ZJ Research

Investment Report for Mid & Small Cap Research Scheme

COVERAGE INITIATION **21 August 2017**

Spritzer Berhad

Bursa / Bloomberg Code: SPZ MK
Stock is Shariah-compliant.

Price :	**RM2.22**
Market Capitalisation :	**RM405 mln**
Listing :	**Main Market**
Sector :	**Consumer**
Recommendation :	**Buy**

Key financials (FYE Dec)	**Jun-Dec FY16***	**Jan-Dec FY17E**	**Jan-Dec FY18E**
Revenue (RMm)*	318.8	334.7	368.2
EBITDA (RMm)*	46.5	51.6	62.0
EBITDA margin	14.6%	15.4%	16.8%
Core net profit (RMm)*	21.4	24.3	32.1
FD EPS (sen)*	11.9	13.3	17.6
FD EPS growth	-33.5%	11.5%	32.0%
DPS (sen)	6.0	4.0	5.3
Payout ratio	0.5	0.3	0.3
FCFE/share (sen)	-0.1	0.1	0.1
Net cash (debt)/share (sen)	0.0	0.0	0.1
** Jun-Dec FY16 numbers are annualised*			
Key valuation metrics			
P/E (X)	18.6	16.7	12.6
EV/EBITDA (X)	7.6	6.7	5.5
P/BV (X)	1.4	1.3	1.2
Dividend yield (%)	2.7%	1.8%	2.4%
FCFE yield (%)	-3.1%	3.8%	5.4%
ROE (%)	7.8%	8.6%	10.1%
ROAA (%)	6.0%	6.6%	8.1%

Shares oustanding (m)	182.6
52-week Hi-Low (RM)	2.19 - 2.60

Shareholding	
Yee Lee Corporation	32.1%
Yee Lee Organization	12.5%
Public Mutual	5.9%

1. Investment Highlights / Summary

- **Leader in bottled water.** Spritzer is the largest bottled water (mineral and distilled) producer in Malaysia, with its flagship brand Spritzer, complemented by Cactus, Summer and Desa. The group also manufactures PET preforms and bottles, caps and toothbrushes.

- **Wide moat.** With a strong brand built over almost three decades, access to quality and ample underground water and an expansive distribution system, Spritzer has a wide economic moat.

- **Rising demand.** Bottled water has experienced growth in consumption due to rising health consciousness, affordability, easy availability and changes in lifestyle. These factors remain in place to drive growth going forward.

- **Risks.** The success of its bet in China is far from certain given the established domestic brands and strong A&P firepower of the foreign players.

- **Strong financial track record.** Spritzer has grown steadily over the last 10 years as revenue has risen every year and net profit fell only once. It has de-leveraged, aided by the conversion of warrants and cashflow. Net profit margin is close to 10%, a commendable figure given the commoditised nature of the industry.

- **Forecast.** We project FY17 and FY18 net profit to rise 11.5% and 32% on revenue growth of 10.5% and 10%, driven by the improving consumer sentiment. We expect dividend payout ratio to maintain at the historical average of 30%.

- **Initiate coverage with Buy call and a fair value of RM2.90** with re-rating catalysts being continued top line growth and lower losses from China. Our valuation ascribes zero value for its push into China on account of the uncertainty over its success.

2. Background

Corporate profile. Spritzer Bhd is an investment holding company. The company's subsidiaries are the leading natural mineral water, distilled water, and drinking water producers in Malaysia. They also produce carbonated flavoured water, non-carbonated flavoured water, polyethylene terephthalate (PET) preforms, PET bottles, caps, and toothbrushes. Spritzer also operates a mini golf course and a recreational park where it water source is located.

Located in Taiping, Perak, the company was listed on the Second Board of the then Kuala Lumpur Stock Exchange (now Bursa Malaysia) in the year 2000.

It operates in three locations - Taiping, Yong Peng and Shah Alam - with 15 bottled water production lines and an annual production capacity of about 650m litres of bottled water. With eight approved water sources, its manufacturing facility in Taiping is located amidst 330 acres of tropical rain forest and adjacent to Taiping's water reservoir. Its Yong Peng plant sits on 22 acres of land and has four approved water sources. Both these plants produce mineral and drinking water. The Shah Alam plant was acquired in 2009, to cater to the large bottled water market in the Klang Valley and the surrounding areas.

According to Euromonitor, the bottled water industry in Malaysia was worth RM538m in 2016 and Spritzer's revenue market share was 48%. Spritzer is the market leader in mineral water and comes in second in drinking water (i.e. distilled/reverse osmosis (RO)).

Exhibit 1. Spritzer's products

Source: Spritzer

Its products are sold under the following brands:

Spritzer – Mineral, distilled and RO water. A market leader, Spritzer mineral water is the group's flagship and premium brand and is known for its high silica content. It is only produced at its Taiping facility, using its best water source.
Cactus – Mineral and distilled water. Priced more competitively, Catus is the number two mineral water brand in Malaysia. It is produced at its Taiping and Yong Peng plants.
Summer – A reverse-osmosis bottled water produced from its plant in Shah Alam. It is one of the leading RO brands, but behind the market leader Seamaster.
Desa – A low-priced mineral water brand, positioned as a "fighting" brand. This brand came with the facility it bought over in Yong Peng, Johor.
Spritzer Sparkling – Carbonated mineral water.
Spritzer + FIBRE - Contains soluble dietary fibres for optimal intestinal functions with its prebiotics effect. It also enhances calcium absorption for an increases bone mineral density.

