2QFY18 RESULTS UPDATE **30 August 2018**

Spritzer Bhd

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

Price :	**RM2.33**
Market Capitalization :	**RM489 mln**
Market :	**Main Market**
Sector :	**Consumer**
Recommendation :	**Buy**

FYE Dec (RMm)	**2Q18**	**2Q17**	**yoy % chg**	**1Q18**	**qoq % chg**	**1H18**	**1P17**	**yoy % chg**
Revenue	83.6	78.5	6.5%	82.5	1.3%	166.2	151.2	9.9%
Opex	(70.7)	(66.8)	5.8%	(69.0)	2.4%	(139.7)	(128.0)	9.2%
EBITDA	13.0	11.8	10.2%	13.5	-4.1%	26.5	23.2	14.1%
EBITDA margin	*15.5%*	*15.0%*		*16.4%*		*15.9%*	*15.3%*	
Depreciation	(3.4)	(3.5)	-2.8%	(3.6)	-6.1%	(7.0)	(6.9)	2.7%
EBIT	9.5	8.2	15.7%	9.9	-3.4%	19.4	16.3	18.9%
Net interest expense	(0.1)	(0.1)	-12.4%	(0.2)	-51.4%	(0.3)	(0.3)	1.6%
EI/forex	(0.1)	(0.5)	-88.4%	(0.2)	-73.0%	(0.3)	(1.4)	-78.9%
PBT	9.4	7.6	23.3%	9.5	-0.8%	18.9	14.7	28.3%
Tax	(2.7)	(2.5)	9.0%	(2.7)	1.0%	(5.4)	(4.6)	18.3%
Net profit	6.7	5.1	30.2%	6.8	-1.5%	13.5	10.1	32.7%
Core net profit	**6.7**	**5.7**	19.2%	**7.0**	-3.8%	**13.7**	**11.5**	19.6%
Diluted core EPS (sen)	3.2	2.7	19.2%	3.3	-3.8%	6.5	5.5	19.6%
DPS (sen)	-	-	n.m.	-	n.m.	-	-	n.m.
EBITDA margin	15.5%	15.0%		16.4%		15.9%	15.3%	
Core net margin	8.1%	7.2%		8.5%		8.3%	7.6%	

2QFY18 Results Review

- **In line.** Spritzer recorded strong yoy 2QFY18 core net profit mainly because of stabilisation of the selling and distribution costs for advertising and promotion activities in the China market. On a qoq basis, there was a slight decline in core net profits because customers withheld orders when the zero-rating of GST was announced. This is expected to be a one off and orders will resume when inventory runs down. We maintain our profit forecast as 2H's performance is expected to improve due to the hot and dry weather. Spritzer did not declare any dividends, as only does so at the end of each financial year.
- **Acquisition of new water production line.** On 2nd August 2018, Spritzer signed an order placement document with Corpoplast Beverage Equipment (Suzhou) Co., Ltd for the purchase of a new water production line for a total consideration of CNY25.5m. The new water production line can potentially increase their production capacity up to 15% and is used for the production of smaller pack sizes. However, Spritzer guided that a maximum capacity is not usually possible unless the entire production process is functioning perfectly. There will be limited impact to FY18's earnings as the new line will only be installed around end of the 2018.
- **Losses in China.** Spritzer registered a loss of RM1mil from China vs RM767k in 1Q. With little traction in sales, Spritzer plans to scale down its operations in China to minimize cost and rely on wholesalers.
- **Impact of GST abolishment, introduction of SST.** It remains uncertain on how the replacement of goods and services tax with sales and services tax will impact the retail price of its products, but management does not expect major changes in retail prices at the moment.
- **To maintain strong sales momentum.** Spritzer hopes to achieve sales growth of 9% this year, on the back of the fairly robust 10% growth in 1H. This is buoyed by better consumer sentiment and the hot and dry weather, as well as a low base in FY17 where sales declined 1.5%.
- **Rising costs.** 1) The price of PET resin, which makes up 25% of total costs, has risen 8% vs 2Q18 to RM5500/tonne currently due to the weakening MYR and higher oil price. 2) Spritzer

expects its electricity bill to rise about 7% after Tenaga imposed a surcharge of 1.35sen/kWh following the implementation of the Imbalance Cost Pass-Through (ICPT) mechanism due to higher fuel and generation costs. 3) New government policies such as minimum wage policy are expected to impact Spritzer's costs although the company did not guide an exact quantum. Despite the higher costs, management does not plan to immediately review its selling price because of the sensitivity of the issue but will consider an upward revision in the near future to protect margins.

Recommendation

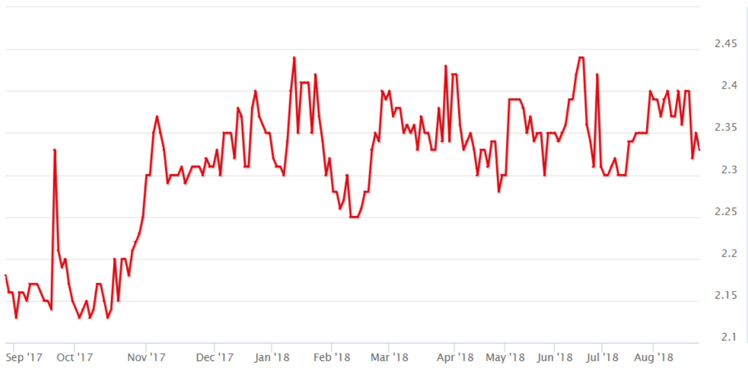
We continue to recommend a BUY on Spritzer with a fair value of RM2.76, based 14x target multiple on its estimated 2018 net profit excluding China of RM36m (EPS of 19.7 sen). The likely re-rating catalyst is stronger domestic sales and lower losses from China. We would view an exit from China positively.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

	Jun-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Key financials (FYE Dec)	**FY16***	**FY17**	**FY18E**	**FY19E**
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
Key valuation metrics	**FY16***	**FY17**	**FY18E**	**FY19E**
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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