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Company Update

CI Holdings

Asahi Offer: Deal or no Deal?

BUY

Fair Value **RM4.30**
Previous Price **RM3.79**
Price **RM3.46**

CONSUMER

CI Holdings is the exclusive bottler for PepsiCo and it manufactures sanitary ware and tap ware fittings.

Stock Statistics

Bloomberg Ticker	CIH MK
Share Capital (m)	142.0
Market Cap	491.3
52 week H L Price	4.00 2.47
3mth Avg Vol (000)	170.8
YTD Returns	-5.2
Beta (x)	0.70

Major Shareholders (%)

Bin Abdul Ghani Johari	30.00
Continental Theme SB	10.44
PNB	8.24

Share Performance (%)

Month	Absolute	Relative
1m	29.2	25.1
3m	12.5	9.6
6m	-1.1	-4.7
12m	31.6	4.5

6-month Share Price Performance



CIH has officially said that Asahi's purported RM600m offer to acquire its subsidiary Permanis does not reflect the latter's value. Still, we believe that CIH may take a re-look at the deal if Asahi were to offer a higher price in view of the tougher operating environment going forward. Although Pepsi may not approve of the deal due to potential conflict of interest, Asahi may be more interested in Permanis' wide distribution network. While CIH is grappling with higher sugar cost, the group's fundamentals and prospects remain solid. We are raising our fair value to RM4.30 from RM3.79 as we roll over our valuation to FY12, pegged at 13x PE. Maintain BUY.

It may take more to entice CIH. Following media reports that Asahi is in talks to acquire Permanis at an offer price of RM600m, CI Holdings (CIH) has officially stated that the RM4.23 per share offer "does not reflect Permanis' value". Nonetheless, as CIH acquired Permanis for RM72m in FY04 as opposed to the reported offer price of RM600m and the fact that the outlook will be tougher going forward, we are of the view that CIH may take a re-look at the deal should Asahi bump up its offer price. Dutch Lady, which is slightly bigger than CIH in terms of net profit, is trading at a 16.8x trailing PE while Serm Suk Plc (SSC, Pepsi's exclusive bottler and distributor in Thailand) is trading at a 26x trailing PE.

Permanis' distribution network could be the coveted prize. Pepsi's approval is needed if there is to be a change in the Permanis' major shareholders while maintaining the bottling agreement. We think that it would not be easy getting Pepsi's nod given that there is some current overlap in both parties' products. Besides, Asahi's aggressive acquisition trail would substantially enlarge its beverage portfolio, which may in turn increase the likelihood of more product duplication, as well as divert Asahi's focus from Pepsi products. That said, we believe that Asahi may be more interested in Permanis' distribution network instead of a partnership with Pepsi and as such may not be keen in keeping the bottling deal.

Pepsi Thai interested in Permanis? There are also rumours that Pepsi Thailand is looking to acquire Permanis. These emerged after SSC cancelled its bottling agreement with Pepsi (although the contract still runs till April 2012). While this is probable, Pepsi Thailand would need to offer a price that is higher than Asahi's RM600m.

Maintain BUY. Meanwhile, CIH recently launched its Tropicana Twister Lychee, which we think may garner better response than its Blackcurrant variety. This leads us to think that the company is on the right track in creating new products that suit the taste of Malaysians. Although the absence of sugar subsidy may impact CIH in the near term, we believe that its fundamentals and prospects remain strong, backed by Pepsi's solid branding. We are rolling over our valuation to FY12, which pushes up our fair value from RM3.79 to RM4.30, pegged at 13x PE.

FYE Jun	FY08	FY09	FY10	FY11f	FY12f
Revenue	290.5	363.0	516.4	600.0	682.7
Net Profit	14.5	21.0	38.2	41.3	47.0
% chg y-o-y	84.9	44.2	82.0	8.3	13.6
Consensus				39.9	45.7
EPS	10.2	14.8	26.9	29.1	33.1
DPS	4.0	7.0	11.0	11.6	13.2
Dividend yield (%)	1.2	2.0	3.2	3.4	3.8
ROE (%)	14.0	15.8	23.7	22.2	21.9
ROA (%)	5.5	7.1	9.8	9.6	9.8
PER (x)	33.8	23.4	12.9	11.9	10.5
BV/share	0.73	0.93	1.14	1.31	1.51
P/BV (x)	5.5	4.7	3.7	3.0	2.6
EV/EBITDA (x)	25.3	17.7	11.6	8.9	7.8

KEY HIGHLIGHTS

Fundamentals strong despite high raw material prices. CIH recently launched its new Tropicana Twister Lychee. This is the 3rd new product so far in FY11, after Revive Lime Burst and Tropicana Twister Blackcurrant. OSK Research tested the Tropicana Twister Lychee recently and are broadly of the view that the Lychee drink may receive better response than its Tropicana Blackcurrant. This seems to put CIH on the right track towards creating new products that please the taste buds of Malaysians. While the absence of sugar subsidy would impact CIH in the near term, the company's fundamentals and prospects are unshakeable, backed by Pepsi's strong branding. We roll over our valuation to FY12, which increases our fair value from RM3.79 to RM4.30, pegged at 13x PE.

ASAHI IN TALKS TO ACQUIRE PERMANIS

May need a higher offer to win over major shareholders. On Monday, media reports said Asahi has offered RM600m (USD200m) to acquire Permanis. The following day, CIH officially said the offer price, which translates into RM4.23 per share, "does not reflect Permanis' value". Although the reported acquisition price is at a 20% premium over our previous fair value of RM3.79, it is slightly below our new fair value of RM4.30, which we peg at 13x FY12 EPS. Judging from the announcement, it seems unlikely that CIH would let go of Permanis for RM4.23 per share, which values Permanis at a ~17x trailing PE, as management sees better value in the company. As comparison, Dutch Lady (generating a net profit of RM63.9m in FY10) - which is slightly bigger than CIH - is trading at a 16.8x trailing PE while Thailand's Serm Suk Plc (net profit RM47.5m in FY10) - which is effectively still Pepsi's exclusive bottler and distributor in Thailand for now - is trading at a 26x trailing PE.

