

31 May 2019

Spritzer Bhd

1Q19 Above Expectations

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1Q19 earnings of RM7.7m (+15%) came above our estimate but within consensus, owing to our highly cautious cost assumptions. The absence of dividend was expected. While top-line performance would still be subject to seasonality, easing input prices (i.e. PET) could be a saving grace. Upgrade to MARKET PERFORM with a higher TP of RM2.40 (from RM1.90) on rolled-over valuations on top of higher earnings adjustments.

1Q19 above estimate. 1Q19 Net Profit of RM7.7m is deemed above our expectation but within the consensus, making up 31% and 29% of respective full-year estimates. The positive deviation was due to our overly bearish assumption on PET resin prices against margins. No dividend was declared, as expected.

YoY, 3M19 sales grew by 15% to RM95.1m, as volume was spurred by higher demand from festivities in addition to higher average selling prices, likely in relation to the 5% sales tax hike imposed in January 2019. However, group EBITDA only rose by 4% as margin (14.4%, -1.6ppt) was possibly eroded by higher logistics cost in relation to the higher sales registered. Still, aided by a lower effective tax rate of 22.6% (-5.6ppt), net earnings closed at RM7.7m (+14%).

QoQ, 1Q19 revenue improvement of 11% could have been attributed to 4Q18's weaker demand post the heavier consumer spending during the "tax holiday" season. Thanks to the recovered sales volumes and more favourable production cost (i.e. PET resin), 1Q19 Net Profit surged 128%.

Out of the soft patch? While the recent boost to sales numbers appears encouraging, there could be an easing from the ongoing fasting season and fewer sporting events to stimulate demand in the near-term. On the flipside, the group's trading business, namely in Guangzhou, appears to be demonstrating healthy growth numbers following its adoption of more engaging marketing strategies. While still registering losses, management is hopeful that it could turn around when achieving better economies of scale from a larger volume base. Further down the road, the group still has in its pipeline the construction of an automated warehouse by FY20, to inject new efficiencies and capabilities, bolstering its earnings potential.

Post results, we raise our FY19E/FY20E earnings by 11.1%/11.5% mainly on better margins assumption from soft PET cost.

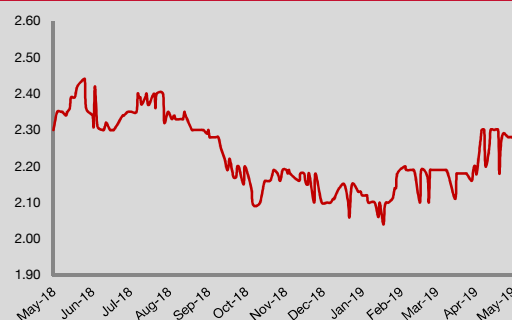
Upgrade to MARKET PERFORM (from UNDERPERFORM) with a higher TP of RM2.40 (from RM1.90, previously). Our TP is based on a rolled over and higher FY20E EPS on an unchanged 16.0x Fwd. PER. The applied valuation is close to the -1.0SD of the stock's 3-year mean, which we believe was dragged by input costs pressures against the group's thin margins. However, progressive improvements into earnings could offset the negative perception regarding margins. Sentiment could improve with the commissioning of the group's automated warehouse to drive efficiency, but is presently a long-term positive catalyst.

Risks to our call include: (i) better/weaker-than-expected sales, (ii) lower/higher-than-expected costs exposure, and (iii) faster/slower-than-expected completion of the new automated warehouse.

MARKET PERFORM

Price : RM2.30
Target Price : RM2.40 

Share Price Performance



KLCI 1,636.50
YTD KLCI chg -3.2%
YTD stock price chg 9.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPZ MK Equity
Market Cap (RM m)	482.9
Shares Outstanding	210.0
52-week range (H)	2.46
52-week range (L)	2.00
3-mth avg daily vol	6,526
Free Float	43%
Beta	0.3

