

Spritzer Berhad

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

Maintain BUY

Lower raw material cost continues to drive earnings

Unchanged Target Price: RM2.73

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 earnings came in at RM6.5m (+91.9%yoy) leading to full year FY19 earnings of RM31.2m**
- **This came in within ours and consensus' expectations**
- **Earnings was lifted by the reduction in PET resin cost in line with the downtrend in oil price**
- **The first and final dividend of 4.5sen per share was declared**
- **Maintain BUY with an unchanged TP of RM2.73**

4QFY19 earnings within expectations. Spritzer 4QFY19 earnings nearly doubled to RM6.5m in comparison to the corresponding quarter last year. This brings its full year FY19 earnings to RM31.2m which met ours and consensus expectations, accounting for 95.7% and 98.7% of full year FY19 earnings forecasts respectively.

Lower PET resin cost expanded profit margins. Despite a marginal increase in revenue of +1.8%yoy to RM87.0m, the group's 4QFY19 earnings was significantly lifted by the: (i) decrease in PET resin cost and; (ii) exemption of sales tax on packaging materials and consumables. Consequently, 4QFY19 net profit margin expanded by about +3.5ppts to 7.5%.

First and final dividend declared. The first and final dividend of 4.5sen per share was declared for FY19 which is within our expectation (vs FY18: 3.5sen).

Impact to earnings. We maintain our forecasts at this juncture as the result is within our estimation.

Target Price. Our target price remains unchanged at **RM2.73** per share. This is based on pegging FY20 EPS of 15.6sen against forward PER of 17.5x.

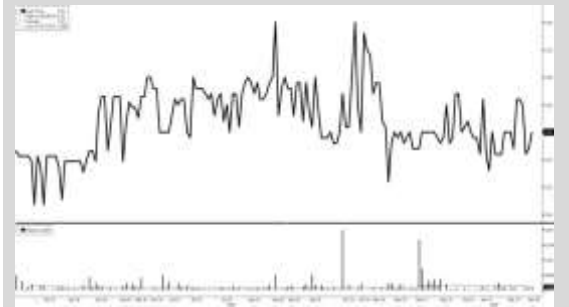
Maintain BUY. We remain confident that Spritzer will continue to record stable revenue growth going forward driven by its strong brand equity with more than 40% market share in the bottled water market in Malaysia. In addition, we project a commendable growth in sales volume underpinned by the: (i) increasing range of quality bottled water catering for various market segments and; (ii) consumer shifts towards a healthier beverage choice as a consequent of the implementation of excise duty on sugary beverages. Coupled with the favorable PET resin prices, we expect earnings will continue to grow in subsequent quarters. In the long term, we view that Spritzer's strategy of manufacturing its own PET preform, bottles and caps would help to keep cost at bay as compared to its peers. All things considered, we are maintaining our **BUY** recommendation on the stock.



RETURN STATISTICS

Price @ 26 th February 2020 (RM)	2.20
Expected share price return (%)	+24.1
Expected dividend yield (%)	+2.1
Expected total return (%)	+26.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.5	5.7
3 months	-2.2	6.6
12 months	0.9	15.6

KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	Yes
Issue shares (m)	209.99
Estimated free float (%)	17.80
Market Capitalisation (RM'm)	461.93
52-wk price range	RM2 - RM2.4
Beta vs FBM KLCI (x)	0.29
Monthly velocity (%)	11.02
Monthly volatility (%)	9.25
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Yee Lee Corporation	30.27
CIMB Group Holdings	13.98
Tasik Puncak	13.04

ANALYST

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INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Revenue (RM'm)	347.7	374.4	396.1	422.9	448.6
PBT (RM'm)	33.9	41.3	44.8	48.9	53.7
PAT (RM'm)	24.2	31.2	32.7	35.7	39.2
Normalised PAT (RM'm)	24.2	31.2	32.7	35.7	39.2
Normalised EPS (sen)	11.5	14.9	15.6	17.0	18.7
EPS growth (%)	4.4	28.9	4.7	9.2	9.7
PER (x)	19.1	14.2	14.1	12.9	11.8
Net Dividend (sen)	3.5	4.7	4.7	5.1	5.6
Dividend yield (%)	1.6	2.1	2.1	2.3	2.5
PBT margin (%)	9.7	11.0	11.3	11.6	12.0
PAT margin (%)	7.0	8.3	8.3	8.4	8.7

Source: Company, MIDFR

TABLE 1:4QFY19 RESULTS SUMMARY

FYE 31 st Dec (RMm)	Quarterly results			Cumulative results		
	4QFY19	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	87.0	1.8	(10.7)	374.4	347.7	7.7
Other gains and losses	(0.2)	(174.1)	(136.4)	1.5	2.9	48.2
Cost of sales and other opex exp.	(78.5)	(3.6)	(8.2)	(333.9)	(315.8)	5.7
Finance costs	(0.2)	(22.6)	(32.3)	(0.7)	(0.9)	(21.2)
Profit before tax	8.2	92.9	(34.6)	41.3	33.9	22.0
Tax expense	(1.6)	96.8	(50.2)	(10.1)	(9.6)	4.4
Profit after tax	6.5	91.9	(29.0)	31.2	24.2	29.0
Basic and diluted EPS (sen)	3.1	91.4	(29.1)	14.9	11.5	28.9
		<i>+ / (-) ppts</i>				
PBT margin (%)	9.4	4.4	3.4	11.0	9.7	1.3
PAT margin (%)	7.5	3.5	1.9	8.3	7.0	1.4
Effective tax rate (%)	20.2	0.4	6.3	24.3	28.4	(4.1)

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.