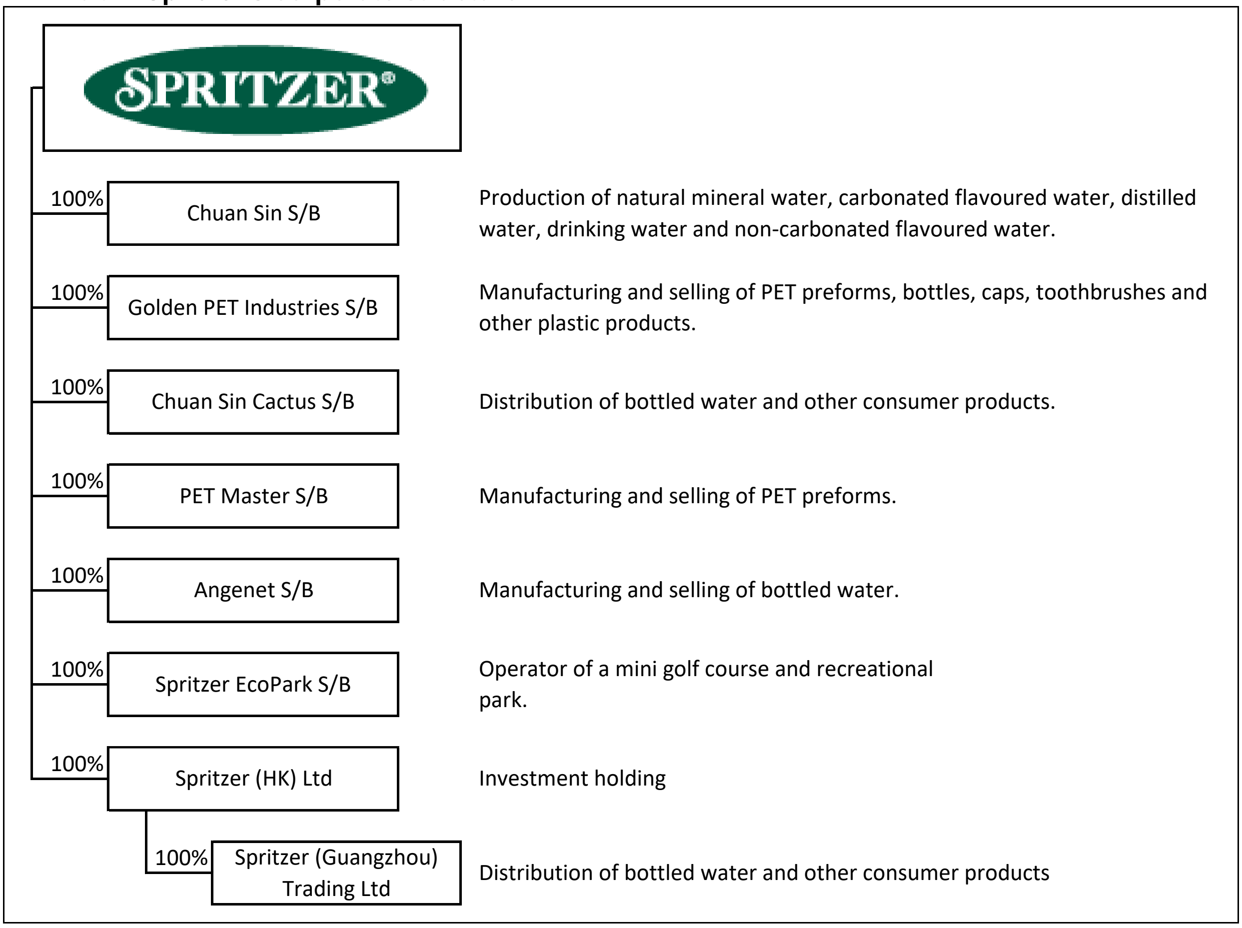
Tinge – Fruit-flavoured non-carbonated mineral water, aimed at the youth market.
Pop – A lightly-carbonated fruit-flavoured mineral with no artificial colouring that is targeted at children.
Acilis by Spritzer – Named after spelling the word 'silica' backwards, this mineral water brand is sold in the United Kingdom.
MorningKiss – Toothbrushes.

Spritzer also produces mineral water for third party brands, which contributes to about 8% in total sales. However, the group prefers to focus on its own brands as they fetch higher margins.

Revenue composition

About 90% of revenue is derived from mineral water and drinking water products, namely its two top brands Spritzer and Cactus. The remaining 10% are from functional and flavoured water such as Spritzer plus Fibre and Spritzer TINGE. Exports make up about 8% of Spritzer's sales, with key destinations being Singapore, Brunei, China, Hong Kong, Taiwan and Papua New Guinea.

Exhibit 2. Spritzer's corporate structure



Source: Spritzer

Shareholders

Spritzer is controlled by the Lim family who owns 46.6% of the company through Yee Lee Corporation (YEE MK), Yee Lee Organisation and Chuan Sin. Its founder Lim Kok Boon has a direct 3.84% equity in the company, while Lim A Heng @ Lim Kok Cheong, his brother and Chairman of Spritzer owns 5.01%.