Major Shareholders

Yee Lee Corporation	29.8%
CIMB Group Holdings	14.0%
Tasik Puncak Holdings Ltd	13.0%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	347.7	365.5	369.9
EBITDA	34.5	38.0	43.3
PBT	33.9	37.7	43.0
Net Profit	24.2	27.8	31.4
Core Net Profit	24.2	27.8	31.4
Consensus (NP)	-	26.8	29.7
Earnings Revision	-	11.1%	11.5%
Core EPS (sen)	11.5	13.2	14.9
Core EPS growth (%)	-11.6%	14.6%	13.0%
NDPS (sen)	3.5	4.0	5.0
BVPS (RM)	1.9	1.9	2.0
PER (x)	19.9	17.4	15.4
PBV (x)	1.2	1.2	1.1
Net Gearing (x)	(0.0)	(0.0)	(0.0)
Net Div. Yield (%)	1.5%	1.7%	2.2%



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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	95.1	85.5	11.2%	82.5	15.2%	95.1	82.5	15.2%
EBITDA	13.7	7.9	72.7%	13.2	3.8%	13.7	13.2	3.8%
PBT/(LBT)	10.0	4.2	135.9%	9.5	5.2%	10.0	9.5	5.2%
Taxation	-2.3	-0.8	-169.7%	-2.7	16.3%	-2.3	-2.7	16.3%
Net Profit	7.7	3.4	127.5%	6.8	13.8%	7.7	6.8	13.8%
EPS (sen)	3.7	1.6	127.5%	3.2	13.8%	3.7	3.2	13.8%
DPS (sen)	0.0	3.5		0.0		0.0	0.0	
EBITDA margin	14.4%	9.3%		16.0%		14.4%	16.0%	
PBT margin	10.5%	4.9%		11.5%		10.5%	11.5%	
Core NP margin	8.1%	4.0%		3.9%		8.1%	8.2%	
Effective tax rate	22.6%	19.8%		28.4%		22.6%	28.4%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.56	1,827.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	37.5	33.0	31.3	26.0	25.2	77.5%	2.6%	1.35	UP
AEON CO (M) BHD	1.52	2,134.1	Y	12/2019	6.5%	3.1%	17.3%	9.2%	20.1	17.2	15.7	1.1	1.1	5.3%	2.6%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	5.86	963.3	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.7	16.8	15.8	4.1	3.9	23.8%	4.7%	7.25	OP
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	34.20	12,543.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.9	28.0	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP
MYNEWS HOLDINGS BHD	1.37	934.6	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.3	29.1	24.1	3.4	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.30	34,541.9	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.2	47.2	45.2	52.8	52.8	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.71	2,440.8	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.7	15.8	13.0	3.7	3.3	22.3%	3.1%	4.00	MP
PARKSON HOLDINGS BHD	0.260	277.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	33.5	0.1	0.1	-1.7%	0.0%	0.240	MP
POWER ROOT BHD	1.46	578.0	Y	03/2020	6.3%	8.6%	26.3%	16.8%	17.4	14.3	12.6	2.6	2.4	18.0%	6.2%	1.75	OP
QL RESOURCES BHD	6.80	11,032.6	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.9	45.0	43.2	5.5	5.1	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP
Simple Average					4.8%	4.3%	2.9%	64.0%	28.5	25.1	24.0	11.3	11.1	33.7%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	29.28	8,360.3	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	17.8	20.2	19.8	19.8	18.9	96.0%	4.7%	29.55	UP
CARLSBERG BREWERY MALAYSIA BHD	24.38	7,499.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.4	25.6	24.4	41.5	45.1	173.9%	4.1%	23.00	MP
HEINEKEN MALAYSIA BHD	23.44	7,081.2	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.1	24.4	23.2	19.1	18.9	77.9%	4.1%	23.25	MP
Simple Average					3.8%	4.1%	-0.6%	3.9%	23.4	23.4	22.5	26.8	27.6	115.9%	4.3%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.80	645.2	N	06/2019	8.2%	9.9%	2368.1%	15.4%	549.1	22.2	19.3	1.7	1.7	7.3%	2.7%	2.08	BUY
BONIA CORPORATION BHD	0.300	238.8	Y	06/2019	-4.9%	1.3%	-29.7%	2.9%	12.1	17.2	16.7	0.6	0.5	2.9%	2.3%	0.245	SELL
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL
KAWAN FOOD BHD	1.40	503.3	Y	12/2019	16.7%	20.3%	54.9%	23.4%	22.1	14.2	11.5	1.6	1.4	10.4%	2.7%	2.16	BUY
MAGNI-TECH INDUSTRIES BHD	4.59	746.6	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.2	7.0	6.3	1.4	N.A.	21.0%	N.A.	6.45	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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