CI would be left with tapware business if deal goes through. If CIH disposes of its beverage business, the group would be left with the tapware business, which contributes <10% of total sales. Much of the group's focus in the past has been on its beverage business, and the group managed to turn around CIH from a loss of RM3.8m in FY06 to a RM7.9m profit the following year while its bottom-line has grown substantially since then. Hence, there is no doubt that it would take a higher offer price indeed to entice CIH to sell its beverage business.

CIH may consider if Asahi pumps up the offer. Since Asahi has allocated a huge RM15bn (JPY 400bn) for acquisitions this year, we believe that the group would have room to raise its offer price for Permanis if it is really keen. In the event that Asahi raises the offer to a level deemed fair by CIH - in which major shareholders Datuk Johari and the SISMA Group collectively hold 50% - we believe there is a chance of CIH taking a relook at the deal. Note that CIH acquired Permanis at RM72m in 2005; as such, the offer price of >RM4.23 per share represents a good premium. Furthermore, the operating environment is expected to get tougher owing to higher sugar cost and intensifying competition in the beverage industry. This is particularly true when Coca-Cola's plant in Nilai would be ready for manufacturing at the end of the year.

Will Pepsi be ok with the deal if CIH is ok? According to the management, Pepsi's approval is needed when there is a change of major shareholder in the company if the bottling agreement is to be maintained. We think that it would not be easy getting Pepsi's approval given that some of Asahi's products are similar to Pepsi Co's, and the fact that Asahi is aggressively acquiring other beverage manufacturers globally increases the likelihood of further product duplication. Even if Asahi agreed to not sell products that are similar to Pepsi in Malaysia, the wide portfolio may also divert Asahi's focus from Pepsi's products. Hence, having a partner in CIH which only has few in-house products is still better for Pepsi than being in a partnership with Asahi. In addition, Pepsi had last year renewed its contract with CIH for another 10 years.

But Asahi may be more keen on Permanis’ distribution network instead of partnering Pepsi. While we believe that it can be difficult to get Pepsi’s approval, we think that Asahi may well be more interested in Permanis’ wide distribution network instead of partnering with Pepsi. Apart from being a well established bottler, Permanis has a wide distribution network in Malaysia. Currently, Permanis distributes its products to >42,000 of 75,000 licensed outlets such as hypermarkets, supermarkets and convenience stores nationwide. Due to CIH’s close relationships with KFC and QSR Malaysia, fostered through Datuk Johari, Permanis also distributes beverage exclusively to KFC and Pizza Hut outlets in Malaysia. With Permanis’ good delivery track record and extensive distribution network, it is not surprising that Asahi may actually want to acquire Permanis alone instead of being in a partnership with Pepsi.

PEPSI THAILAND LOOKING TO BUY PERMANIS TOO?

On the other hand, there are also rumours that Pepsi Thailand is looking to acquire Permanis. This came about after Serm Suk Plc (SSC), the Thai bottler for Pepsi, cancelled its bottling agreement with Pepsi although a temporary extension is still in place for now. Pepsi Co holds 41.5% of SSC through Pepsi-Cola (Thai) Trading and Seven-up Nederland BV. While this is possible, Pepsi Thailand would need to offer a price that is higher than RM600m. Another option for Pepsi is to get CIH to manufacture and supply to Thailand. CIH has enough capacity to manufacture for Thailand as the group has just installed a non-carbonated line which is capable of generating RM300m sales. The group is also planning to install a carbonated line which can generate RM170m sales in Apr 2011. Although this would have a negligible impact on top line, CIH has been manufacturing for Pepsi’s distributors regionally when they run out of capacity.

Figure 1: Tropicana Twister Orange – launched in FY08



Source : OSK

Figure 2: Tropicana Twister Apple – launched in FY08



Source : OSK

Figure 3: Tropicana Twister Blackcurrant – launched in end June 2011



Source : OSK

Figure 4: Tropicana Twister Lychee – launched in end June 2011



Source : OSK

EARNINGS FORECAST

FYE Jun	FY08	FY09	FY10	FY11f	FY12f
Turnover	290.5	363.0	516.4	600.0	682.7
EBITDA	31.5	45.5	62.7	71.3	82.4
PBT	15.5	28.1	48.2	54.9	62.5
Net Profit	14.5	21.0	38.2	41.3	47.0
EPS	10.2	14.8	26.9	29.1	33.1
DPS	4.0	7.0	11.0	11.6	13.2
Margin					
EBITDA (%)	10.9	12.5	12.1	11.9	12.1
PBT (%)	5.4	7.7	9.3	9.2	9.2
Net Profit (%)	5.0	5.8	7.4	6.9	6.9
ROE (%)	14.0	15.8	23.7	22.2	21.9
ROA (%)	5.5	7.1	9.8	9.6	9.8
Balance Sheet					
Fixed Assets	88.8	85.7	125.3	161.5	173.7
Current Assets	118.0	155.6	210.6	228.8	273.5
Total Assets	263.2	294.9	388.4	432.6	480.1
Current Liabilities	122.3	120.9	165.6	183.9	203.3
Net Current Assets	141.0	174.0	222.8	248.7	276.9
LT Liabilities	36.7	40.1	61.4	62.5	62.5
Shareholders Funds	104.2	132.8	161.4	186.2	214.4
Net Gearing (%)	63.8	29.0	41.1	34.0	21.1

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