Senior management

Lim Seng Lee, Group Chief Executive Officer
Mr Lim was appointed to the Board on October 15, 2015 and re-designated as Group Chief Executive Officer of the Company on April 28, 2016. A graduate of San Francisco State University, with a Bachelor of Science in International Business, he joined Spritzer as a Sales Executive in 2003, and later as Marketing Manager, strategic planning and overseeing its operations. He is the Country Representative (Malaysia) of the Asia Middle East Bottled Water Association (ABWA). He is the son of Dato' Lim Kok Boon, the Managing Director of the company. He is also a nephew of Dato' Lim Kok Cheong, the Chairman of the company, who is a major shareholder of the company and controlling shareholder of Yee Lee Corporation Bhd. He is also the brother of Mr. Lim Hock Lai (see below).

Sow Yeng Chong, Group Financial Controller
A member of Malaysian Institute of Accountants, Mr Sow joined Spritzer in October 2009 as the Group Financial Controller. He also serves as Joint Company Secretary of the Company since 2010. He started his career in 1981 as an Audit Assistant with Payne Davies & Co. and subsequently worked as an Accountant of Far East Marble & Handicraft. He was employed by Yee Lee Corporation from 1985 to 1997 in various capacities and his last position being the Group Financial Controller and Joint Company Secretary. He was a remisier with TA Securities Holdings Bhd from 1997 to 2009. He is a non-independent non-executive director of Yee Lee Corporation. He is also a director of Kumpulan Belton Berhad, a non-listed public company.

Chong Mee Yoong, Deputy General Manager
Ms Chong joined Chuan Sin Sdn Bhd in 1991 as a Food Technologist and oversees the plant operations and Quality Assurance Department of Chuan Sin. She graduated with a Bachelor of Science (Hons) in Food Science and Nutrition from National University of Malaysia. Prior to joining Chuan Sin, she worked as a Food Technologist with Yee Lee Corporation.

Lim Hock Lai, Sales and Operations Director
Mr Lim is responsible for sales and marketing activities for the Group. A graduate of Bachelor of Information Systems from Swinburne University of Technology at Melbourne, he joined Nagase & Co., a Japanese trading company as a Sales Executive and subsequently joined Clariant International, a Swiss chemical company as a Sales Manager before joining Chuan Sin in 2008. He is a son of Dato' Lim Kok Boon, the Managing Director of the Company. He is also a nephew of Dato' Lim Kok Cheong, the Chairman of the company. He is also the brother of Mr. Lim Seng Lee, the Group CEO.

Regulations

The bottled water industry is regulated by the Ministry of Health. Exhibit 3 below summarises the key regulations. For new plants, the MOH requires the water producer to own 200m of land around the water source or 31.05 acres for one water source. Its Yong Peng water source, which is located in an area of 22 acres, is unaffected as it is an existing plant.

Exhibit 3. Natural mineral water vs packaged drinking water

	Natural Mineral Water	Packaged Drinking Water
Source	Obtained directly from subterranean water bearing strata through a spring, well, bore or other exit. The source must be approved and licensed by the Ministry of Health.	All water sources which are safe such as from the public water supply system or tap water, surface water (river, pond, and lake) and underground water (tube well, spring). Must obtain approval and license from the Ministry of Health.
Mineral fortification	Must not be fortified/enriched with vitamin and mineral.	May contain added chloride, bicarbonate and sulphate salts of calcium, magnesium, potassium and sodium as well as carbon dioxide.
Addition of Carbon Dioxide	Allowed	Allowed
Treatment	May only be subjected to one or more of the following treatments provided that water or mineral content is not modified or changed in its essential constituents: Filtration. Chlorination followed by dechlorination. Aeration / deaeration. Carbonation / decarbonation. Ultraviolet sterilisation. Ozone treatment. Pasteurisation. Must comply with the specified standard.	All types of treatments may be applied as long as the standard specified is complied with. Types of treatment for drinking water: Filtration – to eliminate odours, taste, organic contaminants or chlorine. Distillation. Reverse osmosis. Electrodialysis. Ion exchange. Sterilisation using ozone or ultraviolet ray. Reduce water hardness – water softener, ion exchange, reverse osmosis, distillation.
Label	Must be labelled with: "Natural Mineral Water" or "Carbonated Natural Mineral Water" if containing carbon dioxide Amount of total dissolve solid Names of mineral contents present pH value Location of the source Nature of the source Ministry of Health (MOH) approval number "Approved source by MOH" Complete name and address of manufacturer "Made in Malaysia" or country of origin	Must be labelled with: "Drinking Water" or "Carbonated Drinking Water" if containing carbon dioxide Amount of fortified mineral or salt if available Nature of source Ministry of Health (MOH) approval number "Approved source by MOH" Complete name and address of manufacturer "Made in Malaysia" or country of origin
Packaging / Bottle	Various coloured bottle cap. Bottle used must be transparent and translucent.	White coloured bottle cap. Bottle used must be transparent and translucent.

Source: Ministry of Health, Malaysia

3. Investment highlights

A fairly wide economic moat

As one of the oldest mineral water brands in Malaysia, Spritzer possess a robust economic moat given its very recognisable brand, expansive distribution network, good source of underground water and large scale.

