

Cocoaland Holdings

Placement waters down EPS

OUTPERFORM	Maintained
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RM1.48	Target: RM1.88
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Mkt.Cap: RM178m/US\$53m	
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Food & Beverages	
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Private placement

Cocoaland's proposed private placement of 10% of its share capital was a negative surprise to us as it will dilute earnings by an estimated 8%. However, in the long term, the funds raised could be used for expansion of its beverage line. We downgrade our FY10-11 earnings forecasts by 8%, leading to a drop in our target price from RM2.04 to RM1.88, still based on 9x CY11 earnings. However, the stock remains an OUTPERFORM in view of its attractive P/Es of 7-9x and dividend yields of 7-8%.

The news

At the end of last week, Cocoaland proposed a private placement up to 12m new shares, representing up to 10% of its issued share capital. Assuming a 10% discount to its closing price, the placement could raise around RM16m cash. Cocoaland indicated that the funds would be raised for working capital. The exercise is expected to be completed by 2Q10.

Comments

Not a welcome surprise. The news came a surprise to us as we did not expect the company to raise funds given that it remains in a net cash position even after spending RM20m on its new factory in Rawang last year. After the placement, Cocoaland should have around RM33m net cash by end-10 compared to our earlier forecast of RM17m.

8% EPS dilution. We take a dim view of the placement given the estimated 8% EPS dilution in the medium term. However, taking a longer-term view, this is probably a good time for Cocoaland to raise equity as market sentiment is currently bullish.

Planning for expansion? Although the company said the funds will be used for working capital, we think it is looking to fund capex for expansion of its beverage line. It is currently installing machinery for its new polyethylene terephthalate (PET) plant in Rawang which is capable of producing on an annual basis 120m bottles that can take hot fillings. If all goes well, commercial production will start in early 2Q10. If there is strong demand for its PET bottles, Cocoaland might need another RM10m-15m to expand its PET plant line.

Valuation and recommendation

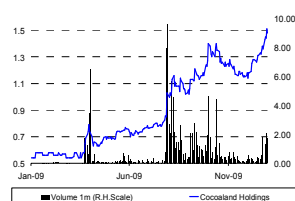
Cut in target price. We cut our FY10-11 earnings numbers by 8% for the placement. This reduces our target price from RM2.04 to RM1.88, still based on 9x CY11 P/E, which is a 40% discount to our 15x target P/E for the market. However, we maintain our DPS forecasts of 10 sen for FY10 and 12 sen for FY11. With more than RM30m net cash by end-10, Cocoaland should be able to meet our DPS forecasts.

Remains an OUTPERFORM. The stocks remains an OUTPERFORM, with the potential catalysts being i) stronger-than-expected demand for a new drink planned for this year, ii) higher profit margin from a better product mix, and iii) generous dividend yields of around 7%.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	121.7	128.7	135.0	183.9	208.5
EBITDA (RM m)	15.2	15.3	32.1	34.1	41.8
EBITDA margins (%)	12.5%	11.9%	23.8%	18.5%	20.0%
Pretax profit (RM m)	11.2	10.9	27.5	28.5	35.8
Net profit (RM m)	8.8	8.7	21.2	21.9	27.6
EPS (sen)	7.3	7.3	17.6	16.6	20.9
EPS growth (%)	(27.6)	(1.1%)	143.4%	(5.8%)	25.6%
P/E (x)	20.2	20.4	8.4	8.9	7.1
Gross DPS (sen)	3.5	3.6	10.0	10.0	12.0
Dividend yield (%)	2.4%	2.4%	6.8%	6.8%	8.1%
P/BV (x)	2.1	2.0	1.8	1.5	1.4
ROE (%)	10.6%	9.9%	21.0%	19.1%	20.1%
Net cash per share (RM)	0.08	0.12	0.09	0.25	0.33
P/FCFE (x)	42.3	23.7	28.4	12.0	8.1
EV/EBITDA (x)	11.0	10.7	5.2	4.8	3.6
% change in EPS estimates				(7.8)	(8.0)
CIMB/Consensus (x)			1.02	0.91	0.89

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x)		3-yr EPS CAGR (%)	P/BV (x)	ROE (%)	Div yield (%)
						CY2010	CY2011				
Cocoland	COLA MK	O	1.48	1.88	53	8.9	7.1	42.2	1.5	19.1	6.8
Nestle (M)	NESZ MK	U	33.80	28.00	2,373	21.3	20.3	4.7	12.6	67.6	5.8
F&N Hldgs	FNH MK	U	10.94	7.90	1,168	20.7	20.7	(5.0)	4.2	19.7	4.9
QSR	QSR MK	O	3.24	5.84	278	8.5	7.8	11.9	2.0	23.5	3.7
Simple average						14.9	14.0	13.4	5.1	32.5	5.3

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

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UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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