

3QFY18 RESULTS UPDATE

22 November 2018

Spritzer Bhd

Price : RM2.16

Market Capitalization : RM456 mln

Market : Main Market

Sector : Consumer

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

Recommendation : Buy

FYE Dec (RMm)	3Q18	3Q17	yoy % chg	2Q18	qoq % chg	9M18	9M17	yoy % chg
Revenue	96.0	83.2	15.3%	83.6	14.8%	262.2	234.4	11.9%
Opex	(81.4)	(67.3)	21.1%	(70.7)	15.2%	(221.2)	(195.3)	13.3%
EBITDA	14.6	16.0	-8.8%	13.0	12.4%	41.0	39.1	4.8%
<i>EBITDA margin</i>	15.2%	19.2%		15.5%		15.6%	16.7%	
Depreciation	(3.4)	(3.6)	-3.1%	(3.4)	1.3%	(10.5)	(10.4)	0.7%
EBIT	11.1	12.4	-10.5%	9.5	16.3%	30.5	28.7	6.2%
Net interest expense	(0.3)	(0.3)	-13.4%	(0.1)	204.7%	(0.5)	(0.6)	-6.5%
El/forex	(0.1)	(0.6)	-84.0%	(0.1)	55.7%	(0.4)	(1.9)	-80.4%
PBT	10.8	11.5	-6.6%	9.4	14.4%	29.6	26.2	13.0%
Tax	(3.4)	(3.5)	-2.9%	(2.7)	24.3%	(8.8)	(8.1)	9.2%
Net profit	7.4	8.0	-8.2%	6.7	10.4%	20.8	18.2	14.6%
Core net profit	7.5	8.6	-13.4%	6.7	10.8%	21.2	20.1	5.4%
Diluted core EPS (sen)	3.6	4.1	-13.4%	3.2	10.8%	10.1	9.6	5.4%
DPS (sen)	-	-	n.m.	-	n.m.	-	-	n.m.
EBITDA margin	15.2%	19.2%		15.5%		15.6%	16.7%	
Core net margin	7.8%	10.4%		8.1%		8.1%	8.6%	

3QFY18 Results Review

- **Below expectation.** Spritzer's 9M18 core net profit came in about 15% below our forecast due to lower margins and despite a surge in sales. EBITDA margin fell to 15.2% in 3Q18 from 19.2% a year ago and 15.5% in 2Q18 due to: 1) Higher resin price which averaged RM5,500/tonne during the quarter vs RM4,200/tonne a year ago, and RM5,000/tonne in 2Q18. 2) The introduction of 10% sales and services tax (SST) on raw materials. 3) 7% higher electricity rates from July.
- **Higher volume.** 3Q18 sales was bolstered by customers stocking up during the tax free period, before the reintroduction of SST and subsequent price adjustment as. Overall, the selling price of Spritzers' products are unchanged as GST was replaced by SST. That said, Spritzer raised prices of most of its products by about 5% in October to pass on the higher resin cost, which makes up 25% of total costs.
- **Smaller losses in China.** At RM681k, losses from its operations in China continued to shrink vs losses of RM0.9m and RM1.76m in 2Q18 and 3Q17 respectively. This was achieved on the back of tighter spending and higher sales.
- **Outlook.** We expect sales to ease to mid-RM80m in 4Q after a bumper quarter. Resin prices have started to ease, in line with lower crude oil prices. However, the impact on Spritzer will only be felt in FY19 while it depletes its resin inventory.
- **Trimming FY18 forecast.** We cut our FY18 core net profit estimate by 15% to reflect the higher resin prices. Our FY19 numbers are unchanged.

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 include continued growth, lower resin prices 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.

Key financials (FYE Dec)	FY16*	FY17	FY18E	FY19E
Revenue (RMm)*	318.8	313.8	329.5	346.0
EBITDA (RMm)*	46.5	51.0	55.7	60.6
EBITDA margin	14.6%	16.2%	16.9%	17.5%
Core net profit (RMm)*	21.4	25.5	29.4	32.4
FD EPS (sen)*	11.9	12.1	14.0	15.4
FD EPS growth	-33.5%	1.6%	15.4%	10.3%
DPS (sen)	6.0	5.5	4.2	5.4
Payout ratio	0.5	0.5	0.3	0.4
FCFE/share (sen)	-0.1	0.1	0.1	0.1
Net cash (debt)/share (sen)	0.0	0.0	0.1	0.1

* Jun-Dec FY16 numbers are annualised

Key valuation metrics	FY16*	FY17	FY18E	FY19E
P/E (X)	18.1	17.8	15.4	14.0
EV/EBITDA (X)	9.8	8.8	7.9	7.1
P/BV (X)	1.3	1.5	1.4	1.3
Dividend yield (%)	2.8%	2.5%	1.9%	2.5%
FCFE yield (%)	-2.4%	3.6%	3.9%	4.9%
ROE (%)	7.8%	9.0%	9.4%	9.7%
ROAA (%)	6.0%	7.0%	7.5%	7.8%

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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