OSK

MALAYSIA EQUITY
Investment Research
Daily

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Company Update

CI Holdings

Potentially Lucrative Payout

TRADING BUY

Fair Value	RM4.84
Previous	RM5.77
Price	**RM4.23**

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	600.7
52 week H | L Price	4.96 | 2.47
3mth Avg Vol (000)	353.5
YTD Returns	15.9
Beta (x)	0.66

Major Shareholders (%)

Datuk Johari bin Abdul	30.00
Continental Theme SB	10.44
PNB	8.16

Share Performance (%)

Month	Absolute	Relative
1m	-5.6	8.0
3m	56.7	67.3
6m	24.4	31.9
12m	51.8	45.5

6-month Share Price Performance

During the company's analyst briefing, questions focused on Asahi's acquisition offer for Permanis. As management guided that it is targeting a growth company, we believe its acquisition cost will not be substantial. Hence, we think a minimum 60% net cash payout is possible. While we are still uncertain on when and which company it will acquire, there is now more certainty that the Asahi deal will go through. As a base case scenario we see CIH making a 70% payout, holding back some RM80m in cash and buying a company generating some RM10.7m in profits. This gives us a FV of RM4.84 and we upgrade our call from take profit to Trading Buy, noting that uncertainties on timing and future potential remain.

Asahi deal heading towards finish line. Management guided that the deal is progressing well and it is expected to call an EGM and AGM at end-Oct 2011. The company expects to send out a circular to shareholders 3 weeks from the submission date of last Friday. In the circular, it will disclose the quantum of tax exempt special dividend, which could be more than 50% of its net cash proceeds of RM801m (after deducting fees of RM19m). The deal is expected to be completed in 1H2012.

Eye on growth companies. Management has guided that it is targeting to acquire companies with growth potential. Given Datuk Johari bin Abdul Ghani's (Group MD) expertise in turning around distressed companies and the fact that CIH prefers growing companies, we believe the acquisition target could be small and hence come with a small price tag. In view of Datuk Johari's wide experience in various industries, the acquisition target could be in any business apart from the ready-to-drink business, oil and gas as well as property business, which the management has ruled out, citing the technical expertise required to run such businesses.

Our analysis shows minimum 60% net cash payout likely. As we believe CIH's acquisition cost will not be substantial, a minimum 60% net cash payout is possible. Our analysis shows that: (i) a minimum payout of 60% and acquiring a company which generates at least RM10m net profit at an acquisition PE of max 15x, would give a positive investment return versus the last closing price of RM4.23.

Upgrade to Trading BUY. While we are still uncertain what kind of company the group may acquire, based on management guidance, there is more certainty that the deal will go through. This, coupled with its appetite for growth companies, guidance of a >50% net cash payout being likely and our likely scenario (70% net cash payout, acquiring a company which generates ~RM10m net profit) gives us a FV of RM4.84. Since our downgrade of the stock to a take profit call on 22 July, the company's share price has swung wildly but is still down 8.2%. With increased upside now coupled with preference for defensives, we upgrade our call to Trading BUY at a FV of RM4.84.

FYE June	FY09	FY10	FY11	FY12f	FY13f
Revenue	363.0	516.4	580.7	682.7	772.6
Net Profit	21.0	38.2	40.6	44.9	52.5
% chg y-o-y	44.2	82.0	6.3	10.6	17.0
Consensus				44.6	50.9
EPS	14.8	26.9	28.6	31.6	37.0
DPS	7.0	11.0	12.0	12.6	14.8
Dividend yield (%)	1.7	2.6	2.8	3.0	3.5
ROE (%)	15.8	23.7	21.4	20.7	21.2
ROA (%)	7.1	9.8	8.2	8.6	9.2
PER (x)	28.6	15.7	14.8	13.4	11.4
BV/share	0.93	1.14	1.33	1.52	1.75
P/BV (x)	5.8	4.5	3.7	3.2	2.8

