Spritzer Berhad

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

***Maintain* BUY**

Within expectations

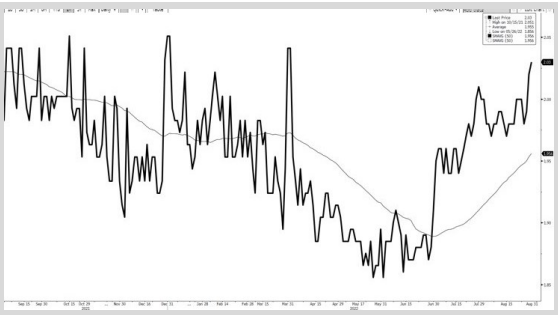
***Unchanged* Target Price: RM2.57**

KEY INVESTMENT HIGHLIGHTS

- **Within our expectation**
- **Core PATANCI more than doubled to RM7.6m in 2QFY22**
- **1HFY22's revenue improved +35.7%yoy to RM205m**
- **Maintained BUY with an unchanged TP of RM2.57**

RETURN STATISTICS	
Price @ 29th August 2022 (RM)	2.03
Expected share price return (%)	+26.8
Expected dividend yield (%)	+2.2
Expected total return (%)	**+29.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.0	0.4
3 months	6.3	9.2
12 months	0.0	6.6

KEY STATISTICS	
FBM KLCI	1,501.57
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	NA
Issue shares (m)	209.99
Estimated free float (%)	23.57
Market Capitalisation (RM'm)	425.43
52-wk price range	RM1.8 - RM2.12
Beta vs FBM KLCI (x)	0.57
Monthly velocity (%)	30.83
Monthly volatility (%)	10.22
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.05
Top Shareholders (%)	
Yee Lee Corporation	42.68
CGS-CIMB Securities Singapore	10.89
Tasik Puncak Holdings	5.12

Within our expectation. Spritzer's 1HFY22 core PATANCI of RM14.2m came in within ours but below consensus FY22 estimation, accounting for 46.3% and 44.5% respectively. No dividend was declared for this quarter.

Core PATANCI more than doubled to RM7.6m in 2QFY22, in line with a 41.5%yoy increase in revenue to RM106.2m. The better performance was ascribed to: (i) an increase in sales volume from stronger demand as Malaysia enters the Transition to Endemic Phase and reopening of economy and borders, as well as (ii) higher average selling prices (ASPs). Meanwhile, despite a +7.5%qoq growth in topline, Spritzer's operational profit margin decreased slightly to 9.4% in 2QFY22 from 9.6% in 1QFY22 on a quarterly basis. This is mainly due to a spike of +7.1%qoq in cost of sales and other operating expenses driven by higher selling and distribution costs, and manufacturing costs (due to higher prices for raw materials and other packaging materials). The core PATANCI grew 21%qoq to RM7.6m backed by the greater revenue, which more than offset the higher input cost.

1HFY22's revenue improved +35.7%yoy to RM205m, supported by the better revenue reported in the manufacturing and trading segment at RM193.5m and RM11m respectively. The manufacturing segment's operating income increased by 40.3%yoy to RM19.8m, more than offsetting the trading segment's stated loss. This resulted in a 40.1%yoy increase in the group's core PATANCI to RM14.2m.

Maintained BUY with an unchanged TP of RM2.57. We make no changes to our earnings estimation as the result is within our expectations. Our TP is based on a PER of 17.5x, pegged to FY23F EPS of 14.7sen. We are **positive** about Spritzer's outlook underpinned by its: (i) strong beneficiary of economic recovery, which will boost demand for its bottled water; (ii) prestige as the country's largest, most integrated, and leading producer of bottled water; and (iii) a healthy cash reserve of 4.6% of its total market capitalization. We also like the group's ESG initiatives in the use of sustainable packaging. Particularly, the introduction of the Spritzer "Icon" with a new bottle style, which is made from recycled polyethene terephthalate ("rPET").

