

Spritzer Berhad

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

Price : RM2.06

Market Capitalization : RM432.6 mln

Market : Main Market

Sector : Consumer

Recommendation : Sell (Downgraded)

Company update

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

- Impacted by Covid-19.** We understand Spritzer's sales fell by more than 30% in April and May vs the monthly run rate in 1Q as a result of the movement control order (MCO) which restricted much of social and economic activity. Compounding the drop in volume is a shift in sales mix to lower-priced products as consumers tightened their belts. The utilisation of its plants hovers at about mid-40s vs 70% before the pandemic. Despite the easing of the MCO, and to our disappointment, we gather that Spritzer's sales remain lackluster. Sales were normal in the first two weeks of the MCO as consumers and distributors stocked up, which buttressed 1Q sales.
- Falling PET price, a saving grace.** The price of polyethylene terephthalate (PET), which is used to make bottles, has fallen approximately 5% quarter-to-date vs the average in 1Q20, in line with lower crude oil price. This has helped cushion margins amidst lower sales. PET is Spritzer's second largest cost item, making up 20-25% of total costs.
- New warehouse being ramped up.** The company's new automated warehouse in Taiping is still scheduled to be operational this quarter, although delayed a little due to movement restriction. The warehouse is more than twice existing capacity and aims to cut operational cost in the long run by being fully automated.
- Some expansion put on hold.** The bottled water producer has postponed planned expansion which have not been contracted for this year. While the addition of a new bottling line in Shah Alam is going ahead, the Yong Peng line is being put on hold. Each line costs RM15m.
- Sales to remain depressed.** Sales should gradually improve as economic and social activity pick up, in our view. But, with public health measures in place, such activities will not recover to pre-pandemic levels until a vaccine is developed and administered to the general population. Sporting and commercial events such as carnivals, conferences and exhibitions which draw large crowds are likely to remain banned. Consumption now predominantly takes place at home whereas Spritzer's products are mainly consumed away from the house. However, Spritzer's strong financial standing and brand ensure that the company will be able to overcome the current challenges and possibly take market share from weaker competitors, in our view.
- Cutting our forecast.** We slash FY20-21 EPS and DPS forecast by 27-32% on the back of a 21-23% cut in revenue on account of a plunge in sales in 2Q followed by a gradual recovery, a shift towards lower-priced drinks, and partially offset by some capex deferral. 1Q results will be released on 24 June.

Recommendation

We downgrade Spritzer to a SELL due to the sharp deterioration of its sales and dim prospects of a quick recovery. Our fair value is lowered to of RM1.50 based on 14x estimated FY20 EPS vs RM2.24 previously. Even if we look beyond this year into 2021, it will be a stretch to expect any significant recovery when social distancing rules remain in place. The key de-rating catalyst is earnings disappointment. The key risk to our recommendation is if a vaccine is developed and Malaysians are vaccinated.

Spritzer donated bottled drinking water to frontliners during the MCO



| Key financials (FYE Dec) | FY18 | FY19 | FY20E | FY21E |
|---------------------------------|--------------|--------------|--------------|--------------|
| Revenue (RMm) | 347.7 | 374.4 | 304.2 | 328.5 |
| EBITDA (RMm) | 48.8 | 56.2 | 48.7 | 52.6 |
| <i>EBITDA margin</i> | <i>14.0%</i> | <i>15.0%</i> | <i>16.0%</i> | <i>16.0%</i> |
| Core net profit (RMm) | 24.2 | 31.2 | 22.8 | 25.3 |
| FD EPS (sen)* | 11.5 | 14.9 | 10.9 | 12.1 |
| FD EPS growth | -4.9% | 29.0% | -27.0% | 10.9% |
| DPS (sen) | 3.5 | 4.5 | 3.3 | 3.6 |
| Payout ratio | 30% | 30% | 30% | 30% |
| FCFE/share (sen) | 0.13 | -0.03 | 0.09 | 0.09 |
| Net cash (debt)/share (sen) | 0.11 | 0.03 | 0.09 | 0.15 |

| Key valuation metrics | FY18 | FY19 | FY20E | FY21E |
|------------------------------|-------------|-------------|--------------|--------------|
| P/E (X) | 17.9 | 13.8 | 19.0 | 17.1 |
| EV/EBITDA (X) | 8.4 | 7.6 | 8.5 | 7.7 |
| P/BV (X) | 1.1 | 1.1 | 1.0 | 1.0 |
| Dividend yield (%) | 1.7% | 2.2% | 1.6% | 1.8% |
| FCFE yield (%) | 7.0% | -1.5% | 4.6% | 4.3% |
| ROE (%) | 6.3% | 7.8% | 5.4% | 5.8% |
| ROAA (%) | 5.2% | 6.5% | 4.7% | 5.1% |

Forecast revision (RMm)

| Revised | FY20E | FY21E |
|-----------------|--------------|--------------|
| Revenue | 304.2 | 328.5 |
| EBITDA | 48.7 | 52.6 |
| EBITDA margin | 16.0% | 16.0% |
| Core net profit | 22.8 | 25.3 |
| DPS (sen) | 3.3 | 3.6 |

Previous

| | | |
|-----------------|-------|-------|
| 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 |

| | | |
|-----------------|--------|--------|
| Revenue | -22.6% | -21.9% |
| EBITDA | -22.6% | -19.4% |
| EBITDA margin | 0.0% | 0.5% |
| Core net profit | -32.1% | -27.5% |
| DPS (sen) | -32.1% | -27.5% |

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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