

12 June 2019

Spritzer Bhd

Staying Hydrated

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Near-term earnings are expected to be buoyed by resilient sales performances coupled with favourable raw material prices (i.e. PET resin), which should keep processing margins for its manufacturing segment fairly stable, at least for 1H19. Post-meeting, we reiterate our MP call with an unchanged TP of RM2.40 as we remain cautiously optimistic, concerned over the volatile PET resin prices which may be driven higher by unexpected turn of events.

Sustainable demand growth? In its recent 1Q19 results, the group chalked up a commendable 15% YoY sales growth, which was largely spurred by higher demand from the warmer weather and several water supply disruptions. Moving into 2Q, we gathered that the group managed to see relatively better numbers from its sales volume this recent fasting month. This prompted us to believe steady sales growth may be sustainable going forward, bolstered by the sturdy consumer sentiment seen in spite of the imposition of sales tax in Jan 2019, coupled with the group's effective marketing strategies which have continued to capture local market share.

China operation to remain in the red. Despite the group's effective cost rationalisation plans which helped to narrow losses in its trading segment (-RM0.5m in 1Q19 versus -RM0.8m in 1Q18), we believe a breakeven might take a longer timeframe than expected, which should see its China operation continues swimming in the red at least for FY19. This is pinning on the competitive operating environment in Guangzhou, which will continue to act as a constant challenge to the group unless more aggressive marketing measures are taken.

Chasing growth. Post-meeting, we understand that the group's current capacity stands at 700m litres/annum (from previously 600m litres/annum) with its newly installed production line commencing in 2Q19. Further down the road, the group has in its pipeline plans to further enhance its Shah Alam drinking water plant entailing: (i) upgrading works for its reverse osmosis system, (ii) renovation of a small-scale fully-automated warehouse, and (iii) the addition of a new production line. With an estimated capex of RM60m, the enhancement should boost capacity by an additional 180m litres/annum, serving as a long-term positive catalyst. We have yet to incorporate this into our estimates due to the lack of clarity on the construction timeline.

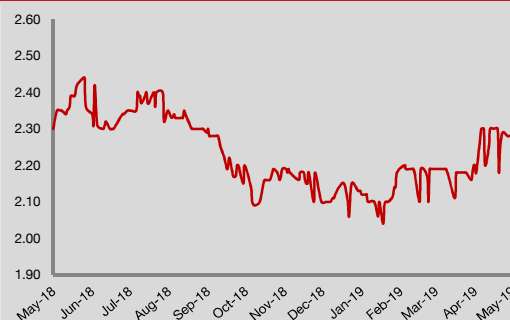
Supported by favourable raw material prices. In the near-term, the group's resilient sales performance is expected to be buoyed by softer prices seen for its raw material (i.e. PET resin), at least for 1H19, which should keep its manufacturing segment's processing margins fairly stable. Furthermore, an expected commencement of its automated warehouse in Taiping by 1Q20 should also enhance the group's cost efficiency in the longer-term. However, as mentioned, we believe the group's trading segment in China will continue to act as a dampener, dragged by stiff competition and costly marketing expenses.

Reiterated MARKET PERFORM with an unchanged TP of RM2.40. Our TP is premised on an unchanged 16.0x FY20E PER (in-line with its 3-year average). Despite the group's improved outlook following favourable PET resin prices, we deem our valuations to be fair at this juncture as we remain cautiously optimistic, concerned over the volatile PET resin prices which may be driven higher by unexpected turn of events. **Risks to our call include:** (i) poorer-than-expected sales, and (ii) higher-than-expected costs exposure.

MARKET PERFORM ↔

Price : **RM2.30**
Target Price : **RM2.40** ↔

Share Price Performance



KLCI	1,651.20
YTD KLCI chg	-2.3%
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	5,395
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
EBIT	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)		27.8	30.8
Earnings Revision		-	-
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%



Income Statement						Financial Data & Ratios					
FY Dec (RM m)	19M16**	FY17	FY18	FY19E	FY20E	FY Dec	19M16**	FY17	FY18	FY19E	FY20E
Revenue	474.2	313.8	347.7	365.5	369.9	Growth (%)					
EBIT	58.0	36.0	34.5	38.0	43.3	Turnover	86.9	-1.4^	10.8	5.1	1.2
Depreciation	-20.7	-14.0	-14.1	-18.2	-19.8	EBIT	86.9	3.1^	-4.2	10.0	14.0
Interest Inc/(Exp)	-2.7	-0.8	-0.7	-0.3	-0.3	PBT	73.2	3.9^	-4.0	11.4	14.2
Associate Earnings	0.0	0.0	0.0	0.0	0.0	Core Net Profit	79.6	-1.8^	2.0	14.6	13.0
Profit Before Tax	55.3	35.3	33.9	37.7	43.0						
Taxation	-14.4	-9.8	-9.6	-9.9	-11.7	Profitability (%)					
Net Profit	41.0	25.5	24.2	27.8	31.4	Operating Margin	12.2	11.5	9.9	10.4	11.7
Core Net Profit	41.0	23.8	24.2	27.8	31.4	PBT Margin	11.7	11.2	9.7	10.3	11.6
						Core Net Margin	8.6	7.6	7.0	7.6	8.5
						Effective Tax Rate	26.0	27.8	28.4	26.4	27.1
						ROA	12.0	6.5	5.6	5.7	6.2
						ROE	16.1	8.3	6.9	7.0	7.5
						DuPont Analysis					
						Net Margin (%)	8.6	7.6	7.0	7.6	8.5
						Assets Turnover (x)	1.3	0.7	0.7	0.7	0.7
						Leverage Factor (x)	1.3	1.2	1.2	1.2	1.2
						ROE (%)	16.1	8.3	6.9	7.0	7.5
						Leverage					
						Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
						Net (Cash)/Debt	1.0	(4.7)	(9.5)	(8.3)	(12.4)
						Net Debt/Equity (x)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
						Valuations					
						Core EPS (sen)	22.5	13.1	11.5	13.2	14.9
						NDPS (sen)	9.0	5.5	3.5	4.0	5.0
						BV/sh (RM)	1.6	2.1	1.9	1.9	2.0
						PER (x)	10.4	17.9	19.9	17.4	15.4
						Div. Yield (%)	3.8	2.4	1.5	1.7	2.2
						PBV (x)	1.5	1.1	1.2	1.2	1.1
						EV/EBITDA (x)	5.6	9.0	10.3	9.8	9.6

