

## Corporate Highlights

### News Update

# C.I. Holdings

*Asahi To Buy Permanis?*



**RHB Research  
Institute Sdn Bhd**  
A member of the  
RHB Banking Group  
Company No: 233327-M

5 July 2011

Share Price : RM3.30  
Fair Value : RM3.60  
Recom **Trading Buy**  
(Upgraded)

Table 1 : Investment Statistics (CIHLDG; Code: 2828)

Bloomberg: CIH MK

FYE	Turnover (RMm)	Net			PER (x)	C.EPS* (sen)	P/NTA (x)	Net			GDY (%)
		profit (RMm)	EPS (sen)	Growth (%)				Gearing (x)	P/CF (x)	ROE (%)	
June											
2010a	516.4	38.1	26.8	65.7	12.3	-	4.7	13.9	0.3	25.7	3.5
2011f	616.3	39.2	27.6	2.8	12.0	30	4.1	17.4	0.3	22.2	2.5
2012f	725.8	38.6	27.2	-1.6	12.2	34.0	4.0	9.9	net cash	19.0	2.5
2013f	860.0	46.7	32.9	21.1	10.0	37.0	3.9	6.6	net cash	20.0	3.0

Main Market Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC

\* Consensus Based On IBES Estimates

- ◆ **Asahi rumoured to be purchasing Permanis.** The media reported yesterday that Asahi, a Japan-based beermaker is in talks with CI Holdings (CIH) to purchase Permanis, CIH's beverage arm for USD200m (RM600m). Furthermore, it was also reported that Asahi is competing for Permanis with another unnamed company. We believe there is some truth to the deal as CIH's MD, Datuk Johari was quoted in the media as saying that the deal was in exploratory stage.
- ◆ **Asahi acquiring beverage makers in the region.** Asahi, Japan's largest beermaker, had announced in Feb 2011 that it may spend USD5bn in 2011 to acquire assets outside of Japan. Yesterday, it announced that it has agreed to buy the mineral-water and juice business of P&N Beverages in Australia for USD203m. Asahi is also competing with Suntory, another Japanese beermaker in the pursuit of Independent Liquor in New Zealand in a deal which may be valued at USD1.12bn.
- ◆ **RM600m price for Permanis seems fair.** Based on our estimates, Asahi's reported offer price of RM600m values Permanis at 17.6x FY06/12 EPS, which we believe is positive for CIH as it represents a 60% premium to CIH's current valuations and a premium of 17% to the average weighted average PER of global peers of 15x FY12 EPS, which include Coca-Cola, PepsiCo, and F&N, among others. Assuming the sale of Permanis goes through, CIH would be left with its tap and sanitary ware division and cash of RM600m (or RM4.23/share) which CIH could then use to acquire another core business, or returned to shareholders in the form of a special dividend or capital repayment.
- ◆ **We don't expect PepsiCo to have any objections.** In terms of Permanis' bottling agreement with PepsiCo, we do not expect the latter to have any objections pertaining to the deal given that CIH itself went through a few ownership changes previously without impact to the bottling agreement. Furthermore, we believe that Pepsi would be positive on the deal given Asahi's experience in beverage distribution.
- ◆ **Risks.** The risks include: 1) significant rise in sales volume; 2) significant decrease in raw material prices like crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.
- ◆ **Forecasts.** No change to our earnings forecasts.
- ◆ **Investment case.** We increase our target PER for the stock to 12x CY12 EPS (from 11x CY12 EPS) which is at the high end of its historical PE band, thus resulting in a new fair value RM3.60. However, we remain cognisant that trading on this news could push the share price well above our fair value. We thus upgrade our recommendation on the stock to **Trading Buy**.

Issued Capital (m shares)	142.0
Market Cap (RMm)	468.6
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	2.47-4.0

<b>Major Shareholders:</b>	<b>(%)</b>
Datuk Johari Abdul Ghani	30.0
Continental Theme	10.4
PNB	8.2

<b>FYE June</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
EPS chg (%)	-	-	-
Var to Cons (%)	(8.0)	(20.0)	(27.0)

#### PE Band Chart



#### Relative Performance To FBM KLCI



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Please read important disclosures at the end of this report.

**Table 2. Earnings Forecasts**

FYE Jun (RMm)	FY10a	FY11F	FY12F	FY13F
<b>Turnover</b>	<b>516.4</b>	<b>616.3</b>	<b>725.8</b>	<b>860.0</b>
Turnover growth (%)	42.3	19.3	17.8	18.5
Cost of Sales	(304.6)	(373.3)	(449.9)	(533.7)
Gross Profit	211.8	243.0	275.9	326.3
<b>EBITDA</b>	<b>64.8</b>	<b>72.0</b>	<b>75.3</b>	<b>83.6</b>
EBITDA margin (%)	12.6	11.7	10.4	9.7
Depr&Amor	13.6	18.8	23.3	21.6
Net Interest	(3.2)	(3.1)	(2.7)	(2.2)
<b>Pretax Profit</b>	<b>48.0</b>	<b>50.1</b>	<b>49.3</b>	<b>59.8</b>
Tax	(10.0)	(11.0)	(10.9)	(13.2)
<b>Net Profit</b>	<b>38.1</b>	<b>39.2</b>	<b>38.6</b>	<b>46.7</b>

*Source: Company, RHBRI Estimates*

**Table 3. Forecast Assumptions**

FYE Jun	FY11F	FY12F	FY13F
Carb-lines	4.00	4.00	4.00
Utilisation	75%	85%	75%
Non-carb lines	3	3	3
Utilisation	45%	56%	69%

*Source: Company, RHBRI*

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### Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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