

22 June 2011 | Corporate Update

C.I. HOLDINGS

On pins and needles

Maintain BUY

**Revised Target Price (TP): RM5.00
(from RM3.92)**

In yesterday's announcement by Bursa Malaysia, CI Holdings (CIH) announced that they are entering into a conditional share sale agreement (SSA) with Asahi Group Holdings Ltd (Asahi) on the disposal of Permanis for RM820m cash. This follows an earlier media report and a company announcement on July 4 pegging the sale at a reference price of RM600m.

A. MERGER PROPOSALS

- a) Total consideration shall be paid by Asahi in cash at the completion of the proposed disposal;
- b) The SSA is conditional upon approvals and being fulfilled within 6 months after the date of SSA, or such later date as mutually agreed between CIH and Asahi;
- c) The proposed disposal shall be completed within 10 business days from the date of satisfaction of all the conditions of the SSA, unless waived by CIH or Asahi and
- d) Within 3 years after the completion date, CIH shall not:
 - Participate in any business related to manufacturing and distribution of ready-to-drink beverages in Malaysia;
 - Attempt to induce supplier, distributor of Permanis and its subsidiaries to cease to supply or restrict or vary the terms of supply to Permanis Group; and
 - Attempt to induce management of Permanis Group to leave the employment of the Permanis Group.

B. PURCHASE CONSIDERATION OF YTY

- **A lucrative deal.** In our opinion, the disposal consideration of Permanis worth RM820m is extremely attractive. The RM820m translates into RM5.77 per CIH share, which is 41.4% higher than CIH's current price. The RM820m is also a whopping 1,139% premium over the original cost of investment by CIH RM72m at 1 April 2004.

C. BACKGROUND ON ASAHI

- **Asahi:** Asahi and its subsidiaries are one of the major beverage groups in the world. The group offers a wide range of food and beverage products, including leading brands such as "Asahi Super Dry", "Mitsuya", "WONDA" and "Mintia". In the last 60 years, Asahi has been focusing on its domestic operations through several Japan-based subsidiaries. In more recent years, the direction has been more focused to international and now has a widespread global presence. Asahi's long term objective is to boost overseas sales and be a leading global food and beverage company with annual sales of up to RM95bn by 2015.

D. THE DEAL

- **Expect the deal to go through.** We are confident that the deal will go through at the announced RM820m price as Asahi has allocated about USD5bn (RM15bn) for its expansion growth. Recently, Asahi acquired two other

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

beverage companies, namely P&N beverages Australia Pty Ltd (Australia) and Charlie's Group Ltd (New Zealand) for a total cost of RM929m. At the moment, there is also news that Asahi is in the midst of competing with Suntory Holdings Ltd to purchase New Zealand's Independent at around USD1.12bn (RM3.36bn).

- **Approvals required:** The deal is subject, among others, (1) approval from CIH shareholders; (2) approval from the Ministry of International Trade and Industry (MITI); (3) consent from PepsiCo for the change in ownership of Permanis and discussion on terms that are acceptable to both CIH and Asahi; and (4) consent from third parties (ie. Financiers of the Permanis Group)
- **Utilisation of proceeds.** Assuming the deal is struck, CIH will be left with its tap-ware and sanitary ware division that contributes only 6.8% (RM2.4m) to its earnings and will leave the company with huge amount of cash of around RM801m after deducting costs from proposed disposal (as guided by management). According to management, they are looking and evaluating plans on the proposed utilisation of proceeds, including acquiring any viable business (ie. Food business) for the company or rewarding special dividend to the shareholders. However, nothing is certain at the moment.

E. PROSPECTS FOR CIH MOVING FORWARD


- The management believes that the disposal of Permanis is a right move for the company and it will benefit them in terms of pursuing another business or assets that have good growth prospects. Over the last 5 years, CIH has managed to prove that they have the capability and the right people to drive its subsidiary businesses to success.
- Between 2005 to 2010, Permanis revenue and profit before tax expanded by 93% and 323% respectively. Meanwhile, the revenue and profit before tax of Doe Industries Group (sanitary ware division) grew as much as 104% and 3857% respectively (refer table 2). We believe that CIH will pursue other opportunities in the fast-moving consumer goods industry.

TABLE 2: FINANCIAL STATEMENT

CIH Subsidiaries	FY05 (RM m)	FY10 (RM m)	Growth
<u>Permanis</u>			
Revenue	248.1	480.0	93%
Profit before tax	9.8	41.3	323%
<u>Doe Industries</u>			
Revenue	17.7	36.1	104%
Profit before tax	0.0	3.5	3,857%

Source: Company, MIDF Research

F. RECOMMENDATION

- **Maintain BUY.** With the announced deal, we are adopting sum-of-parts to better reflect the valuation of CIH . We are valuing the sanitary ware division at 5x PER12b which we deem reasonable given the much lower contribution to its bottomline (6.8%, refer table 3). Our SOP valuation has thus increased our target for CIH to RM5.00 from previous RM3.92. Therefore, we reiterate a BUY recommendation for CIH. 

INVESTMENT STATISTICS

FYE June	FY09	FY10	FY11E	FY12F
Revenue (RM'm)	363.0	516.4	588.7	659.3
EBIT (RM'm)	32.8	51.3	55.3	60.7
Pretax profit (RM'm)	28.0	48.1	52.3	55.7
Net profit (RM'm)	21.0	38.2	40.8	42.9
EPS (sen)	14.8	26.9	28.7	30.2
EPS growth (%)	45.2%	82.1%	6.9%	5.0%
PER(x)	22.3	12.3	11.5	10.9
Dividend (sen)	5.3	8.3	8.6	9.1
Dividend Yield (%)	1.8%	2.8%	2.9%	3.1%

Source: Company, Forecasts by MIDFR

TABLE 3: SUM-OF-PARTS VALUATION

FYE June	Est. EPS FY12 (RM m)	PER FY12f (x)	Effective fair value (Rm m)
Permanis	40.0	20.5	820.0
Less disposal expenses			19.0
			801.0
Doe Industries	2.7	5.0	13.5
Total fair value			814.5
(-) Net debt			105.2
Total effective fair value			709.3
Fully diluted no. of shares			142.0
Target price per share			5.00

Source: Company, Forecasts by MIDFR

RETURN STATS	
Price (19 July 11)	RM4.08
Target Price	RM5.00
Expected Share Price Return	+22.5%
Expected Dividend Yield	+3.1%
Expected Total Return	+25.6%

STOCK INFO	
KLCI	1,565.81
Bursa / Bloomberg	2828/ CIH MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	142.0
Par Value (RM)	1.00
Market cap. (RM'm)	579.4
Price over NA	2.3x
52-wk price Range	RM2.47–RM4.13
Beta (against KLCI)	0.7
3-mth Avg Daily Vol	0.24m
3-mth Avg Daily Value	RM0.79m
Major Shareholders	
Johari bin Abdul ghani	30.00%
Continental S/B	10.44%
PNB	8.24%

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.