Spritzer Berhad

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

***Maintain* BUY**

High utilization rate; strong demand

***Revised* Target Price: RM2.64**

(Previously RM2.54)

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings above expectations**
- **Better revenue and margin in 3QFY22**
- **9MFY22's revenue expanded by +40.9%yoy to RM324.6m.**
- **Raised earnings estimate for FY22F-23F.**
- **Maintained BUY with a higher TP of RM2.64 (previously RM2.54)**

Above expectations. Spritzer recorded 9MFY22's core PATANCI of RM25.3m, after subtracting a one-time off expense of RM0.4m. The result came in above our and consensus FY22 estimation at 86.7% of ours and 91.4% of streets'. The positive variance was mainly attributed to stronger-than-expected demand. No dividend was declared for this quarter.

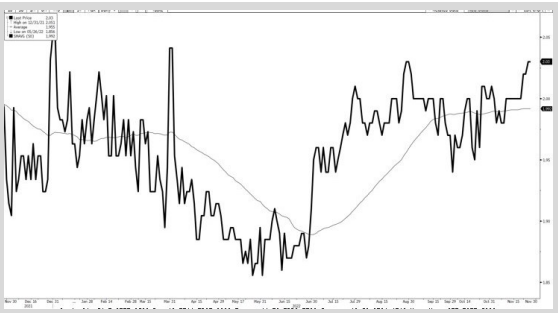
Better revenue and margin in 3QFY22. The group recorded an improved revenue of RM119.6m (+12.6%qoq, +50.7%yoy) in 3QFY22, which was in line with increased revenue for bottled water manufacturing and trading divisions. The positive momentum was supported by: (1) better sales volume, driven by increasing demand, and (2) higher average selling prices (ASP) because of price adjustment. Operating profit margin improved to 10.7% (+1.3ppt qoq; +2.7ppt yoy) thanks to higher margin for the bottled water manufacturing segment (+32ppt qoq; +97.8ppt yoy) that more than outweighed the trading segment loss. The group's core PATANCI for 3QFY22 increased to RM11.5m (+50%qoq; +77.7%yoy) mainly attributed to greater sales revenue that more than offset the increase in the cost of sales and other operating expenses.

9MFY22's revenue expanded by +40.9%yoy to RM324.6m. This was mainly lifted by stronger revenue for both manufacturing (+40.8%yoy) and trading (+37.5%yoy) segments. Cumulatively, manufacturing segment reported a higher operating income of RM33.2m from RM20.9m in 9MFY21 thanks to an increase in sales volume and greater ASPs. Meanwhile, the trading segment incurred a lower operating loss of -RM1.3m as compared to -RM1.6m in 9MFY21. The group core PATANCI rose by +52.2%yoy to RM25.3m.

Raised earnings estimate for FY22F-23F. Given earnings above our expectation, we increased our projected earnings for FY22F by +9.1%, FY23F by +7.5%, and FY24F by +5.2%. This is after factoring in a higher average utilization rate for FY22-24F to better reflect the strong demand ahead.

RETURN STATISTICS	
Price @ 29th November 2022 (RM)	2.03
Expected share price return (%)	+30.0
Expected dividend yield (%)	+2.7
Expected total return (%)	**+32.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.5	-1.2
3 months	3.0	0.9
12 months	-0.5	1.2

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	NA
Issue shares (m)	209.99
Estimated free float (%)	23.37
Market Capitalisation (RM'm)	424.32
52-wk price range	RM1.8 - RM2.1
Beta vs FBM KLCI (x)	0.56
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.05
Top Shareholders (%)	
Yee Lee Corporation	42.79
CGS-CIMB Securities Singapore	10.91
Tasik Puncak Holdings	5.13

