

Corporate Highlights

Briefing Note

29 August 2011

C.I. Holdings

Disposal Of Permanis By November 2011

Share Price : RM4.23
Fair Value : RM5.80
Recom **Trading Buy**
(Maintained)

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											
2011a	580.7	40.6	28.6	6.4	15.2		4.1	14.5	0.2	23.0	2.0
2012f	390.4	32.2	22.7	-20.5	19.1	31.0	4.0	6.3	net cash	15.9	1.6
2013f	66.0	28.3	19.9	-12.2	21.8	36.0	3.9	3.8	net cash	12.7	1.4
2014f	79.2	31.0	21.8	9.3	19.9	-	3.8	3.6	net cash	26.5	1.5

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

* Consensus Based On IBES Estimates

- ◆ **Deal expected to be complete by November.** During the analysts' briefing on Friday, CI Holdings' (CIH) management highlighted that they are targeting to complete the disposal of Permanis to Asahi sometime in the 2QFY06/11. The deal is currently pending the approval from Bursa for CIH's circular to shareholders, MITI, and others. Management expects that the EGM to acquire the shareholders approval for the deal, which CIH plans to hold concurrently with the AGM in late Oct, would be the final hurdle before Permanis is sold. While we believe the risk of completion of the deal is minimal, we expect CIH's minority shareholders to demand some sort of guarantee that a significant portion of the cash proceeds from the sale would be returned to shareholders in the form of a special dividend. Recall this disposal would result in CIH having a net cash per share of RM5.80.

Issued Capital (m shares)	142.0
Market Cap (RMm)	498.4
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	1.7-4.0
Major Shareholders:	(%)
Datuk Johari Abdul Ghani	30.0
Continental Theme	10.4
PNB	8.2

FYE June	FY12	FY13	FY14
EPS chg (%)	(15.8)	(21.8)	(28.4)
Var to Cons (%)	(26.8)	(21.4)	-

- ◆ **Special dividend likely higher rather than lower.** When asked about this issue, CIH assured us that the special dividend to be announced would be "satisfactory" for investors. Although management did not say it directly, we believe the tone of the briefing implies that the special dividend could be more than 50% of CIH's net cash per share of approximately RM810m after the sale. A 50% dividend payout would translate to RM2.90/share. We previously highlighted that CIH would need to pay out a minimum of RM1.72/share or 30% of its net cash to avoid being classified as a cash company, thus we believe that a payout of 50% is possible. In terms of timing of the special dividend, we expect it to be announced shortly after the completion of the deal, at end-2QFY06/11 or beginning of the 3QFY06/11.

PE Band Chart



- ◆ **Risks.** The risks include: 1) significant drop in demand; 2) significant increase in raw material prices such as crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.

Relative Performance To FBM FKLCI



- ◆ **Forecasts.** After increasing our sugar cost assumptions, our FY11-13 earnings were revised downwards by 16-28%.

- ◆ **Reiterate Trading Buy.** For the time being, we believe CIH's earnings outlook is cloudy, due to the sale of Permanis and further uncertainties pertaining to the utilisation of the proceeds. However, we are comforted by the belief that a significant portion of the proceeds could be distributed back to shareholders. Our fair value is maintained at RM5.80 per share based on the net cash per share that CIH would have post-disposal of Permanis. We reiterate our **Trading Buy** call on the stock.

