

4QFY17 RESULTS UPDATE

27 February 2018

# Spritzer Bhd

Price : RM2.34

Market Capitalization : RM427 mln

Market : Main Market

Sector : Consumer

Recommendation : Buy

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

FYE Dec (RMm)	Sep -		yoy % chg	3Q17	qoq % chg	12 mths to		yoy % chg
	4Q17	Nov 2016*				FY17	Nov 2016*	
Revenue	79.4	81.1	-2.0%	83.2	-4.6%	313.8	315.6	-0.6%
Opex	(67.6)	(69.5)	-2.7%	(67.3)	0.6%	(262.9)	(264.3)	-0.5%
EBITDA	11.8	11.6	1.9%	16.0	-26.1%	51.0	51.3	-0.7%
<i>EBITDA margin</i>	<i>14.9%</i>	<i>14.3%</i>		<i>19.2%</i>		<i>16.2%</i>	<i>16.3%</i>	
Depreciation	(3.6)	(3.5)	3.1%	(3.6)	2.2%	(14.0)	(13.2)	6.3%
EBIT	8.2	8.0	1.4%	12.4	-34.2%	36.9	38.1	-3.1%
Net interest expense	(0.0)	(0.2)	-82.4%	(0.3)	-85.6%	(0.8)	(1.3)	-42.6%
EI/forex	0.9	(0.1)	-1226.8%	(0.6)	-256.1%	(0.9)	(1.8)	-48.6%
PBT	9.0	7.7	17.2%	11.5	-21.5%	35.3	35.0	0.7%
Tax	(1.7)	(2.5)	-29.3%	(3.5)	-50.1%	(9.8)	(9.4)	4.7%
Net profit	7.3	5.3	38.9%	8.0	-9.1%	25.5	25.7	-0.8%
<b>Core net profit</b>	<b>6.4</b>	<b>5.3</b>	<b>19.4%</b>	<b>8.6</b>	<b>-26.0%</b>	<b>26.4</b>	<b>27.5</b>	<b>-3.9%</b>
Diluted core EPS (sen)	3.5	2.9	19.4%	4.7	-26.0%	14.0	15.0	-7.2%
DPS (sen)	5.5	-	n.m.	-	n.m.	5.5	3.5	n.m.
EBITDA margin	14.9%	14.3%		19.2%		16.2%	16.3%	
Core net margin	8.0%	6.6%		10.4%		8.4%	8.7%	

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

## 4QFY17 Results Review

- Spritzer's FY17 core net profit fell short of our estimate by 6.5% due to weaker-than-expected sales and higher-than-expected losses from China. The company declared a DPS of 5.5 sen (39.4% payout) vs 3.5 sen in 7-months to Dec 2016 (50% payout).
- Group 4Q sales fell 2% yoy largely due to weak turnover in Malaysia, while FY17 revenue fell 0.6%, marking its first ever decline in its corporate history. Management appears to be at a loss to explain the weak numbers, which runs contrary to the improving economic numbers and gradual shift away from fizzy drinks to water. In addition, there has not been any new entrants in the industry to blame the weak performance on. 4Q revenue fell 4.6% qoq as it came off a high base in the previous quarter that was fueled by the SEA Games.
- Losses in China expanded in 4Q, as indicated by the trading loss of RM2.7m vs RM1.8m in the prior quarter. This was due to provisions (sum undisclosed) from goods that were returned.
- Going forward, Spritzer intends to push further into Singapore. It plans to stem losses in China by reducing headcount and employing a more direct sales strategy to restaurants and institutions vs placing its products in convenience stores. We sense that Spritzer has little appetite left to stomach further losses in China and will not be surprised if it pulls the plug this year.
- Spritzer's water supply at its Shah Alam plant has increased by 3.5x after new pipes were installed bring in municipal water which bodes well for the company as drinking water is a higher growing segment vs mineral water. The company is also proceeding with expanding its warehouse in Taiping warehouse, with completion due before end-19.
- We lowered our FY18 net profit forecast by 8% after lowering sales estimates and introduce FY19 estimates.

## Recommendation

We continue to recommend a BUY on Spritzer with a lower fair value of RM2.76 vs RM2.97, still based 14x target multiple on its estimated 2018 net profit excluding China of RM42m (EPS of 20.5 sen). The likely re-rating catalyst is lower losses from China. We would view an exit from China positively. Excluding losses from China, Spritzer is trading at an attractive FY18 PE of 11x.

	Jun-Dec <b>FY16*</b>	Jan-Dec <b>FY17</b>	Jan-Dec <b>FY18E</b>	Jan-Dec <b>FY19E</b>
<b>Key financials (FYE Dec)</b>				
Revenue (RMm)*	318.8	313.8	329.5	346.0
EBITDA (RMm)*	46.5	51.0	62.3	60.6
<i>EBITDA margin</i>	<i>14.6%</i>	<i>16.2%</i>	<i>18.9%</i>	<i>17.5%</i>
Core net profit (RMm)*	21.4	25.5	34.4	32.4
FD EPS (sen)*	11.9	14.0	18.8	17.7
FD EPS growth	-33.5%	16.8%	35.0%	-5.8%
DPS (sen)	6.0	5.5	5.7	5.3
Payout ratio	0.5	0.4	0.3	0.3
FCFE/share (sen)	-0.1	0.1	0.1	0.1
Net cash (debt)/share (sen)	0.0	0.0	0.1	0.2

\* Jun-Dec FY16 numbers are annualised

	Jun-Dec <b>FY16*</b>	Jan-Dec <b>FY17</b>	Jan-Dec <b>FY18E</b>	Jan-Dec <b>FY19E</b>
<b>Key valuation metrics</b>				
P/E (X)	19.6	16.8	12.4	13.2
EV/EBITDA (X)	9.2	8.3	6.6	6.6
P/BV (X)	1.5	1.4	1.3	1.2
Dividend yield (%)	2.6%	2.4%	2.4%	2.3%
FCFE yield (%)	-2.5%	3.8%	5.3%	5.3%
ROE (%)	7.8%	9.0%	10.9%	9.6%
ROAA (%)	6.0%	7.0%	8.7%	7.7%

#### 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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