

Spritzer Berhad

Bursa / Bloomberg Code: 7103 / SPZ MK
Stock is Shariah-compliant.

Price : RM2.15

Market Capitalization : RM451.5 mln

Market : Main Market

Sector : Consumer

Recommendation : Hold

Company update

We spoke to Spritzer's CFO Mr Sow Yeng Chong to obtain an update on the company.

- **No impact from Covid-19 outbreak so far domestically.** Despite the outbreak of the Covid-19 flu, Spritzer has not detected any slowdown in sales so far. Instead, the company experienced revenue growth of "a few %" year-on-year in the January and February period. Sales were also lifted by an additional day in February this year. However, should events, large and small, be cancelled due to the outbreak of Covid-19, we think sales may soften. Already, the Putrajaya International Hot Air Balloon Fiesta scheduled for the third week of March has been postponed but a new date has yet to be announced. Other high-profile events such as the Malaysian Association of Tour and Travel Agents (MATTA) travel fair, The Malaysia Autoshow 2020 and Maybank Golf Championship have been cancelled. Should the outbreak continue to spread or linger, we expect more events to fall victim.
- **China sales impacted.** Not surprisingly, sales in Guangzhou which comprises less than 1% of Spritzer's total revenue was affected by the Covid-19 outbreak. Guangzhou underwent a lockdown on 8 Feb where the 15m residents needed passes and to go through temperature checks to enter and leave residential compounds. With the outbreak in China almost contained and economic activity normalising, we expect sales to improve.
- **Falling PET prices.** The plunging price of crude oil benefits Spritzer. The price of polyethylene terephthalate (PET), which is used to make bottles, has fallen approximately 13% quarter-to-date vs the average in 4Q19. PET is Spritzer's second largest cost item, making up 20-25% of total costs, after paper cartons. Paper prices have remained steady. Spritzer has been looking to replace paper carton with plastic packaging to reduce cost but with little success.
- **New warehouse is operational, D&A rises.** The company's new automated warehouse in Taiping is undergoing tests and is scheduled to be operational in 2Q. The warehouse is more than twice existing capacity and aims to cut operational cost in the long run by being fully automated. However, net profit will be squeezed in the medium term by higher depreciation of RM3-4m p.a.. The warehouse was built at a cost of RM60m and funded by the proceeds of RM64m from its placement to Dymon Asia in 2017.
- **Expansion.** For this year, Spritzer is adding a new bottling line each at its facilities in Shah Alam, Selangor and Yong Peng, Johor at a cost of RM15m each. Last year, the Selangor Water Supply Company (Syabas) increased its water supply to Spritzer's reverse-osmosis plant by 3.5x.
- **Trimming our forecast.** We shave our FY20 net profit estimate by 5% on the back of a 6% cut in revenue to account for weaker sales due to the virus outbreak, and introduce FY21 forecast. EBITDA margin assumption is raised by 0.5%-pt to 16.0% to account for the lower PET prices but this is largely offset by higher estimated depreciation to factor in the new warehouse. FY20 DPS estimate also cut to 4.8 sen from 5.9 sen as we lower dividend payout assumption from 35% to 30% to be consistent with the prior two years.

Recommendation

We continue to recommend a HOLD on Spritzer but with a lower a fair value of RM2.24 based 14x its estimated FY20 EPS vs RM2.37 previously. We do not anticipate any re-rating catalysts in the foreseeable future given its mid-single-digit growth, which may experience a slowdown in tandem with slowing economic activity. While Spritzer has a dominant 40% market share in the mineral and bottled water market, the industry is a competitive which puts a cap on its margins.

