Spritzer Berhad

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

Consistently Strong Demand for Bottled Water

***Maintain* BUY**

***Revised* Target Price: RM2.70**

(previously RM2.80)

KEY INVESTMENT HIGHLIGHTS

- **Below estimations**
- **Continued solid demand for bottled water in 1QFY23**
- **Revised earnings projection for FY23F-25F**
- **Maintained BUY with revised TP of RM2.70 (previously RM2.80)**

RETURN STATISTICS	
Price @ 30th May 2023 (RM)	2.33
Expected share price return (%)	+15.80
Expected dividend yield (%)	2.70
Expected total return (%)	**+18.48**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.7	-4.4
3 months	-2.1	3.2
12 months	22.0	37.1

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	468.0	549.2	641.5
EBITDA	76.4	91.9	117.2
Profit before tax (PBT)	51.0	62.1	82.4
Core PATANCI	41.7	50.8	67.4
Core EPS (sen)	19.3	23.5	31.2
DPS (sen)	6.7	8.2	10.9
Dividend Yield (%)	2.9	3.5	4.7

KEY STATISTICS	
FBM KLCI	1,396.91
Issue shares (m)	209.99
Estimated free float (%)	18.98
Market Capitalization (RM'm)	495.94
52-wk price range	RM1.8 – RM2.7
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	0.19
Top Shareholders (%)	
Yee Lee Corp Bhd	31.51
YEE Lee Holdings Sdn Bhd	12.92
Lim A Heng	10.72

Below estimations. Spritzer reported a core PATANCI of RM7.2m for 3MFY23, excluding an RM0.1m one-time item. The earnings fell short of our and the consensus full-year FY23 estimates, accounting for 16.9% of ours and 17.7% of the streets'. The negative deviation was mainly due to the higher-than-expected manufacturing input costs that compressed the margin. No dividend was declared during the quarter.

Continued solid demand for bottled water in 1QFY23. On quarterly basis, the revenue increased marginally by +0.7%qoq to RM109.4m, due to higher sales volume and a 5% increase in average selling price for certain low margin products. Despite higher revenue, the core PATANCI dropped -58.3%qoq to RM7.2m, owing mostly to an increase in electricity costs, which increased manufacturing input costs and hence narrowed margins. On yearly basis, the improved revenue of +10.7%yoy to RM109.4m was primarily driven by higher bottled water sales volume and ASP from the manufacturing division, which more than offset lower sales volume from the trading division. TNB's imposition of the ICPT rate hike has increased the cost of electricity, leading to higher manufacturing cost. Despite higher input cost, the core PATANCI increased by +14.1%yoy to RM7.2m in 1QFY23.

Revised earnings projection for FY23F-25F. Given that earnings came in below expectation, we reduced our earnings projection for FY23F by -2%, FY24F by -5.3% and FY25F by -6.6%. This is to account for the increased manufacturing input costs.

Maintained BUY with revised TP of RM2.70 (previously RM2.80). Our **TP** of **RM2.70** is based on FY23F EPS of 19.3sen that peg to a PER of 14x (its 2-year historical PER). We are optimistic about Spritzer's FY23F outlook underpinned by: (1) its defensive business nature, with consistently improving demand for bottled water in Malaysia; (2) increased tourist movement and out-of-home activities, particularly in hot weather, which may increase demand for bottled water; and (3) recent acquisition of land in Bukit Gantang, Perak for the future expansion of an additional mineral water plant. Hence, maintain **BUY**. Spritzer is currently trading at an appealing FY24F PER of 9.9x, which is lower than its 2-year historical average PER of 14x. **Downside risks** are: (1) a further increase in Polyethylene terephthalate (PET) resin prices and (2) higher-than-expected logistic costs.

Analyst(s)
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Spritzer: 1QFY23 Results Summary

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	109.4	108.7	98.8	10.7	0.7	109.4	98.8	10.7
Cost of sales & other operating expenses	(100.7)	(97.3)	(90.4)	11.4	3.5	(100.7)	(90.4)	11.4
Other gains (losses)	1.0	2.4	1.0	2.1	(56.3)	1.0	1.0	2.1
EBIT	**9.8**	**13.8**	**9.4**	**3.5**	**(29.2)**	**9.8**	**9.4**	**3.5**
Net finance income/(cost)	(0.2)	(0.3)	(0.1)	94.9	(14.5)	(0.2)	(0.1)	94.9
Profit before tax (PBT)	**9.5**	**13.5**	**9.3**	**2.3**	**(29.4)**	**9.5**	**9.3**	**2.3**
Tax expense	(2.4)	(2.3)	(2.7)	(10.9)	5.6	(2.4)	(2.7)	(10.9)
Profit After tax (PAT)	**7.2**	**11.3**	**6.6**	**7.7**	**(36.5)**	**7.2**	**6.6**	**7.7**
PATANCI	7.2	11.3	6.6	7.7	(36.5)	7.2	6.6	7.7
Core PATANCI	**7.2**	**17.3**	**6.3**	**14.1**	**(58.3)**	**7.2**	**6.3**	**14.1**
Core EPS (sen)	3.3	8.0	2.9	14.0	(58.2)	3.3	2.9	14.0
DPS (sen)	6.3	6.3	0.0	n.m.	0.0	6.3	0.0	n.m.
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
EBITDA Margin	4.2	7.7	14.2	(10.0)	(3.5)	4.2	14.2	(10.0)
PBT Margin	8.7	12.4	9.4	(0.7)	(3.7)	8.7	9.4	(0.7)
Core PATANCI Margin	6.6	15.9	6.4	0.2	(9.3)	6.6	6.4	0.2
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	25.0	16.7	28.7	(3.7)	8.3	25.0	28.7	(3.7)

