Visit Note | Friday, 07 October 2022

# Spritzer Berhad

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

***Maintain* BUY**

## Visit to Spritzer plant in Taiping

***Revised* Target Price: RM2.54**

*(Previously RM2.57)*

### KEY INVESTMENT HIGHLIGHTS

- **Visit to Spritzer factory**
- **Growing demand for mineral water in Malaysia**
- **Automated guided vehicles ("AGV") and automated storage & retrieval system warehouse ("ASRS")**
- **Revised earnings estimate for FY22F-23F**
- **Maintain BUY with revised TP of RM2.54**

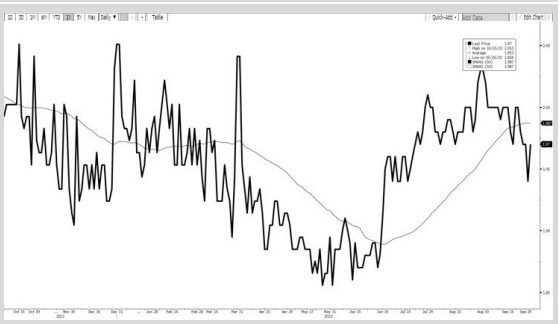
**Visit to Spritzer factory.** We visited Spritzer factory in Taiping, Perak on 5 October 2022. The plant we visited is located on a 390-acre site in Taiping. Key takeaways from the visit are:

**Growing demand for mineral water in Malaysia**. Presently, the group has an annual production capacity of 850m liters with an average utilization rate of 75%. The utilization rate exceeds the normal range of 60%-70% due to higher demand for mineral water. We gather that demand for bottled mineral water, particularly silica-rich mineral water, is growing due to concerns about health and welfare have grown globally, Silica is known to help promote softer skin, shinier hair, stronger nails, and supple joints. Management anticipates higher revenue for FY22, driven by robust bottled water demand and increased consumption outside the home following the reopening of the economy. Meanwhile, we believe that Spritzer has little room to grow its selling prices because mineral water is regarded as an essential good, and the Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) closely monitors its prices and supplies.

**Automated guided vehicles ("AGV") improves operational efficiency.** Spritzer replaced 35 forklifts with 35 AGVs *(Picture 1)*. An AGV is used to transport pallets of bottled water from a production line to a warehouse, without a driver/operator onboard. It has the proper guide sensor installed, allowing it to transport to the warehouse by following the floor's indicated tape-marked guide path. The AGV also has a sensor that detects obstructions and stops the vehicle until it is cleared, thereby avoiding accidents. Since it moves on a predictable path with precisely controlled acceleration and deceleration, this ensures finished goods are reliably delivered on pallets from the production line to the warehouse without the need for human interaction. We believe this is advantageous because it keeps the cost of repairs and maintenance stable, prevents forklift accidents, improves operational effectiveness, and reduces the demand for foreign labor.

| RETURN STATISTICS | |
|---|---|
| Price @ 6th October 2022 (RM) | 1.97 |
| Expected share price return (%) | +28.8 |
| Expected dividend yield (%) | +2.5 |
| **Expected total return (%)** | **+31.3** |

### SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -1.5 | 3.4 |
| 3 months | 0.0 | 1.4 |
| 12 months | -3.4 | 6.1 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,420.43 |
| Syariah compliant | Yes |
| F4BGM Index | No |
| ESG Grading Band (Star rating) | NA |
| Issue shares (m) | 209.99 |
| Estimated free float (%) | 23.48 |
| Market Capitalisation (RM'm) | 412.35 |
| 52-wk price range | RM1.8 - RM2.1 |
| Beta vs FBM KLCI (x) | 0.57 |
| 3-mth average daily volume (m) | 0.02 |
| 3-mth average daily value (RM'm) | 0.04 |
| Top Shareholders (%) | |
| Yee Lee Corporation | 42.73 |
| CGS-CIMB Securities Singapore | 10.90 |
| Tasik Puncak Holdings | 5.13 |

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**Automated storage and retrieval system warehouse ("ASRS").** In 2020, the group has completed its integrated warehouse with automated storage and retrieval system ("ASRS"), with a capacity of 15,000 pallets *(Picture 2).* The ASRS warehouse is equipped with a variety of computer-controlled equipment that can automatically place and retrieve loads from predetermined storage places. Currently, the group only needs to scan the barcode to effectively keep track of the inventory. We opine that the commissioning of the ASRS warehouse will (1) greatly improved the efficiency and effectiveness of supply chain management, (2) minimize the use of forklifts, prevented forklift accidents that causing the entire structural rack to collapse and (3) reduce carbon footprint.

