

4QFY18 RESULTS UPDATE

27 February 2018

Spritzer Bhd

Price : RM2.18

Market Capitalization : RM458 mln

Market : Main Market

Sector : Consumer

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

Recommendation : Hold (downgraded)

FYE Dec (RMm)	4Q18	4Q17	yoy % chg	3Q18	qoq % chg	FY18	FY17	yoy % chg
Revenue	84.5	79.4	6.4%	96.0	-12.0%	347.7	313.8	10.8%
Opex	(76.1)	(67.6)	12.5%	(81.4)	-6.5%	(298.9)	(262.9)	13.7%
EBITDA	8.4	11.8	-29.1%	14.6	-42.5%	48.8	51.0	-4.2%
<i>EBITDA margin</i>	9.9%	14.9%		15.2%		14.0%	16.2%	
Depreciation	(3.6)	(3.6)	0.1%	(3.4)	5.6%	(14.1)	(14.0)	0.5%
EBIT	4.7	8.2	-42.1%	11.1	-57.5%	34.7	36.9	-6.0%
Net interest expense	(0.2)	(0.0)	353.5%	(0.3)	-24.7%	(0.3)	(0.8)	-59.4%
El/forex	(0.3)	0.9	-132.4%	(0.1)	214.7%	(0.6)	(0.9)	-39.2%
PBT	4.2	9.0	-53.2%	10.8	-60.7%	33.9	35.3	-4.0%
Tax	(0.8)	(1.7)	-51.9%	(3.4)	-75.3%	(9.6)	(9.8)	-1.7%
Net profit	3.4	7.3	-53.6%	7.4	-54.0%	24.2	25.5	-4.9%
Core net profit	3.7	6.4	-42.1%	7.5	-50.6%	24.2	26.4	-8.2%
Diluted core EPS (sen)	1.8	3.0	-42.1%	3.6	-50.6%	11.5	12.1	-4.9%
DPS (sen)	3.5	5.5	n.m.	-	n.m.	3.5	5.5	n.m.
EBITDA margin	9.9%	14.9%		15.2%		14.0%	16.2%	
Core net margin	4.4%	8.0%		7.8%		7.0%	8.4%	

4QFY18 Results Review

- **Below expectation.** Spritzer's FY18 core net profit missed our forecast by 15% due to lower margins. 4Q18 EBITDA margin fell again to only 9.9% from 14.9% a year ago and 15.2% in the previous quarter owing to: 1) Higher resin price which averaged RM5,600/tonne during the quarter vs RM4,200/tonne a year ago, and RM5,500/tonne in 3Q18. 2) The introduction of 10% sales and services tax (SST) on raw materials. Reflecting the difficult environment coupled with a higher capex this year, the company proposed a DPS of only 3.5 sen (vs our estimate of 4.2 sen) with a lower payout of 30% vs 5.5 sen and 45% payout a year ago.
- **Weaker sales qoq.** 4Q18 revenue slowed to 6% yoy from 15% yoy in 3Q. It fell 12% qoq from a high base in 3Q18 which was bolstered by customers stocking up ahead of the reintroduction of the 5% sales and services tax up.
- **Jump in capex this year.** Spritzer plans to invest about RM50m, where RM45m is into its new warehouse in Taiping and the balance in a reverse osmosis plant at its Shah Alam facility. Capex/revenue should surge to 14% in FY19 vs 5-8% in the last 5 years.
- **Outlook.** We gather that Spritzer is experiencing robust sales buoyed by the hot weather. However, consumer sentiment is weak, making it difficult to pass on higher resin prices. We reckon resin prices will continue to be an issue if oil prices remain at current levels.
- **Trimming FY forecast.** We cut both our FY19 core net profit and DPS estimate by 18% as we model in lower margins to reflect higher resin prices and introduce FY20 numbers.

Recommendation

Downgrading our call. We cut our recommendation to HOLD from Buy with a lower fair value RM2.03 from RM2.76, based on 14x target multiple on its estimated FY20 net profit. We think Spritzer faces: i) a tougher operating environment of higher PET resin prices stemming from rising crude oil prices, 2) weak consumer sentiment which impairs its ability to pass on higher costs, and 3) 25% higher depreciation in FY20 from the expansion of its warehouse. Margins and ROE metrics will remain depressed.

Forecast revision

Revised	FY19E	FY20E
Revenue	365.1	383.3
EBITDA	52.9	57.5
EBITDA margin	14.5%	15.0%
Core net profit	26.3	30.5
DPS (sen)	4.4	5.1

Previous

Revenue	346.0
EBITDA	60.6
EBITDA margin	0.2
Core net profit	32.2
DPS (sen)	5.4

Revenue	5.5%
EBITDA	-12.6%
EBITDA margin	-3.0%
Core net profit	-18.2%
DPS (sen)	-18.8%

Key financials (FYE Dec)

	FY17	FY18	FY19E	FY20E
Revenue (RMm)*	313.8	347.7	365.1	383.3
EBITDA (RMm)*	51.0	48.8	52.9	57.5
EBITDA margin	16.2%	14.0%	14.5%	15.0%
Core net profit (RMm)*	25.5	24.2	26.3	30.5
FD EPS (sen)*	12.1	11.5	12.5	14.5
FD EPS growth	1.6%	-4.9%	8.6%	16.0%
DPS (sen)	5.5	3.5	4.4	5.1
Payout ratio	0.5	0.3	0.4	0.4
FCFE/share (sen)	-0.5	0.1	0.1	0.1
Net cash (debt)/share (sen)	0.0	0.1	0.1	0.2

* Jun-Dec FY16 numbers are annualised

Key valuation metrics

	FY17	FY18	FY19E	FY20E
P/E (X)	18.0	18.9	17.4	15.0
EV/EBITDA (X)	8.9	8.9	8.2	7.3
P/BV (X)	1.2	1.2	1.1	1.1
Dividend yield (%)	2.5%	1.6%	2.0%	2.3%
FCFE yield (%)	-20.7%	6.6%	2.5%	4.9%
ROE (%)	8.3%	6.3%	6.6%	7.3%
ROAA (%)	6.5%	5.2%	5.5%	6.3%

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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