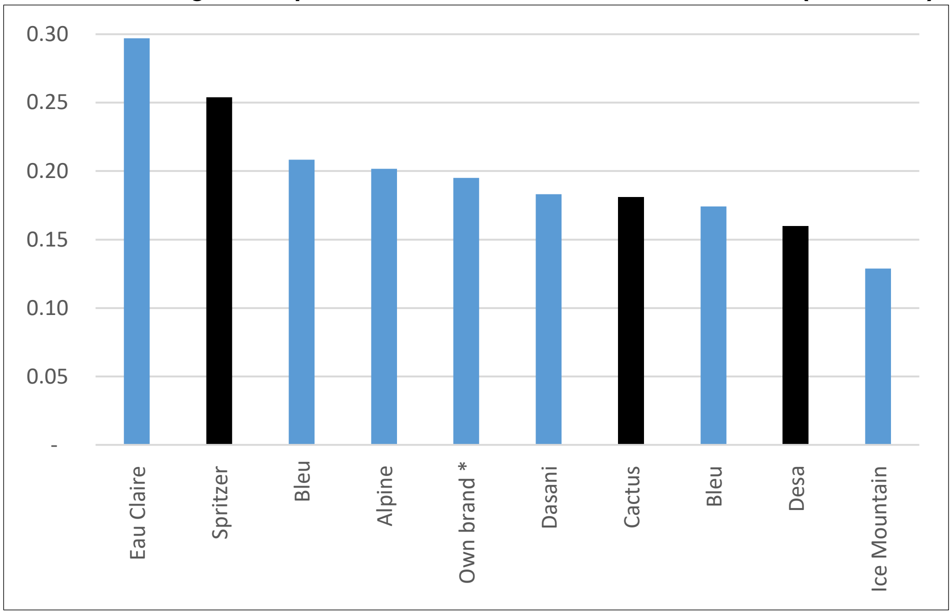
Brand. A pioneer in this industry, Spritzer was established in 1989 and over the years carved a strong brand for itself. The company has consistently advertised over the years to be visible. It is the official natural mineral water sponsor for the 2017 KL SEA Games. While most of its competitors focused on being contractor producers for third party brands, Spritzer nurtured its own brand. It has won multiple awards, including:

- Asia Excellence Brand Award 2016 for 3rd consecutive years
- The Peoples's Award - Putra Brand Awards 2015 Gold Recipient
- World Branding Awards 2016 - Brand of The Year (Water Category) for 2nd consecutive years
- Aqua Awards from The International Bottled Water Association
- Industry Excellence Award 2003 awarded by Ministry of International Trade and Industry, Malaysia.

- "Asia Pacific Bottled Water Company of the Year" by Frost & Sullivan for 7th consecutive years
- "Number 1 Natural Mineral Water Brand in Peninsular Malaysia" by Nielsen
- Trusted Brands Platinum Award by Readers' Digest for 16th consecutive years
- Best Brands of Mineral Water by The Brand Laureate for 4th consecutive years

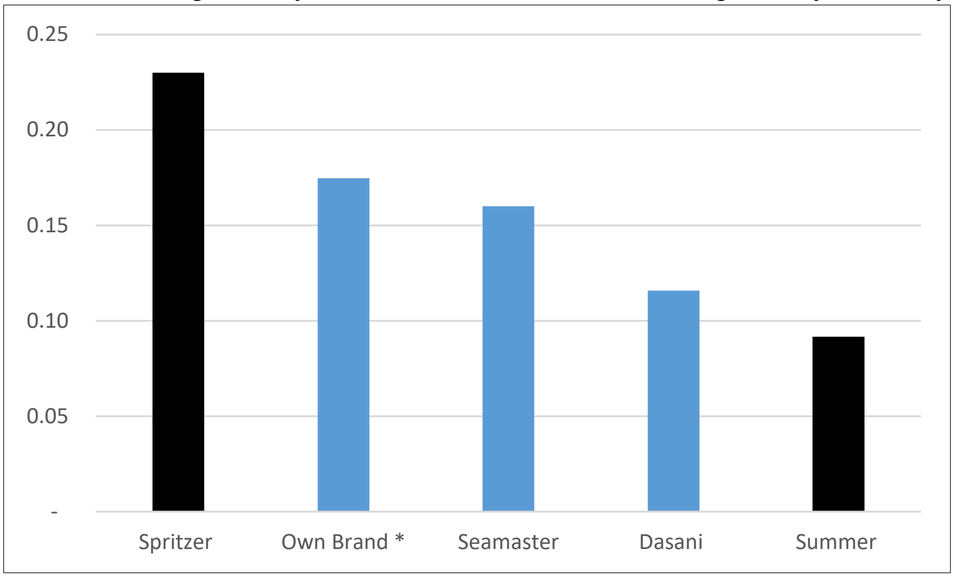
As a result of its strong brand, Spritzer is able to command a premium over most of its local mineral water rivals, as illustrated in Exhibits 4 and 5 below. Cactus is priced in the mid-range while Desa is at the lower end of the range. Note that we only had two data points for Eau Claire (RM1.10 and RM1.87 for a 500ml bottle) and the sampling may not be meaningful.