**More expansion plans.** The group allocated RM45m of capital expenditure (CAPEX) for FY22 to remain competitive in Malaysia's bottled water market. Particularly, RM17m will be allocated for the warehouse; RM10m for the installation of a new water treatment plant; and RM18m for new production lines & machine upgrades. Management targets to increase the production capacity to 1,000m liters per annum (from 850m liters) by adding a new production line in Shah Alam. The new water treatment facility will lower the quantity of water required to generate 1ℓ of mineral water from the present 1.6ℓ to around 1.3ℓ-1.4ℓ. The total CAPEX is expected to be funded via internally generated funds and bank borrowings. As of 2QCY22, the group has a net cash of RM5.72m. This is slightly lower than the RM16.3m net cash as of FY21.

**Revised earnings estimate for FY22F-23F.** We raised our earnings for FY22F by +1.4% and FY23F by +8.1% to better reflect normalized PET resin price and improve sales volume ahead. This is after factoring in (1) higher production capacity (m liter), (2) a higher utilization rate of 70% for FY22F and 73% for FY23F, and (3) lower production cost backed by the recent decline in the Polyethylene terephthalate (PET) resin.

**Maintained BUY with a lower TP of RM2.54.** We revise our **TP** for Spritzer to **RM2.54** from RM2.57 as we peg revised FY23F EPS of 15.9sen (previously 14.7sen) to revised PER of 16.2x (previously 17x) which is the updated +1SD of its historical 5-year PE. We maintain our **BUY** call on Spritzer as we are positive about Spritzer's outlook underpinned by its: (1) defensive business nature, with consistently improving demand for bottled water in Malaysia; (2) prestige as the country's largest and most integrated producer of bottled water, with 40% of market share in Malaysia; and (3) recent acquisition of the 1,227.6 acres of land in Bukit Gantang, Perak for the future expansion of an additional mineral water plant. We also like Spritzer's initiatives to invest in automated production facilities and equipment to boost productivity, address the labor shortage, and maintain reasonable operational costs. **Downside risks** are: (1) a sharp increase in raw material prices, especially Polyethylene terephthalate (PET) resin prices; (2) higher-than-expected logistic costs and (3) China operations that are still operating at lost.