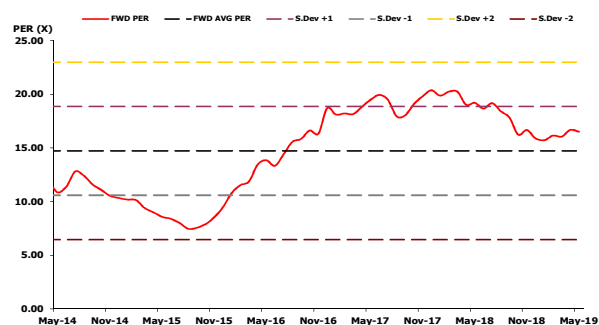
Notes:

** Based on 19-months period Jun'15-Dec-16

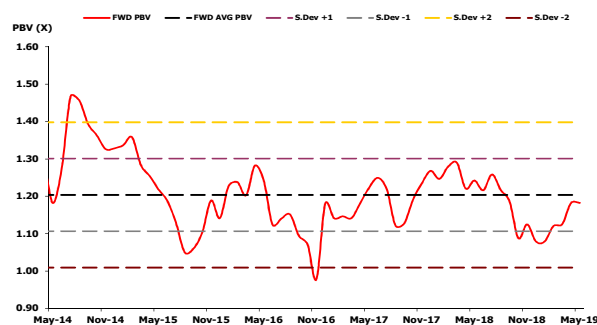
^ As compared against the estimated CY16 results

Source: Kenanga Research

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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	1.48	1,733.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.56	2,190.2	Y	12/2019	3.1%	3.0%	9.2%	3.6%	17.6	16.1	15.6	1.1	1.0	6.6%	2.6%	2.10	OP
AMWAY MALAYSIA HOLDINGS BHD	5.98	983.0	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.0	17.1	16.1	4.2	4.0	23.8%	4.6%	7.25	OP
DUTCH LADY MILK INDUSTRIES BHD	63.52	4,065.3	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	34.80	12,763.9	Y	09/2019	5.9%	7.0%	9.4%	2.9%	32.1	29.4	28.5	5.5	5.1	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.38	691.1	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.6	8.2	6.8	2.2	2.0	15.2%	4.2%	2.10	UP
MYNEWS HOLDINGS BHD	1.34	914.1	N	10/2019	27.3%	14.2%	21.0%	20.7%	34.5	28.5	23.6	3.3	3.0	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	148.10	34,729.5	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.5	47.4	45.5	53.1	53.1	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	0.27	282.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	34.2	0.1	0.1	-1.7%	0.0%	0.24	MP
POWER ROOT BHD	1.44	570.0	Y	03/2020	6.3%	8.6%	26.3%	16.8%	17.2	14.1	12.4	2.6	2.4	18.0%	6.3%	1.75	OP
QL RESOURCES BHD	6.74	10,935.2	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.5	44.6	42.8	5.4	5.0	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					4.6%	4.3%	2.2%	63.5%	28.1	24.8	23.9	11.2	11.0	33.8%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	29.20	8,337.5	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	17.8	20.1	19.8	19.8	18.8	96.0%	4.7%	29.55	UP
CARLSBERG BREWERY MALAYSIA BHD	24.32	7,481.3	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.3	25.5	24.4	41.4	45.0	173.9%	4.1%	23.00	MP
HEINEKEN MALAYSIA BHD	23.84	7,202.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.5	24.8	23.6	19.4	19.2	77.9%	4.0%	23.25	MP
Simple Average					3.8%	4.1%	-0.6%	3.9%	23.5	23.5	22.6	26.9	27.7	115.9%	4.3%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.75	627.3	N	06/2019	8.2%	9.9%	2368.1%	15.4%	533.9	21.6	18.7	1.7	1.6	7.3%	2.7%	2.08	BUY
BONIA CORPORATION BHD	0.34	265.8	Y	06/2019	-4.9%	1.3%	-29.7%	2.9%	13.4	19.1	18.6	0.7	0.6	2.9%	2.1%	0.25	SELL
COCOALAND BHD	1.82	416.4	Y	12/2019	7.0%	5.2%	1.1%	7.6%	13.5	13.3	12.4	1.7	1.5	12.0%	4.2%	2.12	NEUTRAL
KAWAN FOOD	1.31	471.0	Y	12/2019	16.5%	19.9%	11.7%	27.0%	20.7	18.5	14.6	1.5	1.4	7.5%	2.9%	0.98	SELL
MAGNI-TECH INDUSTRIES BHD	4.93	801.9	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.8	7.6	6.8	1.5	N.A.	21.0%	N.A.	6.45	BUY

Source: Bloomberg, Kenanga Research

12 June 2019

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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