Exhibit 4. Average retail price of 500-600ml bottle of mineral water (RM/100ml)



Source: ZJ Research
**7-Eleven, KK Mart, Kedai Rakyat 1Malaysia, Watson, Aeon and Giant*

Exhibit 5. Average retail price of 500-600ml bottle of drinking water (RM/100ml)



Source: ZJ Research
**7-Eleven, KK Mart, Guardian, Kedai Rakyat 1Malaysia, Watson, Aeon and Caring*

Good distribution. A key part of Spritzer's success is attributed to its distribution network and this is where Yee Lee Corporation comes in. Spritzer is controlled by Yee Lee, which is a leading distributor of fast moving consumer goods in Malaysia. It has a wide distribution network with a customer base of almost 33,000 encompassing hypermarkets, supermarkets, departmental stores, retail outlets, sundry shops, convenience stores, petrol kiosks, wholesalers.

In our small survey of 16 convenience stores, mini markets and hypermarkets in the Kuala Lumpur area, we found that Spritzer mineral water is mostly widely available (10 out of 16 stores). This is followed by its sister brand Cactus (7 locations) and Coca Cola's Dasani (6). We also noted that Spritzer generally has a good eye-level placement and is closest to the payment counter. However, we encountered two stores where Spritzer's mineral water was sold out. Oddly, we came across Seamaster, the market leader in drinking water, in only one shop.

Excellent water source. Spritzer's main wells are in Taiping, which enjoys the highest rainfall in Peninsula Malaysia and ensures plenty of water supply. According to Wikipedia, the average annual rainfall is about 4,000mm in Taiping vs peninsula's average of 2,000mm – 2,500mm. Moreover, its land in Taiping is located adjacent to the town's water reservoir and forest reserve, which minimises any risk of contamination. It also has wells in Yong Peng, Johor which is used mainly for export to Singapore.

Water drawn from Spritzer's wells in Taiping tastes good and is silica-rich. It has won the "Superior Taste Awards" by the International Taste and Quality Institute in Belgium for 7 consecutive years. Spritzer-branded mineral water contains 44mg/L of silica, which is widely claimed to help ensure collagen elasticity of all connecting tissues in the body. A British professor has shown that drinking silica-rich water can flush aluminium, which is linked to dementia, from the body. The study, which was published in the Journal of Alzheimer's Disease, used Spritzer's mineral water.

Growing demand for mineral water

Demand for mineral and bottled water is driven by:

Affordability. Bottled water costs as low as 45sen for a 500ml bottle of drinking water to as high as RM2.30 for a bottle of 600ml local mineral water. This is generally cheaper than the RM1.50-2.00 for carbonated drinks and Asian drinks.

Availability and convenience. Bottled water is easily available in sundry shops, convenience stores and petrol stations which are mushrooming across the country. Their small size makes them very portable.

Lifestyle changes. With higher income levels, Malaysians are indulging in more activities outside their homes. This has led to demand for bottled water.

Health consciousness. Malaysians are slowly switching water from carbonated and sugary drinks to water due to rising health consciousness. Spritzer estimates that sales of bottled water is still 20% of sugary drinks, unlike in the US where bottled water has surpassed sugary drinks in sales.

Concerns over the quality of tap water. Municipal water has poor public perception. Associate Professor Dr Azrina Azlan, of Universiti Putra Malaysia found that some consumers perceive water from some taps emits a certain odour or tastes a peculiar way that is not palatable. Tap water is known to be brownish in colour, possibly caused by old pipes or pipe repair. As a result, many homes employ water filters for washing, cooking and drinking.

Export

Limited by a population of 31m in Malaysia and a dominant market share, Spritzer seeks to grow its revenue from exports. It earns 8% of its revenue by exporting to Singapore, Brunei, Hong Kong, Taiwan and Papua New Guinea.

China. It began exporting to China in April 2016. Positioning itself in the mid to premium market, products exported to China include Spritzer mineral water, Spritzer TINGE and Spritzer plus Fibre. It expects the China operations will require a three-year gestation period to start generating positive cash flow. It has spent RM10m on advertising and promotion as well as marketing in China.

United Kingdom. The group started shipping to the United Kingdom in January 2017 under the name Acilis by Spritzer. We understand from management that the UK Trading Standard has also allowed this product to be labelled in the country as possessing anti-aging properties that encourage softer skin, stronger nails, shiny hair and supple joints due to silicon enhanced promotion of natural collagen in the body.

Singapore is a better bet. We think Singapore is a low-hanging fruit for Spritzer given the proximity of Yong Peng to Singapore and its brand is already known. However, to fully capitalise on this opportunity, we understand it needs to upgrade its water production capacity.

4. Investment risks

Investment in China may not pay off. Spritzer is taking a bet on China and is setting aside RM30m over 3 years for its push into Guangzhou and its surrounding areas. Building a brand and distribution channel in a foreign market will be very challenging, in our opinion, given the established foothold by domestic players and the marketing firepower of foreign brands.

Costs linked to oil price and and weakening MYR. Two of Sprizer's largest costs are linked to oil prices – PET resins and logistics. PET resin, which is derived from crude oil, makes up the bulk of the raw material costs which comprises 41% of its sales, followed by bottle caps, labels and paper carton. Logistics cost comprises 10% of revenue.

A weaker ringgit will likely raise the cost of resins and diesel/logistics. While this affects the entire industry, Spritzer's size and scale gives it buying power over smaller rivals. With oil prices at multi-year lows, we are not overly concerned over this issue. The company has in the past passed on the higher costs to consumers.

Competition. The bottled water industry is highly competitive and fragmented owing to the low barriers to entry and competition from distilled/RO drinking water. Based on MOH's data, there are more than 20 mineral water producers and more than 200 drinking water producers in Malaysia. Many produce under contract for third parties, i.e. Coca-Cola's Dasani and Fraser and Neave's (F&N) Ice Mountain are produced by Vitaton Sdn Bhd. F&N also has its own production facility and bottles Ice Mountain. Many supermarket and mini-markets sell water under their own brands, i.e. 7-Eleven, KK Mart, Kedai Rakyat 1Malaysia, Watson, Aeon and Giant, produced by contractor's plants.

More importantly, Spritzer's key competitors – Coca Cola and F&N – risk cannibalising their other drinks (carbonated and Asian) if they push their mineral water brands hard. Hence, we think their marketing will be more measured.

All in, competition is not a major concern in our view and Spritzer's track record has proven so.

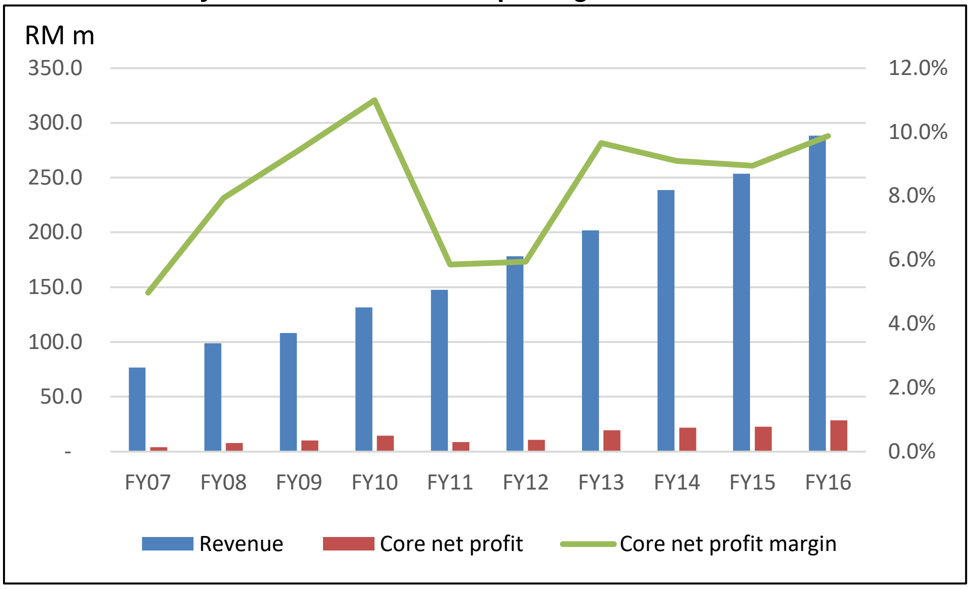
Water supply. Contamination to its water source is a risk but this has never happened. It continues to explore for new water sources on its Taiping land to ensure sufficient water supply for the long term. It is waiting for approval from MOH for five new wells.

5. Financial Highlights

Change in financial year end. The group changed its financial year end from May to December in 2016 to be consistent with that of its China subsidiary.

Consistent track record. Except for FY11, Spritzer has an unbroken record of continuous net profit growth over the last 10 years. This reflects the industry's growth, and Spritzer's strong execution and branding. FY11's profitability was affected by higher raw material prices, higher advertising and promotional expenses and the higher overheads attributed to the commissioning of its Shah Alam plant. Despite the introduction of lower margin drinking water products with the commissioning of its plant in Shah Alam, core net profit margins continued to rise.

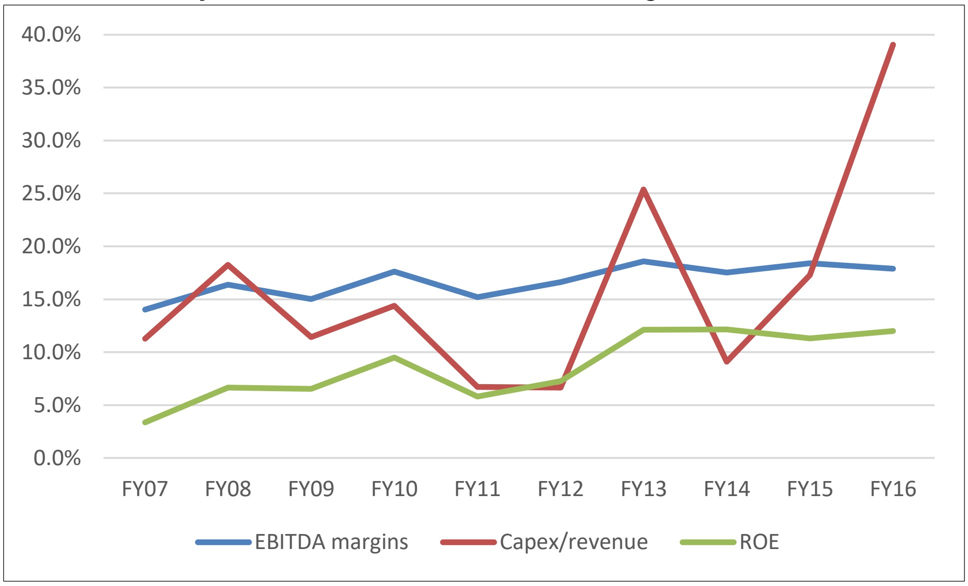
Exhibit 6. Steady revenue and core net profit growth



Source: Bloomberg

Core net profit grew at a CAGR of 24% over 10 years to FY5/16 on the back of a 15% and 23% CAGR in revenue and EBIT. These numbers show that Spritzer has benefited from operating leverage as the company grew in size and scale. Putting it another way, core net profit has risen 8.7x over this period, more than double revenue growth of 4.2x.

