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**MALAYSIA EQUITY**  
Investment Research  
Daily

## Corporate News Flash

# CI Holdings

### *Giving Away The Bride*

#### TAKE PROFIT

Fair Value **RM5.77**  
Previous **RM4.30**  
Price **RM4.08**

#### CONSUMER

#### THE BUZZ

CI Holdings (CIH) announced that the group has entered into a conditional share sale agreement with Asahi Group Holdings Ltd for the disposal of CIH's entire equity interest in Permanis to Asahi. The proposed sale entails the disposal by CIH of 70m ordinary shares of RM1 each in Permanis for a total cash consideration of RM820m, or RM5.77 per CIH share. Once completed, CIH will realize a gain on disposal of about RM677.1m (after deducting cost of investment of RM72m, post acquisition reserves of Permanis of RM51.9m and estimated expenses for the proposed disposal of RM19m).

#### OUR TAKE

**Attractive pricing.** While CIH's proposed disposal of Permanis turned out as expected, we were surprised with Asahi's offer price, which is ~37% above the earlier reported offer price of RM600m. An offer price of RM5.77 per share values Permanis at 24.7x trailing PE (based on Permanis' FY10 EPS of RM0.23). As compared to the offer price that Asahi paid for Schweppes Australia of ~6.8x EV/EBITDA, Permanis gets an attractive valuation of ~15.4x EV/EBITDA. Vis-à-vis CIH's local peer average PE of 16.1x and our previous fair value of RM4.30, the offer price also represents good premium of 53% and 34% respectively.

**Figure 1: Peer comparison**

	Trailing PE	Revenue (RM m)	Net profit (RM m)
Fraser and Neave	9.0	3637.7	695.3
Spritzer	10.8	131.6	12.5
Dutch Lady	17.2	710.6	63.9
Nestle	27.4	4026.3	391.4
CI Holdings	13.6	516.0	38.1
<b>Average</b>	<b>16.1</b>	<b>1804.5</b>	<b>240.2</b>

Source: Bloomberg

**Deal likely to go through.** Given that the proposed disposal will involve a change in the ownership of Permanis, PepsiCo's approval is needed. According to the announcement, PepsiCo has an existing relationship with Asahi since 2009 when the latter acquired PepsiCo's franchisee Schweppes Australia at AUD1.185bn. As such, we believe that PepsiCo is likely to approve the deal. Major shareholder Datuk Johari bin Abdul Ghani, Sisma Group and Continental Theme collectively own 60.4% of CIH, which further increases the likelihood of the disposal going through although some risk does remain.

The proposed disposal is subject to the following approvals being obtained:

- (i) approval of shareholders of CIH
- (ii) approval of Ministry of International Trade and Industry (MITI)
- (iii) consent from PepsiCo for the change in ownership of Permanis
- (iv) consent of third parties (i.e. financiers of the Permanis Group)
- (v) release of CIH and other parties from the third party guarantees given for financing or other facilities of the Permanis Group;
- (vi) agreement of Amanah Raya Berhad to novate the lease arrangement with regards to two plots of lands and the consent of the relevant government authority for the transfer of the registered lease from CIH to Permanis; and
- (vii) any other relevant authorities and/or parties, if required.

**CI will be left with its DOE business.** Permanis accounts for 93% and 87% of CIH's FY10 revenue and net profit respectively. The disposal of Permanis will leave the group with its DOE business, which generated a top- and bottom-line of RM36.1m and RM2.4m in FY10 respectively. While this tap and sanitary ware division continued to perform strongly in 9MFY11 with revenue and net profit of RM33.6m and RM4.8m respectively and a net profit margin that expanded to 14.2% versus 6.6% in FY10, it will take time for this division to grow.

**Figure 2: Financial summary of Permanis**

Permanis Group				
	FY08	FY09	FY10	9MFY11
Revenue	261.3	327.7	479.9	406.6
PBT	14.1	24.1	41.3	31.7
PAT	13.5	17.8	33.3	24.1

*Source: Announcement*

**Figure 3: Financial summary of DOE**

DOE Industries SB		
	FY10	9MFY11
Revenue	36.1	33.6
PBT	2.4	4.8

*Source: Announcement*

**But still uncertain with the use of proceeds.** After disposing of Permanis, CIH would have total cash of RM763.1m (after deducting Permanis' post acquisition reserves totaling RM51.9m and estimated expenses for the proposed disposal of RM19m). The announcement said there is currently no concrete plan on how to use the sale proceeds, adding that the group may use the proceeds to acquire viable businesses/assets and/or make a distribution to shareholders etc. Given that CIH intends to maintain its listing status and the fact that its DOE business is still small and growing, the group is likely to invest the proceeds in a new business. Note that CIH is prohibited from (i) engaging itself in the manufacturing and distribution of ready-to-drink beverages in Malaysia and (ii) attempt to disrupt supply to Permanis for a period of 3-year after the completion date. The huge cash pile sitting in its books could well make CIH a cash company (a listed company whose assets on a consolidated basis consist of 70% or more in cash or short term investments, or a combination of both) and it would be required to submit a proposal to regularize its condition within a timeframe to be determined by Bursa Malaysia.

**Take profit.** While we raise our fair value to the offer price of RM5.77, we advise investors to take profit and sell into strength given: (i) some small uncertainty still on whether the deal will proceed (ii) uncertainty over how would CIH would utilize its huge cash proceeds although management has a track record in growing Permanis (from a PBT of RM9.8m in to RM33.3m in 6 years), and when it would reach a decision, and (iii) the fact that share price has appreciated strongly recently and we expect it to soar further towards the offer price when it resumes trading today due to the attractive offer price. The proposed disposal is expected to be completed by 4Q2011.

**OSK Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated (NR):** Stock is not within regular research coverage

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