**PICTURE 1: AUTOMATED GUIDED VEHICLE**



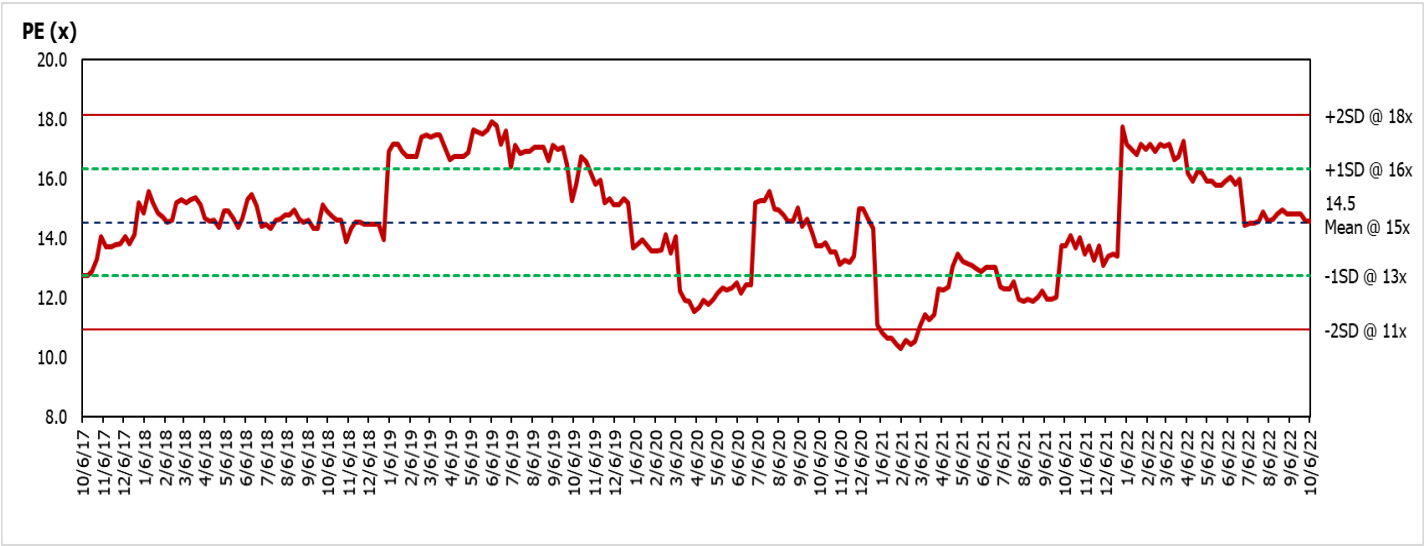

*Source: Company*

## PICTURE 2: EXAMPLE OF AUTOMATED STORAGE AND RETRIEVAL SYSTEM ("ASRS")



*Source: hitech*

## CHART 1: 5-YEAR FORWARD PE BAND




*Source: Bloomberg, MIDFR*

## INVESTMENT STATISTICS

| FYE DEC (RM'm) | FY2020 | FY2021 | FY2022F | FY2023F | FY2024F |
|---|---|---|---|---|---|
| **Revenue** | **308.5** | **331.0** | **402.7** | **427.2** | **453.3** |
| Other gains and losses | (1.2) | 2.0 | 1.9 | 2.0 | 2.1 |
| Changes in inventories | (0.4) | 1.0 | 0.0 | 0.0 | 0.0 |
| Purchase of finished goods | (2.9) | (3.6) | (2.2) | (2.4) | (2.5) |
| Raw material consumer | (105.3) | (127.8) | (157.4) | (166.3) | (169.5) |
| Employees benefit expense | (51.9) | (58.9) | (71.0) | (74.6) | (75.2) |
| **EBITDA** | **146.7** | **143.8** | **174.0** | **186.1** | **208.2** |
| Depreciation and amortisation | (18.7) | (19.4) | (23.3) | (24.5) | (24.7) |
| **EBIT** | **128.0** | **124.4** | **150.7** | **161.5** | **183.5** |
| Finance cost | 0.6 | (0.5) | (0.6) | (0.7) | (0.7) |
| Other expenses | (92.8) | (93.5) | (113.8) | (119.5) | (120.4) |
| **Profit before tax** | **35.8** | **30.3** | **36.3** | **41.4** | **62.4** |
| Income tax expense | 1.0 | (6.1) | (7.1) | (8.1) | (12.2) |
| **Profit after tax** | **36.8** | **24.2** | **29.2** | **33.3** | **50.2** |
| Non-controllong interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **PATANCI** | **36.8** | **24.2** | **29.2** | **33.3** | **50.2** |
| EI | 3.2 | 0.6 | 0.0 | 0.0 | 0.0 |
| **Core PATANCI** | **40.0** | **24.8** | **29.2** | **33.3** | **50.2** |
| Basic EPS (sen) | 19.0 | 11.8 | 13.9 | 15.9 | 23.9 |
| DPS (sen) | 4.5 | 4.5 | 5.0 | 5.7 | 8.6 |
| **Growth & Margin (%)** | | | | | |
| Revenue Growth | (17.6) | 7.3 | 21.7 | 6.1 | 6.1 |
| Core PATANCI Growth | 23.7 | (37.9) | 17.7 | 14.0 | 50.7 |
| EBITDA Margin | 47.6 | 43.4 | 43.2 | 43.5 | 45.9 |
| EBIT Margin | 41.5 | 37.6 | 37.4 | 37.8 | 40.5 |
| PBT Margin | 11.6 | 9.2 | 9.0 | 9.7 | 13.8 |
| Core PATANCI Margin | 13.0 | 7.5 | 7.2 | 7.8 | 11.1 |
| Effective tax rate | (2.8) | 20.1 | 19.6 | 19.6 | 19.6 |
| **Ratios & Valuation** | | | | | |
| PER (x) | 10.3 | 16.7 | 14.2 | 12.4 | 8.2 |
| Net debt/Total Equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Net cash/Mkt Cap (%) | 4.6 | 3.9 | 4.8 | 5.2 | 5.5 |
| Dividend yield (%) | 2.3 | 2.3 | 2.5 | 2.9 | 4.4 |

*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