Exhibit 7. Steady increase in ROE and EBITDA margins



Source: Bloomberg

Balance sheet. Spritzer has a healthy balance sheet with net debt of only RM1.3m in FY12/16 or a net gearing of almost zero. Its net gearing has fallen steadily from 0.8x in FY11 due to strong FCF, conversion of warrants and issuance of new shares to employees. Going forward, we forecast Spritzer to move into a net cash position of RM5.4m and FM13m in FY17 and FY18 respectively. This is despite its capex and higher A&P spending in China.

6. Peer comparison

The only listed bottled water company is Bio Osmo, a loss-making reverse osmosis water producer. It has an annual sales of about RM7m vs Spritzer's RM288m.

Similar net profit margin vs F&N. Considering the competition and commoditised nature of the industry, Spritzer has respectable margins and return ratios. Its net profit margin (before entering China) is 9-10% and is similar to Fraser & Neave Holdings (F&N) 10%. F&N is a manufacturer of fast-moving consumer goods such as soft drinks, dairy products and glass container. F&N's FY16 revenue of RM4.2bn is 18x larger than Spritzer's.

But higher capex intensity vs F&N. However, Spritzer's FY5/15 and FY5/16 (i.e. pre-China expansion) ROA of 7-8% trails F&N's FY16 ROA of 11% FY16. Similarly, its ROE of 11-12% is below F&N's 18% because of its higher capex intensity. Spritzer's capex/revenue averaged 8% in the last 4 years vs 4% for F&N.

7. Earnings Outlook

We project FY17 and FY18 net profit to rise 38%** and 7% on revenue growth of 12% and 11%, driven by the improving consumer sentiment and consumers favouring bottled water over sugary drinks. The company expects double-digit growth in sales in FY17.

Net profit for the 7-months ending FY12/16 was depressed by RM10m in A&P spending in China. For FY17 and FY18, we also assume A&P spending of RM10m annually. We understand the overall spending on advertising and promotion will rise

to 8% of the group's revenue in the next two years, from a normal run rate of 5%. i.e. before its push into China.
*** To allow for apples to apples comparison, we have annualised the 7 months ending December FY16.*

Normalising for China. After spending RM10m in FY16, we assume spending in China to be RM12m and RM8m in FY17 and FY18 respectively. Stripping out the A&P spending in China, we estimate Spritzer's FY17 and FY18 core net profit to be RM36.1m and RM40.1m (EPS 19.8 sen and 22.0 sen) vs RM34.3m in FY12/16 adjusting for the spending in China and annualising the seven months .

Capex. After investing RM22m and RM14m in FY5/16 and FY12/16, the company plans to invest a further RM40m-50m over FY17 and FY18 on a new automated warehouse at its Taiping plant to accommodate for higher volume of production and sales. It has no plans to install additional production lines in the near future as the average bottling utilsation rate of 70-75%. It is, however, looking to acquire more land in Yong Peng to expand its capacity. On the back of this, we assume capex of RM25m p.a. in FY17 and FY18 on the warehouse but not on buying land.

Dividends. While the company does not have a dividend payout policy, it has paid out about 30% of its net profit over the last few years except for FY12/16 when it declared 50%. We expect it to payout ratio of 30% in FY17 and FY18.

8. Valuation

We value Spritzer at RM2.90 by ascribing a multiple of 14x on its estimated 2018 net profit excluding China of RM42m (EPS of 22 sen) and subtracting RM30m (RM0.16/share) it is spending on its push into China. In other words, to be conservative, we are not ascribing any value to its efforts in China given the uncertainty over its success. Our target multiple is a 40% discount to F&N's 22x 2018 earnings given Spritzer's smaller size (market cap of RM0.4bn vs RM9.0bn) and low liquidity (RM0.3m/day vs RM4.7m).

9. Recommendation

We recommend a BUY on Spritzer given its fairly wide economic moat, consistent and relatively robust growth and attractive 2018 PE of 10x, excluding start-up losses in China. The factors that have helped Spritzer cement its market leadership – brand, distribution and water quality and supply - appear to be well entrenched. Going forward, greater health consciousness, higher income levels and continued changes in lifestyle should drive demand for Spritzer's products. Re-rating catalysts could include continued revenue growth and smaller losses in China.

Spritzer's share price has de-rated about 10% from its recent high of RM2.55 in May, we think, is due to its depressed earnings brought about by its push into China. We advocate investors to look beyond these losses which will be capped by its budget of RM30m and focus on its robust business in Malaysia.

