

Spritzer Berhad

(7103 | SPZ MK) | Consumer Products & Services | Food & Beverages

Downgrade to NEUTRAL

(Previously BUY)

Adjusted Target Price: RM2.15

(Previously RM2.73)

Expect soft demand as people stay in

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings within expectation**
- **Net profit of RM8.8m was 14% higher yoy**
- **Expect weaker 2QFY20 due to extended MCO**
- **Earnings revised by 46%/28% for FY20E/FY21F**
- **Downgrade to NEUTRAL with an adjusted TP of RM2.15 (previously RM2.73)**

1QFY20 earnings within expectation. Spritzer's net profit of RM8.8m for the first quarter was 26.9% of our full year estimates and 29% of consensus'.

Net profit of RM8.8m was +14%yoy higher even though revenue dipped by -2% to RM92.8m. This was mainly due to lower raw material costs as well as lower operating expenses. Operating expenses fell by -7%yoy. Spritzer's operations during the movement control order (MCO) continued as it is deemed essential albeit with a smaller workforce and in compliance with the standard operating procedures set by the government. Tax expenses during the quarter were higher year-on-year mainly due to Employee's share Grant Plan and adjustment in deferred tax.

Expect weaker 2QFY20 due to extended MCO. During the first quarter, the MCO which started from March 18, did not affect the company's performance much. However, as the MCO was extended further to April and May, we expect sales to be adversely impacted as people stay at home and drink less bottled water. We believe demand will recover gradually when more people go out and resume outdoor activities as well as starting to dine out. Cushioning the negative impact of lower sales will be lower raw material prices.

Earnings revised by -46%/-28% for FY20E/FY21F. In view of a weaker 2Q and time required for sales to pick up again, we expect Spritzer's full year performance to be softer compared to FY19. As such, we trim our earnings estimates to include the sluggish sales anticipated for the MCO period. Looking ahead, we expect demand to recover over time as people adjust to the new norm.

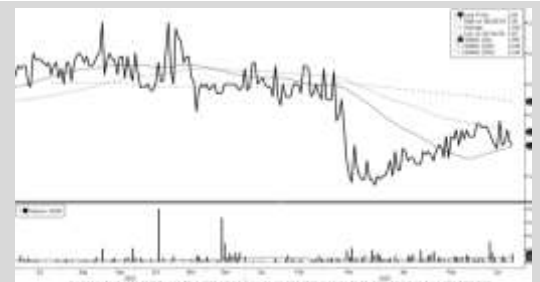
Downgrade to NEUTRAL with an adjusted TP of RM2.15 (previously RM2.73). We peg our unchanged valuation of 17.5x PER to FY21F EPS of 12.3sen in view of the challenging business environment in the coming quarters. Having said that, we believe that Spritzer will be also to sail through any potential challenges ahead due to its strong balance sheet and healthy cash flow. Net cash as of March 31 stood at RM17.5m. Dividend yield is estimated at 1.8%.



RETURN STATISTICS

Price @ 24 th June 2020 (RM)	2.00
Expected share price return (%)	+7.6
Expected dividend yield (%)	+1.8
Expected total return (%)	+9.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.0	-4.8
3 months	5.3	-9.1
12 months	-9.1	2.0

KEY STATISTICS

FBM KLCI	1502.63
Syariah compliant	Yes
Issue shares (m)	209.99
Estimated free float (%)	17.80
Market Capitalisation (RM'm)	419.94
52-wk price range	RM1.7 - RM2.4
Beta vs FBM KLCI (x)	0.61
Monthly velocity (%)	2.22
Monthly volatility (%)	9.25
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.03
Top Shareholders (%)	
Yee Lee Corporation	30.27
CIMB Group Holdings	13.98
Tasik Puncak	13.04

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INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM'm)	347.7	374.4	298.5	356.1	397.2
PBT (RM'm)	33.9	44.8	24.4	35.4	43.3
PAT (RM'm)	24.2	31.2	17.8	25.8	31.6
Normalised PAT (RM'm)	24.2	31.2	17.8	25.8	31.6
Normalised EPS (sen)	11.5	14.9	8.5	12.3	15.1
EPS growth (%)	4.4	28.9	-42.9	44.7	22.5
PER (x)	17.3	13.4	23.5	16.3	13.3
Net Dividend (sen)	3.5	4.7	2.5	3.7	4.5
Dividend yield (%)	1.8	2.4	1.3	1.8	2.3
PBT margin (%)	9.7	12.0	8.2	9.9	10.9
PAT margin (%)	7.0	8.3	6.0	7.2	8.0

Source: Company, MIDFR

TABLE 1: 1QFY20 RESULTS SUMMARY

FYE 31 st Dec (RMm)	Quarterly results			Cumulative results		
	1QFY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	92.8	(2.4)	6.7	92.8	95.1	(2.4)
Other gains and losses	0.1	(81.0)	(159.0)	0.1	0.6	81.0
Cost of sales and other opex exp.	(79.6)	(7.0)	1.4	(79.6)	(85.6)	(7.0)
Finance costs	(0.1)	(25.0)	(40.0)	(0.1)	(0.2)	(25.0)
Profit before tax	13.2	32.2	60.6	13.2	10.0	32.2
Tax expense	(4.4)	94.7	173.8	(4.4)	(2.3)	94.7
Profit after tax	8.8	14.0	35.2	8.8	7.7	14.0
Basic and diluted EPS (sen)	4.2	13.6	34.8	4.2	3.7	13.6
		<i>+ / (-) ppts</i>				
PBT margin (%)	14.2	3.7	(4.8)	14.2	10.5	3.7
PAT margin (%)	9.5	1.4	(2.0)	9.5	8.1	1.4
Effective tax rate (%)	33.3	10.7	(13.8)	33.3	22.6	10.7

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.