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Downside risks are: (i) a sharp increase in raw material prices; and (ii) China operations continuing to be loss-making. Spritzer is currently trading at an attractive FY22F PE of 14.8x, above the sector average of 11.7x and offers a dividend yield of 2.2%.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	**308.5**	**331.0**	**397.4**	**398.4**	**369.6**
Other gains and losses	(1.2)	2.0	1.9	1.9	1.7
Changes in inventories	(0.4)	1.0	0.0	0.0	0.0
Purchase of finished goods	(2.9)	(3.6)	(2.2)	(2.2)	(2.1)
Raw material consumer	(105.3)	(127.8)	(155.3)	(155.2)	(126.8)
Employees benefit expense	(51.9)	(58.9)	(70.1)	(69.5)	(61.3)
EBITDA	**146.7**	**143.8**	**171.7**	**173.4**	**181.2**
Depreciation and amortisation	(18.7)	(19.4)	(23.0)	(22.9)	(20.2)
EBIT	**128.0**	**124.4**	**148.7**	**150.5**	**161.1**
Finance cost	0.6	(0.5)	(0.6)	(0.6)	(0.6)
Other expenses	(92.8)	(93.5)	(112.2)	(111.4)	(98.2)
Profit before tax	**35.8**	**30.3**	**35.8**	**38.4**	**62.3**
Income tax expense	1.0	(6.1)	(7.0)	(7.5)	(12.2)
Profit after tax	**36.8**	**24.2**	**28.8**	**30.9**	**50.1**
Non-controllong interest	0.0	0.0	0.0	0.0	0.0
PATANCI	**36.8**	**24.2**	**28.8**	**30.9**	**50.1**
EI	3.2	0.6	0.0	0.0	0.0
Core PATANCI	**40.0**	**24.8**	**28.8**	**30.9**	**50.1**
Basic EPS (sen)	19.0	11.8	13.7	14.7	23.9
DPS (sen)	4.5	4.5	4.5	4.5	4.5
Growth & Margin (%)					
Revenue Growth	(17.6)	7.3	20.0	0.3	(7.2)
Core PATANCI Growth	23.7	(37.9)	16.1	7.3	62.0
EBITDA Margin	47.6	43.4	43.2	43.5	49.0
EBIT Margin	41.5	37.6	37.4	37.8	43.6
PBT Margin	11.6	9.2	9.0	9.6	16.9
Core PATANCI Margin	13.0	7.5	7.2	7.8	13.6
Effective tax rate	(2.8)	20.1	19.6	19.6	19.6
Ratios & Valuation					
PER (x)	10.7	17.2	14.8	13.8	8.5
Net debt/Total Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net cash/Mkt Cap (%)	4.4	3.8	4.6	4.7	4.4
Dividend yield (%)	2.2	2.2	2.2	2.2	2.2

Source: Company, MIDFR

TABLE 1: Spritzer: 2QFY22 RESULTS SUMMARY

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue	**106.2**	**98.8**	**75.0**	**41.5**	**7.5**	**205.0**	**151.1**	**35.7**
Other gains and losses	0.6	1.0	1.0	(34.6)	(36.6)	1.7	1.5	8.5
Cost of sales and other opex exp.	(96.8)	(90.4)	(70.5)	37.5	7.1	(187.2)	(139.0)	34.7
Operating Profit	**10.0**	**9.4**	**5.6**	**79.6**	**5.9**	**19.4**	**13.6**	**43.1**
Finance costs	(0.2)	(0.1)	(0.1)	62.0	37.3	(0.3)	(0.2)	34.0
Profit before tax	**9.8**	**9.3**	**5.5**	**79.9**	**5.5**	**19.2**	**13.4**	**43.2**
Tax expense	(2.2)	(2.7)	(1.4)	58.4	(17.1)	(4.9)	(3.2)	50.6
Profit after tax	**7.6**	**6.6**	**4.1**	**87.3**	**14.6**	**14.3**	**10.1**	**40.9**
Core PATANCI	**7.6**	**6.3**	**3.8**	**101.8**	**21.0**	**14.2**	**10.2**	**40.1**
Basic EPS (sen)	3.6	3.2	2.0	86.2	14.5	6.8	4.8	40.5
Ratios & Margins				**+/(-) ppts**	**+/(-) ppts**			**+/(-) ppts**
Operating profit margin (%)	9.4	9.6	7.4	2.0	(0.1)	9.5	9.0	0.5
PBT margin (%)	9.3	9.4	7.3	2.0	(0.2)	9.3	8.9	0.5
PAT margin (%)	7.2	6.7	5.4	1.8	0.4	7.0	6.7	0.3
Core PATANCI margin (%)	7.2	6.4	5.0	2.1	0.8	6.9	6.7	0.2
Effective tax rate (%)	22.5	28.7	25.6	(3.1)	(6.1)	25.5	24.3	1.3
Segmental Breakdown								
Revenue (RM'm):								
Bottled Water Manufacturing	99.8	93.7	70.9	40.8	6.5	193.5	142.5	35.8
Trading	6.1	4.9	4.1	48.3	24.4	11.0	8.5	30.1
Others	0.3	0.2	0.0	553.7	31.4	0.5	0.1	345.3
Operating Income (RM'm):								
Bottled Water Manufacturing	10.2	9.5	6.0	70.6	7.0	19.8	14.1	40.3
Trading	(0.3)	(0.4)	(0.6)	(57.5)	(33.0)	(0.7)	(0.9)	(30.8)
Others	0.7	0.7	0.3	170.1	6.6	1.4	0.6	142.2
Eliminations	(0.8)	(0.5)	(0.4)	77.5	68.9	(1.2)	(0.9)	40.9
Operating Income Margin (%):								
Bottled Water Manufacturing	10.2	10.2	8.4	1.8	0.0	10.2	9.9	0.3
Trading	(4.3)	(8.0)	(14.9)	10.6	3.7	(5.9)	(11.1)	5.2
Others	273.1	336.8	661.0	(387.8)	(63.6)	300.6	552.8	(252.2)

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology