

2QFY17 RESULTS UPDATE

24 August 2017

Spritzer Bhd

Price : RM2.23

Market Capitalization : RM407 mln

Market : Main Market

Sector : Consumer

Bursa / Bloomberg Code: 5171 / KICB MK
Stock is Shariah-compliant.

Recommendation : Buy

FYE Dec (RMm)	Mar -		yoy % chg	1Q17	qoq % chg	1HFY17	6mths to May 2016	yoy % chg
	2Q17	May 2016						
Revenue	78.5	85.6	-8.3%	72.6	8.2%	151.2	155.9	3.2%
Opex	(66.8)	(70.6)	-5.4%	(61.2)	9.1%	(128.0)	(129.2)	0.9%
EBITDA	11.8	15.0	-21.7%	11.4	2.8%	23.2	26.8	15.5%
<i>EBITDA margin</i>	<i>15.0%</i>	<i>17.5%</i>		<i>15.7%</i>		<i>15.3%</i>	<i>17.2%</i>	
Depreciation	(3.5)	(3.1)	11.5%	(3.3)	4.7%	(6.9)	(6.4)	-7.1%
EBIT	8.2	11.9	-30.5%	8.1	2.1%	16.3	20.4	24.9%
Net interest expense	(0.1)	(0.4)	-74.9%	(0.2)	-39.0%	(0.3)	(0.8)	203.5%
El/forex	(0.5)	(0.7)	-24.6%	(0.8)	-36.7%	(1.4)	(1.5)	10.1%
PBT	7.6	10.8	-29.3%	7.1	7.5%	14.7	18.1	23.2%
Tax	(2.5)	(3.2)	-22.3%	(2.1)	20.2%	(4.6)	(4.4)	-4.4%
Net profit	5.1	7.6	-32.2%	5.0	2.3%	10.1	13.8	35.6%
Core net profit	5.7	8.3	-31.6%	5.8	-3.3%	11.5	15.2	32.6%
Diluted core EPS (sen)	3.1	4.5	-31.6%	3.2	-3.3%	6.3	8.4	32.6%
DPS (sen)	-	5.5	n.m.	-	n.m.	-	5.5	n.m.
EBITDA margin	15.0%	17.5%		15.7%		15.3%	17.2%	
Core net margin	7.2%	9.6%		8.0%		7.6%	9.8%	

2QFY17 Results Review

- Spritzer's 2Q17 core net profit was in line with our expectation, with 1H core net profit making up 47% of our FY17 forecast as we expect a stronger 2H. No dividends were declared vs 5.5sen declared during Mar-May 2016.
- On a qoq comparison, sales rose on stronger seasonality and effects of a price increase. Spritzer experienced very poor Chinese New Year sales due to poor consumer sentiment. Losses from China amounted to RM2.4m in 2Q vs RM2.8m in 1Q. The company raised its selling price by an average of less than 5% in place in May to pass on the higher cost of resin to consumers.
- On a yoy** basis, sales was weaker due to 1) Ramadhan coinciding with 2Q17 (whereas it fell on 3Q in 2016), 2) weak economic sentiment in 2017, 3) a hot and dry spell last year vs 2Q17, but 4) partially offset by a price adjustment in May. **We have compared 2Q17 with March-May 2016 to give readers an idea of a yoy comparison although they are not of the same corresponding months due to its change in financial year.
- We expect 2H17 to be stronger on the back of improving consumer sentiment, the effects of its price adjustment and the hot weather. We expect it to continue investing in China on A&P during the summer months where bottled water consumption is high. In the current quarter, Spritzer's A&P expense may be a little elevated due to its sponsorship of the SEA Games, which is costing it more than RM1m.

Recommendation

We continue to recommend a BUY on Spritzer with a fair value of RM2.90 based 14x target multiple 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. Likely re-rating catalysts are continued top line growth and lower losses from China. Excluding losses from China, Spritzer is trading at an attractive PE of 11x and 10x, substantially lower than other branded food and beverage stocks.

	Jun-May	Jun-Dec	Jan-Dec	Jan-Dec
Key financials (FYE Dec)	FY16	FY16*	FY17E	FY18E
Revenue (RMm)*	288.2	318.8	334.7	368.2
EBITDA (RMm)*	51.5	46.5	51.6	62.0
<i>EBITDA margin</i>	<i>17.9%</i>	<i>14.6%</i>	<i>15.4%</i>	<i>16.8%</i>
Core net profit (RMm)*	28.5	21.4	24.3	32.1
FD EPS (sen)*	18.0	11.9	13.3	17.6
FD EPS growth	19.2%	-33.5%	11.5%	32.0%
DPS (sen)	5.5	6.0	4.0	5.3
Payout ratio	0.3	0.5	0.3	0.3
FCFE/share (sen)	-0.1	-0.1	0.1	0.1
Net cash (debt)/share (sen)	0.0	0.0	0.0	0.1

* Jun-Dec FY16 numbers are annualised

	Jun-May	Jun-Dec	Jan-Dec	Jan-Dec
Key valuation metrics	FY16	FY16*	FY17E	FY18E
P/E (X)	12.4	18.7	16.7	12.7
EV/EBITDA (X)	8.0	8.8	7.8	6.3
P/BV (X)	1.4	1.4	1.3	1.2
Dividend yield (%)	2.5%	2.7%	1.8%	2.4%
FCFE yield (%)	1.7%	-2.7%	3.3%	4.7%
ROE (%)	12.0%	7.8%	8.6%	10.1%
ROAA (%)	8.6%	6.0%	6.6%	8.1%

Spritzer's last 12-month share price chart



Source: Bursa Marketplace

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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

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