Key financials (FYE Dec)	FY18	FY19	FY20E	FY21E
Revenue (RMm)	347.7	374.4	393.1	420.6
EBITDA (RMm)	48.8	56.2	62.9	65.2
<i>EBITDA margin</i>	<i>14.0%</i>	<i>15.0%</i>	<i>16.0%</i>	<i>15.5%</i>
Core net profit (RMm)	24.2	31.2	33.6	34.9
FD EPS (sen)*	11.5	14.9	16.0	16.6
FD EPS growth	-4.9%	29.0%	7.6%	3.8%
DPS (sen)	3.5	4.5	4.8	5.0
Payout ratio	30%	30%	30%	30%
FCFE/share (sen)	0.13	0.06	0.12	0.13
Net cash (debt)/share (sen)	0.11	0.13	0.20	0.28

Key valuation metrics	FY18	FY19	FY20E	FY21E
P/E (X)	18.6	14.4	13.4	12.9
EV/EBITDA (X)	8.8	7.9	6.9	6.4
P/BV (X)	1.2	1.1	1.0	1.0
Dividend yield (%)	1.6%	2.1%	2.2%	2.3%
FCFE yield (%)	6.7%	-1.4%	4.3%	6.2%
ROE (%)	6.3%	7.8%	8.0%	7.8%
ROAA (%)	5.2%	6.5%	6.9%	6.8%

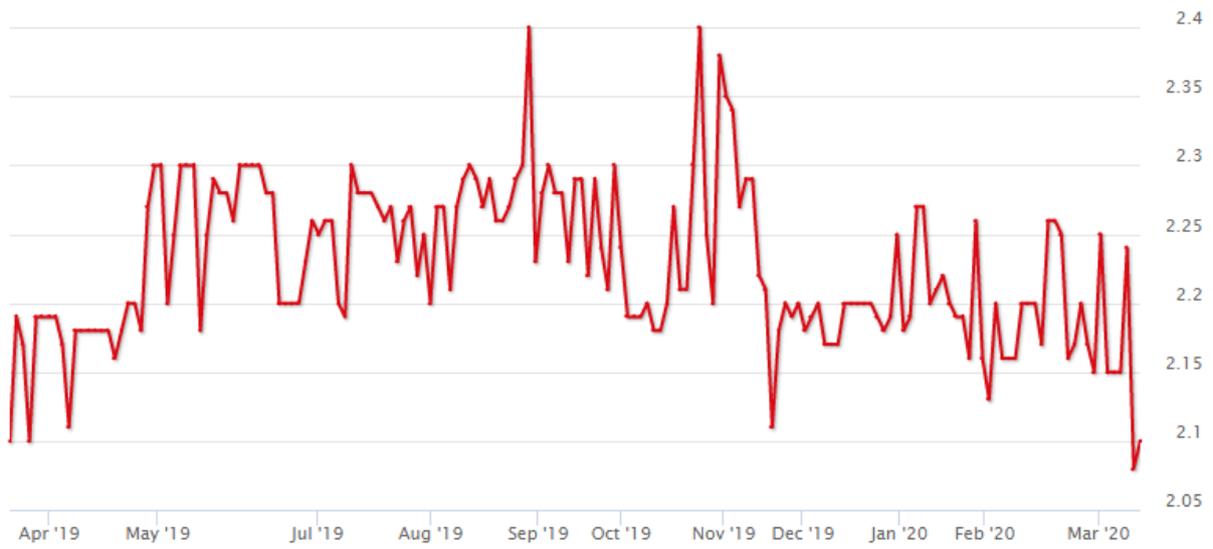
Forecast revision (RMm)

Revised	FY20E	FY21E
Revenue	393.1	420.6
EBITDA	62.9	65.2
EBITDA margin	16.0%	15.5%
Core net profit	33.6	34.9
DPS (sen)	4.8	5.0

Previous

Revenue	416.7
EBITDA	64.6
EBITDA margin	15.5%
Core net profit	35.5
DPS (sen)	5.9
Revenue	-5.7%
EBITDA	-2.6%
EBITDA margin	0.5%
Core net profit	-5.2%
DPS (sen)	-18.8%

Spritzer's last 12-month share price chart



Source: Bursamarketplace.com

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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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