

2QFY19 RESULTS UPDATE

28 August 2019

## Spritzer Bhd

Price : RM2.30

Market Capitalization : RM483 mln

Market : Main Market

Sector : Consumer

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

Recommendation : Hold

FYE Dec (RMm)			yoy %		qoq %		yoy %	
	2Q19	2Q18	chg	1Q19	chg	1H19	1H18	chg
Revenue	94.8	83.6	13.3%	95.1	-0.3%	189.9	166.2	14.3%
Opex	(80.0)	(70.7)	13.1%	(81.3)	-1.6%	(161.3)	(139.7)	15.4%
EBITDA	14.8	13.0	14.3%	13.8	7.1%	28.6	26.5	8.2%
Depreciation	(4.0)	(3.4)	17.3%	(3.7)	8.5%	(7.7)	(7.0)	9.1%
EBIT	10.8	9.5	13.3%	10.1	6.6%	21.0	19.4	7.9%
Net interest expense	(0.2)	(0.1)	124.7%	(0.1)	78.5%	(0.3)	(0.3)	14.6%
El/forex	0.1	(0.1)	-236.1%	(0.1)	-225.8%	0.0	(0.3)	-105.9%
PBT	10.7	9.4	13.9%	10.0	7.4%	20.7	18.9	9.5%
Tax	(2.8)	(2.7)	4.7%	(2.3)	26.3%	(5.1)	(5.4)	-5.7%
Net profit	7.9	6.7	17.6%	7.7	1.8%	15.6	13.5	15.7%
<b>Core net profit</b>	<b>7.8</b>	<b>6.7</b>	<b>15.3%</b>	<b>7.8</b>	<b>-0.1%</b>	<b>15.6</b>	<b>13.7</b>	<b>13.1%</b>
Diluted core EPS (sen)	3.7	3.2	15.3%	3.7	-0.1%	7.4	6.5	13.1%
EBITDA margin	15.6%	15.5%		14.5%		14.5%	15.9%	
Core net margin	8.2%	8.1%		8.2%		7.2%	8.3%	

### 2QFY19 Results Review

- **Above expectation.** Spritzer's 1H19 core net profit, when annualized, was 18% ahead of our forecast, thanks to surprisingly robust sales and buoyant margins. Sales rose 13% in 2Q, a little slower than 15% achieved in 1Q but a sharply up from 6% in 4Q. Management did not attribute the strong sales to any specific factors except perhaps for the water disruption in the Klang Valley. 2Q19 EBITDA margin rose 0.1% yoy but leapt 1.1% qoq due to lower price for polyethylene terephthalate (PET).
- **Lower raw material prices.** PET, which is the largest cost item at 20-25% of total, has fallen 18% and 6% since 4Q18 when it peaked and 1Q19. Management expects prices to decline further due to the trade war, which will affect demand.
- **A year of heavy investments.** Spritzer's management expects to spend well over RM60m in capital expenditure this year, and may even hit RM70m. It has opted for a high specification warehouse in Taiping, its main plant. In addition, the company is upgrading its Shah Alam reverse osmosis processing facility, which it plans to add an additional production line next year. In an effort to go green, it is installing solar panels at its Taiping and Ipoh plants. With the latest capex, Spritzer's capex/revenue should surge to 19% in FY19 vs 5-8% in the last 5 years.
- **Raising our forecast.** We raise our FY19/FY20 core net profit by 21%/16% on the back of lifting our revenue projections from 5%/5% to 12%/7%, and upping EBITDA margins for both these years by 1% and 0.5% on the back of the higher revenue and expectations of lower PET prices. Having said that, we do not expect Spritzer to sustain the 13% growth given the fairly mature market for mineral and bottled water. Spritzer's revenue growth has varied quite widely in the past four years, ranging from a decline of 1.5% to 14%.

### Recommendation

**Maintain Hold.** With our revised projections, we raise our fair value from RM2.03 to RM2.37, still based on 14x FY20 EPS. Spritzer remains a HOLD as we believe it is fairly valued: currently close to 14x FY20 earnings for a company that generates ROEs of around 8%.

**Forecast revision**

<b>Revised</b>	<b>FY19E</b>	<b>FY20E</b>
Revenue	389.4	416.7
EBITDA	60.4	64.6
EBITDA margin	15.5%	15.5%
Core net profit	31.9	35.5
DPS (sen)	5.3	5.9

**Previous**

Revenue	365.1	383.3
EBITDA	52.9	57.5
EBITDA margin	0.1	0.2
Core net profit	26.3	30.5
DPS (sen)	4.4	5.1

Revenue	6.7%	8.7%
EBITDA	14.0%	12.3%
EBITDA margin	1.0%	0.5%
Core net profit	21.4%	16.3%
DPS (sen)	21.4%	16.3%

**Key financials (FYE Dec)**

	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Revenue (RMm)*	313.8	347.7	389.4	416.7
EBITDA (RMm)*	51.0	48.8	60.4	64.6
<i>EBITDA margin</i>	<i>16.2%</i>	<i>14.0%</i>	<i>15.5%</i>	<i>15.5%</i>
Core net profit (RMm)*	25.5	24.2	31.9	35.5
FD EPS (sen)*	12.1	11.5	15.2	16.9
FD EPS growth	1.6%	-4.9%	31.9%	11.1%
DPS (sen)	5.5	3.5	5.3	5.9
Payout ratio	45%	30%	35%	35%
FCFE/share (sen)	-0.49	0.13	0.07	0.13
Net cash (debt)/share (sen)	0.02	0.11	0.12	0.19

\* Jun-Dec FY16 numbers are annualised

**Key valuation metrics**

	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
P/E (X)	19.0	19.9	15.1	13.6
EV/EBITDA (X)	9.4	9.4	7.6	6.9
P/BV (X)	1.3	1.2	1.2	1.1
Dividend yield (%)	2.4%	1.5%	2.3%	2.6%
FCFE yield (%)	-19.7%	6.2%	2.9%	5.5%
ROE (%)	8.3%	6.3%	8.0%	8.4%
ROAA (%)	6.5%	5.2%	6.7%	7.2%

**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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