

Spritzer Berhad

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

Price : RM2.05

Market Capitalization : RM430.5 mln

Market : Main Market

Sector : Consumer

Recommendation : Sell

Company update

- **Some recovery in sales.** We gather from our conversation with Spritzer's CFO that the company's Spritzer's sales have shown a "slight improvement" since the recovery movement control order on 10 June. The composition in sales remains unchanged as during the MCO and conditional MCO periods of 18 March to 9 June, which saw a shift to lower-priced products as consumers tightened their belts.
- **Holding back on some A&P spending.** With weak sales caused by economic and social restrictions, Spritzer will spend less on advertising and promotion (A&P). It normally spends more than 5% of sales on A&P, but now intends to spend no more than 4%, with part of the savings to be channeled to trade incentives such as giving better discounts/rebates to distributors.
- **1Q20 results.** Spritzer last week reported a 13.8% yoy surge in 1Q20 net profit despite a 2.3% decline in sales. Net profit margin rose to 9.5%, a level not seen since 3Q17. Margins were lifted by lower polyethylene terephthalate (PET) cost of USD4k/tonne vs USD4.9k/tonne in 1Q19. PET is the resin to make plastic bottles, and makes up 20-25% of total costs.
- **Sales to remain depressed.** The small pick-up in Spritzer's sales is in line with our expectation of sales gradually improving with with rising economic and social activities. But with public health measures in place, such activities will not recover to pre-pandemic levels until the population is vaccinated. Sporting and commercial events such as carnivals, conferences and exhibitions which draw large crowds are likely to remain banned or restricted. 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.
- **Maintaining our forecast.** We retain our forecast as the observation above is consistent with our expectation. We had earlier slashed 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.

Recommendation

We maintain our SELL recommendation on the stock due to depressed sales caused by restrictions on economic and social activity and dim prospects of a quick recovery. Our fair value is 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.

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)	17.8	13.8	18.9	17.0
EV/EBITDA (X)	8.4	7.5	8.4	7.6
P/BV (X)	1.1	1.0	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%

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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