Malaysia

MARKET DATELINE ● PP 7767/09/2011(028730)

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

Corporate Highlights

News Update

22 July 2011

C.I. Holdings

Selling Permanis To Asahi For RM820m

Share Price	:	RM4.08
Fair Value	:	RM5.80
Recom		**Trading Buy** (Maintained)

Table 1 : Investment Statistics (CIHLDG; Code: 2828) **Bloomberg: CIH MK**

FYE June	Turnover (RMm)	Net profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Net Gearing (x)	P/CF (x)	ROE (%)	GDY (%)
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	390.4	32.2	16.4	-40.7	20.2	34.0	4.0	6.3	net	11.7	1.5
2013f	66.0	28.3	7.3	-55.6	45.4	37.0	3.9	3.6	net	4.9	0.7

Main Market Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC — ** Consensus Based On IBES Estimates*

- **Asahi offering RM820m or RM5.80/share.** CIH has entered into a conditional share sale agreement for the disposal of its entire equity interest in Permanis to Asahi for RM820m in cash. The disposal is subject to the approval of CIH's shareholders, MITI and the consent of PepsiCo. given the change in ownership of Permanis. One of the conditions of the deal is that CIH must not carry on, engage or participate in anything relating to the beverage business for a period of three years after the completion of the deal. The deal is expected to be completed by the 4QCY11.
- **Valuation at 23.5x FY12.** We believe PepsiCo would have no issue with the change in ownership given that Asahi and PepsiCo already have an existing relationship in Australia as the former is the franchisee for Schweppes Australia. We believe that the offer price is more than fair as it represents a P/E of 23.5x FY12, a 57% premium to the weighted average of global beverage makers of 15x.
- **CIH to look for new business, with some dividends for shareholders.** Post-disposal of Permanis, CIH would be left with only its tap-ware and sanitary ware business (under Doe Industries). As management has stated its intention to maintain CIH's listing status, CIH would need to acquire a new core business and/or distribute some of the cash proceeds to shareholders to avoid becoming a PN16 (cash) company, given Doe's small asset base and profit contribution. CIH would be given 12 months to reverse its position. In order to avoid becoming a PN16 company, CIH cannot have more than 70% of its assets in cash. However, at this juncture, we understand that the nature of business and the timing of any such acquisition has yet to be determined. That being the case and given the time required for CIH to find a new core business, we believe CIH would therefore have to distribute some of its cash to shareholders to maintain its listing status. Based on our estimates, we believe that CIH would have to pay out at least 30% of its cash proceeds (equivalent to ~RM1.72/share) to avoid being classified as a cash company (Table 2).
- **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.** Our FY12-13 earnings forecast have been reduced by 16.6-39.4% after removing Permanis from CY12 onwards, and accounting for the interest earned on the cash of RM820m. We have not accounted for the EI gain of RM677m, which will be recorded in FY06/12.
- **Maintain Trading Buy.** In the short term, we maintain our Trading Buy on the stock with a revised fair value of RM5.80, which represents the net cash per share of CIH post disposal of Permanis. Note that our fair value is also the sum of CIH's current share price of RM4.08 and the potential dividends of RM1.72 that it may declare to shareholders after its disposal of Permanis. However, once the disposal is completed, CIH would no longer be a domestic beverage play, which may not sit well with long-term investors who could invested in CIH for its stable beverage business. It is likely therefore that long-term investors would expect a full capital repayment from CIH's cash proceeds.

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
Major Shareholders:	**(%)**
Datuk Johari Abdul Ghani	30.0
Continental Theme	10.4
PNB	8.2

FYE June	FY11	FY12	FY13
EPS chg (%)	-	(16.6)	(39.4)
Var to Cons (%)	(8.0)	n.m.	n.m.

PE Band Chart

Relative Performance To FBM KLCI

Hoe Lee Leng
(603) 92802641
hoe.lee.leng@rhb.com.my

Table 2. CIH potential dividends

Payout (% of net cash)	0.0	10.0	20.0	30.0	40.0	50.0	60.0	70.0	80.0	90.0
Dividends (RMm)	0.0	81.6	163.2	244.9	326.5	408.1	489.7	571.4	653.0	734.6
Divdends per share (RM)	0.00	0.57	1.15	1.72	2.30	2.87	3.45	4.02	4.60	5.17
Net cash as % of assets *	97.4	87.6	77.9	68.1	58.4	48.7	38.9	29.2	19.5	9.7

Source: Company, RHBRI Estimates ** Total asset value based on FY11 Proforma Figures and includes net assets of Doe of RM22.2m*

Table 3. Earnings Forecasts

FYE Jun (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	**516.4**	**616.3**	**390.4**	**66.0**
Turnover growth (%)	42.3	19.3	(36.7)	(83.1)
Cost of Sales	(304.6)	(373.3)	(237.6)	(30.4)
Gross Profit	211.8	243.0	152.8	35.6
EBITDA	**64.8**	**72.0**	**55.7**	**37.0**
EBITDA margin (%)	12.6	11.7	14.3	56.0
Depr&Amor	13.6	18.8	23.3	21.6
Net Interest	(3.2)	(3.1)	(2.7)	(2.2)
Pretax Profit	**48.0**	**50.1**	**29.7**	**13.1**
Tax	(10.0)	(11.0)	(6.5)	(2.9)
Net Profit	**38.1**	**39.2**	**32.2**	**28.3**

Source: Company, RHBRI Estimates

Table 4. 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

IMPORTANT DISCLOSURES

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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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