Spritzer Berhad

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

***Maintain* BUY**

Proposed 1-for-2 Bonus Issue

***Unchanged* Target Price: RM2.80**

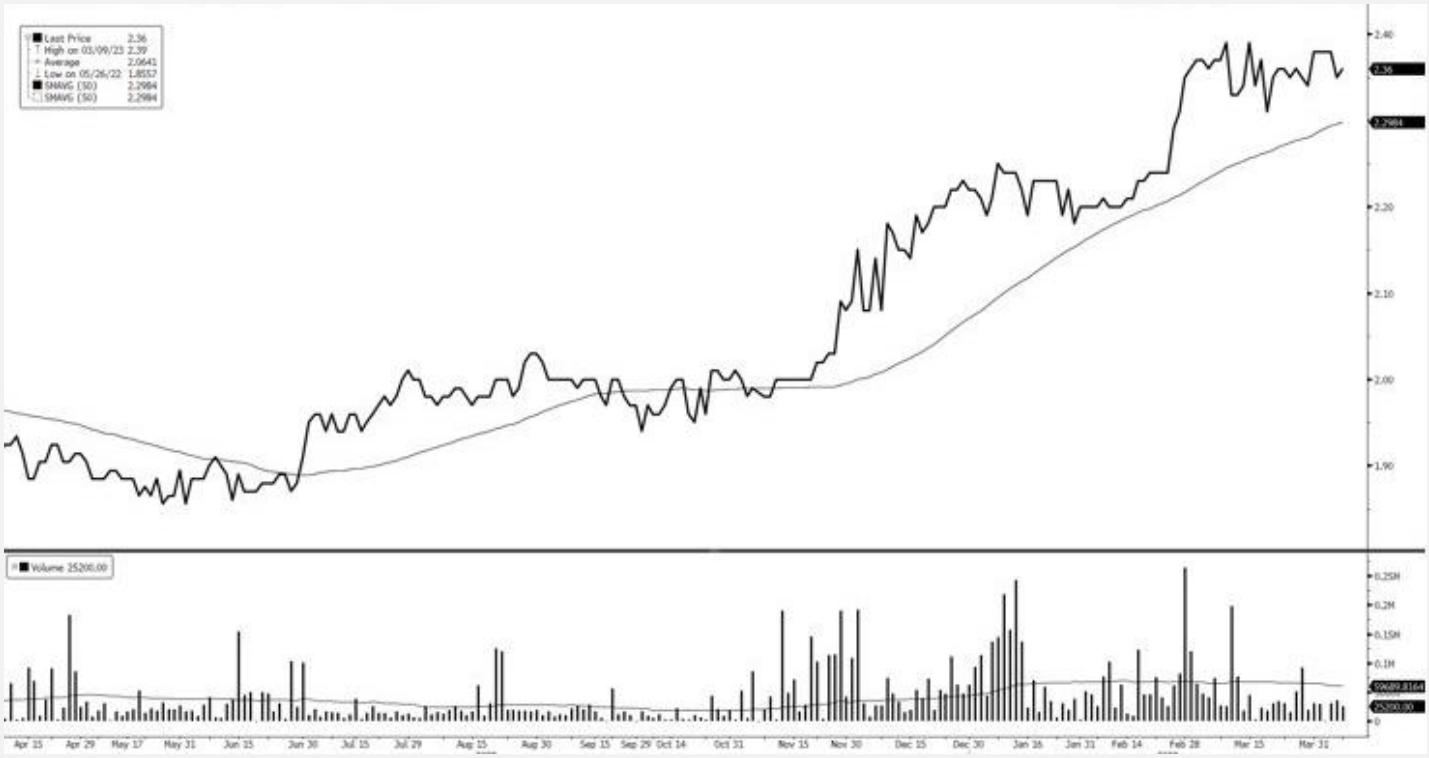
DEVELOPMENT

- Spritzer proposes one-for-two bonus issue with a later-determined entitlement date. The proposed bonus issued is expected to complete by end of 2QCY23. Post-bonus issue, Spritzer's share base will expand by 50% to 319.3m shares.
- The bonus issue will be issued as fully paid at no consideration and without capitalization of the Company's reserves. This is part of Spritzer's strategy to enhance shareholder value.
- Take note that the group had on 27 Feb 2023 proposed a final dividend of 6.25sen/share for FY22, subject to shareholders' approval at the upcoming Annual General Meeting ("AGM"). This translates to a dividend yield of 2.6% for FY22. The proposed bonus issue's entitlement date will therefore be determined by the group after the proposed final dividend's entitlement date.

OUR VIEW

- We are optimistic about the proposed bonus issue as it is expected to increase Spritzer's trading liquidity at a reasonable share price without affecting the company's market capitalization. This could promote greater investor participation and perhaps expand the shareholder base of the Company.
- As of 4QFY22, Spritzer has a healthy balance sheet with a net cash position of RM5.6m. Additionally, the group has a proven track record of generating positive operating cash flow since listed. As such, this demonstrated that the group is financially sound and can keep producing cash flow to pay dividends ahead.
- Falling Polyethylene terephthalate (PET) resin prices coupled with the stable demand for bottled water in Malaysia could encourage the margin and improve the earning ahead.
- Given that the issuance of the bonus issue has no significant impact on the earnings, we make no changes to our earnings prediction for FY23F–25F. However, it is expected to dilute the group's earnings per share ("EPS") due to the enlarged share base post-completion of the proposed bonus issue.
- We reaffirm our TP of **RM2.80** for now pending the completion of the bonus issue. Our TP is based on FY23F EPS of 20.3sen, which pegs to a PER of 13.8x (its 2-year historical PER). Post the bonus issuance, we anticipate that the TP would be adjusted to RM1.84 based on a diluted FY23F EPS of 13.3 sen.
- Maintain our **BUY** recommendation 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 that supports the sales volume; (2) increased demand for out-of-home beverage consumption due to the return of tourist and normalizing out-of-home activities post-reopening of the border which increased demand for Spritzer's products; 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 9.2x, 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.

SHARE PRICE CHART



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FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	**331.0**	**433.3**	**460.4**	**497.0**	**540.9**
Gross Profit	200.7	221.5	270.7	296.6	335.5
EBITDA	50.0	65.7	78.0	94.2	119.8
EBIT	30.6	45.3	53.1	66.9	89.8
Net finance (expenses)/income	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Profit before tax (PBT)	**30.3**	**44.8**	**52.6**	**66.5**	**89.3**
Tax (expense)/income	(6.1)	(8.2)	(10.1)	(12.8)	(17.2)
Profit After tax (PAT)	**24.2**	**36.6**	**42.5**	**53.7**	**72.1**
PATANCI	24.2	36.6	42.5	53.7	72.1
Core PATANCI	**24.2**	**37.4**	**42.5**	**53.7**	**72.1**
Core EPS (sen)	11.2	17.2	20.2	25.6	34.3
DPS (sen)	4.5	6.3	7.1	8.9	12.0

Balance Sheet (RM'm)	2021A	2022A	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	2022A	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	2022A	2023F	2024F	2025F
Effective tax rate (%)	20.1	18.4	19.2	19.2	19.2
Dividend Yield (%)	1.9	2.6	3.0	3.8	5.1
PER (x)	20.5	13.4	11.7	9.2	6.9
Cash/Market Capitalization (sen)	4.3	4.2	5.4	5.8	6.4
Cash/share (sen)	10.1	10.0	12.7	13.8	15.1

Profitability Margins	2021A	2022A	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

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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