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

Key takeaways from analysts briefing

- ◆ **Deal expected to be complete by November.** During the analysts' briefing on Friday, CI Holdings' (CIH) management highlighted that they are targeting to complete the disposal of Permanis to Asahi sometime in the 2QFY06/11. The deal is currently pending the approval from Bursa for CIH's circular to shareholders, MITI, and others. Management expects that the EGM to acquire the shareholders approval for the deal, which CIH plans to hold concurrently with the AGM in late Oct, would be the final hurdle before Permanis is sold. While we believe the risk of completion of the deal is minimal, we expect CIH's minority shareholders to demand some sort of guarantee that a significant portion of the cash proceeds from the sale would be returned to shareholders in the form of a special dividend. Recall this disposal would result in CIH having a net cash per share of RM5.80.
- ◆ **Special dividend likely higher rather than lower.** When asked about this issue, CIH assured us that the special dividend to be announced would be "satisfactory" for investors. Although management did not say it directly, we believe the tone of the briefing implies that the special dividend could be more than 50% of CIH's net cash per share of approximately RM810m after the sale. A 50% dividend payout would translate to RM2.90/share. We previously highlighted that CIH would need to payout a minimum of RM1.72/share or 30% of its net cash to avoid being classified as a cash company, thus we believe that a payout of 50% is possible. In terms of timing of the special dividend, we expect it to be announced shortly after the completion of the deal, at end-2QFY06/11 or beginning of the 3QFY06/11.
- ◆ **Still on the lookout for business opportunities.** We understand that at this juncture, CIH still has not narrowed down its target company to acquire with the rest of the proceeds. CIH is looking at a company that could deliver similar growth prospects that Permanis did. Citing an example of an FMCG business model, management highlighted a few criteria that they would focus on in such a company, such as a good brand, low penetration in certain distribution channels, a scalable business etc i.e. a company which can improve its profitability significantly with additional investments. Management also mentioned that they are not interested in industries that would require a high level of technical expertise, such as oil and gas and also industries which require a high level of capex, such a property. We understand that CIH is more interested in the food and beverage and Fast Moving Consumer Goods (FMCG) segment. Note that the deal with Asahi only restricts CIH from entering into the ready-to-drink beverage industries. Thus there are still other pockets of the F&B sector that it can venture into, such as snacks. However, for the time being, management is still looking at various proposals and business opportunities.

Forecasts

- ◆ **Forecasts.** After increasing our sugar cost assumptions, our FY11-13 earnings were revised downwards by 16-28%.

Risks

- ◆ **Risks to our view.** The risks include: 1) significant drop in demand; 2) significant increase in raw material prices like crude oil and sugar; and 3) foreign exchange risk as CIH buys concentrate from PepsiCo in USD.

Valuations and recommendations

- ◆ **Reiterate Trading Buy.** For the time being, we believe CIH's earnings outlook is cloudy, due to the sale of Permanis and further uncertainties pertaining to the utilisation of the proceeds. However, we are comforted by the belief that a significant portion of the proceeds could be distributed back to shareholders. Our fair value is maintained at RM5.80 per share based on the net cash per share that CIH would have post-disposal of Permanis. We reiterate our **Trading Buy** call on the stock.

Table 3. Earnings Forecasts

FYE Jun (RMm)	FY11a	FY12F	FY13F	FY14F
Turnover	580.7	390.4	66.0	79.2
Turnover growth (%)	12.5	(32.8)	(83.1)	20.0
Cost of Sales	(352.0)	(237.6)	(30.4)	(36.4)
Gross Profit	228.8	152.8	35.6	42.8
EBITDA	78.5	55.7	37.0	38.6
EBITDA margin (%)	13.5	14.3	56.0	48.8
Depr&Amor	18.8	23.3	21.6	20.2
Net Interest	(6.0)	(2.7)	(2.2)	(2.0)
Pretax Profit	53.7	29.7	13.1	16.5
Tax	(13.2)	(6.5)	(2.9)	(3.6)
Net Profit	40.6	32.2	28.3	31.0

Source: Company, RHBRI Estimates

Table 4. Forecast Assumptions

FYE Jun	FY11F	FY12F	FY13F
Carb-lines	4.00	-	-
Utilisation	75%	-	-
Non-carb lines	3	-	-
Utilisation	46%	-	-

Source: Company, RHBRI

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

The recommendation framework for stocks and sectors are as follows : -

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.



29 August 2011

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.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.

This report may not be reproduced or redistributed, in whole or in part, without the written permission of RHBRI and RHBRI accepts no liability whatsoever for the actions of third parties in this respect.