Spritzer Berhad

Maintain BUY

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

More expansion ahead

Unchanged Target Price: RM2.80

KEY INVESTMENT HIGHLIGHTS

- **Announced the acquisition of development rights over 411.4 acres**
- **Better export sales in FY22**
- **Increased annual production output to 1b liters**
- **Higher Capital expenditure (Capex) in FY22**
- **Input costs remain elevated ahead**
- **Maintained BUY with an unchanged TP of RM2.80**

Virtual investor briefing. We recently attended Spritzer's FY22 virtual investor briefing and remain upbeat about FY23's outlook. The key highlights of the briefing are as follows: -

Better export sales in FY22. The group recorded stronger export sales in FY22, mainly contributed by exports to Singapore and China. Overall, export sales contributed to 7-8% of overall revenue in FY22.

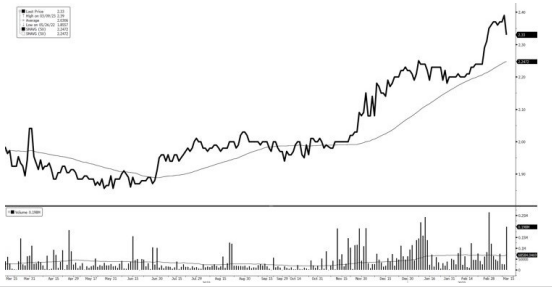
Increased annual production output to 1b liters. The group's annual production capacity expanded from 850m liters of bottled water in FY21 to 1b liters of bottled water in FY22. The utilization rate normalized to the pre-pandemic level of 70%-75% in FY22 as compared to an average utilization rate of 55-60% in FY21 amidst operational disruption caused by several COVID-19 lockdowns.

Higher Capital expenditure (Capex) in FY22. Spritzer reported a higher capex of RM103.8m in FY22 as compared to the budgeted capex of RM45m at the beginning of the year. This was primarily due to the acquisition of freehold and long-term leasehold agricultural land for future-owned use. In FY23, the group is targeting RM60-70m capex for plant & equipment as well as new warehouses in Shah Alam and Yong Peng, Johor. The company is also looking at expanding its production line in Yong Peng, Johor, to better serve the Singapore market. The total capex will be funded through a combination of internal funds and bank borrowings. As of December 31, 2022, the group's net cash was RM5.6m, which was less than the RM16.3m net cash.

Input costs remain elevated ahead. The group expects utility expenses to increase by more than 40% in FY23, amounting to an additional RM7-8 million in electricity costs. This was primarily due to increased natural gas tariffs, which continue to put upward pressure on input costs. In our FY23F forecast, we projected an additional RM10 million in electricity costs. On the plus side, the group has installed solar PV in all three manufacturing plants to mitigate the impact of higher electricity costs. Besides, the recent price reduction of pet resin from its peak of RM5.6k in 3QFY22 to RM4.2k in 4QFY22 more than offset the higher electricity costs.

RETURN STATISTICS	
Price @ 10th Mar 2023 (RM)	2.33
Expected share price return (%)	+20.20
Expected dividend yield (%)	3.00
Expected total return (%)	**+23.24**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.9	9.0
3 months	5.0	9.6
12 months	14.8	25.6

INVESTMENT STATISTICS

FYE Mar	2022E	2023F	2024F
Revenue	433.3	460.4	497.0
EBITDA	66.1	78.1	94.2
Profit before tax (PBT)	45.2	52.6	66.4
Core PATANCI	37.7	42.5	53.7
Core EPS (sen)	17.4	20.3	25.6
DPS (sen)	6.3	7.1	8.9
Dividend Yield (%)	2.7	3.0	3.8

KEY STATISTICS	
FBM KLCI	1,433.08
Issue shares (m)	208.87
Estimated free float (%)	34.21
Market Capitalization (RM'm)	495.94
52-wk price range	RM1.8 – RM2.4
3-mth average daily volume (m)	0.07
3-mth average daily value (RM'm)	0.15
Top Shareholders (%)	
Yee Lee Corp Bhd	31.46
YEE Lee Holdings Sdn Bhd	10.72
Lim A Heng	5.60

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Maintained BUY with an unchanged TP of RM2.80. We make no changes to our forecast post-analyst briefing as we had already factored in rising electricity costs for FY23F. Our TP of RM2.80 is based on FY23F EPS of 20.3sen that peg to a 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 9.1x, 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.