KEY HIGHLIGHTS

Weak performance from beverage and DOE business. During the analyst briefing last Friday, management clarified that the stronger FY11 revenue (+12.5% y-o-y to RM580.7m) and net profit (+5.3% to RM40.6m) were attributed to the strong 1HFY11 results. Compared to 1H of the financial year, the beverage industry saw softer demand in 2H. This, coupled with the loss of sugar subsidy since Jan 2011, led to earnings in 2H dropping 21.6% to RM17.5m versus a growth of 31.8% to RM23.1m in 1HFY11. Aside from the weaker 2H beverage results, sales at the tap and sanitary ware division declined by 0.5% to RM9.9m versus a 28.6% growth in 9MFY11. Management attributed this to the overall softness in the construction sector due to the weaker global economic outlook. Nonetheless, it believes that sales should improve going forward as more new property launches are in the pipeline. To further boost sales, the group would sell its products through a distribution network rather than by project only.

Permanis' disposal to Asahi on track. Management said the deal is progressing well and an EGM and AGM will be called for end-October 2011. A circular is expected to be distributed to shareholders 3 weeks from the submission date of last Friday. The tax exempt special dividend, which could be more than 50% of its net cash proceeds of RM801m (after deducting the corporate exercise fees of RM19m), will be disclosed in the circular. Management guided that the proceeds from the disposal will be a combination of acquisition and cash distribution. The deal is expected to be completed in 1H of 2012.

Growing companies the target. Management is targeting companies with growth potential. Given Datuk Johari bin Abdul Ghani's expertise in turning around companies and the fact that CIH prefers those with growth potential, we believe the acquisition target could be small and hence the acquisition cost would not be substantial. Nonetheless, the acquisition target could be any business other than the ready-to-drink, oil and gas as well as property businesses which the management has ruled out on grounds that these businesses require substantial technical experience. Datuk Johari's experience in managing companies in various industries in Malaysia, namely insurance (Talasco Insurance), fast food (KFC Holdings and QSR Brands), beverage (CI Holdings), poultry, building materials and manufacturing based industries help in making it possible to acquire a wide range of businesses.

Minimum 60% net cash payout likely. As CIH is targeting a growth company, this means its net profit should not be too high, and hence the investment cost would not be huge. As such, paying out a minimum of 60% of its net cash proceeds should not be a problem. At a 60% cash payout, it is only justifiable that CIH invest at least 75%, or RM240m, of its cash balance to acquire a company. Hence, with a cash balance of RM240m and assuming a 15x acquisition PE, CIH could acquire a company generating about RM16m in net profit (see table 1). If CIH was to acquire a smaller company, it is only justifiable if it pays more than 60% of its net cash proceeds. All in, our analysis shows that: (i) a minimum net cash payout of 60% and acquiring a company which generates at least RM10m net profit at an acquisition PE of max 15x (see table 3); or (ii) an above 60% net cash payout and a acquiring a company which generates a minimum net profit of RM5.3m at an acquisition PE of max 15x (see Tables 3,4 and 5) would give a positive investment return against the last closing price of RM4.23. Based on our analysis, we think that a 70% net cash payout and acquisition of a ~RM10m net profit company with strong growth potential is more likely. This conservatively assumes that CIH would keep ~RM80 of the cash in its books.

Upgrade to Trading BUY. While we are still uncertain which company CIH will eventually acquire, the acquisition could extend beyond the specified 12-month period based on management guidance. Nonetheless, we believe the deal is very likely to go through. Furthermore, the company has now guided that: (i) it is targeting mainly growth companies and has ruled out property and oil and gas companies which require substantial capex; and (ii) a >50% net cash payout is likely. As mentioned, if investors have a higher risk appetite and are willing to wait until the company announces its acquisition target, a 60% net cash payout and an acquisition of a small ~RM10m net profit company at a conservative but high acquisition PE of 15x would be sufficient to generate a positive return versus the last closing price of RM4.23. Based on our base case scenario (a 70% net cash payout, and buying a company which generates ~RM10m net profit), our fair value of CIH post acquisition is RM4.84 (see Table 4). The share price has swung wildly since our Take Profit call on 22 July when it closed at RM4.61. It has since dropped further by 8.2% to last Friday's close. With our new FV offering more upside and a new preference for more defensive counters, we upgrade our call from Take Profit to Trading Buy.