Source: Company, MIDFR

Spritzer: Breakdown by operating segment

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue (External):								
Manufacturing	104.5	103.2	93.7	11.6	1.3	104.5	93.7	11.6
Trading	4.7	5.1	4.9	(5.4)	(9.1)	4.7	4.9	(5.4)
Others	0.2	0.4	0.2	17.6	(34.2)	0.2	0.2	17.6
Total	109.4	108.7	98.8	10.7	0.7	109.4	98.8	10.7
Operating Profit:								
Manufacturing	10.6	15.1	9.5	10.9	(29.7)	10.6	9.5	10.9
Trading	(0.8)	(1.0)	0.7	(221.1)	(13.9)	(0.8)	0.7	(221.1)
Others	0.9	1.1	(0.4)	(318.2)	(18.8)	0.9	(0.4)	(318.2)
Eliminations	(0.9)	(1.4)	(0.5)	98.0	(36.9)	(0.9)	(0.5)	98.0
Total	**109.4**	**108.7**	**98.8**	**10.7**	**0.7**	**109.4**	**98.8**	**10.7**
Operating profit margin (%):								
Manufacturing	10.1	14.6	10.2	(0.1)	(4.5)	10.1	10.2	(0.1)
Trading	(17.9)	(18.9)	14.0	(31.9)	1.0	(17.9)	14.0	(31.9)
Others	355.4	287.9	(191.7)	547.1	67.5	355.4	(191.7)	547.1
Total	**8.9**	**12.6**	**9.5**	**(0.6)**	**(3.7)**	**8.9**	**9.5**	**(0.6)**

Source: Company, MIDF

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	**331.0**	**433.3**	**468.0**	**549.2**	**641.5**
Raw Material consumed	(127.8)	(152.2)	(161.1)	(183.4)	(209.9)
Purchased of finished goods and trading merchandise	(3.6)	(28.0)	(28.7)	(32.7)	(37.8)
Changes in inventories	1.0	2.6	2.0	(15.1)	(17.2)
Gross Profit	**200.7**	**255.7**	**280.2**	**318.0**	**376.6**
Other Income/(losses)	1.7	4.7	5.1	5.8	7.1
Employee benefit expenses	(58.9)	(69.2)	(76.6)	(85.2)	(98.5)
Other expenses	(93.5)	(125.7)	(132.3)	(146.8)	(168.0)
EBITDA	**50.0**	**65.5**	**76.4**	**91.9**	**117.2**
EBIT	30.6	45.7	51.4	62.4	82.6
Profit before tax (PBT)	30.3	45.2	51.0	62.1	82.4
Profit After tax (PAT)	24.2	37.0	41.7	50.8	67.4
Core PATANCI	**24.2**	**37.1**	**41.7**	**50.8**	**67.4**
Core EPS (sen)	11.2	17.1	19.3	23.5	31.2
DPS (sen)	4.5	6.3	6.7	8.2	10.9

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property,plant and equipment	315.7	411.9	457.2	510.1	571.7
Intangible assets	0.2	0.2	0.2	0.3	0.3
Total Non-current assets	**323.0**	**421.2**	**466.7**	**520.4**	**582.8**
Inventories	35.3	44.1	34.5	39.3	44.9
ST - Trade and other receivables	71.7	82.2	85.5	100.3	117.1
Cash and cash equivalents	21.8	21.7	27.1	31.9	37.5
Total current assets	**234.9**	**179.7**	**181.3**	**211.7**	**246.6**
Total Assets	**557.9**	**601.0**	**648.0**	**732.1**	**829.3**
Total Equity	**462.8**	**493.5**	**542.8**	**617.8**	**704.6**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**21.1**	**22.6**	**24.4**	**28.7**	**33.5**
ST Trade and other payables	40.8	36.8	32.4	36.9	42.2
ST Loans and borrowings	5.5	16.1	16.3	16.6	16.8
Total Current Liabilities	**74.1**	**84.9**	**80.8**	**85.6**	**91.3**
Total Liabilities	**95.2**	**107.5**	**105.2**	**114.3**	**124.8**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	30.3	45.2	51.0	62.1	82.4
Cash flow from operations	35.6	40.7	90.8	105.7	126.1
Cash flow from investing	(27.8)	(38.8)	(70.2)	(82.4)	(96.2)
Cash flow from financing	(9.1)	(2.3)	(15.3)	(18.4)	(24.3)
Net cash flow	**(1.3)**	**(0.3)**	**5.4**	**4.9**	**5.6**
(+/-) Adjustments	(0.1)	0.3	0.0	0.0	0.0
Net cash/(debt) b/f	**23.2**	**21.7**	**21.7**	**27.1**	**31.9**
Net cash/(debt) c/f	**21.7**	**21.7**	**27.1**	**31.9**	**37.5**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	20.1	18.2	18.2	18.2	18.2
PER (x)	20.2	13.2	12.1	9.9	7.5
Net Cash/Market Capitalisation (%)	3.2	1.1	2.1	3.0	4.1
Net Cash per share (RM)	0.2	0.2	0.4	0.5	0.6

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	60.6	59.0	59.9	57.9	58.7
EBIT Margin (%)	9.3	10.5	11.0	11.4	12.9
Core PATANCI Margin (%)	7.3	8.6	8.9	9.3	10.5

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