

Spritzer Berhad

Bursa / Bloomberg Code: 7103 / SPZ MK
Stock is Shariah-compliant.

Price : RM2.25

Market Capitalization : RM410.9 mln

Market : Main Market

Sector : Consumer

Recommendation : Buy

Company visit

We organised a factory visit and a briefing by Spritzer's CFO Mr Sow Yeng Chong at its Shah Alam facility for 16 fund managers. Spritzer bottles drinking water at this facility.

- **Lower losses in China.** We gathered that management is scaling its spending in China. Revenues from China was "very much lower than budget" despite spending the budgeted amount on marketing and sales. The company incurred losses of RM2.4m and RM2.8m in 1Q and 2Q17 respectively in China. We understand that losses will be reduced in 3Q17. We retain our forecast for now and acknowledge an upside potential to our FY17 and FY18 estimates given the lower losses from China.
- **Growth.** The company aims to grow its domestic sales and market share as well as export sales. Despite a dominant market share of 48% locally, Spritzer believes there is room for growth.
- **Key challenges.** Spritzer attributes the key challenges to be: 1) a difficult macro environment of weak consumer sentiment and volatile ringgit. 2) stiff competition due to many brands and little product differentiation, and 3) higher cost of doing business due to the revised minimum wage, weak ringgit, goods and services tax and inflation.
- **Expansion.** The immediate capex is to increase its warehouse in Taiping to be funded by the proceeds from its placement to Dymon Asia. Beyond this, Spritzer plans to expand the drinking water facility in Shah Alam. The Selangor Water Supply Company (Syabas) will supply 3.5x more water to its plant and is in the process of installing the piping. The Shah Alam facility sits on 7 acres of land with 4 acres occupied by its current operations and the remaining 3 acres vacant. It plans to add more lines to the existing factory building and build a warehouse on the vacant land.
- **No expectations on Dymon.** Mr Sow said that there are no KPIs imposed on Dymon Asia Private Equity (DAPE) for buying a stake in Spritzer. DAPE purchased a 13.04% enlarged stake in Spritzer for RM63.8m through a private placement of 27.39m new Spritzer shares at RM2.33/share. Spritzer announced that, "The DAPE investment team has an established track record in investments, and also operational and strategic value add with companies in the consumer, food and beverage industries in Asia and in particular in Southeast Asia, especially in Malaysia, Singapore, Thailand, and China." RM45m of the proceeds will be used to pay for the expansion of its warehouse facility in Taiping and the balance as working capital to buy plastic resin and expenses related to the placement.

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
EBITDA margin	17.9%	14.6%	15.4%	16.8%
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)	12.5	18.8	16.9	12.8
EV/EBITDA (X)	8.1	8.9	7.9	6.4
P/BV (X)	1.4	1.4	1.3	1.3
Dividend yield (%)	2.4%	2.7%	1.8%	2.3%
FCFE yield (%)	1.7%	-2.6%	3.2%	4.6%
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: Bursamarketplace.com

Analyst:
Kelvin Goh
kelvingoh@jzresearch.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

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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
