

25 June 2020

# Spritzer Bhd

## Brace For A Softer 2Q

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1QFY20 earnings of RM8.8m (+14% YoY) and the absence of dividend are deemed to be within expectations. We are anticipating a weaker quarter ahead, as bottled water consumption is likely to be greatly dampened by lower retail footfalls amidst the enforced movement restrictions. Nonetheless, more favourable PET resin costs should help to partially mitigate the anticipated weaker sales. Downgrade to MARKET PERFORM with a lower TP of RM2.10 (from RM2.30) following earnings downgrade.

**Broadly within expectation.** 1QFY20 net profit of RM8.8m is deemed to be broadly within expectation at 29% of our full-year forecast, as we expect a weaker 2QFY20 amidst the Covid-19 outbreak. No dividend was announced, as expected.

**More favourable cost environment.** YoY, 1QFY20 net profit rose 14% on the back of lower manufacturing costs from softer PET resin costs, which translated to higher EBITDA margin of 18.8% (+4.6ppt). Despite that, revenue actually came in lower by 2%, dragged by weaker sales of plastic packaging material. Meanwhile, trading segment in China also posted slightly wider losses of RM0.6m, versus 1QFY19 losses of RM0.5m.

**QoQ,** 1QFY20 revenue and net profit both saw a jump, 7% and 35%, respectively, largely boosted by greater bottled water demand and more favourable raw material cost (i.e. PET resin).

**Covid-19 impact to be felt in 2Q.** Against the backdrop of the ongoing Covid-19 outbreak, the group will likely suffer from a weaker subsequent quarter. This is because bottled water consumption, which we believe, is inversely correlated with the surge in in-home consumption, could be badly hit by the movement restrictions and significant fall in retail footfalls.

That being said, the persistent weakness noted in the PET resin prices (takes up c.35% of COGS) should help to partially mitigate the foresaid demerits, by keeping the manufacturing margins fairly steady in the near-term. Meanwhile, the group's trading segment in China could record narrower losses this FY, as the Covid-19 impact is mostly limited to 1QFY20.

**Post results,** we revised our FY20E and FY21E earnings downwards by 7.8% and 10.7%, respectively, by pencilling in weaker sales amidst the pandemic outbreak. We are maintaining our dividend pay-out assumption of c.30% for now, as the group's balance sheet remains healthy with a net cash pile of c.RM17.4m.

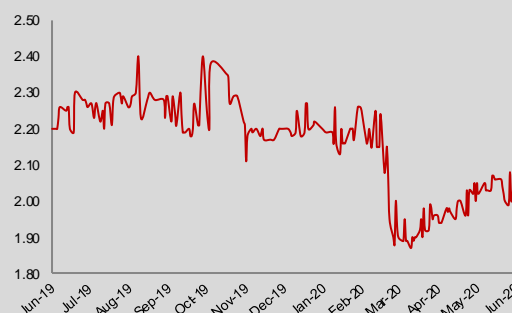
**Downgrade to MARKET PERFORM with a lower TP of RM2.10** (from RM2.30) following the earnings downgrade. Our TP is premised on an unchanged 16.0x FY20E PER (closely in-line with its 3-year average). In view of the clouded near-term prospect amidst the virus outbreak, we believe the group's positives – its long-term resiliency and healthy balance sheet may have been fully priced in at this juncture, limiting its near-term upside potential.

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

## MARKET PERFORM ↓

Price : RM2.00  
Target Price : RM2.10 ↓

### Share Price Performance



KLCI 1,502.63  
YTD KLCI chg -5.4%  
YTD stock price chg -11.1%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker SPZ MK Equity  
Market Cap (RM m) 419.9  
Shares Outstanding 210.0  
52-week range (H) 2.40  
52-week range (L) 1.70  
3-mth avg daily vol 15,133  
Free Float 18%  
Beta 0.6

### Major Shareholders

Yee Lee Corporation 30.3%  
CIMB Group Holdings 14.0%  
Tasik Puncak Holdings Ltd 13.0%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	374.4	365.3	383.5
EBITDA	41.3	37.8	44.1
PBT	41.3	37.7	44.1
<b>Net Profit</b>	<b>31.2</b>	<b>27.7</b>	<b>32.2</b>
Consensus (NP)	-	-	-
Earnings Revision	-	-7.8%	-10.7%
Core EPS (sen)	14.9	13.2	15.4
Core EPS growth (%)	29.0	-11.5	16.7
NDPS (sen)	4.5	4.0	4.5
BVPS (RM)	2.0	2.0	2.2
PER (x)	13.4	15.2	13.0
PBV (x)	1.0	1.0	0.9
Net Gearing (x)	(0.0)	(0.0)	(0.0)
Net Div. Yield (%)	2.3	2.0	2.3



