

28 November 2019

# Spritzer Bhd

## 9MFY19 Beats Expectations

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**9MFY19 earnings of RM24.7m (+18.7%) beat expectations on better margins in 3QFY19. Moving forward, the group's resilient sales performance looks to be further buoyed by favourable PET resin prices, at least for this year. However, its China operation is unlikely to breakeven in the near-term, due to challenging operating environment. Post-earnings upgrade, we upped our TP to RM2.50 and raised our call to OUTPERFORM following recent share price weakness.**

**Exceeds expectations.** 9MFY19 net profit of RM24.7m came in above expectations at 88% and 86% of our and consensus forecasts. The positive surprise is largely driven by better-than-expected margin on cheaper raw materials coupled with sales tax exemptions on raw material and consumables in 3QFY19. The absence of dividend is within expectation, as the group typically pays a single year-end dividend.

**Overall better results.** 9MFY19 net profit rose 18.7% YoY, largely driven by: (i) robust sales volume (+9.6%) on sustained demand and higher ASP, coupled with (ii) narrowing losses from China operations to -RM1.8m (from -RM2.4m in 9MFY19) thanks to reduced overhead costs and recovering demand. For the individual quarter of 3QFY19, net profit grew 24.4% YoY to end at RM9.2m, stemming from improved EBITDA margin (+2.1ppts) of 17.0% on the back of cheaper PET resin, favourable product mix coupled with sales tax exemptions on raw materials and consumables.

**QoQ,** 3QFY19 net profit jumped 16.7%, due to improved sales (+2.8%) and better EBITDA margin (+1.5ppts) similarly due to the aforementioned reasons.

**Moving towards a stronger FY19?** Moving forward, we opine that the group's resilient sales performance should be sustainable, on the back of their products' inelastic demand in comparison to other generic bottled water offerings. On top of that, softening PET resin prices (takes up c.35% of COGS) also bode well for better manufacturing margins, at least for this year. The expected commencement of its automated warehouse in Taiping by 1QFY20 should also enhance cost efficiency in the longer-term. However, we believe the group's trading segment in China will continue to act as a dampener, no thanks to the intense competition.

**Post results,** we nudged our FY19E/FY20E earnings upwards by 11.3%/4.8% to account for better sales growth and more generous margins on softer raw material costs.

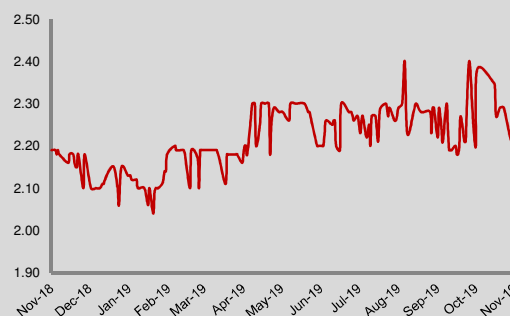
**Upgrade to OUTPERFORM with a higher TP of RM2.50 (from RM2.40).** Our TP is premised on an unchanged 16.0x FY20E PER (in line with its 3-year average). Following the recent share price weakness, we upgraded our call to OUTPERFORM, premised on (i) resilient sales growth, coupled with (ii) improved outlook following favourable PET resin prices.

**Risks to our call include:** (i) poorer-than-expected sales, and (ii) higher-than-expected costs exposure.

**OUTPERFORM** ↑

Price : **RM2.19**  
Target Price : **RM2.50** ↑

### Share Price Performance



KLCI 1,587.18  
YTD KLCI chg -6.1%  
YTD stock price chg 4.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPZ MK Equity
Market Cap (RM m)	459.8
Shares Outstanding	210.0
52-week range (H)	2.40
52-week range (L)	2.00
3-mth avg daily vol	8,868
Free Float	18%
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	375.6	380.1
EBITDA	34.5	41.5	45.1
PBT	33.9	41.2	44.9
<b>Net Profit</b>	<b>24.2</b>	<b>30.9</b>	<b>32.9</b>
Consensus (NP)	-	28.7	31.6
Earnings Revision	-	+11.3%	+4.8%
Core EPS (sen)	11.5	14.7	15.7
Core EPS growth	-11.6%	27.6%	6.4%
NDPS (sen)	3.5	4.0	5.0
BVPS (RM)	1.9	2.0	2.1
PER (x)	19.0	14.9	14.0
PBV (x)	1.2	1.1	1.1
Net Gearing (x)	(0.0)	(0.0)	(0.0)
Net Div. Yield	1.6%	1.8%	2.3%