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Maintained BUY with a higher TP of RM2.64 (previously RM2.54). We revise our **TP** for Spritzer to **RM2.64** from RM2.54 as we peg revised FY23F EPS of 17sen (previously 15.9sen) to revised PER of 15.5x (previously 16.2x) which is at its latest +1SD of its historical 3-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. **Downside risks** are: (1) a further increase in Polyethylene terephthalate (PET) resin prices and (2) higher-than-expected logistic costs.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	**308.5**	**331.0**	**425.7**	**449.4**	**469.9**
Other gains and losses	(1.2)	2.0	2.0	2.1	2.2
Changes in inventories	(0.4)	1.0	0.0	0.0	0.0
Purchase of finished goods	(2.9)	(3.6)	(2.4)	(2.5)	(2.6)
Raw material consumer	(105.3)	(127.8)	(165.1)	(174.0)	(174.8)
Employees benefit expense	(51.9)	(58.9)	(75.1)	(78.4)	(77.9)
EBITDA	**146.7**	**143.8**	**185.2**	**196.7**	**216.8**
Depreciation and amortisation	(18.7)	(19.4)	(24.7)	(25.8)	(25.6)
EBIT	**128.0**	**124.4**	**160.5**	**170.9**	**191.2**
Finance cost	0.6	(0.5)	(0.7)	(0.7)	(0.7)
Other expenses	(92.8)	(93.5)	(120.3)	(125.7)	(124.8)
Profit before tax	**35.8**	**30.3**	**39.6**	**44.5**	**65.6**
Income tax expense	1.0	(6.1)	(7.7)	(8.7)	(12.8)
Profit after tax	**36.8**	**24.2**	**31.9**	**35.8**	**52.8**
Non-controllong interest	0.0	0.0	0.0	0.0	0.0
PATANCI	**36.8**	**24.2**	**31.9**	**35.8**	**52.8**
EI	3.2	0.6	0.0	0.0	0.0
Core PATANCI	**40.0**	**24.8**	**31.9**	**35.8**	**52.8**
Basic EPS (sen)	19.0	11.8	15.2	17.0	25.1
DPS (sen)	4.5	4.5	5.5	6.1	9.0
Growth & Margin (%)					
Revenue Growth	(17.6)	7.3	28.6	5.6	4.6
Core PATANCI Growth	23.7	(37.9)	28.4	12.3	47.5
EBITDA Margin	47.6	43.4	43.5	43.8	46.1
EBIT Margin	41.5	37.6	37.7	38.0	40.7
PBT Margin	11.6	9.2	9.3	9.9	14.0
Core PATANCI Margin	13.0	7.5	7.5	8.0	11.2
Effective tax rate	(2.8)	20.1	19.6	19.6	19.6
Ratios & Valuation					
PER (x)	10.7	17.2	13.4	11.9	8.1
Net debt/Total Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net cash/Mkt Cap (%)	4.4	3.8	4.9	5.3	5.6
Dividend yield (%)	2.2	2.2	2.7	3.0	4.5

Source: Company, MIDFR

TABLE 1: Spritzer: 3QFY22 RESULTS SUMMARY

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	**119.6**	**106.2**	**79.3**	**50.7**	**12.6**	**324.6**	**230.4**	**40.9**
Other gains and losses	1.0	0.6	0.6	52.5	52.2	2.7	2.2	21.5
Cost of sales and other opex exp.	(107.7)	(96.8)	(73.6)	46.4	11.3	(295.0)	(212.6)	38.7
Operating Profit	**12.8**	**10.0**	**6.4**	**100.8**	**28.2**	**32.3**	**20.0**	**61.5**
Finance costs	(0.3)	(0.2)	(0.2)	60.9	90.7	(0.6)	(0.4)	46.9
Profit before tax	**12.5**	**9.8**	**6.2**	**102.0**	**27.2**	**31.7**	**19.6**	**61.8**
Tax expense	(1.1)	(2.2)	(0.2)	425.6	(50.9)	(6.0)	(3.5)	73.1
Profit after tax	**11.4**	**7.6**	**6.0**	**90.8**	**49.9**	**25.7**	**16.1**	**59.4**
Core PATANCI	**11.5**	**7.6**	**6.5**	**77.7**	**50.0**	**25.3**	**16.6**	**52.2**
Basic EPS (sen)	5.5	3.6	2.9	91.2	50.1	12.3	7.7	59.3
Ratios & Margins				**+/(-) ppts**	**+/(-) ppts**			**+/(-) ppts**
Operating profit margin (%)	10.7	9.4	8.1	2.7	1.3	9.9	8.7	1.3
PBT margin (%)	10.5	9.3	7.8	2.7	1.2	9.8	8.5	1.3
PAT margin (%)	9.6	7.2	7.5	2.0	2.4	7.9	7.0	0.9
Core PATANCI margin (%)	9.6	7.2	8.1	1.5	2.4	7.8	7.2	0.6
Effective tax rate (%)	8.7	22.5	3.3	5.4	(13.8)	18.9	17.6	1.2
Segmental Breakdown								
Revenue (RM'm):								
Bottled Water Manufacturing	112.7	99.8	74.9	50.4	12.9	306.2	217.4	40.8
Trading	6.6	6.1	4.4	51.8	8.3	17.7	12.8	37.5
Others	0.3	0.3	0.0	789.7	(3.7)	0.7	0.1	440.7
Total	**119.6**	**106.2**	**79.3**	50.7	12.6	**324.6**	**230.4**	40.9
Operating Income (RM'm):								
Bottled Water Manufacturing	13.5	10.2	6.8	97.8	32.0	33.2	20.9	59.0
Trading	(0.7)	(0.3)	(0.7)	3.1	164.1	(1.3)	(1.6)	(16.7)
Others	8.3	0.7	0.3	2,804.5	1,038.8	9.8	0.9	1,017.4
Eliminations	(8.3)	(0.8)	(0.4)	1,916.7	981.5	(9.6)	(1.3)	644.8
Total	**12.8**	**9.9**	**6.0**	112.3	28.9	**32.1**	**18.9**	69.9
Operating Income Margin (%):								
Bottled Water Manufacturing	12.0	10.2	9.1	2.9	1.7	10.9	9.6	1.2
Trading	(10.4)	(4.3)	(15.4)	4.9	(6.2)	(7.6)	(12.6)	4.9
Others	3,231.0	273.1	989.7	2,241.4	2,957.9	1,336.3	646.7	689.6
Total	**10.7**	**9.3**	**7.6**	3.1	1.4	**9.9**	**8.2**	1.7

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 *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