

3QFY17 RESULTS UPDATE

30 November 2017

Spritzer Bhd

Price : RM2.31

Market Capitalization : RM422 mln

Market : Main Market

Sector : Consumer

Recommendation : Buy

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

FYE Dec (RMm)	3Q17	Jun - Aug 2016*	yoy % chg	2Q17	qoq % chg	1HFY17	9 mths to Aug 2016*	yoy % chg
Revenue	83.2	78.6	5.9%	78.5	6.0%	234.4	234.5	0.1%
Opex	(67.3)	(65.6)	2.6%	(66.8)	0.7%	(195.3)	(194.8)	-0.2%
EBITDA	16.0	13.0	22.8%	11.8	35.8%	39.1	39.8	1.6%
<i>EBITDA margin</i>	<i>19.2%</i>	<i>16.5%</i>		<i>15.0%</i>		<i>16.7%</i>	<i>17.0%</i>	
Depreciation	(3.6)	(3.3)	7.3%	(3.5)	1.6%	(10.4)	(9.7)	-7.0%
EBIT	12.4	9.7	28.1%	8.2	50.4%	28.7	30.1	4.7%
Net interest expense	(0.3)	(0.3)	3.1%	(0.1)	208.2%	(0.6)	(1.1)	92.3%
El/forex	(0.6)	(0.2)	194.5%	(0.5)	12.5%	(1.9)	(1.7)	-13.0%
PBT	11.5	9.2	25.2%	7.6	51.0%	26.2	27.3	4.2%
Tax	(3.5)	(2.5)	38.1%	(2.5)	39.4%	(8.1)	(6.9)	-14.4%
Net profit	8.0	6.7	20.3%	5.1	56.6%	18.2	20.4	12.4%
Core net profit	8.6	6.9	25.4%	5.7	52.5%	20.1	22.1	9.9%
Diluted core EPS (sen)	4.7	3.8	25.4%	3.1	52.5%	11.0	12.1	9.9%
DPS (sen)	-	-	n.m.	-	n.m.	-	5.5	n.m.
EBITDA margin	19.2%	16.5%		15.0%		16.7%	17.0%	
Core net margin	10.4%	8.7%		7.2%		8.6%	9.4%	

*We have compared 3Q17 with Jun-Aug 2016 for an approximate yoy comparison due to its change in FY end

3QFY17 Results Review

- Spritzer's 3Q17 core net profit excluding losses from China was in line with our expectation. The results were characterised by a lower trading losses from China and stronger revenue, both qoq and yoy.
- While 9M17 revenue was flat yoy, it masks a 6% qoq and yoy increase in 3Q17 revenue. The higher revenue was aided by a 5% increase in average selling price in May and stronger sales due to the SEA Games. Also, the yoy growth was due to a low base in FY16 when the economy was weaker, and higher qoq because Ramadan was in 2Q. Also included in 3Q numbers was an approximate RM1m expense in the SEA Games sponsorship.
- Notably and as indicated in our previous report, trading division registered a lower loss of RM1.8m vs RM2.4m and RM2.8m in 2Q17 and 1Q17 respectively on lower advertising and promotional (A&P) spending in China.
- Going forward, we expect volume sales growth to be tepid and revenues to be driven by price adjustment in May. The wet and cool weather in 4Q will likely to dampen sales. Lastly, we expect trading losses from China to be similar or lower than the RM1.8m registered in 2Q.
- We have raised our FY17 and FY18 core net profit forecast 16-17% due to the lower spending in A&P in China.

Recommendation

We continue to recommend a BUY on Spritzer with a higher fair value of RM2.97 vs RM2.90, still based 14x target multiple on its estimated 2018 net profit excluding China of RM42m (EPS of 22 sen) and subtracting a lower spending of RM20m (RM0.11/share) it is spending on its push into China vs RM30m previously. 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 12x and 11x, 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	321.9	354.1
EBITDA (RMm)*	51.5	46.5	54.8	67.1
<i>EBITDA margin</i>	17.9%	14.6%	17.0%	18.9%
Core net profit (RMm)*	28.5	21.4	28.2	37.4
FD EPS (sen)*	18.0	11.9	15.5	20.5
FD EPS growth	19.2%	-33.5%	29.5%	32.6%
DPS (sen)	5.5	6.0	4.6	6.1
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)	12.9	19.3	14.9	11.3
EV/EBITDA (X)	8.3	9.1	7.5	6.0
P/BV (X)	1.4	1.4	1.4	1.3
Dividend yield (%)	2.4%	2.6%	2.0%	2.7%
FCFE yield (%)	1.6%	-2.6%	4.4%	5.8%
ROE (%)	12.0%	7.8%	9.9%	11.7%
ROAA (%)	8.6%	6.0%	7.7%	9.3%

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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