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022E	2023F	2024F	2025F
Revenue	**331.0**	**433.3**	**460.4**	**497.0**	**540.9**
Gross Profit	200.7	221.5	270.7	296.5	335.5
EBITDA	**50.0**	**66.1**	**78.1**	**94.2**	**119.8**
EBIT	30.6	45.7	53.1	66.9	89.8
Net finance (expenses)/income	(0.3)	(0.5)	(0.5)	(0.5)	(0.6)
Profit before tax (PBT)	**30.3**	**45.2**	**52.6**	**66.4**	**89.2**
Tax (expense)/income	(6.1)	(8.2)	(10.1)	(12.7)	(17.1)
Profit After tax (PAT)	**24.2**	**37.0**	**42.5**	**53.7**	**72.1**
PATANCI	24.2	37.0	42.5	53.7	72.1
Core PATANCI	**24.2**	**37.7**	**42.5**	**53.7**	**72.1**
Core EPS (sen)	11.2	17.4	20.3	25.6	34.3
DPS (sen)	4.5	6.3	7.1	8.9	12.0

Balance Sheet (RM'm)	2021A	2022E	2023F	2024F	2025F
Property, plant, and equipment	315.7	411.9	456.1	503.4	554.5
Intangible assets	0.2	0.2	0.2	0.3	0.3
Total Non-current assets	**323.0**	**421.2**	**466.1**	**514.2**	**566.3**
Inventories	35.3	44.1	38.4	38.6	39.3
ST - Trade and other receivables	71.7	82.2	84.0	90.7	98.7
Cash and cash equivalents	21.8	21.7	26.6	28.9	31.6
Total current assets	**234.9**	**179.7**	**182.8**	**194.6**	**209.2**
Total Assets	**557.9**	**601.0**	**648.9**	**708.8**	**775.5**
Total Equity	**462.8**	**493.5**	**539.4**	**595.9**	**658.1**
LT Lease Liabilities	0.3	0.1	0.1	0.1	0.1
Total Non-current liabilities	**21.1**	**22.6**	**24.0**	**25.9**	**28.2**
ST Trade and other payables	40.8	36.8	36.0	36.2	36.8
ST Loans and borrowings	5.5	16.1	17.4	18.8	20.3
Total Current Liabilities	**74.1**	**84.9**	**85.5**	**87.0**	**89.2**

Cash Flow (RM'm)	2021A	2022E	2023F	2024F	2025F
Pretax profit	30.3	45.2	52.6	66.4	89.2
Cash flow from operations	35.6	40.7	88.6	95.3	108.7
Cash flow from investing	(27.8)	(38.8)	(69.0)	(74.6)	(81.2)
Cash flow from financing	(9.1)	(2.3)	(14.6)	(18.4)	(24.9)
Net cash flow	**(1.3)**	**(0.3)**	**4.9**	**2.3**	**2.7**
(+/-) Adjustments	(0.1)	0.3	0.0	0.0	0.0
Net cash/(debt) buff	**23.2**	**21.7**	**21.7**	**26.6**	**28.9**
Net cash/(debt) c/f	**21.7**	**21.7**	**26.6**	**28.9**	**31.6**

Key Metrics	2021A	2022E	2023F	2024F	2025F
Effective tax rate (%)	20.1	18.2	19.2	19.2	19.2
Dividend Yield (%)	1.9	2.7	3.0	3.8	5.2
PER (x)	20.2	13.2	11.5	9.1	6.8
Cash/Market Capitalization (sen)	4.3	4.3	5.4	5.9	6.5
Cash/share (sen)	10.1	10.0	12.7	13.8	15.1

Profitability Margins	2021A	2022E	2023F	2024F	2025F
Gross Profit Margin (%)	60.6	51.1	58.8	59.7	62.0
EBITDA Margin (%)	15.1	15.2	17.0	18.9	22.1
EBIT Margin (%)	9.3	10.5	11.5	13.5	16.6
Core PATANCI Margin (%)	7.3	8.7	9.2	10.8	13.3

Source: Bloomberg, 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