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Results Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
<b>Revenue</b>	<b>92.8</b>	<b>87.0</b>	<b>7%</b>	<b>95.1</b>	<b>-2%</b>	<b>92.8</b>	<b>95.1</b>	<b>-2%</b>
EBITDA	17.4	12.4	41%	13.7	27%	17.4	13.7	27%
PBT/(LBT)	13.2	8.2	61%	10.0	32%	13.2	10.0	32%
Taxation	-4.4	-1.6	-166%	-2.3	-94%	-4.4	-2.3	-94%
<b>Net Profit</b>	<b>8.8</b>	<b>6.5</b>	<b>35%</b>	<b>7.7</b>	<b>14%</b>	<b>8.8</b>	<b>7.7</b>	<b>14%</b>
EPS (sen)	4.2	3.1	35%	3.7	14%	4.2	3.7	14%
DPS (sen)	0.0	4.5		0.0		0.0	0.0	
EBITDA margin	18.8%	14.2%		14.4%		18.8%	14.4%	
PBT margin	14.2%	9.4%		10.5%		14.2%	10.5%	
Core NP margin	9.5%	7.5%		8.1%		9.5%	8.1%	
Effective tax rate	33.3%	20.2%		22.6%		33.3%	22.6%	

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	1.29	1,483.7	N	12/2020	4.6%	3.4%	3.7%	7.0%	29.4	28.4	26.5	15.6	16.5	56.5%	3.9%	1.30	MP
AEON CO. (M) BHD	1.01	1,418.0	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	13.0	22.8	17.7	0.8	0.8	3.7%	4.0%	1.00	UP
AMWAY (MALAYSIA) HOLDINGS BHD	5.07	833.4	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	16.3	18.6	16.0	3.7	3.8	20.1%	5.4%	5.10	MP
DUTCH LADY MILK INDUSTRIES BHD	43.20	2,764.8	Y	12/2020	1.7%	1.7%	2.5%	2.3%	26.2	25.6	25.0	19.1	15.2	66.2%	2.5%	40.50	MP
FRASER & NEAVE HOLDINGS BHD	32.48	11,913.0	Y	09/2020	0.6%	2.2%	-3.4%	9.1%	28.4	29.4	26.9	4.7	4.4	15.5%	1.8%	36.20	OP
HAI-O ENTERPRISE BHD	1.83	531.3	N	04/2020	-28.1%	2.4%	-41.1%	8.6%	11.2	19.0	17.5	1.7	1.7	8.9%	4.4%	0.850	UP
MYNEWS HOLDINGS BHD	0.700	477.5	N	10/2020	15.7%	11.3%	-19.0%	18.0%	17.8	22.0	18.7	1.6	1.5	7.0%	1.4%	0.550	UP
NESTLE (MALAYSIA) BHD	139.30	32,665.9	Y	12/2020	-2.2%	1.9%	-4.4%	5.8%	50.1	52.4	49.6	48.7	47.8	92.0%	1.9%	122.30	UP
PADINI HOLDINGS BHD	2.60	1,710.6	Y	06/2020	-6.6%	4.7%	-15.8%	10.3%	10.9	13.0	11.8	2.3	2.1	17.2%	4.4%	2.65	MP
POWER ROOT BHD	2.25	931.8	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	17.1	18.2	16.4	3.6	3.3	19.2%	5.1%	2.45	MP
QL RESOURCES BHD	9.19	14,910.2	Y	03/2020	10.9%	11.6%	13.1%	9.6%	68.8	60.9	55.5	7.4	6.9	12.1%	0.6%	8.30	OP
SPRITZER BHD	2.00	419.9	Y	12/2020	-2.4%	5.0%	-11.2%	16.6%	13.5	15.2	13.0	1.0	1.0	6.6%	2.0%	2.10	MP
<b>Simple Average</b>					<b>-1.2%</b>	<b>5.0%</b>	<b>-11.4%</b>	<b>12.0%</b>	<b>25.2</b>	<b>27.1</b>	<b>24.5</b>	<b>9.2</b>	<b>8.7</b>	<b>27.1%</b>	<b>3.1%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	10.86	3,100.9	N	12/2020	-24.6%	-1.9%	-38.8%	-0.1%	8.6	14.0	14.0	7.2	7.1	51.0%	6.9%	10.05	UP
CARLSBERG BREWERY MALAYSIA BHD	24.10	7,368.5	N	12/2020	-28.3%	35.0%	-29.5%	36.0%	25.5	36.2	26.6	44.6	27.8	98.1%	1.4%	21.00	UP
HEINEKEN MALAYSIA BHD	22.88	6,912.0	N	12/2020	-28.7%	16.1%	-19.8%	13.9%	22.1	27.5	24.2	19.3	19.7	68.8%	3.6%	20.85	UP
<b>Simple Average</b>					<b>-27.2%</b>	<b>16.4%</b>	<b>-29.4%</b>	<b>16.6%</b>	<b>18.7</b>	<b>25.9</b>	<b>21.6</b>	<b>23.7</b>	<b>18.2</b>	<b>72.6%</b>	<b>4.0%</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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