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Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Revenue</b>	<b>97.5</b>	<b>94.8</b>	<b>2.8%</b>	<b>96.0</b>	<b>1.5%</b>	<b>287.4</b>	<b>262.2</b>	<b>9.6%</b>
EBITDA	16.6	14.7	12.6%	14.3	16.1%	45.0	40.4	11.4%
PBT/(LBT)	12.5	10.7	16.5%	10.8	16.0%	33.1	29.6	11.9%
Taxation	-3.3	-2.8	-15.9%	-3.4	2.4%	-8.4	-8.8	4.4%
<b>Net Profit</b>	<b>9.2</b>	<b>7.9</b>	<b>16.7%</b>	<b>7.4</b>	<b>24.4%</b>	<b>24.7</b>	<b>20.8</b>	<b>18.7%</b>
EPS (sen)	4.4	3.7	16.7%	3.5	24.4%	11.8	9.9	18.7%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBITDA margin	17.0%	15.5%		14.9%		15.7%	15.4%	
PBT margin	12.8%	11.3%		11.2%		11.5%	11.3%	
Core NP margin	9.4%	8.3%		7.7%		8.6%	7.9%	
Effective tax rate	26.5%	26.6%		31.4%		25.4%	29.7%	

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.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.42	1,633.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.1	30.0	28.5	23.6	22.9	77.5%	2.8%	1.35	MP
AEON CO (M) BHD	1.59	2,232.4	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.9	21.9	20.0	1.1	1.1	5.0%	2.5%	1.70	OP
AMWAY MALAYSIA HOLDINGS BHD	5.80	953.4	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.5	16.6	15.6	4.1	3.9	23.8%	4.7%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	57.08	3,653.1	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	29.4	35.7	32.4	34.6	34.1	97.9%	2.8%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	34.66	12,712.5	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.3	29.6	28.0	5.0	4.7	16.5%	1.9%	35.15	MP
HAI-O ENTERPRISE BHD	2.17	630.0	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.3	13.3	13.0	2.0	2.0	15.1%	6.0%	1.95	UP
MYNEWS HOLDINGS BHD	1.25	852.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	32.2	26.6	22.0	2.8	2.7	10.2%	0.8%	1.55	OP
NESTLE (MALAYSIA) BHD	144.70	33,932.2	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.2	50.5	47.1	51.9	51.1	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.48	2,289.5	Y	06/2020	0.5%	4.7%	12.8%	5.3%	14.6	13.0	12.3	3.4	3.0	24.5%	3.3%	4.00	OP
PARKSON HOLDINGS BHD	0.25	266.8	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	32.1	27.7	0.1	0.1	0.3%	0.0%	0.27	MP
POWER ROOT BHD	2.42	979.1	Y	03/2020	13.3%	10.5%	54.0%	12.3%	28.6	19.2	17.6	4.4	3.9	21.8%	3.7%	2.75	OP
QL RESOURCES BHD	7.35	11,924.9	Y	03/2020	10.9%	4.5%	13.0%	4.2%	55.0	48.7	46.7	5.9	5.5	12.1%	0.7%	6.30	UP
SPRITZER BHD	2.19	459.8	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.0	14.9	14.0	1.2	1.1	7.7%	1.8%	2.50	OP
<b>Simple Average</b>					<b>6.5%</b>	<b>4.5%</b>	<b>66.7%</b>	<b>8.5%</b>	<b>28.7</b>	<b>27.1</b>	<b>25.0</b>	<b>10.8</b>	<b>10.5</b>	<b>32.1%</b>	<b>2.5%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	16.58	4,734.1	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	10.1	14.2	14.5	11.2	11.0	78.1%	6.8%	18.30	MP
CARLSBERG BREWERY MALAYSIA BHD	27.70	8,521.1	N	12/2019	16.0%	7.3%	13.6%	9.0%	31.1	29.1	27.7	47.1	46.2	175.6%	3.6%	30.00	OP
HEINEKEN MALAYSIA BHD	26.20	7,915.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	28.0	27.2	25.9	21.3	21.1	77.9%	3.6%	24.25	MP
<b>Simple Average</b>					<b>1.3%</b>	<b>3.0%</b>	<b>-4.2%</b>	<b>4.0%</b>	<b>23.1</b>	<b>23.5</b>	<b>22.7</b>	<b>26.6</b>	<b>26.1</b>	<b>110.5%</b>	<b>4.7%</b>		

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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