as Permanis is in the position of a potential target, a reversal from recent years when its parent company took on more of the role of an acquirer as it scouted for a food business to complement its beverage business.

Potentially an attractive deal. We view the reported offer price of about RM600m as attractive on three counts:

- It is 28% above CIH's market cap as at yesterday.
- It values Permanis's business at 15x FY6/12 P/E, higher than our 14.5x target P/E for CIH whose bottomline is driven by Permanis. Permanis makes up 90% of our projected FY6/12 net profit of RM44.3m (RM0.31 per CIH share) for CIH. The remaining 10% comes from sanitary fittings. CIH's wholly-owned Doe Industries Sdn Bhd is Malaysia's leading manufacturer of chrome-plated brass taps, faucets, showers and other sanitary fixtures under the Doe brand.
- It works out to a whopping 733% premium over the RM72m price that CIH paid for Permanis in FY04. Permanis became a wholly-owned unit of CIH following a major restructuring at KFCH in which CIH had been the single largest shareholder prior to 1 Apr 04.

PepsiCo could compete better with Coca-Cola. We believe that the final decision on the sale of Permanis will be in the hands of PepsiCo. While CIH has no doubt done an exemplary job in lifting Permanis's sales and profile (Figure 1), PepsiCo may be looking for a stronger partner and platform in Malaysia and the region to better compete with Coca-Cola, which will start operating its 123,024 sq m bottling plant in Nilai by year-end. In a move that could change the landscape of the regional soft drinks segment, Coca-Cola will spend RM1bn in Malaysia – the company's biggest investment ever made in the country – over the next five years to boost its presence in Southeast Asia, which will heat up the already sweltering competition with PepsiCo.

Scenario 1: If the acquisition materialises. Should the acquisition by Asahi go through, CIH would be left with its sanitary fittings business. It may prompt management to look more aggressively into opportunities in the food segment. CIH's MD and largest shareholder Datuk Johari Abdul Ghani has extensive experience in the food business, having been the MD of QSR Brands and its subsidiary KFCH before 2006, when Johor Corp took over the QSR group and put in its own management team.

Scenario 2: If the acquisition does not materialise. In the event of no deal, CIH would remain a buy on its own fundamentals 1) Market leadership – Tropicana has market leadership of the juice market with a 25% slice only three years after its launch. 2) An expanding product portfolio – A new non-carbonated drink, Tropicana Twister in lychee variant, was launched recently. It is Permanis's fourth Tropicana Twister flavour after orange, apple and blackcurrant. In 3QFY11, non-carbonated drinks accounted for 43% of beverage sales compared to 20% a few years ago. CIH is aiming for a 50:50 sales split between carbonated and non-carbonated in the next few years. 3) Attractive valuations – CIH is trading at 9-11x FY12-13 P/Es.

Figure 1: Accolades

21-Mar-11	CIH was voted PepsiCo's Southeast Asia Bottler of the Year in recognition of its outstanding business results and efforts in 2010. The award is presented annually to companies that meet key criteria which include sales performance, market share, marketing/promotion innovation and leadership in corporate social responsibilities. In 2010, Permanis expanded sales of its PepsiCo brand portfolio by 31% and racked up market share growth across all beverage categories.
Jul-10	PepsiCo extended Permanis's rights to the manufacture and sale of its beverage brands in Malaysia for an unprecedented 10 years, a departure from the industry practice of five years.
2000-2001	Permanis's plant in Bangi was voted by PepsiCo as the most efficiently operated operated Pepsi-affiliated plant in the world.

Source: Company

Figure 2: P&L analysis (RM m)

FYE 30 Jun	2008	2009	2010	2011F
Revenue	290.2	363.0	516.4	582.5
Operating Profit (EBIT)	52.3	58.5	77.4	88.5
Depreciation	(14.0)	(12.8)	(13.1)	(17.0)
Interest Expenses	(8.7)	(4.9)	(3.2)	(9.9)
Pretax Profit	15.6	28.0	48.1	45.6
Effective Tax Rate (%)	7.1	25.2	20.8	14.0
Net Profit	14.5	21.0	38.2	39.2
Operating Margin (%)	18.0	16.1	15.0	15.2
Pretax Margin (%)	5.4	7.7	9.3	7.8
Net Margin (%)	5.0	5.8	7.4	6.7

Source: Company, CIMB estimates

Recommendation

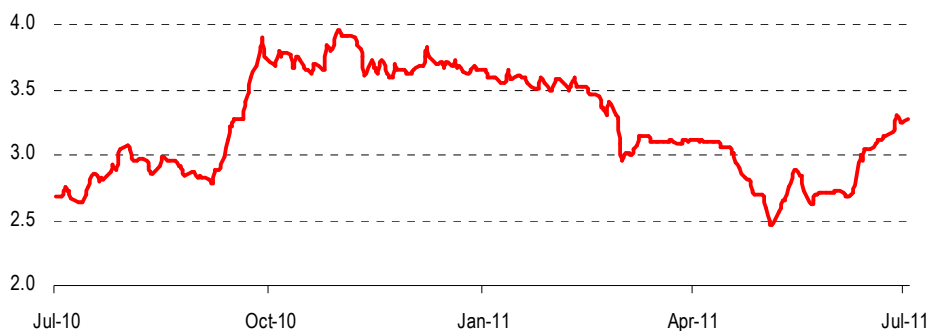
Maintain BUY. Assuming that CIH sells Permanis at RM600m and does not reinvest the proceeds in a new business, we could be looking at a 6% dilution in our target price to RM4.50 based on SOP (Figure 3). We understand that all except RM5m of CIH's RM124.5m borrowings relate to Permanis. For now, we maintain our EPS forecasts and target price of RM4.78, which we continue to peg to our target market P/E of 14.5x. This news could catalyse a re-rating, along with CIH's increasingly marketable product line. Even if this deal does not pan out, CIH will remain an attractive investment proposition at 9-11x FY12-13 P/Es. CIH remains a BUY and our top pick, not only for the F&B sector but also for our small-cap universe.

