Spritzer Berhad

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

Maintain BUY

Declining raw material prices

***Revised* Target Price: RM2.80**

(Previously RM2.64)

KEY INVESTMENT HIGHLIGHTS

- **Earnings exceeded expectations**
- **Better 4QFY22's revenue and earnings**
- **Falling raw material prices in 4QFY22**
- **Robust 12MFY22's revenue post-pandemic**
- **Raised earnings estimate for FY23F-24F**
- **Maintained BUY with a higher TP of RM2.80 (previously RM2.64)**

Earnings exceeded expectations. Spritzer's registered core PATANCI for 12MFY22 of RM36.9m, after excluding a one-time-off item of RM0.05m. The earnings came in above ours and the consensus', accounting for 115.9% of ours and 110% of the street's full-year FY22 estimates. The positive variance was primarily due to stronger-than-expected revenue post-economy reopening as well as lower-than-expected raw material costs. The group proposed a 6.25sen first and final dividend for FY22, subject to shareholder approval at the upcoming AGM. This was higher than the 4.5sen divided declared in FY21.

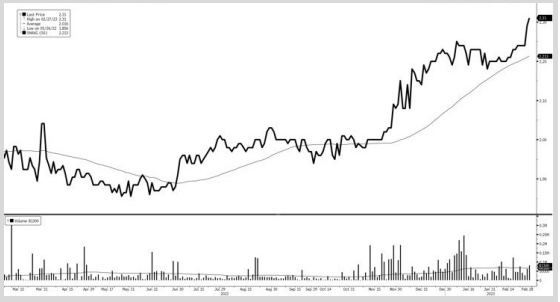
Better 4QFY22's revenue and earnings. The group's revenue increased +8%yoy to RM108.7m, mainly due to higher turnover from the manufacturing segment (+8.9%yoy) on the back of increased average selling prices (ASP). On the flip side, the trading division decreased by -9%yoy to RM5.1 mainly attributed to lower sales volume in China as a result of Covid-19 lockdown. Meanwhile, operating profit of RM13.8m in 4QFY22 was higher as compared to RM10.9m in 4QFY21 mainly due to increased revenue which more than offsetting higher raw materials, other packaging materials, and selling and distribution expenses. As such, the core PATANCI surged +28.7%yoy to RM12m during the quarter.

Falling raw material prices in 4QFY22. Spritzer reported lower sequential sales of RM108.7m in 4QFY22 compared to RM119.6m in 3QFY22. This was primarily due to lower manufacturing division turnover (-8.4%qoq) caused by a lower sales volume and ASP. Despite lower revenue, core PATANCI rose +4.8%qoq to RM12m on the back of lower raw material costs.

Robust 12MFY22's revenue post-pandemic. The group reported a 30.9%yoy increase in revenue to RM433.3m in 12MFY22 largely due to higher sales volume and ASP on the back of increased demand for out-of-home beverage consumption post-pandemic. As such, the core PATANCI increased from RM25.7m in 12MFY21 to RM36.9m in 12MFY22.

RETURN STATISTICS	
Price @ 27th February 2023 (RM)	2.03
Expected share price return (%)	+21.2
Expected dividend yield (%)	+3.2
Expected total return (%)	**+24.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.1	7.0
3 months	4.1	16.1
12 months	13.8	24.3

KEY STATISTICS	
FBM KLCI	1,455,50
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	NA
Issue shares (m)	209.99
Estimated free float (%)	34.46
Market Capitalisation (RM'm)	491.69
52-wk price range	RM1.8 - RM2.35
Beta vs FBM KLCI (x)	0.52
3-mth average daily volume (m)	0.07
3-mth average daily value (RM'm)	0.15
Top Shareholders (%)	
Yee Lee Corporation	31.31
CGS-CIMB Securities Singapore	10.72
Tasik Puncak Holdings	5.50

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Raised earnings estimate for FY23F-24F and introduce FY25F earning projection. We raised our projected earnings for FY23F by +18.9%, and FY24F by +1.7% after accounting for a higher average utilization rate of 77%-78% as well as lower raw material costs. This is to better reflect the growing demands for out-of-home beverage consumption and falling raw material prices.