P&L Summary

	May	May	Jun-Dec	Dec	Dec
FYE Dec (RMm)	**FY15**	**FY16**	**FY16***	**FY17E**	**FY18E**
Revenue	253.7	288.2	318.8	334.7	368.2
Growth %	*6.2%*	*13.6%*	*10.6%*	*5.0%*	*10.0%*
EBITDA	46.6	51.5	46.5	51.6	62.0
EBITDA margin	*18.4%*	*17.9%*	*14.6%*	*15.4%*	*16.8%*
Depreciation	-12.2	-12.7	-13.8	-14.6	-16.1
EBIT	34.5	38.8	32.7	37.0	45.9
Pretax Income	32.0	37.1	31.3	35.8	44.8
Tax	-9.2	-8.6	-9.9	-11.5	-12.7
Eff tax rate	*28.6%*	*23.3%*	*31.5%*	*32.0%*	*28.3%*
Minority interests	0.0	0.0	0.0	0.0	0.0
Net profit	**22.8**	**28.5**	**21.4**	**24.3**	**32.1**
Core net profit	**22.7**	**28.4**	**21.4**	**24.3**	**32.1**
Growth %	*4.5%*	*25.4%*	*0.0%*	*-14.5%*	*32.0%*
Margin	*8.9%*	*9.9%*	*6.7%*	*7.3%*	*8.7%*
Net profit ex-China	*22.7*	*28.4*	*38.6*	*36.1*	*40.1*

Source: Bloomberg, ZJ Research

Balance Sheet

	May	May	Jun-Dec	Dec	Dec
FYE June (RMm)	**FY15**	**FY16**	**FY16**	**FY17E**	**FY18E**
Assets					
Cash/near cash	15.2	17.6	18.6	24.5	33.9
Short term investments	2.3	6.4	3.5	3.5	3.5
Accounts receivable	15.7	14.9	16.4	18.3	20.2
Inventories	23.9	30.4	36.6	36.7	40.3
Other current assets	46.1	60.4	66.8	66.8	66.8
Total current assets	**103.3**	**129.6**	**141.8**	**149.9**	**164.7**
Net fixed assets	204.1	214.2	221.3	231.6	240.6
Other long-term assets	4.4	4.4	4.4	4.4	4.4
Total long-term assets	**208.5**	**218.6**	**225.7**	**236.0**	**245.0**
Total assets	**311.7**	**348.3**	**367.5**	**385.9**	**409.7**
Liabilities & Shareholders' Equity					
Accounts payable	11.8	19.3	14.1	15.5	16.8
Borrowings	35.8	16.8	10.3	10.3	10.3
Other short-term liabilities	24.1	28.0	27.4	27.4	27.4
Total current liabilities	71.7	64.0	51.8	53.2	54.5
Other long-term liabilities	24.5	25.4	27.4	27.4	27.4
Total long-term liabilities	**24.5**	**25.4**	**27.4**	**27.4**	**27.4**
Total Liabilities	96.2	89.4	79.2	80.6	81.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Share capital	70.7	79.2	89.8	89.8	89.8
Retained earnings	144.8	179.6	198.5	215.5	238.0
Total Equity	**215.5**	**258.8**	**288.3**	**305.3**	**327.8**
Total liabilities & equity	**311.7**	**348.3**	**367.5**	**385.9**	**409.7**

Source: Bloomberg, ZJ Research

Cashflow statement

	May	May	Jun-Dec	Dec	Dec
FYE June (RMm)	**FY15**	**FY16**	**FY16**	**FY17E**	**FY18E**
Net income	22.8	28.5	12.5	24.3	32.1
Depreciation & amortization	12.2	12.7	8.0	14.6	16.1
Other non-cash adjustments	5.5	1.2	2.7	0.0	0.0
Changes in working capital	12.3	-9.5	-1.0	-0.7	-4.2
Cash from operations	**52.8**	**32.9**	**22.3**	**38.3**	**43.9**
Disposal of fixed assets	0.0	0.2	0.0	0.0	0.0
Capital Expenditures	-17.2	-22.2	-14.0	-25.0	-25.0
Increase in investments	0.0	0.0	0.1	0.0	0.0
Decrease in investments	0.0	5.4	15.1	0.0	0.0
Other investing activities	-2.3	-9.5	-34.3	0.0	0.0
Cash from investing activities	**-19.4**	**-26.1**	**-33.1**	**-25.0**	**-25.0**
Dividends paid	-5.6	-7.3	-9.6	-7.3	-9.6
Change in borrowings	-29.4	-18.3	-5.2	0.0	0.0
Change in capital stocks	7.7	21.1	26.6	0.0	0.0
Other financing activities	0.0	0.1	0.0	0.0	0.0
Cash from financing activities	**-27.2**	**-4.4**	**11.8**	**-7.3**	**-9.6**
Net Changes in Cash	**6.2**	**2.4**	**0.9**	**6.0**	**9.3**

Source: Bloomberg, ZJ Research

Analyst:
Kelvin Goh
kelvingoh@zjresearch.com
03-2032 2328

RATING GUIDE

BUY	Price appreciation expected to exceed 15% within the next 12 months
SELL	Price depreciation expected to exceed 15% within the next 12 months
HOLD	Price movement expected to be between -15% and +15% over the next 12 months from current level

DISCLAIMER

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 27, 27th Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328