Figure 3: Potential sum of parts

	RM m
Gain from sale	600.0
CIH's borrowings ex-Permanis as at Mar 11	(5.0)
Gain from sale - borrowings	595.0
Valuation of sanitary fittings business	RM4.43 FY6/12 net profit at 10x P/E
SOP	639.3
CIH's no. of shares (m)	142.0
SOP/share (RM)	4.50

Source: CIMB estimates

Figure 4: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Jun	2009	2010	2011F	2012F	2013F
Revenue (RM m)	363.0	516.4	582.5	640.8	704.8
EBITDA (RM m)	45.7	64.4	71.5	65.5	69.3
EBITDA margins (%)	12.6	12.5	12.3	10.2	9.8
Pretax profit (RM m)	28.0	48.1	45.6	51.5	57.3
Net profit (RM m)	21.0	38.2	39.2	44.3	49.3
EPS (sen)	16.2	26.9	27.6	31.2	34.7
EPS growth (%)	+44%	+66%	+3%	+13%	+11%
P/E (x)	20.4	12.3	12.0	10.6	9.5
Gross DPS (sen)	7.0	11.0	12.0	12.0	12.0
Dividend yield (%)	2.1	3.3	3.6	3.6	3.6
P/NTA (x)	4.4	4.1	4.0	3.8	3.7
ROE (%)	21.8	33.5	33.3	36.3	39.2
Net gearing (%)	83.0	73.6	71.7	69.8	67.9
P/CF (x)	12.6	9.1	8.3	7.8	7.3
EV/EBITDA (x)	9.5	6.7	6.1	6.6	6.2
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.98	0.97	1.00

Source: Company, CIMB Research, Bloomberg

This report has been prepared by CIMB Investment Bank Bhd (“CIMB”) for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. CIMB has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at:

http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the “Restrictions on Distributions” set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The term “CIMB” shall denote where applicable the relevant entity distributing the report in that particular jurisdiction where mentioned specifically below shall be a CIMB Group Sdn Bhd’s affiliates, subsidiaries and related companies.

- (i) As of 4 July 2011, CIMB has a proprietary position in the following securities in this report:
 - (a) QSR Brands, QSR CW.
- (ii) As of 5 July 2011, the analyst, Norziana Mohd Inon who prepared this report, has / have an interest in the securities in the following company or companies covered or recommended in this report:
 - (a) -

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates’ clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

The views and opinions in this research report are our own as of the date hereof and are subject to change. CIMB has no obligation to update its opinion or the information in this research report.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Australia: Despite anything in this report to the contrary, this research is provided in Australia by CIMB Research Pte. Ltd. (“CIMBR”) and CIMBR notifies each recipient and each recipient acknowledges that CIMBR is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwlth) in respect of financial services provided to the recipient. CIMBR is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. This research is only available in Australia to persons who are “wholesale clients” (within the meaning of the Corporations Act 2001 (Cwlth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

France: Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

Hong Kong: This report is issued and distributed in Hong Kong by CIMB Securities (HK) Limited (“CHK”) which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB Securities (HK) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong)

Indonesia: This report is issued and distributed by PT CIMB Securities Indonesia (“CIMBI”). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

Malaysia: This report is issued and distributed by CIMB. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

New Zealand: In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

Singapore: This report is issued and distributed by CIMB Research Pte Ltd ("CIMBR"). Recipients of this report are to contact CIMBR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMBR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBR.

As of 4 July 2011 CIMB Research Pte Ltd does not have a proprietary position in the recommended securities in this report.

Sweden: This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

Taiwan: This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

Thailand: This report is issued and distributed by CIMB Securities (Thailand) Company Limited (CIMBS). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBS has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBS. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBS.

United Arab Emirates: The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom: This report is being distributed by CIMB Securities (UK) Limited only to, and is directed at selected persons on the basis that those persons are (a) persons falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the "Order") who have professional experience in investments of this type or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order, (all such persons together being referred to as "relevant persons"). A high net worth entity includes a body corporate which has (or is a member of a group which has) a called-up share capital or net assets of not less than (a) if it has (or is a subsidiary of an undertaking which has) more than 20 members, £500,000, (b) otherwise, £5 million, the trustee of a high value trust or an unincorporated association or partnership with assets of no less than £5 million. Directors, officers and employees of such entities are also included provided their responsibilities regarding those entities involve engaging in investment activity. Persons who do not have professional experience relating to investments should not rely on this document.

United States: This research report is distributed in the United States of America by CIMB Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB Research Pte Ltd solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors and investment professionals whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an Institutional Investor must not rely on this communication. However, the delivery of this research report to any person in the United States of America shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB Securities (USA) Inc.

Other jurisdictions: In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions

STOCK RECOMMENDATIONS

- BUY:** Expected positive total returns of 15% or more over the next 12 months
- HOLD:** Expected total returns of between -15% and +15% over the next 12 months.
- SELL:** Expected negative total returns of 15% or more over the next 12 months.