Table 1: Acquisition target's fair value dependent on cash payout

% of distribution	100%	90%	80%	70%	60%	50%
Total net proceeds (RM m)	801	720.9	640.8	560.7	480.6	400.5
Proceeds left for acquisition (RM m)	0	80.10	160.20	240.30	320.40	400.50
Acquisition PE (x)	-	15.00	15.00	15.00	15.00	15.00
Assumed Net profit (RMm)	-	5.34	10.68	16.02	21.36	26.70
Acquisition target fair value (RM)		0.19	0.53	0.90	1.35	1.88
Target PE applied to derive fair value (x)		5.0	7.0	8.0	9.0	10.0

Source: OSK

Table 2: Assuming a 50% cash distribution (range of acquisitions up to max RM400.5m as per table 1)

50% cash distribution (RM m)	400.5	400.5	400.5	400.5	400.5
Cash per share (RM)	2.82	2.82	2.82	2.82	2.82
+ DOE business value (RM)	0.36	0.36	0.36	0.36	0.36
+ Target fair value (RM)	0.19	0.53	0.90	1.35	1.88
Total value per share (RM)	3.37	3.71	4.08	4.53	5.06

Source: OSK

Table 3: Assuming a 60% cash distribution

60% cash distribution (RM m)	480.6	480.6	480.6	480.6
Cash per share (RM)	3.38	3.38	3.38	3.38
+ DOE business value (RM)	0.36	0.36	0.36	0.36
+ Target fair value (RM)	0.19	0.53	0.90	1.35
Total value per share (RM)	3.93	4.27	4.65	5.10

Source: OSK

Table 4: Assuming a 70% cash distribution (base case scenario)

70% cash distribution (RM m)	560.7	560.7	560.7
Cash per share (RM)	3.95	3.95	3.95
+ DOE business value (RM)	0.36	0.36	0.36
+ Target fair value (RM)	0.19	0.53	0.90
Total value per share (RM)	4.50	4.84	5.21

Source: OSK

Table 5: Assuming a 80% cash distribution

80% cash distribution (RM m)	640.8	640.8
Cash per share (RM)	4.51	4.51
+ DOE business value (RM)	0.36	0.36
+ Target fair value (RM)	0.19	0.53
Total value per share (RM)	5.06	5.40

Source: OSK

EARNINGS FORECAST

FYE June	FY09	FY10	FY11	FY12f	FY13f
Turnover	363.0	516.4	580.7	682.7	772.6
EBIT	32.7	50.9	59.8	64.6	74.2
PBT	28.1	48.2	53.8	59.7	69.9
Net Profit	21.0	38.2	40.6	44.9	52.5
EPS	14.8	26.9	28.6	31.6	37.0
DPS	7.0	11.0	12.0	12.6	14.8
Margin					
EBIT (%)	9.0	9.9	10.3	9.5	9.6
PBT (%)	7.7	9.3	9.3	8.7	9.0
Net Profit (%)	5.8	7.4	7.0	6.6	6.8
ROE (%)	15.8	23.7	21.4	20.7	21.2
ROA (%)	7.1	9.8	8.2	8.6	9.2
Balance Sheet					
Fixed Assets	85.7	125.3	176.1	173.7	184.6
Current Assets	155.6	210.6	271.6	299.8	336.0
Total Assets	294.9	388.4	497.0	523.9	571.0
Current Liabilities	120.9	165.6	168.6	175.1	190.7
Net Current Assets	174.0	222.8	328.3	348.8	380.3
LT Liabilities	40.1	61.4	139.0	132.5	132.5
Shareholders Funds	132.8	161.4	189.4	216.3	247.8
Net Gearing (%)	29.0	41.1	61.6	60.1	50.6

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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