Maintained BUY with a higher TP of RM2.80 (previously RM2.64). Our **TP** of **RM2.80** is based on FY23F EPS of 20.3sen that peg to a revised PER of 13.8x (its 2-year historical PER). We maintain our **BUY** call on Spritzer as we are optimistic about Spritzer's outlook underpinned by: (1) its defensive business nature, with consistently improving demand for bottled water in Malaysia; (2) the high tourist, which increased demand for out-of-home beverage consumption; 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. Spritzer is currently trading at an attractive FY24F PER of 11.4x, compared to its 2-year historical average PER of 13.8x. **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)	2021A	2022A	2023E	2024E	2025E
Revenue	**331.0**	**433.3**	**460.4**	**497.2**	**540.9**
Other gains and losses	2.0	2.0	2.2	2.3	2.5
Changes in inventories	1.0	1.1	1.1	1.2	1.3
Purchase of finished goods	(3.6)	(3.7)	(3.9)	(4.2)	(4.6)
Raw material consumed	(127.8)	(168.1)	(175.0)	(184.2)	(186.4)
Employees benefit expense	(58.9)	(76.4)	(80.4)	(82.4)	(86.1)
EBITDA	**143.8**	**188.3**	**204.4**	**229.8**	**267.7**
Depreciation and amortisation	(19.4)	(19.8)	(20.8)	(21.3)	(23.2)
EBIT	**124.4**	**168.5**	**183.7**	**208.5**	**244.5**
Finance cost	(0.5)	(0.9)	(0.9)	(1.0)	(1.1)
Other expenses	(93.5)	(122.5)	(130.8)	(141.9)	(155.2)
Profit before tax	**30.3**	**45.2**	**52.0**	**65.6**	**88.2**
Income tax expense	(6.1)	(8.2)	(9.5)	(12.0)	(16.1)
Profit after tax	**24.2**	**37.0**	**42.5**	**53.7**	**72.1**
PATANCI	**24.2**	**37.0**	**42.5**	**53.7**	**72.1**
Core PATANCI	**24.8**	**36.9**	**42.5**	**53.7**	**72.1**
Basic EPS (sen)	11.8	17.6	20.3	25.6	34.4
DPS (sen)	4.5	6.3	7.3	9.2	12.4
Growth & Margin (%)					
Revenue Growth	7.3	30.9	6.3	8.0	8.8
Core PATANCI Growth	(37.9)	48.8	15.2	26.2	34.5
EBITDA Margin	43.4	43.5	44.4	46.2	49.5
EBIT Margin	37.6	38.9	39.9	41.9	45.2
PBT Margin	9.2	10.4	11.3	13.2	16.3
Core PATANCI Margin	7.5	8.5	9.2	10.8	13.3
Effective tax rate	20.1	18.2	18.2	18.2	18.2
Ratios & Valuation					
PER (x)	19.5	13.1	11.4	9.0	6.7
Net cash/Mkt Cap (%)	3.4	1.2	1.2	1.3	1.4
Dividend yield (%)	1.9	2.7	3.2	4.0	5.4

Source: Company, MIDFR

TABLE 1: Spritzer's 4QFY22 RESULTS SUMMARY

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue	**108.7**	**119.6**	**100.6**	**8.0**	**(9.1)**	**433.3**	**331.0**	**30.9**
Other gains and losses	2.4	1.0	(0.2)	(1,217.4)	141.6	5.0	2.0	155.4
Cost of sales and other opex exp.	(97.3)	(107.7)	(89.5)	8.7	(9.7)	(392.3)	(302.1)	29.8
Operating Profit	**13.8**	**12.8**	**10.9**	**26.6**	**7.5**	**46.1**	**30.9**	**49.2**
Finance costs	(0.3)	(0.3)	(0.1)	108.5	(12.9)	(0.9)	(0.5)	61.9
Profit before tax	**13.5**	**12.5**	**10.8**	**25.7**	**8.1**	**45.2**	**30.3**	**49.0**
Tax expense	(2.3)	(1.1)	(2.7)	(15.0)	107.4	(8.2)	(6.1)	34.8
Profit after tax	**11.3**	**11.4**	**8.1**	**39.0**	**(1.4)**	**37.0**	**24.2**	**52.6**
Core PATANCI	**12.0**	**11.5**	**9.3**	**28.7**	**4.8**	**36.9**	**25.7**	**43.6**
Basic EPS (sen)	5.4	5.5	3.9	39.4	(1.3)	17.6	11.6	52.6
Ratios & Margins				**+/(-) ppts**	**+/(-) ppts**			**+/(-) ppts**
Operating profit margin (%)	12.7	10.7	10.8	1.9	2.0	10.6	9.3	1.3
PBT margin (%)	12.4	10.5	10.7	1.7	2.0	10.4	9.2	1.3
PAT margin (%)	10.4	9.6	8.1	2.3	0.8	8.5	7.3	1.2
Core PATANCI margin (%)	11.0	9.6	9.3	1.8	1.5	8.5	7.8	0.8
Effective tax rate (%)	16.7	8.7	24.7	(8.0)	8.0	18.2	20.1	(1.9)

Source: Company, MIDFR

TABLE 2: Breakdown by Segment

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue (RM'm) :								
Bottled Water Manufacturing	103.2	112.7	94.8	8.9	(8.4)	409.4	312.2	31.1
Trading	5.1	6.6	5.6	(9.0)	(22.8)	22.8	18.5	23.3
Others	0.4	0.3	0.2	69.0	41.5	1.1	0.4	212.0
Total	**108.7**	**119.6**	**100.6**	**8.0**	**(9.1)**	**433.3**	**331.0**	**30.9**
Operating Income (RM'm):								
Bottled Water Manufacturing	15.1	13.5	10.9	38.0	11.7	48.3	31.8	51.8
Trading	(1.0)	(0.7)	(0.4)	162.5	39.6	(2.3)	(2.0)	16.6
Others	1.1	8.3	7.8	(86.5)	(87.4)	10.8	8.6	25.2
Eliminations	(1.4)	(8.3)	(7.8)	(81.6)	(82.8)	(11.0)	(9.1)	21.4
Total	**13.7**	**12.8**	**10.5**	**30.4**	**7.3**	**45.8**	**29.4**	**55.8**
Operating Income Margin (%):								
Bottled Water Manufacturing	14.6	12.0	11.5	3.1	2.6	25.5	21.1	4.3
Trading	(18.9)	(10.4)	(6.5)	(12.3)	(8.4)	(26.5)	(19.1)	(7.4)
Others	287.9	3,231.0	3,592.6	(3,304.6)	(2,943.1)	1,624.2	4,239.3	(2,615.0)
Total	**12.6**	**10.7**	**10.5**	**2.2**	**1.9**	**10.6**	**8.9**	**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