

1QFY18 RESULTS UPDATE

31 May 2018

# Spritzer Bhd

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

Price : RM2.35

Market Capitalization : RM429 mln

Market : Main Market

Sector : Consumer

Recommendation : Buy

FYE Dec (RMm)	1Q18	1Q17	yoy % chg	4Q17	qoq % chg
Revenue	82.5	72.6	13.7%	79.4	3.9%
Opex	(69.0)	(61.2)	12.8%	(67.6)	2.1%
EBITDA	13.5	11.4	18.2%	11.8	14.5%
<i>EBITDA margin</i>	16.4%	15.7%		14.9%	
Depreciation	(3.6)	(3.3)	8.4%	(3.6)	-0.3%
EBIT	9.9	8.1	22.2%	8.2	21.0%
Net interest expense	(0.2)	(0.2)	10.1%	(0.0)	307.0%
El/forex	(0.2)	(0.8)	-72.8%	0.9	-124.5%
PBT	9.5	7.1	33.6%	9.0	4.8%
Tax	(2.7)	(2.1)	29.6%	(1.7)	54.9%
Net profit	6.8	5.0	35.3%	7.3	-7.1%
<b>Core net profit</b>	<b>7.0</b>	<b>5.8</b>	19.9%	<b>6.4</b>	9.9%
Core net profit ex China	7.8	8.6	-10.1%	9.0	-14.0%
Diluted core EPS (sen)	3.8	3.2	19.9%	3.5	9.9%
DPS (sen)	-	-	n.m.	5.5	n.m.
EBITDA margin	16.4%	15.7%		14.9%	
Core net margin	8.5%	8.0%		8.0%	

## 1QFY18 Results Review

- **In line.** Although 18% below our forecast when annualised, we consider Spritzer's 1QFY18 core net profit to be within our estimate because we expect stronger performance for the rest of the year. 1Q is typically the weakest quarter. Spritzer did not declare any dividends, as expected.
- **A strong quarter.** Revenue rose 14% yoy and 4% qoq, thanks to higher volumes and average selling price (ASP). Volumes picked up in March due to the hot weather and water shortage in Selangor. Spritzer revised its price by almost 5% in May 2017.
- **Losses in China narrowed substantially.** Spritzer chalked up a much smaller loss of RM0.8m in 1Q from its China operations, down from RM2.7m in 4Q17 and RM2.8m in 1Q17. Spritzer aims to lower losses to RM5m in FY18 vs RM9.6m in FY17.
- **GST booster.** The abolishment of the goods and services tax (GST) and introduction of sales and services tax (SST) should lower the overall price of Spritzer's products and bolster sales. As a mineral and drinking water bottler, Spritzer is not subjected to SST which is applied to manufacturers. We gather that water extracting, processing and bottling are not considered manufacturing activities. Bolstered by strong sales in April due to the election campaigning and the abolishment of GST come June, Spritzer is hopeful of higher sequential sales in 2Q despite it coinciding with Ramadan.
- **Dymon to be more involved.** Spritzer has set up an executive committee which includes Dymon's director to deliberate on the bottler's operations, strategy and planning.
- **Challenges.** Of concern is the soaring prices of resin, which correlates with global oil prices, used for its PET bottles. Also, the unseasonally wet weather since April may dampen sales, in our view.

## Recommendation

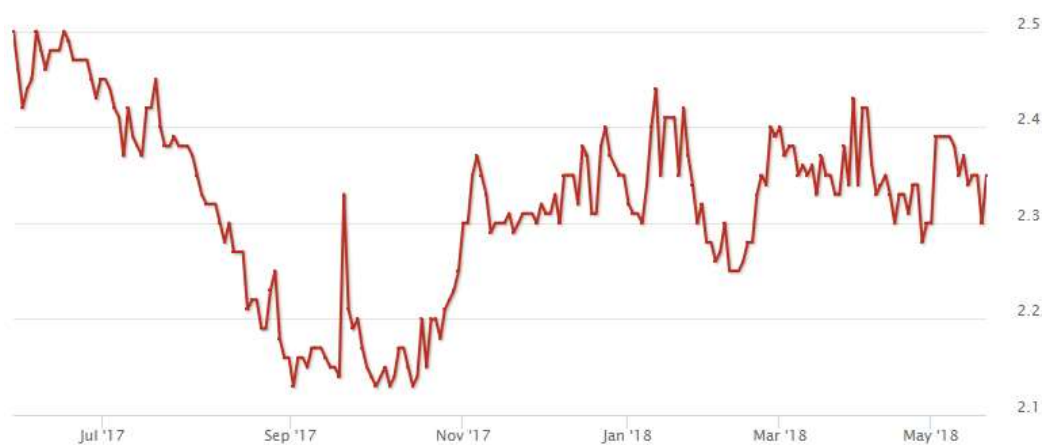
We continue to recommend a BUY on Spritzer with a fair value of RM2.76, based 14x target multiple on its estimated 2018 net profit excluding China of RM36m (EPS of 19.7 sen). The likely re-rating catalyst is stronger domestic sales and lower losses from China. We would view an exit from China positively. Excluding losses from China, Spritzer is trading at an attractive FY18 PE of 12x.

	Jun-Dec	Jan-Dec	Jan-Dec	Jan-Dec
<b>Key financials (FYE Dec)</b>	<b>FY16*</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue (RMm)*	318.8	313.8	329.5	346.0
EBITDA (RMm)*	46.5	51.0	62.3	60.6
EBITDA margin	14.6%	16.2%	18.9%	17.5%
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	Jan-Dec	Jan-Dec	Jan-Dec
<b>Key valuation metrics</b>	<b>FY16*</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
P/E (X)	19.7	16.8	12.5	13.2
EV/EBITDA (X)	9.3	8.3	6.6	6.6
P/BV (X)	1.5	1.4	1.3	1.2
Dividend yield (%)	2.6%	2.3%	2.4%	2.3%
FCFE yield (%)	-2.5%	3.8%	5.2%	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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